Workspace Group

Quarterly Report

for the three months ended 30 September 2000
including unaudited results for the first half of the financial year

Highlights

- Exceptional income and asset growth maintained.
- Pre-tax profits for the six month period up 62.4% to £4.3 million.
- Basic earnings per share at 19.4p for the half year, up by 21.3%, before property sales and exceptional costs (30 September 1999: 16.0p).
- Net asset value per share at 30 September 2000 up 22.1% to £11.04 (31 March 2000: £9.04; 30 September 1999: £7.65).
- Valuation surplus of £31.8 million in the half year.
- Turnover at £16.9 million for the half year up by 32.6%.
- Annual rent roll increased by £1.26 million to £27.1 million (up 4.9% since 31 March 2000).
- Acquisition of estates in Harrow and Maidenhead for £6.2 million and disposal of Ensign Court, E1, for £4.65 million.
- Interim dividend is increased by 8.3% from 6.0p to 6.5p.

Operating and Financial Review

Review of Activities

Demand for space remains high supporting increasing rentals. As a result of this and expansion of the portfolio, pre-tax profits are up 62.4% to £4.3 million for the half year. Excluding property sales and exceptional costs, profits are up 17.8% on last year.

Over the first half the rent roll increased by £1.26 million to £27.11 million, whilst the average rent (per square foot) increased from £5.21 to £5.42 (up 3.2%). The Estimated Rental Value of the portfolio (excluding Union Street) now stands at £34.4 million.

The Group's properties were valued by Insignia Richard Ellis at 30 September 2000 at £348.5 million yielding a surplus of £31.8 million, an uplift of 10.0% on the portfolio valuation at 31 March 2000 (as adjusted for subsequent additions and disposals). This has been incorporated in the interim accounts. As a result the net asset value per share has increased to £11.04, compared to £9.04 at 31 March 2000 and £7.65 at 30 September 1999 (an uplift of 22.1% for the half year and 44.2% year on year).

Following the completion of the refurbishment of 169 Union Street and its occupation by J Sainsbury, the property now appears in the accounts at valuation (contributing £9.2 million to the valuation surplus reported for the half year). It is likely that the building will be sold in the current financial year.

Acquisitions and Disposals

The Group is keen to expand the property portfolio. We target under-managed business centres in good locations which we believe will benefit from our intensive management skills.

Three acquisitions were concluded in the first half year at Harrow, Maidenhead and on Whitechapel Road, London E1 for a total of £6.61 million. In addition, following the period end, one small acquisition adjacent to an existing landholding and for a value of £0.29 million has been made.

In May 2000 we entered a cooperation agreement with Greater London Enterprises (GLE). This agreement will enable the Group to source new sites and opportunities. The opportunity to work together with local authorities to stimulate local business creation is massive. We aim to use the agreement to continue to grow the provision of good quality, flexible business space and ancilliary services to SMEs. We are delighted to report that contracts have been exchanged with GLE for the first acquisition, being the Wandsworth Business Village in South West London, for £6.94 million.

The sale of Ensign Court for £4.65 million was concluded in the second quarter, yielding a surplus of £0.05 million on the book value at 31 March 2000 and some £2.27 million over cost. Following the period end contracts have been exchanged for the sale of Phoenix Business Centre, Bow Common Lane, E3 for £1.5 million, a £0.6 million surplus over book value at 31 March 2000.

Operating and Financial Review continued

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

Name of Property	Description	Acquisition/Sale Price	Annual Income
Acquisitions: Barratt Way, Harrow	49,296 sq ft multi-let industrial	£3.21m	£262,826
Clyde House, Maidenhead	30,156 sq ft of industrial and offices	£3.0m	£298,610
57/59 Whitechapel Road, E1	Retail and offices	£0.4m	£30,000
Disposal: Ensign Court, London, E1	19,552 sq ft let to Oddbins and News International	£4.65m	£411,000

Cash Flow and Financing

There was a net cash inflow of £2.02 million (1999: £1.81 million outflow) during the half year. Net cash flow from operating activities was an inflow of £8.16 million for the half year (1999: £7.96 million) Capital expenditure in the half year, net of disposal proceeds, totalled £10.18 million (1999: £82.47 million). At the quarter end gearing stood at 89% (1999: 124%); with interest cover at 1.75 times (1999: 1.91 times).

