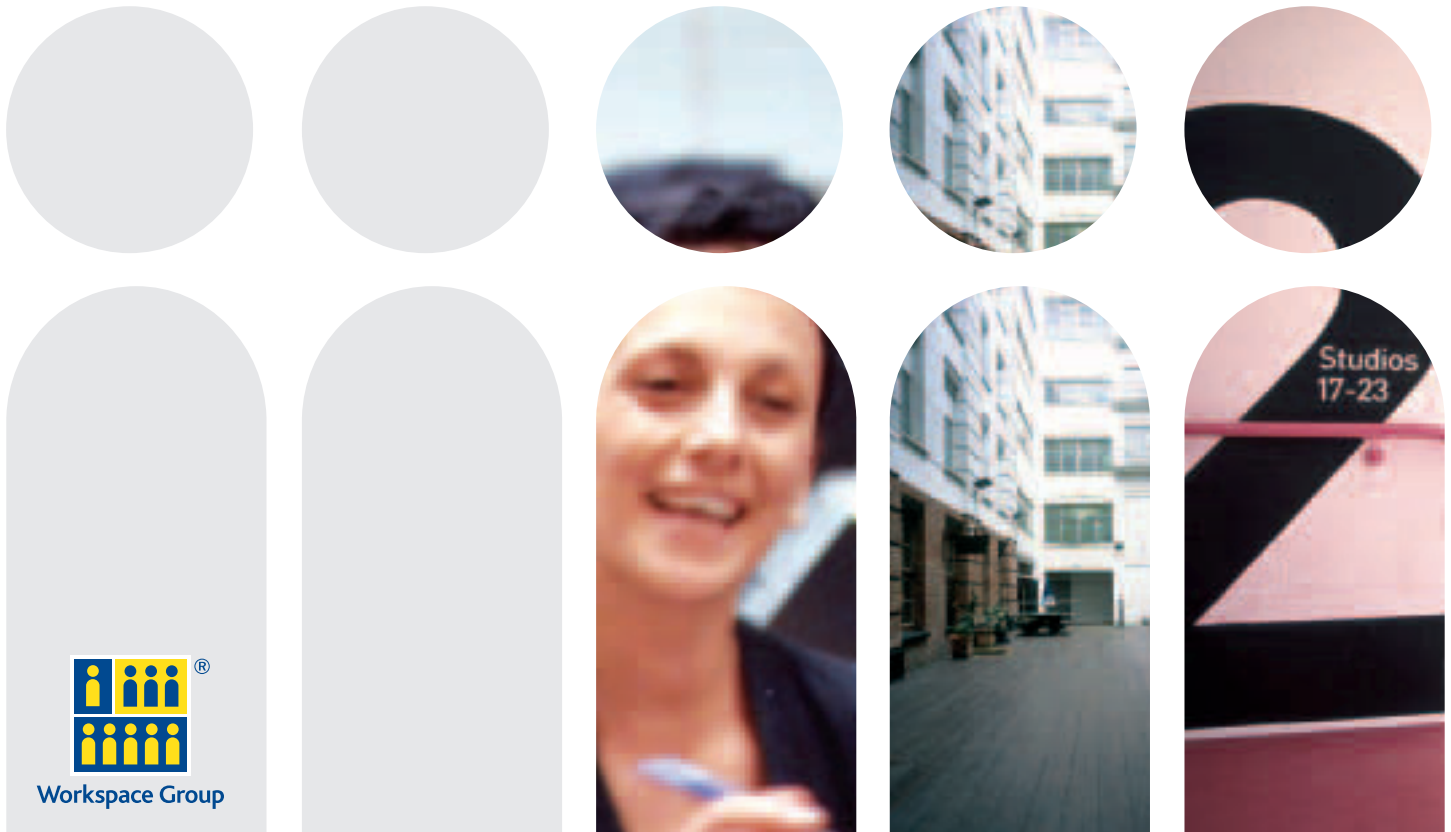


Workspace Group PLC

Quarterly Report

for the nine months ended 31 December 2004



Workspace Group

Highlights

Quarterly Results for the nine months ended 31 December 2004

- Net Asset Value per share at 31 December 2004 £20.00, up 8.5% over the nine months and up 23% over twelve months (31 March 2004: £18.43; 31 December 2003: £16.25).
- Pre-tax profits on trading operations £10.77m (2003: £10.26m).
- Pre-tax profits £10.40m (2003: £10.97m).
- Basic earnings per share on trading operations 46.5p (2003: 44.7p).
- Basic earnings per share 44.5p (2003: 47.8p).
- Turnover £14.14m for the quarter up 7.0% on the same quarter last year; and for the nine month period £41.05m up 10.3%.
- Total rent roll £41.1m up 7.8% over the nine month period (31 March 2004: £38.1m)
- Average rent of like-for-like portfolio £8.74 per sq. ft. up 2.0% on 31 March 2004 (£8.57 per sq. ft.).

