Leading in a growth market

Workspace Group PLC
Interim Report
For the six months ended
30 September 2006

Highlights

Interim results for the six months ended 30 September 2006.

- Adjusted Net Asset Value (NAV)* per share at 30 September 2006 £3.40†, up 9.0% over the six months and up 33% over 12 months (31 March 2006: £3.12; 30 September 2005: £2.55).
- NAV per share at 30 September 2006 £2.58† up 9.0% over the six months and up 33% over 12 months (31 March 2006: £2.37; 30 September 2005: £1.94).
- Valuation surplus for half year £59.0m (2005: £40.2m).
- Pre-tax profits £69.4m (2005: £45.8m).
- Pre-tax profits on trading operations* £5.1m (2005: £6.3m restated).
- Basic earnings per share 29.4p (2005: 19.6p).
- Joint venture with Glebe established.
- Total rent roll £43.0m up 8.3% (excluding Glebe JV but including acquisitions) (31 March 2006: £39.7m restated).
- Acquisitions £42.3m since 31 March 2006 to date, with others under negotiation.
- Disposals of £171.7m (including £146.0m to Glebe JV) since 31 March 2006.
- Interim dividend 1.38 pence (2005: 1.25 pence).

†Adjusted NAV per share and NAV per share were affected by the conversion of the loan stock during the period.

*A glossary of terms is provided at page 30.

Operating and Financial Review

Chairman's Statement

Progress over the first six months has been sound.

Adjusted NAV per share increased by 9.0% over the six months assisted by a record valuation surplus for the first half. The 11.0% increase in diluted adjusted NAV per share was restricted by the conversion of the balance of the Group's 11% convertible loan stock. The valuation uplift has been driven both by continued yield compression and rental improvements. The average rental value per square foot increased (on a like-for-like basis) by 3.6% from £10.21 to £10.58. We have also seen encouraging signs of the return of stronger levels of market rental growth (ERVs).

It appears likely that the yield compression that has made the principal contribution to the growth in valuation over recent periods is now drawing to a close. It is reassuring, therefore, to see rental growth playing a more active part, particularly since this yield compression has resulted in initial yields that are commonly below the cost of money. We will purchase property at these levels, but only where we can see good growth potential. However, such acquisitions are dilutive to earnings initially. We have targeted purchases of at least £60m this year and with £42.3m completed to date we are well on the way to achieving this target.

The most significant event of the first half year was the establishment of a joint venture with Glebe for the promotion of change of use and other opportunities on 11 of the Group's estates. More details on the joint venture are given in the Chief Executive's Statement. The joint venture with Glebe is only a part of the opportunity for "value adding" activity and just half of that in immediate prospect. The remainder of the opportunities will continue to be promoted by the Group.

We have today issued a Circular advising shareholders of the Group's intention to convert to a REIT (Real Estate Investment Trust) and calling a general meeting to amend the Company's Articles to provide safe harbour provisions for the Group against tax penalties arising from distributions to certain shareholdings in excess of 10% within a REIT. Your Board has monitored carefully the evolution and development of the REIT protocol and considers that conversion to a tax exempt environment offers very real advantages to shareholders through receipt of higher dividend distributions at modest cost to the Company. The conversion charge of approximately £20m should be covered relatively quickly by tax liabilities that will no longer arise as a REIT. Aside from these tangible benefits to shareholders, our analysis shows that the regulatory framework for REITs should not constrain the growth of the Group's current business model and delivery of its strategic plan.

As noted in our first quarter statement, I am delighted to welcome Rupert Dickinson, the Chief Executive of Grainger Trust, to the Board as a non-executive director. Rupert brings a wealth of knowledge and skills in the housing and mixed-use arenas, a key area of expertise as we increasingly pursue the mixed-use opportunities on our estates. I would also like to take this opportunity to thank Chris Pieroni who has retired from the Board after six years of service as a non-executive director during which time the Group has grown substantially. Bernard Cragg now takes over his duties as Senior Independent Non-Executive Director and John Bywater has become Chairman of the Remuneration Committee.

An interim dividend of 1.38 pence per share (an increase of 10.4%) has been declared with these accounts and will be paid on 1 February 2007.

Chief Executive's Statement

Summary

The good progress of the first quarter has extended through to the half year stage with pre-tax profits of £69.4m up 52% on last year (30 September 2005: £45.8m). This growth has again been driven by the substantial growth of the portfolio valuation. The surplus for the half year of £59.0m is the highest ever recorded in the first half. Pre-tax profits on trading operations at £5.1m were down on 2005 (2005: £6.3m, restated). This is attributable partly to the change in mix of the portfolio after the disposals over the last year and partly due to increased net interest charges. These are described in more detail in the Financial Review.

Operating and Financial Review
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Following the valuation surplus, adjusted NAV per share increased by 9% over the half year to £3.40. This increase was tempered by the conversion of the remainder of the Group's 11% convertible loan stock during the first half. More details of this are given in the Financial Review.

At the time of announcement of the preliminary results for 2005/6 we advised also of the formation of a 50:50 joint venture with Glebe. This joint venture has been established to promote the "added value" opportunities of a portfolio of properties, 11 of which were contributed (for a consideration of £146m) by the Group, alongside 3 from Glebe (at £9.1m). The joint venture is backed by Bank of Scotland who have provided £126m of debt finance alongside the £20m of equity provided by each partner. The properties were sold to the JV at a surplus of £8.6m (before costs). Proposals for the first phase at three properties are well advanced.

As described in our June statement, entry into the joint venture has enabled the Group:

- To crystallise a portion of the value in our current portfolio at a surplus;
- To de-gear and increase substantially our financial capacity for new acquisitions in London;
- To retain a significant interest and participation in the gains resulting from the change of use and intensification of these properties with a partner with proven experience in this area;
- To maintain our focus on our key skills.

Excluding the joint venture properties, the rent roll increased to £43.01m (31 March 2006: £39.71m restated). Excluding acquisitions and improvement properties the like-for-like rent roll has increased by £0.29m over the half year. This increase was driven by a 3.6% increase in average rents (compared with a growth rate of 3.6% for the whole of 2005/6) tempered to a degree by reductions in occupancy, more details of which are given later.

Earnings per share at 29.4p are 50% up on last year.

Valuation

As usual an independent valuation of the Group's portfolio has been undertaken. The valuation, which totalled £932.5m, showed a surplus of £59m for the half year, a 6.8% increase attributable approximately 75% to yield compression and 25% to rental increases. After a period when rental growth, and its impact on valuation, has been limited, it is pleasing to see a more significant contribution returning.

Movements in the portfolio may be analysed:

	£m
Valuation as at 31 March 2006	964.3
Book value of disposals	(145.9)
Acquisitions	41.4
Other expenditure on properties	13.7
Valuation surplus	59.0
	932.5

Portfolio

In the first half the Group made acquisitions (excluding costs) of £39.1m, with another £3.2m following the period end. Once again these acquisitions have been identified partly through opportunities offered to us from the marketplace and partly from our continued research into target acquisitions through our acquisitions database and are in locations we know well. We consider that this year's acquisitions offer an attractive blend of good initial returns with the opportunity for growth. The Leyton properties are located just three miles north of the Olympic zone and, costing just £97 per square foot, offer interesting longer term growth prospects. Morie Street, SW8 and Greville Street, EC1, both of which had substantial voids on acquisition, offer the potential to grow income through asset improvement and active management leading to better rents. T Marchant offers both the prospect for improving current returns but also, in the medium term, the opportunity for intensification and change of use particularly if the southern extension of the East London line progresses. Spectrum House provides an entry to the Kentish Town market, an area in which the Group has sought a presence for some time. Seven Sisters, being located at a transport node, the intersection of Seven Sisters Road and the A10 at Seven Sisters Underground Station, should benefit as intensification around such hubs increases.

