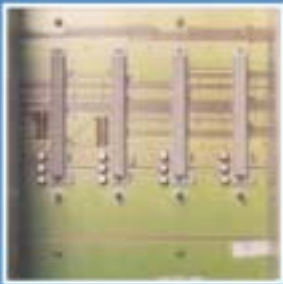




**Workspace Group**



**Quarterly Report**  
for the nine months ended 31 December 2001

## Highlights

- Pre-tax trading profits for the quarter £2.95 million up 9.8% on the same period last year; for the nine month period trading pre-tax profits £8.53 million up 24% on the same period last year.
- Trading earnings per share at 38.7p for the nine month period up 29% before property sales (31 December 2000: 30.0p).
- Turnover £9.52 million for the quarter, up by 1.6%; for the nine month period up by 9.9% to £28.9 million.
- Annual rent roll up £1.4 million to £28.0 million. Excluding the Midlands portfolio, sold in June 2001, the annual rent roll increased by £3.1 million over the nine month period (from £24.9 million to £28.0 million).
- Net Asset Value per share at 31 December 2001, £13.02.
- Acquisitions totalling £27.5 million in quarter with a further £12.5 million completed since 31 December 2001.
- Gearing 74.5%.

## Operating and Financial Review

### Review of Activities

The pattern of good progress extended through the third quarter.

High levels of occupancy have been maintained together with continuing improvements in rental income. This has led to trading profits for the quarter of £2.95 million, up 9.8% on the same period last year – with trading earnings per share for the nine month period of 38.7 pence per share, up 29%. Meanwhile, there has been considerable acquisition activity totalling some £27.5 million in the quarter making £43.25 million for the three quarter period. Since the quarter end a further £12.5 million acquisitions have been made. Planning consent for a residential development at 3 Mills was secured during the quarter and a number of other applications made. In time these will add significant value to the related properties.

Occupancy of the core portfolio of estates (those not in development and held throughout the year) was 89% at 31 December 2001. Including acquisitions during the year, overall occupancy of the Group's portfolio was 84.5% reflecting the voids inherited at the time of acquisition.

The rent roll has increased during the quarter by £1.4 million or 5.3% from £26.6 million to £28.0 million. Of this increase £1.0 million reflects the net effect of acquisitions whilst £0.4 million reflects underlying rental growth. Core average rents are now £7.20 per sq. ft, having increased by 2.4% in the quarter, and over 7.8% over the nine month period.

### Acquisitions and Disposals

During the quarter the Group acquired 5 properties for £27.48 million. The table below shows the main details of acquisitions in this period, including acquisitions since 31 December 2001 on 2 properties of some £12.5 million. Further acquisitions are under negotiation.

Name of Property	Description	Acquisition/ Sale Price	Initial Annual Income
<b>In the third Quarter:</b>			
<b>Acquisitions:</b>			
Windmill Place Hanwell, Middlesex	25,800 business centre; with 63 units	£3.35m	£305,000
Surrey House, Lavington Street, SE1	16,695 sq ft over 5 floors (currently single let)	£5.0m	£335,000
Clerkenwell Workshops, EC1	69,583 sq ft, subject to head lease expiry in 2003 and 150 individual business sub-tenants	£9.1m	£109,000
Union Court, Clapham, SW4	67,500 sq ft; 13 units business centre	£6.5m	£301,000
Alpine Way, Beckton, E6	1.75 acre site for development of 35,000 sq ft new build warehouse	£3.53m (£1.2m land purchase)	£350,000 when complete
<b>Post December 2001:</b>			
Westbourne Studios, Ladbroke Grove, London, W10	63,963 sq ft, 95 units business centre	£12.25m	£807,000
School Road, Acton, London, NW10	2,895 sq ft, 1 unit, adjacent to Europa Building	£0.245m	£24,000

## Operating and Financial Review continued

### Added Value Initiatives

Outline planning consent (subject to a Section 106 agreement) has been granted for a residential development at Three Mills. This scheme is in joint venture with Copthorn Homes.