Operating and Financial Review

Chairman's Statement

Once again, these results show the Group continuing to make good progress in creating shareholder value with operating profit up 14.4% and trading pre-tax profits up 5.0% for the nine month period. Furthermore, net assets were up 25% on 12 months ago.

Our intensive management approach in our niche market creates long term shareholder value over and above general market movements. Our customer focus has led to high levels of occupancy, good underlying enquiry levels and firmer rents. Progress has also been made on our "added value" schemes (projects where refurbishment, extension or redevelopment to a more intensive use, create value).

In our interim statement I indicated that the Board was looking at means to assist the liquidity of your shares. Your Board has decided to call an Extraordinary General Meeting to approve a bonus issue of our stock. It is proposed that a 9 for 1 bonus share issue will be made so that, following this issue, shareholders will hold 10 shares for each share previously held.

Chief Executive's Statement

In the third quarter, occupancy has remained at high levels; over 90.0% excluding development schemes. This is within the Group's target range. With continuing good levels of enquiries and robust underlying demand, our target is at least to maintain occupancy around these levels in 2005, providing the foundations for rental growth.

The total rent roll now stands at £41.1m up some 7.8% over the nine month period (31 March 2004: £38.1m). Of this increase of £3.0m some £1.4m reflects the net effect of acquisitions less disposals. More importantly £1.6m reflects the increase in the rent roll of the like-for-like portfolio over the nine month period. This is an increase of 4.1%, with "like-for-like" average rents now some £8.74 per sq. ft (compared to £8.57 per sq. ft at the beginning of the year). These movements of course reflect changes in mix as well as underlying improvements. Even so, the signs are encouraging, showing improvements in the occupational markets.

The Group does not revalue the portfolio at this third quarter stage. Our external valuations are undertaken at the full year and half year stage. During the last year there has been increasing investor interest in the property sector, driving yields down and increasing capital values. This has continued since 30 September 2004, the date of our last valuation. Our focused portfolio continues to be well placed to benefit from such movements in yields. On top of this the Workspace approach continues to drive value from our intensive management skills.

A number of the Group's "added value" schemes are now at interesting stages. Two are due to go to Local Authority Planning Committees in February/March (Wharf Road and Aberdeen Studios); one remains in discussions with the Planning Authorities (Greenheath); whilst a revised planning application for Thurston Road, Lewisham, will be made before the end of March. Other schemes remain at the formative stage. Some of these will come forward in 2005 – whilst others demand longer term work. Each year the Group would target to have an immediate active list of at least 4 to 6 projects. Clearly, whilst these projects will improve net asset values they will also give rise to short term reductions in income as development works are progressed. The programming of these projects is therefore a key issue in determining year on year profit growth.

Portfolio

One acquisition has been made in the quarter, with no disposals. Details are given below:

Name of Property	Description	Acquisition Price	Initial Annual Income £000
Chiswick Studios, London W4	14,225 sq. ft 6 units	£2.87m	£211.0

This property is near to our Barley Mow Centre in Chiswick, and provides a complementary offer. Fixed reversions on existing leases will give an anticipated 8% yield by 2007.

Operating and Financial Review

continued

Following the quarter end contracts have been exchanged and completed for the purchase of Lombard House, Croydon for £7.75m whilst others are in legal hands or in negotiation. Furthermore, contracts have been exchanged on the disposal of Payne Road for £2.1m, a disposal which will be completed by May.

The portfolio statistics and progress through the year to date, may be summarised as follows:

	31 December 2004	30 September 2004	30 June 2004	31 March 2004
Number of estates	101	100	101	102
Total floorspace at end of period (sq. ft.)	5,044,328	5,035,667	5,335,073	5,316,951
of which:				
Like-for-like portfolio (sq. ft.)	4,782,149	4,787,694	4,763,456	
Net Acquisitions/(Disposals) (sq. ft.)	69,955	55,358	26,012	
Three Mills and developments (sq. ft.)	192,224	192,615	545,605	
Lettable units (number)	4,629	4,608	4,584	4,547
Annual rent roll of occupied units (£)	41,060,954	40,335,068	38,766,883	38,091,471
Average rent (£/sq. ft.)	9.24	9.05	8.62	8.55
Average rent of like-for-like portfolio (£/sq. ft.)	8.74	8.58	8.60	8.57
Occupancy overall	88.1%	88.5%	84.3%	83.8%
Occupancy of like-for-like portfolio	90.3%	90.9%	90.0%	88.9%

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 refurbishment/redevelopment programmes. Overall occupancy increased between the first and second quarters partly due to improved lettings and partly due to the disposal of Three Mills.