Operating and Financial Review
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The table following shows our acquisitions and disposals to date in the year:

Acquisitions and Disposals

Name of Property	Description	Price £m	Income £000	Market rent at 30 September 2006 £000
Acquisitions:				
Acquired during the first half				
Leyton Industrial Village, Fairways Business Centre and Leyton Studios, London E10	3 small unit industrial estates of 168,000 sq. ft	16.0	826.4	1,148.1
1, Morie Street, London SW18	Multi let offices of 22,000 sq.ft	4.4	178.0	377.1
14, Greville Street, London EC1	Vacant building of 14,000 sq. ft	3.8	Nil	670.0
T Marchant Trading Estate, Verney Road, SE16	14 unit industrial estate totalling 51,000 sq. ft over 2.1 acres	6.1	300.5	382.7
Spectrum House, Gordon House Road, London NW5	22 unit business centre of 48,100 sq. ft	8.8	544.4	621.8
		39.1		
Purchases completed following the first half				
Seven Sisters, 214-218 Seven Sisters Road, London N15	7 self-contained office buildings totalling 20,300 sq. ft	3.2	188.8	246.9
		42.3	2,038.1	3,446.6
Yield			4.82%	8.15%
Disposals				
11 Properties disposed to the Glebe joint venture. Riverside Business Centre, SW18; Bow Enterprise Park, E3; Grand Union Centre, W10; Highway Business Park, E1; Hamilton Road Industrial Estate, SE27; Parkhall Road Trading Estate, SE21; Rainbow Industrial Estate, SW20; Tower Bridge Business Complex, SE16 and Tower Bridge Block F, SE16; Wandsworth Business Village, SW18; Zennor Road Industrial Estate, SW12	11 estates with improvement or change of use potential. Total lettable floor area 1.2 million sq.ft	146.0	7,183.0	
Stevenage Enterprise Park, Stevenage, SG1	Industrial estate of 27,000 sq.ft, deferred part of Magenta Portfolio sale of last year.	3.2	167.0	
Wharf Road, London, N1	Part of property sold for £1.9m with consent for mixed residential and commercial accommodation. Interest retained in commercial element (worth £8.5m).	10.4	Nil	
		159.6		
Sales completed following the half year				
Park Avenue, Luton, LU3	203,000 sq. ft industrial estate	12.1	653.4	
		171.7	8,003.4	
Yield			4.66%	

Operating and Financial Review
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Following the acquisitions and disposals completed in the period, and the establishment of the joint venture, the portfolio statistics and progress through the period may be summarised as follows:

	September 2006	June 2006	March 2006 Restated*
Portfolio Statistics (excluding joint venture with Glebe)			
Number of estates	99	96	93
Total floor space (million sq.ft)	4.98	4.89	4.69
of which:			
Like-for-like portfolio (million sq.ft)	4.30	4.30	4.30
Disposals (million sq. ft)	–	–	0.03
Acquisitions (million sq. ft)	0.35	0.23	–
Improvement properties (million sq. ft)	0.33	0.36	0.36
Lettable units	4,215	4,286	4,108
Annual rent roll of occupied units (£m)	43.01	40.88	39.71
Average rent (£/sq.ft)	10.56	10.22	10.21
Overall occupancy (%)	81.7%	81.8%	83.0%
Like-for-like Occupancy (%)	85.1%	86.4%	87.7%
Like-for-like Average rent (£/sq.ft)	10.58	10.32	10.21
Like-for-like Net rent roll (£m)	38.77	38.28	38.48
(*restated for disposal to joint venture)			
Workspace Glebe Joint Venture Portfolio Statistics			
Number of estates	14	14	11
Total floor space (million sq.ft)	1.15	1.14	1.08
Lettable units	810	806	797
Annual rent roll of occupied units (£m)	7.76	7.50	6.87
Average rent (£/sq.ft)	7.39	7.13	7.06
Overall occupancy (%)	91.57%	92.45%	89.75%

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The “like for like” portfolio is defined as those properties that have been held throughout the year to date and which are not subject to a refurbishment programme.

Operating and Financial Review

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Occupancy during the first half, has declined at an overall level by 1.3%, 2.6% by reference to the "like for like" portfolio. This change, and movements within the "like for like" portfolio may be analysed as follows:

	March 2006	September 2006	Difference
Overall occupancy	83.0%	81.7%	1.3%
Disposals (4 estates, see table below)	(0.1)%	–	–
Acquisitions	–	0.2%	
Improvement properties	4.8%	3.2%	
"Like for like" occupancy	87.7%	85.1%	2.6%
Future improvement or added value estates (4 estates, see details below)	(0.1%)	1.3%	
Other significant movements (5 estates listed below)	0.5%	1.6%	
"Adjusted like for like"	88.1%	88.0%	0.1%

Disposals (Stevenage) were at a higher than average occupancy level (97.1%) whereas acquisitions were lower (79.2%). These are ideal relative levels since they confirm that the disposal had little scope for improvement whereas the acquisitions offered more substantial opportunity. Improvement properties progressed well during the half year, as is illustrated in the table below:

	Completion dates	March 2006 Occupancy	March 2006 Rent £000	September 2006 Occupancy	September 2006 Rent £000
Clerkenwell Workshops	June 2006	0.0%	14	49.8%	645
Enterprise House	May 2006	59.5%	652	71.2%	1,320
Power Road	October 2006	33.3%	166	33.3%	150
Lombard House	Due February 2007	25.9%	205	23.4%	189

The improved occupancy at Clerkenwell Workshops and Enterprise House was the driver of the reduction in the improvements occupancy adjustment from 4.8% to 3.2% over the 6 months as occupancy in improvement properties improved from 26.2% to 40.6%.

As may be seen from the earlier table the "Adjusted Like for Like" portfolio totals show occupancy only marginally changed (being down just 0.1%). As such, the fall in "like for like" occupancy may be attributed principally to falls in occupancy on the four sites earmarked for future improvement or disposal (Greenheath, Park Avenue, Parmiter & Kennington Park) where the change in occupancy has little long term impact (indeed in the case of improvement properties is beneficial) or at five other estates (Buzzard, Uplands, Homesdale, Barratt Way and Westminster) where larger voids have arisen. Such voids are commonplace in the Group's business and can reasonably be expected to be covered by re-letting in the near future.

In addition to the disposals into the joint venture, the disposal of Stevenage Enterprise Park concluded the sale of the portfolio of properties outside the M25 announced last year. The sale of Wharf Road to United House marks the completion of our initiative to add value at this site. We achieved planning consent here in March 2005 for a mixed-use scheme. The consent provides for the demolition of the existing 44,000 sq. ft centre to be replaced by buildings comprising 30,000 sq. ft of workspace in addition to 77 residential units in properties of up to 10 storeys in height. The consideration, partly in cash and partly through construction of a new commercial building for Workspace, supports an overall value for the site in excess of £10m. The sale of Park Avenue, Luton marks a further stage in the Group's progressive refocusing away from properties outside of the M25 towards London based property.

Proposals for the intensification of the Group's Thurston Road property in central Lewisham have progressed as have those for part of the Group's property at Greenheath in Bethnal Green and that at Aberdeen Studios, Islington.

