Workspace Group

Quarterly Report
for the three months ended 31 December 2000

Highlights

- Sale of 1-10 Union Street and Phoenix Business Centre for a total of £29.25 million, producing £9.72 million profit.
- Trading pre-tax profits for the three quarter period up 10.0% to £6.88 million.
- Headline pre-tax profits for the same period up 193% to £16.6 million.
- Basic earnings per share 30.0p (up 4.5%) for the three quarter period (excluding exceptional items and property sales).
- Net asset value per share at 31 December 2000 at £10.94 up 42.4% year on year (31 March 2000: £9.04, 31 December 1999: £7.68).
- Annual Rent Roll for the three quarter period increased by £1.66 million to £27.52 million (up 6.4% since 31 March 2000).
- Reinvestment of receipts from sales now underway.

Operating and Financial Review

Review of Activities

Trading activity continues to be strong, with occupancy stable and rents in London rising by some 10.3% per annum. As a result of this, excluding profits arising on the sale of properties and exceptional costs, basic pre-tax profits for the three quarter period were £6.88 million, up 10.0% on the same period for 1999.

The rent roll now totals £27.52 million, up 6.4% since 31 March 2000. Of this increase rents on the core like for like portfolio grew by £1.54 million or 6.1%.

Net asset value per share is now £10.94 up 42.4% on a year ago. The slight fall of 10.0p since the half year is because of the tax charge (some £3.28 million) on the sale of 1-10 Union Street. As is customary there has been no further property revaluation at the quarter end (the last being at 30 September 2000; and the next being with the full year's accounts at 31 March 2001).

Profits from the sale of 1-10 Union Street and the Phoenix Business Centre dominate the headline profit figures for the quarter. Union Street was acquired in 1998 as a vacant building for refurbishment as a business centre. In September 1999 J Sainsbury agreed to take the whole property on a 15 year lease at a rental of £2 million per annum, commencing in March 2001, subject to the completion of certain refurbishment works (costing some £11 million). Works were completed in September 2000, Sainsbury took up occupation, and the building was sold in December 2000 for £27.75 million generating a profit of £9.16 million. The Group has retained three parcels of land adjacent to the site for development. Phoenix Business Centre, which was acquired as part of the Tonex portfolio and valued at £0.9 million at 31 March 2000 was sold for £1.5 million.

Acquisitions and Disposals

The Group has focused increasingly on expanding its portfolio in London and the South East and as a result is currently looking at the alternatives for its Midland portfolio. With recent disposals and the consequent fall in borrowing, gearing is now 73.6% and the Group has substantial capacity to make acquisitions in its core areas.

During and since the quarter end, a number of acquisitions have been completed, or committed. These are listed in the table below. Two of these purchases stem from the Company's co-operation agreement with Greater London Enterprise (Wandsworth Business Village and Villiers Road, Kingston), whilst a further purchase is from Haringey Council (Bounds Green Industrial Estate). The Group continues to target opportunities in London and the South East at good immediate income yields and which have, with its flexible leasing package, strong growth prospects and good reversionary income growth over the next two years.

Operating and Financial Review continued

The table below shows the main details of acquisitions and disposals in the third quarter.

Name of Property	Description	Acquisition/ Sale Price £m	Annual Income £000	Date of Completion
Acquisitions:				
Block F, Tower Bridge (final part of Tonex purchase)	Industrial Unit of 141,881 sq. ft	6.5	355 (under review)	10/01/01
Bounds Green Industrial Estate, Haringey, N11	Industrial Estate, 110,703 sq. ft on a site of 6.5 acres	5.1	449	31/01/01
The Ivories, 6/18 Northampton Street, London N1	Business Centre; 24 units; 24,800 sq. ft	4.0	332	09/02/01
Wandsworth Business Village, London SW18	Business Centre 88,500 sq. ft (with planning consent for 9,500 sq. ft additional space)	7.34	544	12/02/01
Villiers Road, Kingston	New Build Business Park; 20 units; 42,000 sq. ft	4.2	–	Late 2001
Disposals:				
Union Street, SE1	Freehold building let to J Sainsbury for £2m rent per year commencing March 2001	27.75	Nil at time of sale	20/12/00
Phoenix Business Centre, Bow Common Lane, E3	Multi-storey industrial	1.5	41.3	22/12/00

Cash Flow and Financing

There was a net cash inflow of £0.84 million during the quarter (1999 inflow of : £0.09 million). For the year to date there was an inflow of £2.86 million (1999: 1.72 million outflow). Capital expenditure for the year to date, net of disposal proceeds, was an inflow of £16.22 million (1999: outflow of £83.30 million). At the quarter end gearing stood at 73.6% (1999: 122%) and interest cover for the year to date was 2.94 times (1999: 2.03 times).