Financial Review

Over the quarter, the consistent growth pattern reported previously continued with turnover up 7.0%, gross profit up 8.5%, operating profit up 15.6% and trading profits before tax up 5.3% on the comparable period last year. Profits before tax were, however, down on the same quarter last year since that period benefited from £0.7m profit on the disposal of Kingsland Viaduct whilst no disposals were made in the quarter under review. As may be seen in the table below, performance ratios continue to be consistent. The single most significant variance impacting on trading performance over the quarter was the increase in interest cost, up 24.7% to £5.0m for the quarter (2003: £4.0m). Average borrowings increased by just 4.0% or £11.5m to £303.3m (2003: £291.8m). However, LIBOR rates were 0.96% higher than for the comparable period last year (an increase of almost 25%). Approximately 80% of the increased cost of borrowings in the period arose from this rate increase. LIBOR rates (both short and long term) have now stabilised at these levels. As a result, assuming these levels are maintained through 2005/6, the dilutive effect on earnings growth that interest changes have had in 2004/5 will not recur. Interest charges were also impacted by a change in policy in respect of the capitalisation of interest on development projects. The period of capitalisation has been shortened in readiness for the implementation of International Financial Reporting Standards next year. This resulted in an additional charge of £0.4m for the nine month period (reflected in this quarters results).

Profits before tax for the nine month period are impacted by the loss on the disposal of Three Mills. As reported at the interim stage, this loss arose as a result of a late price adjustment whereas the valuation at 31 March 2004 had showed a substantial £4.1m surplus in the previous year.

Operating and Financial Review

continued

The effective rate of tax, at 31% (2003: 30%) is increased due partly to the charges arising on disposal of Three Mills and Hooley Lane where substantial deferred tax liabilities have crystallised. Tax charges in the year to date relating to these disposals total 22 pence per share. The NAV growth reported has been achieved after absorbing this cost.

At 31 December 2004, NAV per share was £20.00 up 8.5% over the year to date.

Net cash flow from operating activities was up £2.5m at £25.5m for the nine months (compared with the same period last year). With the substantial proceeds from disposals, the net outflow from net acquisitions and disposals was £3.6m compared with £59.1m last time. Overall bank debt reduced slightly from £305.8m to £304.4m over the year to date. This coupled with the valuation surplus led to a reduction in gearing from 103% to 94%.

Key financial statistics and indicators may be summarised as follows:

	9 Months to 31 December 2004	6 Months to 30 September 2004	Year to 31 March 2004	9 Months to 31 December 2003
Gross profit: turnover	74%	74%	72%	73%
Operating profit: turnover	60%	59%	58%	58%
Trading PBT: turnover	26%	26%	28%	29%
EPS per share (pence)	44.5	27.6	65.7	47.8
NAV per share (£)	20.00	19.87	18.43	16.25
Interest cover	1.75	1.73	1.97	1.97
Trading interest cover	1.77	1.77	1.91	1.91
Gearing	94%	94%	103%	113%
Available facilities (£m)	62.6	68.3	15.5	29.0

Prospects

Our view of the Group's prospects remains unchanged from that at the time of the Group's interim statement. The Group aims to maintain high levels of occupancy of around 90% during 2005. This, together with robust underlying demand, should provide the right environment for rental growth. Our asset values should benefit from this. The progress on our selective "added value" programme for the intensification and change of use of certain estates, while impacting rents short term, will also benefit medium to long term capital growth; as will the increased investor interest in commercial property. By the year end we anticipate making further acquisitions. For 2004/05 as a whole we anticipate reporting once again a year of good progress in both our performance and strengthening our position as the leading provider of flexible, affordable space for small and medium sized enterprises (SMEs) in London and the South East.