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Financial Review
Profits before tax at £69.4m were 52% up on last year (September 2005: £45.8m). The performance was driven by another good valuation surplus taking the total for the half year to £59.0m (2005: £40.2m). However, at a trading level the performance was lower with PBT of £5.1m (2005: £6.3m, restated), being reduced by a combination of factors:

- Two significant portfolio disposals were made over the last 12 months. Firstly, the majority of the Group's properties outside the M25 were sold last year, followed this year by the disposal of properties into the JV with Glebe. These disposals reduced earnings growth with revenue for the period increasing by just 1% to £29.6m (2005: £29.2m). Whilst borrowings fell due to these disposals, leading to reductions in interest costs, these reductions were impacted by short term treasury inefficiencies as the funds released were reinvested. Furthermore, average interest rates over the period were greater than last year and, on a weighted basis, impacted more on the periods where debt levels were greater as described below. Consequently, earnings suffered during this period of reorganisation. However, following these disposals the Group now has a portfolio that is more closely aligned to its strategic objectives in London and with greater income growth potential.
- A further factor impacting earnings has been the low average of 5.4% (over the last 12 months) of initial yield from acquisitions. The properties have been purchased with voids providing good capacity for rental growth over the coming periods. This has been compounded by the management steps taken at certain properties over the last year to enhance earnings in the medium/long term. For example, at Kennington Park a significant void arose shortly following purchase. This event had been anticipated; indeed was a key factor in the property's acquisition since it gave the opportunity to reconfigure the space to provide more small unit accommodation suiting our customers' needs. Likewise, at Lombard House, the acceptance of the surrender of the Vodafone lease last year has depressed returns. Both these properties (together with 111 Power Road and Greville Street, bought this year) will contribute to rental growth going forward.
- Administration charges have increased on last year due, mainly (£0.3m), to a further significant increase in the share price giving rise to a substantial increase in the provision for National Insurance on the exercise of options.
- Finance charges in the 6 months were up £0.3m to £11.3m (2005: £11.0m), whilst overall debt levels at £350m were substantially down on those last year (2005: £432m). This has only arisen in the second quarter following the disposal of the JV portfolio. Debt levels during the first quarter were broadly in line with the September 2005 levels. As noted above, interest rates have increased with the average for the half year costing £0.1m. As noted earlier, acquisitions over the last 12 months at 5.4% initial yield have not made a significant contribution to profits and more recently have not achieved the cost of money.

Many of these factors will turn to the Group's favour going forward. The current voids in the portfolio present an opportunity at a time where good demand is expected. Further, with City/West End rents rising sharply, rental growth should be achieved. Against these, market forecasts of interest rates show them rising to a peak over the next year and then declining. As these changes are absorbed revenue growth should return.

Net Assets increased from £390.3m to £437.4m (up 12.1%) over the half year, mainly as a result of the valuation surplus. Adjusted (basic) net assets per share increased by 9% from £3.12 to £3.40. Some dilution in the growth of NAV per share arose due to the conversion of the remaining 11% Convertible Loan Stock 2011. At 31 March 2006 £2.2m of this stock remained outstanding. This was converted into 4,400,000 shares. The residue of the Group's other historic borrowings, the £19.5m $11^1/_8$% and $11^5/_8$% Debenture Stock are due for repayment on 30 June 2007, at which time the Group's borrowing costs will reduce by approximately £1m pa. The timing of this is fortunate since it is likely that the Group will have converted to a REIT and consequently elimination of such expensive debt is of increased significance, as the Group will no longer benefit from a tax deduction on the interest expense.

Following a detailed review of its business and the REIT proposals, your Board has concluded that it is in the interest of shareholders to convert. A circular calling an EGM on 15 December accompanies this statement. At 30 September 2006, the Group's total deferred tax liabilities were £141.3m (note 16 to the accounts). If the Group's properties had been sold at the values in the September valuation, then a liability to tax of £111.1m would have

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arisen. With the significant numbers of properties upon which intensification and change of use proposals are being promoted, it is likely that a significant portion of this deferred tax liability would accrue as a current charge in the relatively near future. As a result, pay back of the conversion charge (which will be of the order of £20m) will be relatively short. At this stage, no provisions for the inclusion of Group JVs (i.e. joint ventures that comprise more than one company) have been enacted in the REIT legislation. Consequently, the Group's JV with Glebe will remain outside the REIT ring fence initially. Representations to HMRC over "Group JVs" have been made by the property industry and it is believed that further legislation will follow to accommodate them. In the short term, this should not present problems. Further details on the conversion are given in the circular issued with this statement.

The most significant single event of the first half was the entry into the joint venture with Glebe and the associated transfer of £137.4m (March 2006 valuation) of investment property into it at a valuation of £146m showing a surplus of £8.6m. The joint venture has been structured on a ring-fenced standalone basis with a new £125.6m loan facility from Bank of Scotland, of which £119.2m was drawn at 30 September, and the joint venture parties providing the balance of the funding equally. The transfer and refinancing of the assets released approximately £123m in cash after the Workspace equity contribution and costs had been accounted for. This was applied in paying down portions of the Group's facilities with Natwest and Bradford & Bingley. In the case of Natwest, the drawn portion of the Group's revolving loan facility was repaid, preserving availability, whilst with Bradford & Bingley £70m was repaid but a right to redraw the repaid portion was negotiated. As a result, the Group's gearing (based on adjusted net assets) has reduced to 63% whilst preserving the availability of these facilities. This provides the capacity not only for funding prospective acquisitions in the next year or so, but also for the repayment of the Group's debenture stock that falls due in June 2007 and payment of the taxation liability that will arise should the Group convert, as planned, to a REIT next year.

Entry into the joint venture was accomplished by merging the Group's interests with those held by Glebe. In this manner, no tax liability on the assets contributed to the joint venture was triggered, and the incidence of the liability has been deferred until the investment properties are disposed of by the joint venture.

Key financial statistics, reported both on an IFRS and former UK GAAP basis are:

	6 months to 30 September 2006	3 months to 30 June 2006	Year to 31 March 2006	6 months to 30 September 2005
Net rental income: revenue	71%	72%	73%	73%
Trading operating profit: revenue	55%	57%	59%	59%
Trading PBT: revenue	17%	18%	24%	23%
EPS per share (pence)	29.4	18.4	65.1	19.6
NAV per share (£) – IFRS	2.58	2.56	2.37	1.94
– Adjusted IFRS	3.40	3.36	3.12	2.55
Trading interest cover	1.46	1.45	1.69	1.65
Gearing – IFRS	80%	77%	110%	137%
– UK GAAP	63%	62%	85%	105%
Available facilities (£m)	93.9	145.7	15.7	13.6

Prospects

Enquiry levels and conversions to lettings remain good. The rent roll increases recorded in the latter stages of the period have continued into the third quarter and overall the market indicators are for a period of growth in rentals.

We continue to track a significant number of opportunities for acquisitions and expect that our target of £60m for the year will be exceeded, albeit that these acquisitions may be at lower initial yields with good prospects for growth.

Your Board considers that the Group will be a significant beneficiary from conversion to a REIT. It will facilitate more substantial distributions to shareholders without significant impact on the development of the business. Further, there is every prospect of a more active property market following the creation of REITs, which should create more opportunities for the Group.