Occupancy and Trading Statistics

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

	30 September 2000	30 June 2000	31 March 2000
Number of Estates	**93**	90	94
Total Floorspace at end of period	**5,723,014**	5,649,753	5,677,521
of which:			
Available for letting	**5,627,733**	5,554,472	
Undergoing development/refurbishment	**95,281**	95,281	
Lettable Floorspace of core portfolio	**5,548,312**	5,554,472	5,539,351
Lettable Units (number)	**3,568**	3,546	3,523
Annual Rent Roll of Occupied Units	**27,114,761**	26,077,673	25,855,226
Average Rent (£/sq ft)	**5.42**	5.30	5.21
Average Rent of Core Portfolio (£/sq ft)	**5.42**	5.29	5.22
Occupancy overall	**87.38%**	87.04%	87.35%
Occupancy of Core Portfolio	**86.98%**	86.77%	86.99%

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 that have been held throughout the year to date and which are not subject to refurbishment/redevelopment programmes. The rent on Union Street (£2 million per annum commencing 25 March 2001) is excluded from the above figures.

Current Trading

The rent roll improvements recorded over the first half of the year have continued since 30 September 2000. Many estates are at occupancy rates in excess of 90% with good and continuing demand from new or existing customers seeking to expand. This, together with the favourable economic environment, particularly in London and the South East, is enabling good rental growth.

The cooperation agreement with GLE referred to earlier is particularly exciting. Together we have a platform to pursue a range of regeneration opportunities. Workspace has the capacity for future growth and we are confident that this association will contribute to this.

Meanwhile, we continue to secure significant value from our disposal, 'added value' and partnership programme, and to target new acquisitions particularly in the London area.

Interim Dividend

The Board has declared an interim dividend in respect of the six months ended 30 September 2000 of 6.5p per ordinary share payable on 1 February 2001 to shareholders on the register at 8 January 2001. This compares with an interim dividend of 6.0p per ordinary share paid for the same period in 1999 and is an increase of 0.5p or 8.3%.

Unaudited Consolidated Profit and Loss Account

for the 3 months ended 30 September 2000

	3 months ended 30 September 2000 £000	3 months ended 30 September 1999 £000	6 months ended 30 September Trading Operations £000	6 months ended 30 September Other Items £000	6 months ended 30 September Total 2000 £000	6 months ended 30 September 1999 £000
Turnover – continuing operations	**8,386**	7,166	16,933	–	**16,933**	12,767
Rent payable and direct costs	**(2,325)**	(1,843)	(4,629)	–	**(4,629)**	(3,330)
Gross profit	**6,061**	5,323	12,304	–	**12,304**	9,437
Administrative expenses	**(1,246)**	(1,204)	(2,425)	–	**(2,425)**	(2,129)
Operating profit – continuing operations	**4,815**	4,119	9,879	–	**9,879**	7,308
Profit/(Loss) on Disposal of Investment Property	**74**	(1)	–	62	**62**	(5)
Interest receivable	**142**	34	257	–	**257**	60
Interest payable and similar charges	**(2,991)**	(3,340)	(5,937)	–	**(5,937)**	(4,739)
Profit on ordinary activities before taxation	**2,040**	812	4,199	62	**4,261**	2,624
Taxation on profit on ordinary activities	**(551)**	(282)	(1,134)	(17)	**(1,151)**	(735)
Profit attributable to shareholders	**1,489**	530	3,065	45	**3,110**	1,889
Dividends	**(1,070)**	(941)	(1,070)	–	**(1,070)**	(941)
Retained for the period	**419**	(411)	1,995	45	**2,040**	948
Earnings per share (basic)	**9.4p**	3.4p	19.4p	0.3p	**19.7p**	12.0p
Diluted earnings per share	**9.3p**	3.7p			**19.4p**	12.3p

Statement of Total Recognised Gains and Losses

	6 months ended 30 September 2000 £000	6 months ended 30 September 1999 £000
Profit for the financial period	**3,110**	1,889
Unrealised surplus on revaluation of investment properties	**31,768**	10,491
Taxation on revaluation surpluses realised on sale of properties	**(510)**	–
Total gains relating to the financial period	**34,368**	12,380