Consolidated Profit and Loss Account

for the 9 months ended 31 December 2004

Audited year ended 31 March		Notes	Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December			
			2004 £000	2003 £000	Trading Operations £000	Other Items £000	Total 2004 £000	Total 2003 £000
51,068	Turnover – continuing operations	2	14,141	13,213	41,052	–	41,052	37,227
(14,229)	Rent payable and direct costs		(3,587)	(3,486)	(10,687)	–	(10,687)	(10,140)
36,839	Gross profit		10,554	9,727	30,365	–	30,365	27,087
(7,145)	Administrative expenses		(1,727)	(2,091)	(5,655)	–	(5,655)	(5,498)
29,694	Operating profit – continuing operations		8,827	7,636	24,710	–	24,710	21,589
1,009	(Loss)/profit on disposal of investment property		7	673	–	(377)	(377)	705
45	Interest receivable	3	15	22	60	–	60	40
(15,628)	Interest payable and similar charges	4	(4,992)	(4,003)	(13,997)	–	(13,997)	(11,367)
15,120	Profit on ordinary activities before taxation		3,857	4,328	10,773	(377)	10,396	10,967
(4,587)	Taxation on profit on ordinary activities	5	(1,114)	(1,298)	(3,262)	53	(3,209)	(3,316)
10,533	Profit attributable to shareholders		2,743	3,030	7,511	(324)	7,187	7,651
(4,981)	Dividends	6	–	(1)	(1,861)	–	(1,861)	(1,659)
5,552	Retained for the period		2,743	3,029	5,650	(324)	5,326	5,992
65.7p	Basic earnings per share	7	16.9p	18.9p	46.5p	(2.0)p	44.5p	47.8p
63.9p	Diluted earnings per share	7	16.6p	18.3p	45.5p	(1.9)p	43.6p	46.6p

Statement of Total Recognised Gains and Losses

Audited year ended 31 March		Unaudited 9 months ended 31 December	
2004 £000		2004 £000	2003 £000
10,533	Profit for the financial period	7,187	7,651
49,699	Unrealised surplus on revaluation of investment properties	27,033	14,109
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,643)	(968)
59,017	Total recognised gains relating to the financial period	30,577	20,792

Note of Historical Cost Profits and Losses

Audited year ended 31 March		Unaudited 9 months ended 31 December	
2004 £000		2004 £000	2003 £000
15,120	Reported profits on ordinary activities before taxation	10,396	10,967
4,408	Realisation of property revaluation gains of previous years	14,252	3,673
19,528	Historical cost profit on ordinary activities before taxation	24,648	14,640
8,745	Historical cost profit for the period retained after taxation and dividends	15,935	8,697

Consolidated Balance Sheet

as at 31 December 2004

Audited			Unaudited 31 December	
31 March				
2004			2004	2003
(restated)		Notes	(restated)	(restated)
£000			£000	£000
Fixed Assets				
	Tangible assets			
626,060	Investment properties	9	658,137	570,639
3,654	Other fixed assets		3,648	3,662
629,714			661,785	574,301
Current Assets				
–	Stock: properties for sale		–	10,711
6,795	Debtors	10	6,340	6,579
1,150	Investments	11	2,647	1,423
181	Cash at bank and in hand		4	109
8,126			8,991	18,822
(30,942)	Creditors: amounts falling due within one year	12	(32,587)	(30,905)
(22,816)	Net current liabilities		(23,596)	(12,083)
606,898	Total assets less current liabilities		638,189	562,218
	Creditors: amounts falling due after more than one year (including			
(305,756)	Convertible Loan Stock)	13	(306,904)	(296,666)
(5,483)	Provision for liabilities and charges	15	(5,842)	(4,796)
295,659			325,443	260,756
Capital and reserves				
1,673	Called up share capital	16	1,688	1,673
42,912	Share premium account	17	43,586	42,912
209,565	Revaluation reserve	17	222,346	174,710
47,715	Profit and loss account	17	63,650	47,667
(6,206)	Investment in own shares	18	(5,827)	(6,206)
295,659	Shareholders' funds – equity interests		325,443	260,756
£18.43	Net asset value per share (basic)	8	£20.00	£16.25
£18.04	Adjusted net asset value per share (diluted)	8	£19.69	£15.97

Consolidated Cash Flow Statement

for the 9 months ended 31 December 2004

Audited year ended 31 March 2004 £000		Notes to cash flow	Unaudited 9 months ended 31 December 2004 £000	2003 £000
31,615	Net cash inflow from operating activities	1	25,531	23,021
(15,692)	Return on investments and servicing of finance	2	(13,883)	(10,955)
(4,110)	Taxation		(4,129)	(2,750)
(70,155)	Capital (expenditure)/proceeds – net	2	(3,568)	(59,079)
(4,952)	Equity dividends paid		(3,349)	(3,299)
(63,294)	Net cash inflow/(outflow) before use of liquid resources and financing		602	(53,062)
1,959	Management of liquid resources	2	(1,497)	1,686
59,720	Financing	2	1,889	50,720
(1,615)	Net cash inflow/(outflow)	3	994	(656)
	Reconciliation of net cash flow to movement in net debt			
(1,615)	Increase/(decrease) in cash		994	(656)
(1,959)	Increase/(decrease) in liquid resources		1,497	(1,686)
(59,766)	Outflow from movements in debt financing		(1,148)	(50,676)
(63,340)	Changes in net debt resulting from cash flows	3	1,343	(53,018)
(242,425)	Net debt at beginning of period		(305,765)	(242,425)
(305,765)	Net debt at period end		(304,422)	(295,443)