Independent review report to Workspace Group PLC

Introduction
We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprises a consolidated income statement, a consolidated statement of recognised income and expense, a consolidated balance sheet as at 30 September 2006, a consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 24.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

PricewaterhouseCoopers LLP
Chartered Accountants
London
17 November 2006

Notes:

(a) The maintenance and integrity of the Workspace Group web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Income Statement

Audited Year ended 31 March 2006 £m		Notes	Unaudited 6 months ended 30 September 2006 Trading Operations* £m	Other Items* £m	Total £m	Unaudited 6 months ended 30 September 2005 £m
63.2	Revenue	1	**29.6**	**–**	**29.6**	29.2
(16.8)	Direct costs	1	**(8.5)**	**–**	**(8.5)**	(7.7)
46.4	**Net rental income**	1	**21.1**	**–**	**21.1**	21.5
(9.1)	Administrative expenses		**(4.7)**	**0.2**	**(4.5)**	(4.2)
131.3	Gain from change in fair value of investment property		**–**	**59.0**	**59.0**	40.2
–	Other income	8d	**–**	**1.6**	**1.6**	–
3.4	Profit on disposal of investment properties	2	**–**	**4.4**	**4.4**	–
172.0	**Operating profit**		**16.4**	**65.2**	**81.6**	57.5
0.2	Finance income – interest receivable		**0.1**	**–**	**0.1**	–
(23.6)	Finance costs – interest payable	3	**(11.3)**	**–**	**(11.3)**	(11.0)
0.4	Change in fair value of derivative financial instruments	14d	**–**	**0.4**	**0.4**	(0.7)
–	Share in joint venture post tax losses	22	**(0.1)**	**(1.3)**	**(1.4)**	–
149.0	**Profit before tax**		**5.1**	**64.3**	**69.4**	45.8
(42.4)	Taxation	4	**(1.5)**	**(19.1)**	**(20.6)**	(13.7)
106.6	**Profit for the period after tax and attributable to equity shareholders**		**3.6**	**45.2**	**48.8**	32.1
65.1p	Basic earnings per share	6	**2.2p**	**27.2p**	**29.4p**	19.6p
62.7p	Diluted earnings per share	6	**2.1p**	**26.2p**	**28.3p**	18.8p

*Trading Operations and Other Items are defined in the glossary of terms on page 30.

Consolidated Statement of Recognised Income and Expense (SORIE)

Audited Year ended 31 March 2006 £m		Unaudited 6 months ended 30 September 2006 £m	Unaudited 6 months ended 30 September 2005 £m
106.6	Profit for the financial period	**48.8**	32.1
106.6	Total recognised income and expense for the period	**48.8**	32.1

There is no difference between the profit for the financial period and the total recognised income and expense for the period.

Consolidated Balance Sheet

Audited 31 March 2006 £m		Notes	Unaudited 30 September 2006 £m	Unaudited 30 September 2005 (restated*) £m
	Non-current assets			
954.0	Investment properties	8	**930.4**	865.1
0.2	Intangible assets		**0.2**	0.2
3.6	Property, plant and equipment	9	**3.5**	3.5
–	Investment in joint venture	22	**16.2**	–
957.8			**950.3**	868.8
	Current assets			
6.7	Trade and other receivables	10	**10.0**	8.1
0.1	Financial assets – derivative financial instruments	14d	**0.1**	0.1
8.2	Investment properties held for sale	8a	**–**	–
1.7	Cash and cash equivalents	11	**1.8**	1.8
16.7			**11.9**	10.0
	Current liabilities			
(3.6)	Financial liabilities – borrowings	14a	**(22.3)**	(1.9)
(1.2)	Financial liabilities – derivative financial instruments	14d	**(0.8)**	(2.3)
(29.0)	Trade and other payables	12	**(30.5)**	(28.8)
(1.7)	Current tax liabilities	13	**(2.7)**	(0.4)
(35.5)			**(56.3)**	(33.4)
(18.8)	**Net current liabilities**		**(44.4)**	(23.4)
	Non-current liabilities			
(426.1)	Financial liabilities – borrowings	14a	**(327.2)**	(430.0)
(122.6)	Deferred tax liabilities	16	**(141.3)**	(98.2)
(548.7)			**(468.5)**	(528.2)
390.3	**Net assets**		**437.4**	317.2
	Shareholders' equity			
16.9	Ordinary shares	17	**17.4**	16.9
28.7	Share premium	19	**30.5**	28.4
(5.1)	Investment in own shares	20	**(4.9)**	(5.4)
0.8	Other reserves	18	**0.7**	0.7
349.0	Retained earnings	19	**393.7**	276.6
390.3	**Total shareholders' equity**		**437.4**	317.2
£2.37	Net asset value per share (basic)	7	**£2.58**	£1.94
£2.29	Diluted net asset value per share	7	**£2.53**	£1.87
£3.12	Adjusted net asset value per share (basic)	7	**£3.40**	£2.55
£3.01	Diluted adjusted net asset value per share	7	**£3.34**	£2.45

*Cash and cash equivalents and trade and other receivables have been restated (see note 11).

Consolidated Cash Flow Statement

Audited Year ended 31 March 2006 £m		Notes	Unaudited 6 months ended 30 September 2006 £m	Unaudited 6 months ended 30 September 2005 (restated) £m
	Cash flows from operating activities			
39.0	Cash generated from operations	15a	**17.8**	17.8
0.2	Interest received		**0.1**	–
(22.9)	Interest paid		**(12.0)**	(10.5)
(1.9)	Tax refunded/(paid)		**0.6**	(1.7)
14.4	Net cash from operating activities		**6.5**	5.6
	Cash flows from investing activities			
(132.8)	Purchase of investment properties		**(41.0)**	(99.8)
(20.9)	Capital expenditure on investment properties		**(9.2)**	(10.4)
44.2	Net proceeds from disposal of investment properties		**148.0**	2.3
(4.8)	Tax paid on disposal of investment properties		**(2.3)**	(2.0)
(0.1)	Purchase of intangible assets		**(0.1)**	–
(0.7)	Purchase of property, plant and equipment		**(0.3)**	(0.3)
–	Investment and loan to joint venture		**(19.5)**	–
(115.1)	Net cash from investing activities		**75.6**	(110.2)
	Cash flows from financing activities			
103.9	Net proceeds from issue of bank borrowings		**–**	107.7
–	Net repayment of bank borrowings		**(77.4)**	–
0.4	Net distribution of own shares		**0.2**	0.1
(0.1)	Finance lease principal payments		**–**	–
–	Issue of share capital		**0.1**	–
(5.8)	Dividends paid to shareholders	5	**(4.1)**	(3.7)
98.4	Net cash from financing activities		**(81.2)**	104.1
(2.3)	Net increase/(decrease) in cash and cash equivalents		**0.9**	(0.5)
0.4	Cash and cash equivalents at start of period	15	**(1.9)**	0.4
(1.9)	Cash and cash equivalents at end of period	15	**(1.0)**	(0.1)

Notes to the Half Year Interim Report

For the 6 months ended 30 September 2006

1. Analysis of net rental income

Year ended 31 March 2006 Revenue £m	Year ended 31 March 2006 Direct Costs £m	Year ended 31 March 2006 Net Rental Income £m		6 months ended 30 September 2006 Revenue £m	6 months ended 30 September 2006 Direct Costs £m	6 months ended 30 September 2006 Net Rental Income £m	6 months ended 30 September 2005 Revenue £m	6 months ended 30 September 2005 Direct Costs £m	6 months ended 30 September 2005 Net Rental Income £m
49.2	(0.2)	49.0	Rental income*	**22.5**	**(0.1)**	**22.4**	23.1	(0.1)	23.0
12.3	(15.9)	(3.6)	Service charges and other recoveries	**6.3**	**(8.0)**	**(1.7)**	5.5	(7.5)	(2.0)
1.7	(0.7)	1.0	Services, fees, commissions and sundry income	**0.8**	**(0.4)**	**0.4**	0.6	(0.1)	0.5
63.2	(16.8)	46.4		**29.6**	**(8.5)**	**21.1**	29.2	(7.7)	21.5

*Rental income includes surrender premia of £0.2m (31 March 2006: £2.2m, 30 September 2005: £0.2m).

The Group operates a single business segment providing business accommodation for rent in London and the South East of England, which is continuing.