During the quarter a planning application has been submitted for a 65,000 sq. ft extension to Barley Mow Workspace in Chiswick. This scheme will be undertaken in partnership with the London Borough of Hounslow.

The Group awaits the outcome of its planning applications for a retail warehouse scheme at Thurston Road Industrial Estate, Lewisham and for a residential development at Hooley Lane, Redhill. It is anticipated that further planning applications on other estates will be made over the next few months.

### Cash Flow and Financing

There was a net cash outflow of £0.85 million during the quarter (2000: inflow of £0.84 million). For the year to date there was an inflow of £0.82 million (2000: £2.86 million inflow). Capital expenditure for the year to date, net of disposal proceeds was an outflow of £4.05 million (2000: inflow of £16.22 million). At the quarter end gearing stood at 74.5% (2000: 73.6%) and interest cover for the year to date was 2.14 times (2000: 2.94 times). A new £100 million loan facility has been negotiated with the Group's bankers NatWest. This will provide capacity for the acquisition programme for the immediate future.

### Occupancy and Trading Statistics

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

	<b>31 December 2001</b>	30 September 2001	30 June 2001	31 March 2001
Number of Estates	<b>83</b>	80	79	78
Total Floorspace at end of period	<b>4,702,550</b>	4,520,707	4,513,937	4,525,030
of which:				
London and South East (sq ft)	<b>4,315,664</b>	4,134,148	4,127,378	
Three Mills and developments (sq ft)	<b>386,886</b>	386,559	386,559	
Lettable Floorspace of core portfolio	<b>4,003,557</b>	3,996,025	4,001,944	3,988,450
Lettable units (number)	<b>3,587</b>	3,489	3,521	3,507
Annual rent roll of occupied units	<b>£28,003,732</b>	£26,573,800	£25,570,817	£24,941,423
Average rent (£/sq ft)	<b>£7.05</b>	£6.91	£6.71	£6.39
Average rent of core portfolio (£/sq ft)	<b>£7.20</b>	£7.03	£6.90	£6.68
Occupancy overall	<b>84.5%</b>	85.1%	84.2%	86.2%
Occupancy of core portfolio	<b>89.1%</b>	89.9%	89.4%	90.6%

All figures exclude the Midlands portfolio, which was sold on 15 June 2001.

## **Operating and Financial Review** continued

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The “core portfolio” is defined as those properties, excluding Three Mills (which due to the short term nature of the lettings of studio space has a volatile occupancy rate which in turn can obscure overall patterns), that have been held throughout the year to date and which are not subject to refurbishment/development programmes.

### **Current Trading**

At mid February trading remains strong with good enquiries and continuing rental uplift – albeit at lower rates of increase than were experienced a year or so ago. Prospects are therefore good. Negotiations continue on a number of potential acquisitions which will bring additional long term value to shareholders.