Notes to the cash flow statement

for the 9 months ended 31 December 2004

1. Reconciliation of operating profit to operating cash flows

Audited year ended 31 March 2004 £000		Unaudited 9 months ended 31 December 2004 £000	2003 £000
29,694	Operating profit	24,710	21,589
585	Depreciation charges	503	420
56	(Increase)/decrease in debtors	(946)	(462)
1,280	Increase in creditors	1,264	1,474
31,615		25,531	23,021

2. Analysis of cash flow

Audited year ended 31 March 2004 £000		Notes to cash flow	Unaudited 9 months ended 31 December 2004 £000	2003 £000
Returns on investments and servicing of finance				
45	Interest received		60	41
(15,737)	Interest paid (including financing costs)		(13,943)	(10,996)
(15,692)	Net cash outflow		(13,883)	(10,955)
Capital expenditure				
(81,934)	Purchase of tangible fixed assets		(38,907)	(67,973)
28	Net distribution/(purchase) of own shares		379	28
11,751	Sale of tangible fixed assets		34,960	8,866
(70,155)	Net cash outflow		(3,568)	(59,079)
Management of liquid resources				
1,959	(Increase)/decrease in short-term deposits	3	(1,497)	1,686
1,959	Net cash (outflow)/inflow		(1,497)	1,686
Financing				
220	Issue of ordinary share capital		289	220
59,500	Drawdown of bank loans	3	1,600	50,500
59,720	Net cash inflow		1,889	50,720

Notes to the cash flow statement

continued

3. Analysis of net debt

	At 1 April 2004 £000	Cash flow £000	Non-cash Items £000	At 31 December 2004 £000
Cash at bank and in hand	181	(177)	–	4
Bank overdrafts	(1,340)	1,171	–	(169)
	(1,159)	994	–	(165)
Debt due after one year:				
11% Convertible Loan Stock	(2,900)	–	400	(2,500)
11.125% First Mortgage Debenture	(12,500)	–	–	(12,500)
11.625% First Mortgage Debenture	(7,000)	–	–	(7,000)
Bank loans	(284,500)	(1,600)	–	(286,100)
Less cost of raising finance	1,144	339	(287)	1,196
	(305,756)	(1,261)	113	(306,904)
Short-term deposits	1,150	1,497	–	2,647
Total	(305,765)	1,230	113	(304,422)

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 2004 included an unqualified report of the auditors. The Group's unaudited accounts for the period ended 31 December 2004 have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 2004 (except for the change noted below). The full accounts for the year ended 31 March 2004 have been filed with the Registrar of Companies.

The Company has adopted UITF Abstract 38 – accounting for ESOP trusts in these financial statements. The adoption of this Abstract represents a change in accounting policy and the comparative figures have been restated accordingly. Investment in own shares is now shown as a deduction from shareholders' funds.

2. Segmental analysis

Audited year ended 31 March 2004 £000		Unaudited		Unaudited	
		3 months ended 31 December 2004 £000	2003 £000	9 months ended 31 December 2004 £000	2003 £000
39,504	Rental Income	10,950	9,958	32,367	29,044
9,059	Service charge and other recoveries	2,506	2,299	7,344	6,440
2,505	Services, fees, commissions and sundry income	685	956	1,341	1,743
51,068		14,141	13,213	41,052	37,227

3. Interest receivable

Audited year ended 31 March 2004 £000		Unaudited		Unaudited	
		3 months ended 31 December 2004 £000	2003 £000	9 months ended 31 December 2004 £000	2003 £000
30	Short-term deposits	12	8	53	26
15	Other	3	14	7	14
45		15	22	60	40

Notes to the Quarterly Results

continued

4. Interest payable and similar charges

Audited year ended 31 March 2004 £000		Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December	
		2004 £000	2003 £000	2004 £000	2003 £000
319	11% Convertible Loan Stock 2011	68	80	217	239
1,391	11.125% First Mortgage Debenture Stock 2007	348	348	1,043	1,043
814	11.625% First Mortgage Debenture Stock 2007	204	203	611	611
14,210	Bank and other interest on amounts wholly repayable within five years*	4,492	3,685	12,788	10,227
16,734		5,112	4,316	14,659	12,120
(1,106)	Interest capitalised on development properties	(120)	(313)	(662)	(753)
15,628	Charged to profit and loss account	4,992	4,003	13,997	11,367

*Includes amortisation of cost of raising finance.

