

Workspace Group PLC

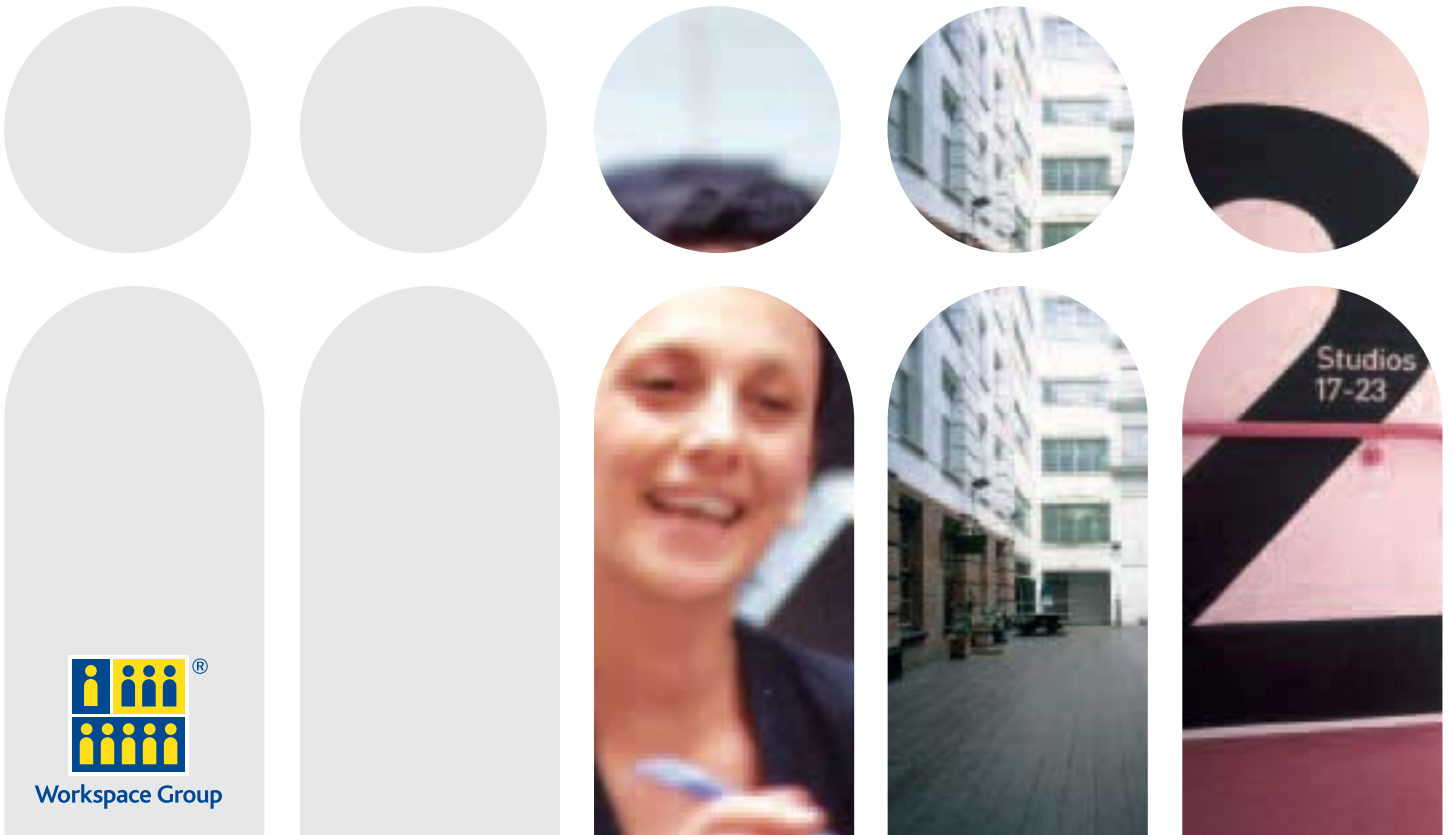
Interim Report

for the six months ended 30 September 2004



Maximising
space

Maximising
growth



Workspace Group

Highlights

Interim Results for the six months ended 30 September 2004

- Net Asset Value per share at 30 September 2004 £19.87, up 7.8% over the half year, and up 23% over the year (31 March 2004: £18.43; 30 September 2003: £16.15).
- Pre-tax profits on trading operations £6.92m (2003: £6.61m).
- Pre-tax profits £6.54m (2003: £6.64m).
- Basic earnings per share on trading operations 29.6p (2003: 28.8p).
- Basic earnings per share 27.6p (2003: 28.9p).
- Valuation surplus of £27.0m in the half year with a total investment property valuation of £652.5m.
- £28.3m acquisitions and £34.5m disposals in the half year, with further acquisitions under negotiation.
- Like for like occupancy, excluding development schemes increased to 90.9% (88.9% at 31 March 2004).
- Annual rent roll £40.34m up 5.9% in the half year (31 March 2004: £38.09m) and 9.0% on 12 months ago (30 September 2003: £37.00m).
- Interim dividend up 9.7% to 11.3 pence per share (2003: 10.3p).

Operating and Financial Review

Chairman's Statement

These are good results. We continue to focus on consistently building long term value and this has again delivered net asset value (NAV) growth of 7.8% in the half year and 23% over the full year to yield £19.87 NAV per share.

In an improving London economy operating profit at £15.88m increased by 13.8% over the same period last year (2003: £13.95m). Enquiries and occupancy levels have continued to improve with occupancy now nearly 91%. However, profits after tax and earnings per share were affected by increases in interest rates through the period and by a small loss on the disposal of Three Mills which nonetheless showed a pre-tax exit internal rate of return of 11.8%.