2. Profit on disposal of investment properties

Year ended 31 March 2006 £m		6 months ended 30 September 2006 £m	6 months ended 30 September 2005 £m
44.5	Gross proceeds from sale of investment properties	**156.2**	2.1
(41.1)	Book value at time of sale plus sale costs	**(149.1)**	(2.1)
3.4		**7.1**	–
–	Group's share of unrealised profits on sale of properties to joint venture	**(2.7)**	–
3.4	Pre tax profit on sale	**4.4**	–
(4.7)	Current taxation	**(3.3)**	(0.2)
4.9	Deferred tax released on sale	**1.4**	0.2
–	Group's share of tax on unrealised profits on sale of properties to joint venture	**0.8**	–
0.2	Net tax	**(1.1)**	–
3.6	Net profit on disposal after tax	**3.3**	–

Notes to the Half Year Interim Report
continued

3. Finance costs

Year ended 31 March 2006 £m		6 months ended 30 September 2006 £m	6 months ended 30 September 2005 £m
21.0	Interest payable on bank loans and overdrafts	**10.1**	9.7
0.5	Amortisation of issue costs of bank loans	**0.3**	0.2
0.1	Interest payable on finance leases	**–**	–
1.4	Interest payable on 11.125% First Mortgage Debenture Stock 2007	**0.7**	0.7
0.8	Interest payable on 11.625% First Mortgage Debenture Stock 2007	**0.4**	0.4
0.3	Interest payable on 11% Convertible Loan Stock 2011	**0.1**	0.2
(0.5)	Interest capitalised (note 8a)	**(0.3)**	(0.2)
23.6		**11.3**	11.0

4. Taxation

Year ended 31 March 2006 £m	Analysis of charge in period	6 months ended 30 September 2006 £m	6 months ended 30 September 2005 £m
5.9	Current tax	**2.7**	1.6
36.5	Deferred tax	**17.9**	12.1
42.4	Total taxation	**20.6**	13.7

The charge in the period is analysed as follows:

	Current tax:		
6.8	UK corporation tax	**2.7**	1.6
(0.9)	Adjustments to tax in respect of previous periods	**–**	–
5.9		**2.7**	1.6
	Deferred tax:		
34.5	On fair value gains of investment properties	**17.1**	11.8
1.2	On accelerated tax depreciation	**0.5**	0.5
0.1	On derivative financial instruments	**0.2**	(0.2)
0.5	Adjustments to tax in respect of previous periods	**–**	–
0.2	Others	**0.1**	–
36.5		**17.9**	12.1
42.4	Total taxation	**20.6**	13.7

Notes to the Half Year Interim Report
continued

4. Taxation continued

The tax on the Group's profit for the period differs from the standard applicable corporation tax rate in the UK (30%). The differences are explained below:

Year ended 31 March 2006 £m		6 months ended 30 September 2006 £m	6 months ended 30 September 2005 £m
149.0	Profit on ordinary activities before taxation	**69.4**	45.8
–	Add share of post tax losses in joint venture	**1.4**	–
149.0		**70.8**	45.8
44.7	Tax at standard rate of corporation tax in the UK of 30% (2005: 30%)	**21.2**	13.7
	Effects of:		
(0.4)	Income taxed as capital gains	**(0.4)**	–
(0.3)	Contaminated land relief	**–**	–
(1.2)	Capital gains adjustments on property disposals	**(0.2)**	–
(0.4)	Adjustments to tax in respect of previous periods	**–**	–
42.4	Total taxation	**20.6**	13.7

5. Dividends paid

Year ended 31 March 2006 £m		6 months ended 30 September 2006 £m	6 months ended 30 September 2005 £m
3.7	Final dividend 2004/5 – 2.28p per ordinary share	**–**	3.7
2.1	Interim dividend 2005/6 – 1.25p per ordinary share	**–**	–
–	Final dividend 2005/6 – 2.51p per ordinary share	**4.1**	–
5.8		**4.1**	3.7

In addition the directors have declared an interim dividend in respect of the financial year ending 31 March 2007 of 1.38p per ordinary share which will absorb an estimated £2.3m of shareholders' funds. It will be paid on 1 February 2007 to shareholders who are on the register of members on 5 January 2007.

Notes to the Half Year Interim Report

continued

6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share ownership trust (ESOT).

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Following the conversion of the 11% Convertible Loan Stock the Group has only one class of dilutive potential ordinary shares: those share options granted to employees.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

Profit Year ended 31 March 2006 £m	Earnings per share Year ended 31 March 2006 pence	Earnings used for calculation of earnings per share	Profit 6 months ended 30 September 2006 £m	Profit 6 months ended 30 September 2005 £m	Earnings per share 6 months ended 30 September 2006 pence	Earnings per share 6 months ended 30 September 2005 pence
106.6	65.1	Earnings used for basic earnings per share	**48.8**	32.1	**29.4**	19.6
0.2	(1.5)	Interest saving net of taxation on 11% Convertible Loan Stock dilution	**0.1**	0.1	**(0.6)**	(0.5)
–	(0.9)	Share option scheme dilution	**–**	–	**(0.5)**	(0.3)
106.8	62.7	Total diluted earnings	**48.9**	32.2	**28.3**	18.8
(94.9)	(55.7)	Less non trading items	**(45.2)**	(27.4)	**(26.2)**	(16.0)
11.9	7.0	Trading diluted earnings	**3.7**	4.8	**2.1**	2.8

Year ended 31 March 2006 Number	Weighted average number of shares used for calculating earnings per share	6 months ended 30 September 2006 Number	6 months ended 30 September 2005 Number
163,629,157	Weighted average number of shares (excluding shares held in the ESOT)	**165,761,714**	163,375,024
2,538,531	Dilution due to Share Option Schemes	**3,330,327**	2,622,343
4,400,000	Dilution due to Convertible Loan Stock	**3,845,480**	5,000,000
170,567,688	Used for calculating diluted earnings per share	**172,937,521**	170,997,367

Notes to the Half Year Interim Report
continued

7. Net assets per share

31 March 2006 £m	Net assets used for calculation of net assets per share	30 September 2006 £m	30 September 2005 £m
390.3	Net assets at end of period (basic)	**437.4**	317.2
2.2	Dilution due to Convertible Loan Stock	**–**	2.4
392.5	Diluted net assets	**437.4**	319.6
1.1	Derivative financial instruments at fair value	**0.7**	2.2
8.3	Deferred tax on accelerated tax depreciation	**8.8**	7.0
114.2	Deferred tax on fair value change of investment properties	**130.5**	91.5
(0.4)	Deferred tax on derivative financial instruments	**(0.2)**	(0.7)
515.7	Diluted adjusted net assets	**577.2**	419.6
513.5	Adjusted net assets (basic)	**577.2**	417.2

31 March 2006 Number	Number of shares used for calculating net assets per share	30 September 2006 Number	30 September 2005 Number
169,509,640	Shares in issue at period end	**174,035,087**	168,909,640
(4,940,960)	Less ESOT shares	**(4,393,410)**	(5,340,370)
164,568,680	Number of shares for calculating basic net assets per share	**169,641,677**	163,569,270
2,538,531	Dilution due to Share Option Schemes	**3,330,327**	2,622,343
4,400,000	Dilution due to Convertible Loan Stock	**–**	5,000,000
171,507,211	Number of shares for calculating diluted net assets per share	**172,972,004**	171,191,613

8(a). Investment properties

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
716.5	Balance at beginning of period	**954.0**	716.5
154.5	Additions during the period	**54.8**	110.3
0.5	Capitalised interest (note below)	**0.3**	0.2
(40.6)	Disposals during the period	**(137.7)**	(2.1)
131.3	Net gain from fair value adjustments on investment property	**59.0**	40.2
(8.2)	Investment property held for sale (note below)	**–**	–
954.0	Balance at end of period	**930.4**	865.1

Property held for sale at the balance sheet date is shown separately under current assets as required by IFRS 5.