5. Taxation

Audited year ended 31 March 2004 £000		Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December	
		2004 £000	2003 £000	2004 £000	2003 £000
	Current tax:				
3,534	UK corporation tax on profit for the year	872	1,004	2,649	2,627
(323)	Adjustment in respect of previous years	–	–	–	–
3,211	Total current tax	872	1,004	2,649	2,627
	Deferred tax:				
1,376	Origination and reversal of timing differences	242	294	560	689
4,587	Tax on profit on ordinary activities	1,114	1,298	3,209	3,316

Timing differences are mainly in respect of capital and industrial building allowances and capitalised interest.

6. Dividends

Audited year ended 31 March 2004 £000		Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December	
		2004 £000	2003 £000	2004 £000	2003 £000
1,653	Interim dividend per ordinary share 11.3p (2003 : 10.3p)	–	–	1,832	1,652
3,321	Final dividend per ordinary share	–	–	–	–
7	Under provision in prior year	–	1	29	7
4,981		–	1	1,861	1,659

Notes to the Quarterly Results

continued

7. Earnings per share

The following table shows a reconciliation of profits used in calculating earnings per share:

Audited year ended 31 March			Unaudited 9 months ended 31 December			
Profit	Earnings		Profit	Profit	Earnings	Earnings
2004	per share		2004	2003	per share	per share
£000	2004		£000	£000	2004	2003
	Pence				Pence	Pence
		Profit for the period attributable to				
10,533	65.7	shareholders	7,187	7,651	44.5	47.8
(706)	(4.4)	Other items	324	(495)	2.0	(3.1)
		Profit for the period attributable to				
9,827	61.3	shareholders used for calculating earnings	7,511	7,156	46.5	44.7
		per share excluding other items				

Reconciliation of profit used in calculating diluted earnings per share:

Audited year ended 31 March			Unaudited 9 months ended 31 December			
Profit	Earnings		Profit	Profit	Earnings	Earnings
2004	per share		2004	2003	per share	per share
£000	2004		£000	£000	2004	2003
	Pence				Pence	Pence
		Profit for the period attributable to				
10,533		shareholders used for calculating basic	7,187	7,651		
		earnings per share				
223		Interest saving net of taxation on 11%	152	168		
		Convertible Loan Stock				
		Profit for the period attributable to				
10,756	63.9	shareholders used in calculating the	7,339	7,819	43.6	46.6
(706)	(4.2)	underlying diluted earnings per share	324	(495)	1.9	(3.0)
		Other items				
		Profit for the period attributable to				
10,050	59.7	shareholders used in calculating the	7,663	7,324	45.5	43.6
		diluted earnings per share excluding other				
		items				

The following table shows a reconciliation of the weighted average number of shares used for calculating the basic and diluted earnings per share:

Audited year ended 31 March 2004		Unaudited 9 months ended 31 December 2003	
Number		Number	Number
16,021,462	Used for calculating basic earnings per share	16,162,588	16,013,956
227,276	Dilution due to Share Option Scheme	184,039	187,960
580,000	Dilution due to Convertible Loan Stock	500,000	580,000
16,828,738	Used for calculating diluted earnings per share	16,846,627	16,781,916

Notes to the Quarterly Results

continued

8. Net assets per share

Net Assets used for calculating net assets per share:

Audited		Unaudited 31 December	
31 March		2004	2003
(restated)		(restated)	(restated)
£000		£000	£000
295,659	Net Assets	325,443	260,756
2,900	Dilution due to Convertible Loan Stock	2,500	2,900
298,559	Diluted net assets	327,943	263,656
5,483	Deferred tax arising from capital allowances and capitalised interest on investment properties	5,842	4,796
304,042	Adjusted diluted net assets	333,785	268,452

Number of ordinary shares used for calculating net assets per share:

Audited		Unaudited 31 December	
31 March		2004	2003
Number		Number	Number
16,733,811	Shares in issue at end of period	16,883,211	16,733,811
(689,666)	Less ESOT shares	(612,321)	(689,666)
580,000	Dilution due to Convertible Loan Stock	500,000	580,000
227,276	Dilution due to Share Option Scheme	184,039	187,960
16,851,421	Number of shares adjusted for dilutive instruments	16,954,929	16,812,105

Net assets per share:

Audited		Unaudited 31 December	
31 March		2004	2003
2004		2004	2003
£18.43	Net assets per share (basic)	£20.00	£16.25
£17.72	Diluted net assets per share	£19.34	£15.68
£18.77	Adjusted net assets per share (basic)	£20.36	£16.55
£18.04	Diluted adjusted net assets per share	£19.69	£15.97

The additional deferred tax liability arising from capital allowances on investment properties is excluded from the calculation of adjusted net assets as the Group's experience is that deferred tax on capital allowances in relation to investment properties is unlikely to crystallise in practice. The deferred tax on capitalised interest on these properties is added back as it is a permanent timing difference.