Following the quarter end, the Company moved into the FTSE250. This is a landmark for the Group, the market capitalisation of which has increased by 322% since March 1999 (equivalent to 29% p.a. compound) entirely through organic growth. With the Company's current share price, your Board has decided that it may be appropriate to subdivide the stock. It is proposed, therefore, that subject to stable stock market conditions and no other adverse factor, a bonus share issue will be made during the second half of the year. We are increasing the interim dividend by 9.7% to 11.3 pence per share (2003/4: 10.3p), in line with previous practice.

The Group continues to have significant capacity for further investment. We intend to make further selective acquisitions from our long-term target list. The increasing occupancy levels should establish the foundation for renewed rental growth next year and we are accordingly confident not only of reporting good results this year, but also of setting the stage for improved long term growth for the Company.

Chief Executive's Statement

Trading

The improvements in occupancy recorded in the first quarter continued through the second. At the end of the quarter, 43 of the Group's 100 estates representing 36% of space and 42% of rent roll were 95% occupied or more. 85% of the Group's portfolio (by area) comprising 77 properties was at least 85% occupied. Of the remaining 15%, almost half the properties were estates where developments/refurbishments have either recently been completed, are in progress at present or where works are planned. This improvement has clawed back the falls in occupancy that occurred last year and sets the scene for renewed rental growth next year. The rent roll, including net acquisitions, at the period end was £40.34m up 5.9% on 31 March 2004 and 9% on the same stage last year. As a result, rental income at £21.42m was 12.2% up on the equivalent six months last year.

Trading earnings growth has been affected by interest rate increases. Average LIBOR rates over the 6 months to 30 September 2004 were 4.76%, some 1.16% greater than those for the comparable period last year. Allowing for the impact of the Group's interest rate collars, this alone increased interest costs by approximately £0.9m with the result that earnings growth (Trading Profits before Tax) was held back to a 4.8% increase.