Operating and Financial Review continued

Occupancy and Trading Statistics

The Group's key statistics relating to its trading operations are given in the table below:

	31 December 2000	30 September 2000	30 June 2000	31 March 2000
Number of Estates	**93**	95	93	94
Total Floorspace at end of period (sq. ft)	**5,620,170**	5,723,014	5,649,753	5,677,521
of which:				
Available for letting	**5,620,170**	5,627,733	5,554,472	
Undergoing development/refurbishment	**0**	95,281	95,281	
Lettable Floorspace of core portfolio	**5,530,891**	5,430,115	5,416,723	5,401,601
Lettable Units (number)	**3,570**	3,568	3,546	3,523
Annual Rent Roll of Occupied Units	**27,516,658**	27,114,761	26,077,673	25,855,226
Average Rent (£/sq. ft)	**5.64**	5.42	5.30	5.21
Average Rent of Core Portfolio (£/sq. ft)	**5.54**	5.43	5.30	5.22
Occupancy overall	**86.82%**	87.38%	87.04%	87.35%
Occupancy of Core Portfolio	**86.60%**	88.66%	88.45%	88.68%

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The "core portfolio" is defined as those properties that have been held throughout the year to date and which are not subject to refurbishment/redevelopment programmes.

Average occupancy is reduced by properties in which substantial areas are let on a short term basis (e.g. Three Mills) and those where areas are being held vacant pending redevelopment/improvement (e.g. Kingsland Viaduct and Wharf Road). Excluding these occupancy is 91%.

Current Trading

The strong performance in previous periods has been maintained. There continues to be good demand for our product at improving rentals. Initiatives are underway at a number of estates which will improve rentals further. These include refurbishment of the common areas of certain estates, increased floor space at others, and over the next two years, the provision of a telecommunications (broadband) and digital services infrastructure over our main London business centres. These improvements will increase the attraction of the Group's properties to our current and future customers.

Following the disposals in the latter part of 2000, Workspace is targeting further acquisitions and an added value programme within London and the South East. The Group aims to double the floorspace under ownership and management for its target customers (small and medium sized enterprises) over the next five years – and to strengthen its dominant position as the leading supplier of space in the Capital for this market.

Unaudited Consolidated Profit and Loss Account

for the 3 and 9 months ended 31 December 2000

	3 months ended 31 December		9 months ended 31 December			
			Trading Operations	Other Items	Total	
	2000	1999			**2000**	1999
	£000	£000	£000	£000	**£000**	£000
Turnover – continuing operations	**9,365**	8,627	26,298	–	**26,298**	21,394
Rent payable and direct costs	**(2,611)**	(2,263)	(7,240)	–	**(7,240)**	(5,593)
Gross profit	**6,754**	6,364	19,058	–	**19,058**	15,801
Administrative expenses	**(1,161)**	(1,004)	(3,586)	–	**(3,586)**	(3,133)
Operating profit – continuing operations	**5,593**	5,360	15,472	–	**15,472**	12,668
Profit on Disposal of Investment Property	**9,700**	356	–	9,762	**9,762**	351
Interest receivable	**76**	62	333	–	**333**	122
Interest payable and similar charges	**(2,985)**	(2,731)	(8,922)	–	**(8,922)**	(7,470)
Profit on ordinary activities before taxation	**12,384**	3,047	6,883	9,762	**16,645**	5,671
Taxation on profit on ordinary activities	**(4,454)**	(853)	(2,128)	(3,477)	**(5,605)**	(1,588)
Profit attributable to shareholders	**7,930**	2,194	4,755	6,285	**11,040**	4,083
Dividends	**–**	–	(1,070)	–	**(1,070)**	(941)
Retained for the period	**7,930**	2,194	3,685	6,285	**9,970**	3,142
Earnings per share (basic)	**50.0p**	14.0p	30.0p	39.6p	**69.6p**	26.0p
Diluted earnings per share	**47.3p**	13.9p			**66.6p**	25.8p