Notes to the Quarterly Results

continued

9. Investment properties

Audited 31 March 2004 £000		Freehold £000	Mainly Freehold £000	Long leasehold £000	Short leasehold £000	Unaudited 31 December	
						Total 2004 £000	Total 2003 £000
505,490	Balance at 1 April 2004/2003	469,310	85,875	70,875	–	626,060	505,490
79,726	Additions during the period	38,752	519	158	–	39,429	67,999
(9,497)	Disposals during the period	(13,191)	(21,194)	–	–	(34,385)	(6,890)
642	Reclassification from other fixed assets	–	–	–	–	–	642
–	Reclassification to current assets	–	–	–	–	–	(10,711)
49,699	Revaluation during the period	19,043	5,375	2,615	–	27,033	14,109
626,060	Balance at period end	513,914	70,575	73,648	–	658,137	570,639
	The historical cost of investment properties:						
416,039	Balance at period end	341,707	37,974	55,647	7	435,335	401,131

Valuation

The Group's investment properties were valued by CB Richard Ellis, Chartered Surveyors, at 30 September 2004 on the basis of open market value and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors.

10. Debtors

Audited 31 March 2004 £000		Unaudited 31 December	
		2004 £000	2003 £000
	Amounts falling due within one year:		
4,765	Trade debtors	2,993	4,533
464	Deposits on investment acquisitions	–	–
4	Taxation and social security	–	42
1,562	Prepayments and accrued income	3,347	2,004
6,795		6,340	6,579

11. Investments

Audited 31 March 2004 £000		Unaudited 31 December	
		2004 £000	2003 £000
–	Short-term deposits	1,389	401
1,150	Tenants' deposits	1,258	1,022
1,150		2,647	1,423

Short-term deposits have an original maturity date of less than three months. Tenants' deposits represent returnable security deposits received from tenants. These are ring-fenced under the terms of the individual lease contracts and cannot be used to fund the working capital of the Group. They are accordingly held separately from other cash balances.

Notes to the Quarterly Results

continued

12. Creditors: Amounts falling due within one year

Audited 31 March 2004 £000		Unaudited 31 December	
		2004 £000	2003 £000
1,340	Bank overdraft (secured)	169	309
1,902	Trade creditors	2,052	3,296
2,242	Corporation tax payable	4,605	2,770
1,757	Taxation and social security	2,119	1,774
5,461	Tenants' deposits	6,029	5,143
9,884	Accruals	11,151	10,462
5,035	Deferred income – rent and service charges	4,630	5,498
3,321	Dividends	1,832	1,653
30,942		32,587	30,905

Tenants' deposits include certain deposits that are ring-fenced in accordance with the terms of the individual lease contracts (see note 11).

13. Creditors: Amounts falling due after more than one year

Audited 31 March 2004 £000		Unaudited 31 December	
		2004 £000	2003 £000
	Long-term borrowings consist of:		
	Unsecured:		
2,900	11% Convertible Loan Stock 2011	2,500	2,900
	Secured:		
12,500	11.125% First Mortgage Debenture Stock 2007	12,500	12,500
7,000	11.625% First Mortgage Debenture Stock 2007	7,000	7,000
283,356	Other secured loans	284,904	274,266
305,756		306,904	296,666

Notes to the Quarterly Results

continued

14. Borrowings and financial instruments

i Maturity of financial liabilities

A maturity analysis of loans is shown below:

Audited		Unaudited 31 December	
31 March		2004	2003
2004		£000	£000
£000		£000	£000
1,340	Less than one year	169	309
–	Between two years and three years	219,500	–
304,000	Between three years and four years	–	295,000
–	Between four years and five years	86,100	–
2,900	In five years and more	2,500	2,900
308,240		308,269	298,209
(1,144)	Less cost of raising finance	(1,196)	(1,234)
307,096		307,073	296,975

ii Fair value of financial assets and liabilities

Book and fair values of financial assets and liabilities are:

Audited		Unaudited 31 December			
31 March		2004		2003	
2004	2004	2004	2004	2003	2003
£000	£000	£000	£000	£000	£000
Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Primary financial instruments					
(1,340)	(1,340)	(169)	(169)	(309)	(309)
(305,756)	(312,196)	(306,904)	(314,204)	(296,666)	(302,496)
1,331	1,331	2,651	2,651	1,532	1,532
Derivative financial instruments					
206	(2,639)	177	(1,755)	215	(3,105)
(305,559)	(314,844)	(304,245)	(313,477)	(295,228)	(304,378)

The fair value of the interest rate collars have 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 56.7p (2003: 57.0p) per share and 21.1p (2003: 32.9p) per share based on diluted share capital.