During the second quarter, two properties were purchased for a total of £23.6m taking the total of acquisitions to £28.3m for the year to date. The Group has targeted £65m of acquisitions for the year in total. During the period the management intensive film studios at Three Mills (comprising Three Mills Studios, Sugar House Business Centre and the Sugar House Lane Yard) were sold for a total consideration of £22.6m taking the total consideration for disposals to £34.5m for the half year. A small £0.41m loss was recorded in the sale of Three Mills. However, this was following a £4.13m valuation surplus last year and it showed a good 11.8% pretax internal rate of return over its holding period. Further details on these acquisitions and disposals, together with the projects in hand, are given below.

Operating and Financial Review

continued

Portfolio

The table below shows the main details of acquisitions and disposals during the half year:

Name of Property	Description	Acquisition/ Sale Price	Initial/Exit Annual Income £000	Market Rent at 30/09/04 £000
Acquisitions:				
First Quarter				
The Quadrangle, Fulham, SW6	26,000 sq. ft business centre, 26 units	£4.64m	329.0	427.0
Second Quarter				
Southbank House, SE1	64,000 sq.ft. business centre with 212 units	£16.00m	965.4	1,246.7
Southgate Office Village, Enfield, N14	33,900 sq.ft. office park in 8 blocks	£7.63m	653.7	450.2
		£28.27m	1,948.1	2,123.9
Disposals:				
First Quarter				
Hooley Lane, Redhill	Land for development	£10.00m	NIL	
Union Street Site, SE1	Land for development	£1.88m	12.0	
Second Quarter				
Three Mills Estate	Film studios, industrial units and business centre	£22.60m	*868.9	
		£34.48m	880.9	

*excludes income from short term lettings.

Full details of the disposals at Hooley Lane and Union Street were given in the Group's Annual Report and Accounts 2004. In brief, following the grant of planning consents for change of use and redevelopment, these sites were sold to residential developers. Substantial pre-tax internal rates of returns of 49% (Hooley) and 23% (Union Street) were achieved on these properties. Three Mills estate was sold to the London Development Agency as part of the land assembly for its Olympic bid.

The acquisitions reflect the variety of opportunities which we seek. The Quadrangle has provided the Group with a presence in Fulham where we have long sought better representation; Southbank House has been monitored for a long time, and complements our other buildings on the Southbank. Finally, Southgate Office Village offers a modern office park at the heart of Southgate servicing this suburban location. Presently, some of the major tenants are banks but over time the Group anticipates it will be able to re-target it towards local businesses.

Operating and Financial Review

continued

Following these movements in disposals and acquisitions the portfolio statistics, and progress through the year to date, may be summarised as follows:

	30 September 2004	30 June 2004	31 March 2004
Number of estates	100	101	102
Total floorspace at end of period (sq. ft.)	5,035,667	5,335,073	5,316,951
of which:			
Like for like portfolio (sq. ft.)	4,787,694	4,763,456	
Net Acquisitions/(Disposals) (sq. ft.)	55,358	26,012	
Three Mills and developments (sq. ft.)	192,615	545,605	
Lettable units (number)	4,608	4,584	4,547
Annual rent roll of occupied units (£)	40,335,068	38,766,883	38,091,471
Average rent (£/sq. ft.)	9.05	8.62	8.55
Average rent of like-for-like portfolio (£/sq. ft.)	8.58	8.60	8.57
Occupancy overall	88.5%	84.3%	83.8%
Occupancy of like-for-like portfolio	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 during the quarter in part due to the disposal of Three Mills which, as a film studio, had a significant amount of short term let space which was not included in occupancy statistics.

As noted in the Chief Executive's review, occupancy has improved again in the 2nd quarter, moving to 90.9%. Rents have increased by £2.24m over the half year; £1.17m as a result of acquisitions (net of disposals) with £1.07m from the existing portfolio, largely driven by the occupancy increases. Overall the average rent of the like for like portfolio has been stable over the six months moving from £8.57 to £8.58 per square foot.

