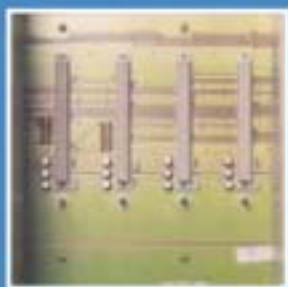




Workspace Group



Interim Report
for the six months ended 30 September 2001

Highlights

- Pre-tax profits for the six month period up 39.9% to £5.96 million.
- Valuation surplus of £14.4 million in the half year with a total property valuation of £353.7 million.
- Net Asset Value per share at 30 September 2001 up 8.1% to £12.90 in six months, and up 16.8% over twelve months (31 March 2001: £11.93; 30 September 2000: 11.04).
- Basic earnings per share at 25.4p for the half year, up 30.9% before property sales (30 September 2000: 19.4p).
- Turnover at £19.41 million for the half year, up by 14.6%.
- Annual rent roll increased during the half year by 6.5% from £24.94 million to £26.57 million.
- During the half year four properties were acquired for £15.77 million. With gearing now at 62% and interest cover of 2.04, the Group has immediate additional investment capacity of some £80 million.
- Interim dividend is increased by 7.7% from 6.5p to 7.0p.

Operating and Financial Review

Review of Activities

The Group continues to make excellent progress.

For the half year pre-tax profits of £5.96 million are up 39.9% on the same period last year. At the same time, net asset value per share has risen to £12.90, an increase of 16.8% over the last twelve months, or 8.1% in the last six months alone.

Both improvements in profitability and asset value have been driven by continuing increases in rental values. The long term fundamentals for our market place of small and medium sized enterprises in London and the South East remains strong. Furthermore, Workspace is the leading provider of space to such businesses in this market place.

During the first quarter of the year the Group sold its Midlands portfolio for £42.3 million, representing 11% by value of the Group's total portfolio at 31 March 2001, as the Group focused its expansion on the London and South East market. Moving forward, the Group is now very well placed (with low gearing and considerable investment capacity) to move ahead with its expansion, as new acquisition opportunities providing real long term potential arise.

Key aspects of performance in the half year are:

- At 30 September 2001 core occupancy was 89.9% and overall occupancy some 85.1% (and both remain at these levels at mid November 2001). Occupancy has been stable at these levels throughout the half year and maintains those achieved in the previous year.
- Excluding the Midlands portfolio, the rent roll has increased by £1.63 million or 6.5% to £26.57 million in the half year (from £24.94 million at 31 March 2001). Of this change £0.49 million reflects the net effect of acquisitions/disposals, whilst £1.14 million reflects underlying rental growth.
- With this underlying rental growth, average rents per square foot of the core London and South East portfolio have increased by 5.2% over the half year, from £6.68 to £7.03 per square foot. This still remains a low rent for quality stock of affordable, flexible space for our small and medium sized enterprise customers.
- The estimated rental value, at current market rents, of the portfolio now stands at £36.9 million. This assumes full occupancy. At 90% occupancy this equates to £33.2 million, some £6.63 million (or 25%) above the current passing rent roll. With up to 40% units subject to re-letting or review each year this reversionary potential is in early prospect over the next two to three years.
- The Group's properties were valued by Insignia Richard Ellis at 30 September 2001 at £353.7 million yielding a surplus of £14.4 million, an uplift of 4.2% on the portfolio valuation at 31 March 2001 (as adjusted for subsequent acquisitions and disposals). This valuation has been incorporated in the interim accounts. As a result the net asset value per share has increased to £12.90 compared to £11.93 at 31 March 2001 and £11.04 at 30 September 2000 (an uplift of 8.1% for the half year and 16.8% year on year).

Operating and Financial Review continued

The Group's "added value" programme involving increasing densities and changes of use on certain sites continues to gather momentum. We await the outcome of an application for residential development on a piece of land at Three Mills, Stratford, E3. Planning applications have also been submitted for a retail warehouse scheme at Thurston Road Industrial Estate, Lewisham, and for a residential development at Hooley Lane, Redhill. Other schemes are under consideration.

Acquisitions and Disposals

During the half year the Group acquired four properties for £15.77 million. The Midlands portfolio was sold for £42.3 million, and two further disposals were made for £5.7 million. The table below shows the main details of acquisitions and disposals in this period.