Consolidated Balance Sheet

	Unaudited 30 September 2000 £000	Audited 31 March 2000 £000
Fixed assets		
Tangible assets		
Investment properties	**348,225**	304,248
Other fixed assets	**1,013**	1,117
Investment in own shares	**1,015**	1,015
	350,253	306,380
Current assets		
Debtors	**7,418**	5,236
Investments	**5,201**	11,424
Cash at bank and in hand	**223**	201
	12,842	16,861
Creditors: amounts falling due within one year		
loans and overdrafts	**(3,930)**	(5,511)
others	**(22,245)**	(19,867)
Net current liabilities	**(26,175)**	(25,378)
Total assets less current liabilities	**336,920**	297,863
Creditors: amounts falling due after more than one year		
loans (including Convertible Loan Stock)	**(159,827)**	(154,845)
	177,093	143,018
Capital and reserves		
Called up share capital	**1,614**	1,591
Share premium account	**40,549**	39,795
Revaluation reserve	**115,777**	86,412
Profit and loss account	**19,153**	15,220
Shareholders' funds – equity interests	**177,093**	143,018
Net asset value per share	**£11.04**	£9.04
Movement in shareholders' funds		
Profit for the financial period	**3,110**	6,523
Dividends	**(1,070)**	(3,298)
	2,040	3,225
Issue of Shares	**23**	3
Share premium account	**754**	127
Revaluation reserve – increase	**31,768**	31,209
Taxation on valuation surpluses realised on sale of properties	**(510)**	–
Net movement in shareholders' funds for the financial period	**34,075**	34,564
Shareholders' funds as at 1 April 2000/1999	**143,018**	108,454
Shareholders' funds as at 30 September 2000/31 March 2000	**177,093**	143,018

Unaudited Consolidated Cash Flow Statement

for the 6 months ended 30 September 2000

	6 months ended 30 September	
	2000	1999
	£000	£000
Net cash inflow from operating activities	**8,155**	7,963
Return on investment and servicing of finance	**(6,196)**	(3,575)
Taxation Refund/(Payment)	**287**	(218)
Capital expenditure (net)	**(10,180)**	(82,474)
Equity dividends paid	**(2,391)**	(2,116)
Net cash outflow before use of liquid resources and financing	**(10,325)**	(80,420)
Management of liquid resources	**6,223**	(3,299)
Financing	**6,122**	81,910
Net cash inflow/(outflow)	**2,020**	(1,809)
Reconciliation of net cash flow to movement in net debt		
Increase/(Decrease) in cash	**2,020**	(1,809)
(Decrease)/Increase in liquid resources	**(6,223)**	3,299
Cash inflow from increase in debt	**(5,399)**	(81,893)
Changes in debt resulting from cash flows	**(9,602)**	(80,403)
Net debt at 1 April	**(148,731)**	(68,457)
Net debt at 30 September	**(158,333)**	(148,860)

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 30 September 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 30 September		6 months ended 30 September	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Rental income	**6,636**	5,911	**13,313**	10,375
Service charge and other recoveries	**1,480**	937	**2,957**	1,871
Fees, commissions, and sundry income	**270**	318	**663**	521
	8,386	7,166	**16,933**	12,767

3. Interest Payable

	3 months ended 30 September		6 months ended 30 September	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Convertible loan stock and debenture stock interest	**662**	662	**1,324**	1,324
Mortgage interest	**2,732**	1,874	**5,340**	2,662
Bank and other interest	**19**	37	**42**	134
Net development interest capitalised	**(422)**	(170)	**(769)**	(318)
Loan breakage costs	**–**	937	**–**	937
Charged to profit and loss account	**2,991**	3,340	**5,937**	4,739

4. Taxation

The taxation charge for the three months ended 30 September 2000 is based on the estimated effective tax rate for the year ending 31 March 2001 of 27% (2000 estimated: 28%).

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 (15,826,293 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 Group's investment properties were valued 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.

7. Creditors

Creditors falling due within one year include tenants' deposits of £2.82 million (31 March 2000: £2.60 million) and deferred rental and service charges of £4.68 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 30 September 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	**(3.9)**	**(3.9)**	**–**
Long term borrowings	**(159.8)**	**(165.4)**	**(5.6)**
Financial Assets	**5.4**	**5.4**	**–**
Interest rate Cap/Collar	**0.3**	**(0.5)**	**(0.8)**
	(158.0)	**(164.4)**	**(6.4)**

This represents 40 pence per issued ordinary share and if applied to net asset value per share at 30 September 2000 would reduce the latter to £10.64. 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 27 November 2000 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 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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