## Unaudited Consolidated Profit and Loss Account

for the 3 and 9 months ended 31 December 2001

	3 months ended		9 months ended 31 December			
	31 December		Trading Operations	Other Items	Total 2001	2000
	2001	2000				
<b>Turnover – continuing operations</b>	<b>9,518</b>	9,365	28,926	–	<b>28,926</b>	26,298
Rent payable and direct costs	<b>(2,870)</b>	(2,611)	(8,367)	–	<b>(8,367)</b>	(7,240)
<b>Gross profit</b>	<b>6,648</b>	6,754	20,559	–	<b>20,559</b>	19,058
Administrative expenses	<b>(1,373)</b>	(1,161)	(4,215)	–	<b>(4,215)</b>	(3,586)
<b>Operating profit – continuing operations</b>	<b>5,275</b>	5,593	16,344	–	<b>16,344</b>	15,472
Profit on disposal of investment property	<b>(16)</b>	9,700	–	361	<b>361</b>	9,762
Interest receivable	<b>53</b>	76	282	–	<b>282</b>	333
Interest payable and similar charges	<b>(2,380)</b>	(2,985)	(8,094)	–	<b>(8,094)</b>	(8,922)
<b>Profit on ordinary activities before taxation</b>	<b>2,932</b>	12,384	8,532	361	<b>8,893</b>	16,645
Taxation on profit on ordinary activities	<b>(813)</b>	(4,454)	(2,304)	(35)	<b>(2,339)</b>	(5,605)
<b>Profit attributable to shareholders</b>	<b>2,119</b>	7,930	6,228	326	<b>6,554</b>	11,040
Dividends	–	–	(1,143)	–	<b>(1,143)</b>	(1,070)
Retained for the period	<b>2,119</b>	7,930	5,085	326	<b>5,411</b>	9,970
Earnings per share (basic)	<b>13.1p</b>	50.0p	38.7p	2.0p	<b>40.7p</b>	69.6p
Diluted earnings per share	<b>12.8p</b>	47.3p			<b>39.8p</b>	66.6p

## Statement of Total Recognised Gains and Losses

	9 months ended 31 December	
	2001	2000
	£000	£000
<b>Profit for the financial period</b>	<b>6,554</b>	11,040
Unrealised surplus on revaluation of investment properties	<b>14,389</b>	22,232
Taxation on revaluation surpluses realised on sale of properties	<b>(150)</b>	(510)
<b>Total gains relating to the financial period</b>	<b>20,793</b>	32,762

## Consolidated Balance Sheet

	Unaudited 31 December 2001 £000	Audited 31 March 2001 £000
<b>Fixed assets</b>		
Tangible assets		
Investment properties	<b>382,876</b>	366,525
Other fixed assets	<b>1,538</b>	999
Investment in own shares	<b>1,015</b>	1,015
	<b>385,429</b>	368,539
<b>Current assets</b>		
Debtors	<b>6,950</b>	5,844
Investments	<b>6,100</b>	5,373
Cash at bank and in hand	<b>14</b>	206
	<b>13,064</b>	11,423
Creditors: amounts falling due within one year		
Loans and overdrafts	<b>(4,227)</b>	(4,355)
Others	<b>(21,620)</b>	(25,658)
<b>Net current liabilities</b>	<b>(12,783)</b>	(18,590)
<b>Total assets less current liabilities</b>	<b>372,646</b>	349,949
Creditors: amounts falling due after more than one year loans (including Convertible Loan Stock)	<b>(160,148)</b>	(158,371)
	<b>212,498</b>	191,578
<b>Capital and reserves</b>		
Called up share capital	<b>1,644</b>	1,618
Share premium account	<b>41,910</b>	40,666
Revaluation reserve	<b>132,358</b>	122,739
Profit and loss account	<b>36,586</b>	26,555
Shareholders' funds – equity interests	<b>212,498</b>	191,578
Net asset value per share	<b>£13.02</b>	£11.93
<b>Movement in shareholders' funds</b>		
Profit for the financial period	<b>6,554</b>	13,222
Dividends	<b>(1,143)</b>	(3,723)
	<b>5,411</b>	9,499
Issue of Shares	<b>26</b>	27
Share premium account	<b>1,244</b>	871
Revaluation reserve – increase	<b>14,389</b>	38,673
Taxation on valuation surpluses realised on sale of properties	<b>(150)</b>	(510)
<b>Net movement in shareholders' funds for the financial period</b>	<b>20,920</b>	48,560
Shareholders' funds as at 1 April 2001/2000	<b>191,578</b>	143,018
<b>Shareholders' funds as at 31 December 2001/31 March 2001</b>	<b>212,498</b>	191,578