Capitalised interest is included at a rate of capitalisation of 5.67% (31 March 2006: 5.73%; 30 September 2005: 5.86%). The total amount of capitalised interest included in investment properties was £1.8m (31 March 2006 £1.5m; 30 September 2005 £1.4m).

Notes to the Half Year Interim Report

continued

8(b). Valuation

The Group's investment properties were revalued at 30 September 2006 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction.

The reconciliation of the valuation report to the total shown in the Consolidated Balance Sheet as non-current assets, investment properties, is as follows:

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
964.3	Total per CB Richard Ellis valuation report	**932.5**	867.0
(2.4)	Owner occupied property	**(2.4)**	(2.3)
(8.2)	Property held for sale (shown as current assets)	**–**	–
0.7	Head leases treated as finance leases under IAS 17	**0.7**	0.8
(0.4)	Other	**(0.4)**	(0.4)
954.0	Total per balance sheet	**930.4**	865.1

8(c). During the period part of the property at Wharf Road was sold for residential development. The consideration for this sale was £1.86m in cash plus the provision by the developer of a new 30,000 sq.ft business centre to be constructed on the retained portion of the site. The commitment to deliver the building over the next two years (costing £5.8m including interest and fees) by the developer has been secured by a charge over the land sold to it; which was considered, on valuation by CBRE, to be worth more than the construction liability. On this basis, and on the assumption that the construction works are completed, the profit on this disposal has been recognised in the period (see note 2) and the present value of the retained land and replacement buildings (also valued by CBRE) has been included in investment property.

8(d). Following a fire that destroyed part of the Westwood Business Centre, it has been decided that the damaged portion of the property will not be replaced. As a result the £1.6m net insurance proceeds has been recognised as other income in the Income Statement in the period. A reduction in fair value of the investment property of £0.7m has been recognised in the valuation surplus for the period.

Notes to the Half Year Interim Report
continued

9. Property, plant and equipment

	Owner occupied land £m	Owner occupied buildings £m	Equipment and fixtures £m	Total £m
Cost				
Balance at 1 April 2005	0.5	1.5	4.1	6.1
Additions during the period	–	0.1	0.2	0.3
Balance at 30 September 2005	0.5	1.6	4.3	6.4
Additions during the period	–	–	0.4	0.4
Balance at 31 March 2006	0.5	1.6	4.7	6.8
Additions during the period	–	–	0.2	0.2
Disposals during the period	–	–	(1.2)	(1.2)
Balance at 30 September 2006	**0.5**	**1.6**	**3.7**	**5.8**
Cumulative depreciation to 30 September 2005	–	0.1	2.8	2.9
Net book amount at 30 September 2005	0.5	1.5	1.5	3.5
Cumulative depreciation to 31 March 2006	–	0.1	3.1	3.2
Net book amount at 31 March 2006	0.5	1.5	1.6	3.6
Cumulative depreciation to 30 September 2006	**–**	**0.1**	**2.2**	**2.3**
Net book amount at 30 September 2006	**0.5**	**1.5**	**1.5**	**3.5**

10. Trade and other receivables

31 March 2006 £m		30 September 2006 £m	30 September 2005 (restated) £m
3.8	Trade debtors	**4.4**	4.1
(0.3)	Less provision for impairment of receivables	**(0.4)**	(0.4)
3.5	Trade debtors – net	**4.0**	3.7
0.3	Taxation and social security	**–**	–
2.9	Prepayments and accrued income	**6.0**	4.4
6.7		**10.0**	8.1

Notes to the Half Year Interim Report
continued

11. Cash and cash equivalents

31 March 2006 £m		30 September 2006 £m	30 September 2005 (restated) £m
–	Cash at bank and in hand	**–**	–
1.7	Restricted cash – tenants' deposit deeds	**1.8**	1.8
1.7		**1.8**	1.8

September 2005 comparative have been restated for the inclusion of restricted cash. This was previously resported in trade and other receivables.

Tenants' deposit deeds represent returnable cash security deposits received from tenants and are ring-fenced under the terms of the individual lease contracts.

Bank overdrafts are included within cash and cash equivalents for the purpose of the cash flow statement (see note 15b).

12. Trade and other payables

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
2.4	Trade payables	**3.1**	3.2
0.4	Taxation and social security payable	**0.3**	1.1
1.7	Tenants' deposit deeds (see note 11)	**1.8**	1.8
5.3	Tenants' deposits	**5.8**	5.1
13.9	Accrued expenses	**14.8**	11.1
5.3	Deferred income-rent and service charges	**4.7**	6.5
29.0		**30.5**	28.8

There is no material difference between the above amounts and their fair values due to the short term nature of the payables.

13. Current tax liabilities

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
1.7	Current tax liabilities	**2.7**	0.4

Notes to the Half Year Interim Report
continued

14. Financial liabilities – borrowings
a) Balances

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
	Current		
3.6	Bank overdraft due within one year or on demand (secured)	**2.8**	1.9
–	11.125% First Mortgage Debenture Stock 2007 (secured)	**12.5**	–
–	11.625% First Mortgage Debenture Stock 2007 (secured)	**7.0**	–
3.6		**22.3**	1.9
	Non-current		
2.2	11% Convertible Loan Stock 2011 (unsecured)	**–**	2.4
12.5	11.125% First Mortgage Debenture Stock 2007 (secured)	**–**	12.5
7.0	11.625% First Mortgage Debenture Stock 2007 (secured)	**–**	7.0
403.7	Other loans (secured)	**326.5**	407.4
0.7	Finance lease obligations (secured)	**0.7**	0.7
426.1		**327.2**	430.0
429.7		**349.5**	431.9

The Debenture Stocks are repayable on 30 June 2007.

b) Maturity

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
	Secured (excluding finance leases)		
3.6	Repayable in less than one year	**22.3**	1.9
19.5	Repayable between one year and two years	**–**	19.5
–	Repayable between two years and three years	**127.3**	–
134.7	Repayable between three years and four years	**200.0**	148.1
270.0	Repayable between four years and five years	**–**	260.4
427.8		**349.6**	429.9
(1.0)	Less cost of raising finance	**(0.8)**	(1.1)
426.8		**348.8**	428.8
	Unsecured		
2.2	Repayable in five years or more	**–**	2.4
	Finance leases (secured)		
0.7	Repayable in five years or more	**0.7**	0.7
429.7		**349.5**	431.9

Notes to the Half Year Interim Report

continued

c) Financial instruments held at fair value through the profit and loss

The following interest rate collars are held:

	Amount hedged £m	Interest cap %	Interest floor %	Expiry
Interest rate collar (amortising amount)	97.5	8.00%	4.50%	July 2009
Interest rate collar	75.0	6.95%	4.05%	July 2009
Interest rate collar (increasing amount)	37.5	7.00%	2.99%	Oct 2010

The above instruments are treated as financial instruments at fair value with changes in value dealt with in the income statement during each reporting period.