Name of Property	Description	Acquisition/ Sale Price	Annual Income
First Quarter:			
Acquisitions:			
Harlow Enterprise Centre, Harlow	Single storey estate; 28 units in 51,851 sq ft	£3.6m	£344,324
Quality Court, London WC2	24,102 sq ft – vacant subject to refurbishment	£4.22m	Nil
Disposals:			
Midlands portfolio	26 multi-let estates; in total 1.22 million sq ft	£42.3m	£4,361,240
Ashburton Trading Estate, London N7	Two storey industrial estate; 5 units in 63,065 sq ft	£2.8m	£230,000
Second Quarter:			
Acquisitions:			
98 Victoria Road, Acton, London NW10	Multi-let industrial estate with two storey offices; 18 units in 69,869 sq ft	£5.45m	£389,382
Europa Building, Victoria Road, Acton, London NW10	Three storey industrial and warehouse building totalling 27,950 sq ft	£2.5m	£120,000
Disposals:			
Arklow Road Trading Estate, London SE14	Single storey industrial estate; 7 units in 75,583 sq ft	£2.9m	£114,940

Operating and Financial Review continued

Following 30 September the Group acquired a business centre at Windmill Place, Hanwell, Uxbridge, Middlesex. This comprises 63 units in some 26,100 square feet and was acquired for £3.35 million at an immediate income yield of 9.7%.

Cash Flow and Financing

As a result of the major Midlands portfolio disposal, disposal proceeds exceeded capital expenditure in the half year by £26.82 million (2000: £10.18 million net expenditure). Consequently, by the half year end gearing had fallen to 62% (30 September 2000: 89%; 31 March 2001: 82%) with interest cover at 2.04 times (2000: 1.75 times).

During the quarter holders of £1.14m of the Group's 11% convertible loan stock 2011 exercised their conversion rights. This gave rise to the issue of 228,000 shares.

There was a net cash inflow of £1.67 million (2000: £2.02 million) during the half year. Net cash flow from operating activities was an inflow of £9.03 million for the half year (2000: £8.16 million).

Occupancy and Trading Statistics

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

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

All figures exclude 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

The fundamentals of our market place remain strong and, now nearly two months into the second half, we are confident that we will meet our targets for the year as a whole. Despite the tragic events of September 11, and the inevitable delays in decision making by some of our customers, enquiries and conversion rates continue at similar levels to earlier in the year, and rents to increase, with the rent review programme showing good results. We continue to follow a number of potential acquisitions maintaining our stance that we will only buy when we see real long term value for shareholders.

Interim Dividend

The Board has declared an interim dividend in respect of the six months ended 30 September 2001 of 7.0p per ordinary share payable on 1 February 2002 to shareholders on the register at 4 January 2002. This compares with an interim dividend of 6.5p per ordinary share paid for the same period in 2000 and is an increase of 0.5p or 7.7%. The Board intends to increase dividends for the year as a whole by 10%.

Unaudited Consolidated Profit and Loss Account

for the 6 months ended 30 September 2001

	3 months ended		6 months ended 30 September			
	30 September		Trading Operations	Other Items	Total 2001	2000
	2001	2000				
	£000	£000	£000	£000	£000	£000
Turnover – continuing operations	9,395	8,386	19,408	–	19,408	16,933
Rent payable and direct costs	(2,792)	(2,325)	(5,497)	–	(5,497)	(4,629)
Gross profit	6,603	6,061	13,911	–	13,911	12,304
Administrative expenses	(1,441)	(1,246)	(2,842)	–	(2,842)	(2,425)
Operating profit – continuing operations	5,162	4,815	11,069	–	11,069	9,879
Profit on disposal of investment property	374	74	–	377	377	62
Interest receivable	144	142	229	–	229	257
Interest payable and similar charges	(2,583)	(2,991)	(5,714)	–	(5,714)	(5,937)
Profit on ordinary activities before taxation	3,097	2,040	5,584	377	5,961	4,261
Taxation on profit on ordinary activities	(754)	(551)	(1,508)	(18)	(1,526)	(1,151)
Profit attributable to shareholders	2,343	1,489	4,076	359	4,435	3,110
Dividends	(1,143)	(1,070)	(1,143)	–	(1,143)	(1,070)
Retained for the period	1,200	419	2,933	359	3,292	2,040
Earnings per share (basic)	14.5p	9.4p	25.4p	2.2p	27.6p	19.7p
Diluted earnings per share	14.3p	9.3p			27.0p	19.4p

Statement of Total Recognised Gains and Losses

	6 months ended 30 September	
	2001	2000
	£000	£000
Profit for the financial period	4,435	3,110
Unrealised surplus on revaluation of investment properties	14,389	31,768
Taxation on revaluation surpluses realised on sale of properties	–	(510)
Total gains relating to the financial period	18,824	34,368