## Unaudited Consolidated Cash Flow Statement

for the 9 months ended 31 December 2001

	9 months ended 31 December	
	2001	2000
	£000	£000
<b>Net cash inflow from operating activities</b>	<b>16,913</b>	15,168
Return on investment and servicing of finance	<b>(7,623)</b>	(8,953)
Taxation	<b>(4,780)</b>	(1,185)
Capital (expenditure)/proceeds – net	<b>(4,052)</b>	16,224
Equity dividends paid	<b>(2,659)</b>	(2,391)
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>	<b>(2,201)</b>	18,863
(Outflow)/Inflow from management of liquid resources	<b>(727)</b>	358
Inflow/(Outflow) from financing	<b>3,749</b>	(16,357)
<b>Net cash inflow</b>	<b>821</b>	2,864
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash	<b>821</b>	2,864
Increase/(Decrease) in liquid resources	<b>727</b>	(358)
(Outflow)/Inflow from movements in debt financing	<b>(2,662)</b>	16,999
<b>Changes in debt resulting from cash flows</b>	<b>(1,114)</b>	19,505
Net debt at 1 April	<b>(157,147)</b>	(148,731)
Net debt at 31 December	<b>(158,261)</b>	(129,226)

## 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 2001 included an unqualified report of the auditors. The Group's unaudited accounts for the period ended 31 December 2001 have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 2001.

	3 months ended 31 December		9 months ended 31 December	
	2001	2000	2001	2000
<b>2. Segmental Analysis</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Rental income	<b>7,517</b>	7,461	<b>22,939</b>	20,774
Service charge and other recoveries	<b>1,612</b>	1,513	<b>5,006</b>	4,470
Fees, commissions, and sundry income	<b>389</b>	391	<b>981</b>	1,054
	<b>9,518</b>	9,365	<b>28,926</b>	26,298

	3 months ended 31 December		9 months ended 31 December	
	2001	2000	2001	2000
<b>3. Interest Payable</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Convertible loan stock and debenture stock interest	<b>631</b>	663	<b>1,935</b>	1,987
Mortgage interest	<b>1,801</b>	2,666	<b>6,252</b>	8,006
Bank and other interest	<b>13</b>	22	<b>42</b>	64
Net development interest capitalised	<b>(65)</b>	(366)	<b>(135)</b>	(1,135)
Charged to profit and loss account	<b>2,380</b>	2,985	<b>8,094</b>	8,922

### 4. Taxation

The taxation charge, excluding tax on property disposals, for the nine months ended 31 December 2001 is based on the estimated effective tax rate for the year ending 31 March 2002 of 27% (2001 estimated: 27%). Tax on property disposals is only 9.7% due to tax losses made on some properties within the Midlands sale.

### 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 (16,115,912 shares). Net assets per share have been calculated by dividing net assets at the end of each period by the number of shares in issue at that time less investment in own shares of 200,000 (16,245,105 shares).

## Notes to the Quarterly Results continued

### 6. Valuation

The Group's investment properties were valued by Insignia Richard Ellis at 30 September 2001 on an open market existing use basis in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors.

### 7. Creditors

Creditors falling due within one year include tenants' deposits of £3.94 million (31 March 2001: £3.26 million) and deferred rental and service charges of £4.49 million (31 March 2001: £4.95 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 2001. The results are summarised as follows:

	Book Value £ Million	Fair Value £ Million	Difference £ Million
Short term borrowings and current part of long term borrowings	(4.2)	(4.2)	–
Long term borrowings	(160.1)	(165.6)	(5.5)
Financial Assets	6.1	6.1	–
Interest rate Cap/Collar	0.3	(2.3)	(2.6)
	<b>(157.9)</b>	<b>(166.0)</b>	<b>(8.1)</b>

This represents 49.9 pence per issued ordinary share and if applied to net asset value per share at 31 December 2001 would reduce the latter to £12.52. On a diluted basis, allowing for conversion of the Group's convertible loan stock, this adjustment reduces to 31.8 pence per share. 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. Quarterly Statement

Copies of this statement will be dispatched to shareholders on Monday 18 February 2002 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 and the South East.

### Directors

**Phillip B 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 MRICS** (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

**Iain G R MacDonald LLB, MBA**

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