At the period end 6% (31 March 2006: 5%, 30 September 2005: 5%) of the Group's borrowings were fixed with a further 60% (31 March 2006: 50%, 30 September 2005: 49%) subject to a collar.

d) Fair values of financial instruments

31 March 2006			30 September 2006		30 September 2005	
Book Value £m	Fair Value £m		Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
		Financial liabilities not at fair value through profit or loss				
3.6	3.6	Bank overdraft	**2.8**	**2.8**	1.9	1.9
2.2	2.5	11% Convertible Loan Stock 2011	**–**	**–**	2.4	2.9
12.5	13.1	11.125% First Mortgage Debenture Stock 2007	**12.5**	**12.9**	12.5	13.4
7.0	7.4	11.625% First Mortgage Debenture Stock 2007	**7.0**	**7.2**	7.0	7.5
403.7	403.7	Other loans	**326.5**	**326.5**	407.4	407.4
0.7	0.7	Finance lease obligations	**0.7**	**0.7**	0.7	0.7
429.7	431.0	**Financial liabilities at fair value through profit or loss**	**349.5**	**350.1**	431.9	433.8
		Derivative financial instruments:				
1.2	1.2	Liabilities	**0.8**	**0.8**	2.3	2.3
(0.1)	(0.1)	Assets	**(0.1)**	**(0.1)**	(0.1)	(0.1)
1.1	1.1		**0.7**	**0.7**	2.2	2.2
430.8	432.1		**350.2**	**350.8**	434.1	436.0

The total gain recorded in the income statement was £0.4m (31 March 2006: £0.4m; 30 September 2005: £0.7m loss) for changes of fair value of derivative financial instruments.

The fair value of the interest rate collars has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates. The total fair value adjustment equates to 0.4p per share (31 March 2006: 0.8p, 30 September 2005: 1.1p).

Notes to the Half Year Interim Report
continued

15. Notes to cash flow statement

a) Reconciliation of profit for the period to cash generated from operations:

Year ended 31 March 2006 £m		6 months ended 30 September 2006 £m	6 months ended 30 September 2005 (restated) £m
106.6	Profit for the period	**48.8**	32.1
42.4	Tax	**20.6**	13.7
0.6	Depreciation	**0.3**	0.3
0.1	Amortisation of intangibles	**0.1**	–
(3.4)	Profit on disposal of investment properties	**(4.4)**	–
(131.3)	Net gain from fair value adjustments on investment property	**(59.0)**	(40.2)
(0.4)	Fair value gains on financial instruments	**(0.4)**	0.7
(0.2)	Interest income	**(0.1)**	–
23.6	Interest expense	**11.3**	11.0
–	Share of joint venture	**1.4**	–
–	Share based payment	**(0.2)**	–
	Changes in working capital:		
(1.7)	Increase in trade and other receivables	**(3.1)**	(3.1)
2.7	Increase in trade and other payables	**2.5**	3.3
39.0	Cash generated from operations	**17.8**	17.8

b) Reconciliation of cash and cash equivalents:

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

31 March 2006 £m		30 September 2006 £m	30 September 2005 (restated) £m
–	Cash at bank and in hand	**–**	–
1.7	Restricted cash – tenants' deposit deeds	**1.8**	1.8
(3.6)	Bank overdrafts	**(2.8)**	(1.9)
(1.9)		**(1.0)**	(0.1)

September 2005 comparatives have been restated for the inclusion of restricted cash. This was previously reported in trade and other receivables.

Notes to the Half Year Interim Report
continued

16. Deferred tax liabilities

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
86.1	Balance at start of period	**122.6**	86.1
36.5	Deferred tax charge	**17.9**	12.1
–	Group's share of tax on unrealised profits on sale of properties to joint venture	**0.8**	–
122.6	Balance at end of period	**141.3**	98.2

Deferred tax recognised in the balance sheet by each category of temporary timing difference is as follows:

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
114.2	Fair value gains on investment properties	**130.5**	91.5
–	Profit on sale to joint venture	**1.6**	–
0.4	Capitalised interest	**0.5**	0.4
8.3	Accelerated tax depreciation	**8.8**	7.0
(0.4)	Derivative financial instruments	**(0.2)**	(0.7)
0.1	Other	**0.1**	–
122.6		**141.3**	98.2

If the investment properties were sold for their revalued amount there would be a potential liability to corporation tax of £111.1m (31 March 2006: £95.6m, 30 September 2005: £74.9m). Under IFRS no account is taken of indexation relief on capital gains resulting in the difference between expected corporation tax to be paid and the provision made for deferred tax.

17. Share capital

31 March 2006 Number		30 September 2006 Number	30 September 2005 Number
240,000,000	Authorised :Ordinary shares of 10p each	**240,000,000**	240,000,000
169,509,640	Issued: Fully paid ordinary shares of 10p each	**174,035,087**	168,909,640
£		**£**	**£**
16,950,964	Issued: Fully paid ordinary shares of 10p each	**17,403,509**	16,890,964
Number		**Number**	**Number**
	Movements in share capital were as follows:		
168,839,660	Number of shares at start of period	**169,509,640**	168,839,660
69,980	Save as You Earn share options exercised	**125,447**	69,980
600,000	Convertible Loan Stock converted	**4,400,000**	–
169,509,640	Number of shares at end of period	**174,035,087**	168,909,640

Notes to the Half Year Interim Report
continued

18. Other reserves

31 March 2006 Total £m		Equity element of convertible loan stock £m	Equity settled share based payments £m	30 September 2006 Total £m	30 September 2005 Total £m
0.5	Balance at start of period	0.2	0.6	**0.8**	0.5
–	Loan stock conversion	(0.2)	–	**(0.2)**	–
0.3	Value of employee services	–	0.1	**0.1**	0.2
0.8	Balance at end of period	–	0.7	**0.7**	0.7

19. Statement of changes in shareholders' equity

31 March 2006 Total equity £m		Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	30 September 2006 Total equity £m	30 September 2005 Total equity £m
288.5	Balance at start of period	16.9	28.7	(5.1)	0.8	349.0	**390.3**	288.5
0.3	Share issues	0.1	–	–	–	–	**0.1**	–
0.4	Distribution of own shares	–	–	0.2	–	–	**0.2**	0.1
(5.8)	Dividends paid	–	–	–	–	(4.1)	**(4.1)**	(3.7)
–	Loan stock conversion	0.4	1.8	–	(0.2)	–	**2.0**	–
0.3	Value of employee services	–	–	–	0.1	–	**0.1**	0.2
106.6	Profit for the period	–	–	–	–	48.8	**48.8**	32.1
390.3	Balance at end of period	17.4	30.5	(4.9)	0.7	393.7	**437.4**	317.2

20. Investment in own shares

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 and 2000 Executive Share Option Schemes. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. During the period the Trust transferred 547,550 shares to employees on exercise of options. At 30 September 2006, the number of shares held by the Trust totalled 4,393,410 (31 March 2006: 4,940,960, 30 September 2005: 5,340,370). The shares have been included at cost in shareholders' equity. 4,373,110 shares held by the Trust are subject to option awards.

Notes to the Half Year Interim Report
continued

21. Capital commitments
At the period end the estimated amounts of contractual commitments for future capital expenditure not provided for were:

31 March 2006 £m		30 September 2006 £m	30 September 2005 £m
	Under contract:		
6.5	Purchases, construction or refurbishment of investment property	**18.3**	6.5
0.2	Repairs, maintenance or enhancement of investment property	**1.3**	1.0
6.7		**19.6**	7.5
	Authorised by directors but not contracted:		
0.2	Property, plant and equipment	**0.1**	0.2
0.1	Intangible assets	**–**	0.1
6.9	Purchases, construction or refurbishment of investment property	**4.3**	–
8.5	Repairs, maintenance or enhancement of investment property	**5.6**	3.4
15.7		**10.0**	3.7

22. Joint Venture
On 12 June 2006 the Group merged its interests in Workspace 12 Limited, a wholly owned subsidiary which held 11 properties valued at £146m with those of Glebe Three Limited, a wholly owned subsidiary of Glebe Two Limited, a third party, creating a joint venture, Workspace Glebe Limited, a company incorporated in England. The purpose of the joint venture is to invest in properties contributed by Workspace and Glebe with potential for intensification and improvement. Workspace Group plc holds 50% of the ordinary share capital of Workspace Glebe Limited. Its interest in this joint venture has been equity accounted for in the Group's consolidated financial statements.