Notes to the Quarterly Results

continued

15. Provision for liabilities and charges

Audited 31 March 2004 £000		Unaudited 31 December 2004 £000	2003 £000
	Deferred taxation:		
4,107	Balance at 1 April 2004/2003	5,483	4,107
1,376	Deferred tax charge for the period	560	689
–	Transfer direct to reserves on sale of properties	(201)	–
5,483	Balance at period end	5,842	4,796

If the investment properties were sold for their revalued amount there would be a potential liability to corporation tax of £54,676,000 (31 March 2004: £51,293,000, 31 December 2003: £41,712,000). In accordance with FRS 19 no provision has been made for these amounts.

16. Share capital

Audited 31 March 2004 Number		Unaudited 31 December 2004 Number	2003 Number
	Authorised:		
21,500,000	Ordinary shares of 10p each	21,500,000	21,500,000
2004 £		2004 £	2003 £
	Issued:		
1,673,381	Fully paid ordinary shares of 10p each	1,688,321	1,673,381

No charge to profit and loss has been made in respect of share options (under UITF Abstract 17 (revised 2003) – Employee Share Schemes) since all employee share options are granted at market price on the date of grant and SAYE share options are exempt under the UITF.

Notes to the Quarterly Results

continued

17. Other reserves

Audited 31 March 2004 £000		Unaudited 31 December	
		2004 £000	2003 £000
(a) Share premium account			
42,697	Balance at 1 April 2004/2003	42,912	42,697
215	Additions	674	215
42,912	Balance at period end	43,586	42,912
(b) Revaluation reserve			
Property valuation surplus:			
164,274	Balance at 1 April 2004/2003	209,565	164,274
(4,408)	Disposals during the period	(14,252)	(3,673)
49,699	Revaluation adjustment	27,033	14,109
209,565	Balance at period end	222,346	174,710
(c) Profit and loss account			
38,970	Balance at 1 April 2004/2003	47,715	38,970
5,552	Retained profit for the period	5,326	5,992
4,408	Transfer from revaluation reserve	14,252	3,673
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,643)	(968)
47,715	Balance at period end	63,650	47,667

18. 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 Share Option Schemes. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. At 31 December 2004, the number of shares held by the Trust totalled 612,321 shares (2003: 689,666) with a nominal value of £61,232 (2003: £68,967) and the book value of the shares amounted to £5,827,000 (2003: £6,206,000). At 31 December 2004 the market value of the shares held by the Trust was £13,348,597. 611,185 shares held by the Trust are subject to option awards.

In accordance with UITF Abstract 38 – accounting for ESOP trusts, investment in own shares has been reclassified as a deduction from shareholders' funds giving rise to restatement of 2003/04 comparatives.

Notes to the Quarterly Results

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19. Reconciliation of movements in shareholders' funds

Audited 31 March 2004 (restated) £000		Unaudited 31 December 2004 £000	2003 (restated) £000
10,533	Profit for the financial period	7,187	7,651
(4,981)	Dividends	(1,861)	(1,659)
49,699	Unrealised surplus on revaluation of properties	27,033	14,109
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,643)	(968)
220	Issue of shares	689	220
28	Net distribution/(purchase) of own shares	379	28
54,284	Net addition to shareholders' funds	29,784	19,381
241,375	Opening shareholders' funds	295,659	241,375
295,659	Closing shareholders' funds	325,443	260,756

20. Capital commitments

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

Audited 31 March 2004 £000		Unaudited 31 December 2004 £000	2003 £000
8,166	Under contract	10,474	1,463
15,391	Board authorised but not contracted	5,059	2,246

21. Post balance sheet events

Following the period end contracts were exchanged and completed for the purchase of Lombard House, Croydon at a consideration of £7.75m.

22. Quarterly statement

This statement was approved by the Board on 18 February 2005. Copies of this statement will be dispatched to shareholders on 21 February 2005 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 small and medium sized enterprises in London and the South East.

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Harry Platt MA MRTPI, (Chief Executive)
John Bywater FRICS*
Madeleine Carragher FRICS, (Operations Director)
Bernard Cragg BSc ACA*
J Patrick Marples MRICS, (Property Director)
Christopher J Pieroni BA MSc PhD*
R Mark Taylor BSc FCA, (Finance Director)

*Non-executive director

Secretary

R Mark Taylor BSc FCA

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