Statement of Total Recognised Gains and Losses

	9 months ended 31 December	
	2000	1999
	£000	£000
Profit for the financial period	**11,040**	4,083
Unrealised surplus on revaluation of investment properties	**22,232**	10,371
Taxation on revaluation surpluses realised on sale of properties	**(510)**	–
Total gains relating to the financial period	**32,762**	14,454

Consolidated Balance Sheet

	Unaudited 31 December 2000 £000	Audited 31 March 2000 £000
Fixed assets		
Tangible assets		
Investment properties	**320,130**	304,248
Other fixed assets	**987**	1,117
Investment in own shares	**1,015**	1,015
	322,132	306,380
Current assets		
Debtors	**6,738**	5,236
Investments	**11,067**	11,424
Cash at bank and in hand	**101**	201
	17,906	16,861
Creditors: amounts falling due within one year		
loans and overdrafts	**(3,034)**	(5,511)
others	**(24,158)**	(19,867)
Net current liabilities	**(9,286)**	(8,517)
Total assets less current liabilities	**312,846**	297,863
Creditors: amounts falling due after more than one year		
loans (including Convertible Loan Stock)	**(137,359)**	(154,845)
	175,487	143,018
Capital and reserves		
Called up share capital	**1,614**	1,591
Share premium account	**40,549**	39,795
Revaluation reserve	**106,245**	86,412
Profit and loss account	**27,079**	15,220
Shareholders' funds – equity interests	**175,487**	143,018
Net asset value per share	**£10.94**	£9.04
Movement in shareholders' funds		
Profit for the financial period	**11,040**	6,523
Dividends	**(1,070)**	(3,298)
	9,970	3,225
Issue of Shares	**23**	3
Share premium account	**754**	127
Revaluation reserve – increase	**22,232**	31,209
Taxation on valuation surpluses realised on sale of properties	**(510)**	–
Net movement in shareholders' funds for the financial period	**32,469**	34,564
Shareholders' funds as at 1 April 2000/1999	**143,018**	108,454
Shareholders' funds as at 31 December 2000/31 March 2000	**175,487**	143,018

Unaudited Consolidated Cash Flow Statement

for the 9 months ended 31 December 2000

	9 months ended 31 December	
	2000	1999
	£000	£000
Net cash inflow from operating activities	**15,168**	12,821
Return on investment and servicing of finance	**(8,953)**	(6,600)
Taxation	**(1,185)**	(2,372)
Capital expenditure (net receipts/(net expenditure)	**16,224**	(83,304)
Equity dividends paid	**(2,391)**	(2,116)
Net cash inflow/(outflow) before use of liquid resources and financing	**18,863**	(81,571)
Management of liquid resources	**358**	(4,471)
Financing	**(16,357)**	84,323
Net cash inflow/(outflow)	**2,864**	(1,719)
Reconciliation of net cash flow to movement in net debt		
Increase/(Decrease) in cash	**2,864**	(1,719)
(Decrease)/Increase in liquid resources	**(358)**	4,471
Cash outflow/(inflow) from decrease/(increase) in debt	**16,999**	(84,297)
Changes in debt resulting from cash flows	**19,505**	(81,545)
Net debt at 1 April	**(148,731)**	(68,457)
Net debt at 31 December	**(129,226)**	(150,002)

Notes to the Quarterly Results

1. Basis of Preparation

The unaudited financial information contained in this quarterly report does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 March 2000 included an unqualified report of the auditors. The Group's unaudited quarterly accounts for the period ended 31 December 2000 have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 2000.