The Group's share of amounts of each of current assets, long term assets, current liabilities and long term liabilities, income and expenses are shown below:

	30 September 2006 £m
Investment property	**74.9**
Current assets	**2.3**
Total assets	**77.2**
Current liabilities	**(1.9)**
Non-current liabilities	**(59.1)**
Total liabilities	**(61.0)**
Group share of joint venture net assets	**16.2**
Revenue	**1.5**
Direct costs	**(0.4)**
Net rental income	**1.1**
Administrative expenses	**–**
Change in fair value of investment property	**(1.6)**
Finance costs – interest payable	**(1.2)**
Change in fair value of derivative financial instruments	**(0.2)**
Loss before tax	**(1.9)**
Taxation	**0.5**
Loss after tax	**(1.4)**

Notes to the Half Year Interim Report
continued

22. Joint Venture continued

	30 September 2006 £m
Share of joint venture at start of period	–
Share of joint venture loss after tax for the period	**(1.4)**
Net equity movements in joint venture	**1.0**
Net loan movements with joint venture	**18.5**
Group's share of unrealised profits after tax on sale of properties to the joint venture	**(1.9)**
Share of joint venture at end of period	**16.2**
Comprising:	
Unlisted shares at cost	**1.0**
Group's share of post acquisition retained losses after tax	**(1.4)**
Group's share of unrealised profits after tax on sale of properties to the joint venture	**(1.9)**
Loan to joint venture	**18.5**
	16.2

The Group's share of capital commitments of the Workspace Glebe joint venture were £0.1m for commitments under contract and £0.3m authorised by directors but not contracted.

23. Post balance sheet events

On 2 November 2006 the Group acquired Seven Sisters, London N15, a 20,000 sq.ft. office building, for a cash consideration of £3.2m.

On 3 November 2006 the Group completed the sale of Park Avenue, Luton for a cash consideration of £12.1m being £0.3m over the book value at 31 March 2006.

24. Basis of preparation

The financial information reflects the current versions of the standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as currently adopted by the European Union.

The interim financial statements have been prepared in accordance with the Listing Rules of the Financial Services Authority.

The accounting policies set out in the Annual Report and Financial Statements for the year ended 31 March 2006 have been applied in preparing the financial information contained in this report.

The Group has not adopted IAS 34 – "Interim Financial Reporting" in these interim financial statements.

This report was approved by the Board on 17 November 2006.

This report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year to 31 March 2006, which were prepared under IFRS, have been delivered to the Registrar of Companies. The auditors' opinion on those financial statements was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985.

25. Interim Report

Copies of this statement will be dispatched to shareholders on 20 November 2006 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London, E1 1DU and on the Group's website www.workspacegroup.co.uk from 9.00am on that day.

Glossary of Terms

Adjusted NAV per share is NAV excluding deferred tax on revaluation surpluses and capital allowances, and the fair value of derivative financial instruments (net of tax).

Adjusted net assets are shareholders' funds excluding deferred tax on revaluation surpluses and capital allowances and the fair value of derivative financial instruments (net of tax).

Comparator IPD Index is a benchmark index computed by IPD of comparable properties in comparable locations to those held by the Group.

Core portfolio (like-for-like portfolio) are those properties that have been held throughout the period and which are not subject to significant improvement/refurbishment works.

Diluted NAV per share is NAV adjusted for the effect of those shares potentially issuable under convertible loan stock or employee share schemes.

Earnings per share (EPS) is the profit after taxation divided by the weighted average number of shares in issue during the period. Diluted and Adjusted EPS are determined as set out under NAV.

Employee Share Ownership Trust (ESOT) is the trust created by the Group to hold shares pending exercise of employee share options.

Equivalent Yield is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received.

Estimated rental value (ERV) or market rental value is the Group's external valuers' opinion as to the open market rent, which on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review.

Gearing is the Group's net debt as a percentage of net assets.

Initial yield is the net rents generated by a property or by the portfolio as a whole expressed as a percentage of its valuation.

Interest cover is the number of times net interest payable is covered by operating profit.

IPD is the Investment Property Databank Ltd, a company that produces an independent benchmark of property returns.

Like-for-like (see core portfolio).

Market rental values (see ERV).

Net assets per share (NAV) are shareholders' funds, divided by the number of shares in issue at the period end (excluding shares held in the ESOT).

Net rents are current rents excluding any contracted increases and after deduction of inclusive service charge revenue.

Glossary of Terms

Occupancy percentage is the area of space let divided by the total net lettable area (excluding land used for open storage).

Open market value is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers).

Other items in the Income Statement include profits and losses (together with their related taxation) on sales of investment properties and items of a non trading nature such as: valuation adjustments arising from the fair valuing of investment properties and derivative financial instruments; adjustments arising from the treatment of head lease payments as interest; insurance claim proceeds; and certain adjustments arising from the estimation of the cost of employee share based payments.

Profit before tax (PBT) is income less all expenditure other than taxation.

REIT Real Estate Investment Trust is a tax transparent property investment vehicle as enacted in the Finance Act 2006 and due to come into being on 1 January 2007.

Rent per sq ft is the current net rent divided by the occupied area.

Reversion is the increase in rent estimated by the Group's external valuers, where the net rent is below the current estimated rental value. The increases to rent arise on rent reviews, letting of vacant space and expiry of rent free periods or rental increase steps.

Reversionary yield is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value. It is calculated by dividing the ERV by the valuation.

SEE means Social Ethical and Environmental matters. The Group produces a separate SEE report, the most recent report was titled Sustainability Report 2006.

Small and Medium Sized Enterprises (SMEs) are those businesses with a turnover of less than £1m p.a. or staff of less than 50. Most Workspace customers are SME businesses with staffing of up to 20.

Total Shareholder Return (TSR) is the return obtained by a shareholder calculated by combining both share price movements and dividend receipts.

Trading operations/earnings/PBT etc is that element of earnings/PBT etc that arises from trading activity alone. It therefore excludes other items (above).

Valuation Surplus and growth rate is measured as the valuation surplus for the period divided by the total value of the portfolio before revaluation.

Directors and Advisers

Directors	**Antony Hales BSc,** Chairman*(2) **Harry Platt MA MRTPI,** Chief Executive **John Bywater FRICS***(1) **Madeleine Carragher FRICS,** Operations Director **Bernard Cragg BSc ACA***(1) **Rupert Dickinson MRICS***(1) **Patrick Marples MRICS,** Property Director **Mark Taylor BSc FCA,** Finance Director *Non-executive (1)Member of Remuneration, Nominations and Audit Committees (2)Member of Nominations Committee
Company Secretary	**Mark Taylor BSc FCA**
Auditors	**PricewaterhouseCoopers LLP** 1 Embankment Place London WC2N 6RH
Solicitors	**Norton Rose** Kempson House Camomile Street London EC3A 7AN
Bankers	**The Royal Bank of Scotland** Corporate Banking London 280 Bishopsgate London EC2M 4RB
Financial Advisers	**N M Rothschild** New Court St Swithin's Lane London EC4P 4DU
Financial Advisers and Joint Stockbrokers	**Panmure Gordon & Co. plc** 155 Moorgate London EC2M 6XB
Joint Stockbrokers	**Investec** 2 Gresham Street London EC2V 7QP
Registrars	**Computershare Services PLC** PO Box 82 The Pavilions, Bridgwater Road Bristol BS99 7NH
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