Consolidated Balance Sheet

	Unaudited 30 September 2001 £000	Audited 31 March 2001 £000
Fixed assets		
Tangible assets		
Investment properties	353,734	366,525
Other fixed assets	1,686	999
Investment in own shares	1,015	1,015
	356,435	368,539
Current assets		
Debtors	8,953	5,844
Investments	6,188	5,373
Cash at bank and in hand	281	206
	15,422	11,423
Creditors: amounts falling due within one year		
Loans and overdrafts	(2,627)	(4,355)
Others	(24,070)	(25,658)
Net current liabilities	(11,275)	(18,590)
Total assets less current liabilities	345,160	349,949
Creditors: amounts falling due after more than one year loans (including Convertible Loan Stock)	(134,636)	(158,371)
	210,524	191,578
Capital and reserves		
Called up share capital	1,644	1,618
Share premium account	41,905	40,666
Revaluation reserve	132,858	122,739
Profit and loss account	34,117	26,555
Shareholders' funds – equity interests	210,524	191,578
Net asset value per share	£12.90	£11.93
Movement in shareholders' funds		
Profit for the financial period	4,435	13,222
Dividends	(1,143)	(3,723)
	3,292	9,499
Issue of Shares	26	27
Share premium account	1,239	871
Revaluation reserve – increase	14,389	38,673
Taxation on valuation surpluses realised on sale of properties	–	(510)
Net movement in shareholders' funds for the financial period	18,946	48,560
Shareholders' funds as at 1 April 2001/2000	191,578	143,018
Shareholders' funds as at 30 September 2001/31 March 2001	210,524	191,578

Unaudited Consolidated Cash Flow Statement

for the 6 months ended 30 September 2001

	6 months ended 30 September	
	2001	2000
	£000	£000
Net cash inflow from operating activities	9,031	8,155
Return on investment and servicing of finance	(5,673)	(6,196)
Taxation (payment)/refund	(2,301)	287
Capital proceeds/(expenditure) – net	26,818	(10,180)
Equity dividends paid	(2,659)	(2,391)
Net cash inflow/(outflow) before use of liquid resources and financing	25,216	(10,325)
(Outflow)/Inflow from management of liquid resources	(815)	6,223
(Outflow)/Inflow from financing	(22,733)	6,122
Net cash inflow	1,668	2,020
Reconciliation of net cash flow to movement in net debt		
Increase in cash	1,668	2,020
Increase/(Decrease) in liquid resources	815	(6,223)
Inflow/(Outflow) from movements in debt financing	23,870	(5,399)
Changes in debt resulting from cash flows	26,353	(9,602)
Net debt at 1 April	(157,147)	(148,731)
Net debt at 30 September	(130,794)	(158,333)

Notes to the Half Year 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 30 September 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 30 September		6 months ended 30 September	
	2001	2000	2001	2000
2. Segmental Analysis	£000	£000	£000	£000
Rental income	7,440	6,636	15,422	13,313
Service charge and other recoveries	1,679	1,480	3,394	2,957
Fees, commissions, and sundry income	276	270	592	663
	9,395	8,386	19,408	16,933

	3 months ended 30 September		6 months ended 30 September	
	2001	2000	2001	2000
3. Interest Payable	£000	£000	£000	£000
Convertible loan stock and debenture stock interest	642	662	1,304	1,324
Mortgage interest	2,006	2,732	4,451	5,340
Bank and other interest	5	19	29	42
Net development interest capitalised	(70)	(422)	(70)	(769)
Charged to profit and loss account	2,583	2,991	5,714	5,937

4. Taxation

The taxation charge, excluding tax on property disposals, for the six months ended 30 September 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 4.8% 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 (16,073,119 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 (16,243,948 shares).

Notes to the Half Year 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 £3.87 million (31 March 2001: £3.26 million) and deferred rental and service charges of £4.29 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 30 September 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	(2.6)	(2.6)	–
Long term borrowings	(134.6)	(139.9)	(5.3)
Financial Assets	6.5	6.5	–
Interest rate Cap/Collar	0.3	1.1	0.8
	(130.4)	(134.9)	(4.5)

This represents 28 pence per issued ordinary share and if applied to net asset value per share at 30 September 2001 would reduce the latter to £12.62. On a diluted basis, allowing for conversion of the Group's convertible loan stock, this adjustment reduces to 14 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. Interim Statement

Copies of this statement will be dispatched to shareholders on Monday 26 November 2001 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London E1 1DU from 9.00am on that day.

Directors, Officers and Advisers

The Business

Workspace Group is a specialised property investment company devoted to the provision of small unit light industrial, studio and office workspace for rent to new and emerging businesses in Greater London and the Home Counties.

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 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

R Mark Taylor BSc, FCA

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