2. Segmental Analysis	3 months ended 31 December		9 months ended 31 December	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Rental income	**7,461**	6,563	**20,774**	16,938
Service charge and other recoveries	**1,513**	1,628	**4,470**	3,499
Fees, commissions, and sundry income	**391**	436	**1,054**	957
	9,365	8,627	**26,298**	21,394

3. Interest Payable	3 months ended 31 December		9 months ended 31 December	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Convertible loan stock and debenture stock interest	**663**	663	**1,987**	1,987
Mortgage interest	**2,666**	2,132	**8,006**	4,794
Bank and other interest	**22**	108	**64**	242
Net development interest capitalised	**(366)**	(172)	**(1,135)**	(490)
Loan breakage costs	**–**	–	**–**	937
Charged to profit and loss account	**2,985**	2,731	**8,922**	7,470

4. Taxation

The taxation charge, excluding tax on property disposals for the nine months ended 31 December 2000 is based on the estimated effective tax rate for the year ending 31 March 2001 of 27% (2000 estimated 28%), which is increased to 30.9% due to a prior year adjustment of £0.3 million. Tax on property disposals of £3.48 million (shown as other items) has been provided for at 35.6% leading to an overall effective rate for the period of 33.7%.

5. Earnings Per Share and Net Assets Per Share

Earnings per share have been calculated by dividing the profit after tax for each period attributable to shareholders by the weighted average number of ordinary shares in issue during the period less investment in own shares of 200,000 (15,865,134 shares). Net assets per share have been calculated by dividing net assets at the end of each period less investment in own shares by the number of shares in issue at that time less 200,000 (15,942,393 shares).

Notes to the Quarterly Results continued

6. Valuation

The valuation of the Group's investment properties is based upon the independent valuation by Insignia Richard Ellis at 30 September 2000 on an open market existing use basis in accordance with the guidance notes issued by the Royal Institute of Chartered Surveyors, net of subsequent acquisitions and disposals.

7. Creditors

Creditors falling due within one year include tenants' deposits of £3.03 million (31 March 2000: £2.60 million) and deferred rental and service charges of £4.49 million (31 March 2000: £4.29 million).

8. Financial Instruments

In accordance with the requirements of FRS 13, an assessment of the fair value of the Group's financial instruments held for financing purposes has been undertaken as at 31 December 2000. The results are summarised as follows:

	Book Value £ Million	Fair Value £ Million	Difference £ Million
Short term borrowings and current part of long term borrowings	**(3.0)**	**(3.0)**	**–**
Long term borrowings	**(137.4)**	**(143.6)**	**(6.2)**
Financial Assets	**11.2**	**11.2**	**–**
Interest rate Cap/Collar	**0.3**	**0.2**	**(0.1)**
	(128.9)	**(135.2)**	**(6.3)**

This represents 40 pence per issued ordinary share (diluted 20 pence per share) and if applied to net asset value per share at 31 December 2000 would reduce the latter to £10.54 (£10.21 diluted). However, the Group has no obligation or present intention to repay its Debenture and Convertible borrowings other than at maturity, when they will be repaid at par. Cash outflows arising from these borrowings will be limited to the future fixed interest payments and redemption at par. These outflows are unaffected by the notional market or fair values referred to above.

9. Interim Statement

Copies of this statement will be dispatched to shareholders on Monday 19 February 2001 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London, E1 1DU from 9.00am on that day.

Directors, Officers and Advisers

The Business	Workspace Group is a specialised property investment company devoted to the provision of small unit light industrial, studio and office workspace for rent to new and emerging businesses in Greater London, the Home Counties and the Midlands.
Directors	**Phillip P Rhodes** FCA (Chairman)* **Alan H Cherry** MBE, FRICS, Hon MRTPI (Deputy Chairman)* **Harry Platt** MA, MRTPI (Chief Executive) **Madeleine Carragher** FRICS (Operations Director) **J Patrick Marples** ARICS (Property Director) **Christopher J Pieroni** BA, MSc, PhD* **R Mark Taylor** BSc, FCA (Finance Director) *Non-executive and members of Remuneration and Audit Committees
Secretary	**R Mark Taylor** BSc, FCA
Senior Management	**Nirmal Chandra Saha** MCOM, MBA, FCMA (Divisional Director, Finance) **Simon Taylor** FRICS (Divisional Director, Midlands)
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