Occupancy improvements were recorded over the half year at the properties refurbished last year with Quality Court at 53.4% (31 March 2004: 15.0%) and Barley Mow 55.5% (31 March 2004: 48.0%). Occupancy has been lost at Clerkenwell (31 March 2004: 48.6%) as the building has now been fully vacated for its refurbishment, which is now in progress. Works continue at the Enterprise Estate (adjacent to the Oxo Tower) where a rolling refurbishment and improvement programme is in progress. Phase 1, Hatfield House, 52-54 Stamford Street is now complete and fully let. Part one of the second phase, the creation of a new reception area serving 1-2 Hatfields and, in due course, Enterprise House, is approaching completion. This will be followed by part two, a refurbishment of the offices above this, together with a two-storey extension. Once this is complete, in Summer 2005, the final phase, Enterprise House will itself be refurbished. One of the two single floor extensions at the Leathermarket, completed in the Spring was let following the period end.

The programme to add value at selected Group properties has continued. Following receipt of planning permission for the redevelopment of the Group's property at Thurston Road, Lewisham, to provide retail and residential accommodation, the Group has been in discussions with the local Council on proposals for the further intensification of the use of the site. An agreement has been exchanged with Places for People for the redevelopment of the Group's Greenheath Business Centre, to provide a mixture of residential accommodation and new business space. This is a formula which not only releases a significant proportion of the Group's investment in the site, but also

Operating and Financial Review

continued

provides new, better quality replacement accommodation. Similar arrangements are under examination at the Group's Wharf Road and Aberdeen Studios estates.

Valuation

The interim valuation yielded a net surplus of £27.0m, an uplift of 4.3%, taking the total value of investment property to £652.5m and net worth to £322.2m. Net Asset Value per share increased by 7.8% over the half year, despite the impact of the substantial tax liabilities (£3.8m) arising from the Redhill and Three Mills disposals.

This increase in the valuation was driven, in part, by the increases in rent (£1.07m or 2.8% from the existing portfolio) which was due in turn to the occupancy improvements referred to earlier.

Following a review of its portfolio, the Group has identified that as much as 45% has potential for "added value" activities such as refurbishment, extensions and redevelopment over the longer term. Much of this is not immediately realisable but will mature as pressures on land availability increase in London. Little of the value arising from this is recognised in the Group's portfolio valuation, which continues to be based on existing use value except where consent for an improved use has been obtained. Further, the valuation does not recognise the accruing value of an increasingly focused portfolio which facilitates interrelation between properties.

Financial Review

Once again, turnover (up 12.1%), gross profit (up 14.1%), operating profit (up 13.8%) and trading profits before tax (up 4.8%) were all increased. Profits before tax were, however, down slightly by 1.5% due principally to the loss on the disposal of Three Mills referred to earlier. Trading PBT growth was impacted, as mentioned earlier, by interest rate increases over the period. Notwithstanding these increases (average cost of floating rate funding up by 13% to 5.7%) trading interest cover was only marginally down at 1.77 times (1.90 for the period to 30 September 2003). With interest rates continuing to track levels higher than those anticipated (in terms of forward rates) six months ago, the effect on earnings growth is likely to continue through the second half of the year, showing some recovery next year if, as expected, interest rates stabilise.

The effective rate of tax, at 32% (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 taken in the quarter relating to these disposals total 24 pence per share. The NAV growth reported has been achieved after absorbing this cost.

The interim dividend of 11.3 pence per share represents a 9.7% increase on that paid last year (2003: 10.3 pence). This increase is in line with the previous policy of increasing dividends by 10% p.a. overall with an interim dividend of approximately one third the anticipated total dividend.

Following the interim valuation, showing a surplus of £27.0m, NAV per share increased by 144 pence, 7.8% over the six months to £19.87.

Net cash flow from operating activities was up £2.48m at £16.2m for the six months (compared with the same period last year). With the substantial proceeds from disposals the net inflow from net acquisitions and disposals for the half year was £1.50m compared with a £46.2m outflow last time. Overall bank debt reduced slightly from £305.8m to £302.2m over the six months. This coupled with the valuation surplus led to a reduction in gearing from 103% to 94%.

Operating and Financial Review

continued

Key financial statistics and indicators may be summarised as follows:

	6 Months to 30 September 2004	Year to 31 March 2004	6 Months to 30 September 2003
Gross profit: turnover	74%	72%	72%
Operating profit: turnover	59%	58%	58%
Trading PBT: turnover	26%	28%	28%
EPS per share (pence)	27.6	65.7	28.9
NAV per share (£)	19.87	18.43	16.15
Interest cover	1.73	1.97	1.90
Trading interest cover	1.77	1.91	1.90
Gearing	94%	103%	108%
Available facilities (£m)	68.3	15.5	30.0

Prospects

The Group aims to maintain its current high levels of occupancy into 2005. Such stable, robust occupancy levels will provide the environment for rents to rise next year through re-application of our rent review programme. Meanwhile, our asset values should continue to benefit from the increased interest in commercial property, the improved prospects for rental growth, and the impact of our selective added value programme in the intensification and change of use of certain estates.

The Group continues to monitor a large number of target acquisitions and anticipates making further property acquisitions before the year end. The Group has £68m immediate investment capacity – with further potential beyond this as new facilities are arranged. The Group is now by far the leading provider of flexible, affordable space for small and medium sized enterprises (SMEs) in London and the South East. With its continuing acquisition programme its leading position will be reinforced.

For 2004/05 as a whole, the Group remains confident of reporting a further year of good progress.

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 2004 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the 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 directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which 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.

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 group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. 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 performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. 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 2004.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

19 November 2004

Consolidated Profit and Loss Account

for the 6 months ended 30 September 2004

Audited year ended 31 March		Notes	Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September			
			2004 £000	2003 £000	Trading Operations £000	Other Items £000	Total 2004 £000	Total 2003 £000
51,068	Turnover – continuing operations	2	13,507	12,102	26,911	–	26,911	24,014
(14,229)	Rent payable and direct costs		(3,503)	(3,271)	(7,100)	–	(7,100)	(6,654)
36,839	Gross profit		10,004	8,831	19,811	–	19,811	17,360
(7,145)	Administrative expenses		(1,996)	(1,709)	(3,928)	–	(3,928)	(3,407)
29,694	Operating profit – continuing operations		8,008	7,122	15,883	–	15,883	13,953
1,009	(Loss)/profit on disposal of investment property		(407)	5	–	(384)	(384)	32
45	Interest receivable	3	27	7	45	–	45	18
(15,628)	Interest payable and similar charges	4	(4,598)	(3,782)	(9,005)	–	(9,005)	(7,364)
15,120	Profit on ordinary activities before taxation		3,030	3,352	6,923	(384)	6,539	6,639
(4,587)	Taxation on profit on ordinary activities	5	(1,017)	(1,031)	(2,144)	49	(2,095)	(2,018)
10,533	Profit attributable to shareholders		2,013	2,321	4,779	(335)	4,444	4,621
(4,981)	Dividends	6	(1,861)	(1,658)	(1,861)	–	(1,861)	(1,658)
5,552	Retained for the period		152	663	2,918	(335)	2,583	2,963
65.7p	Basic earnings per share	7	12.5p	14.5p	29.6p	(2.0)p	27.6p	28.9p
63.9p	Diluted earnings per share	7	12.2p	14.2p	28.9p	(1.9)p	27.0p	28.3p

Statement of Total Recognised Gains and Losses

Audited year ended 31 March		Unaudited 6 months ended 30 September	
		2004 £000	2003 £000
10,533	Profit for the financial period	4,444	4,621
49,699	Unrealised surplus on revaluation of investment properties	27,033	14,398
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,849)	–
59,017	Total recognised gains relating to the financial period	27,628	19,019

Note of Historical Cost Profits and Losses

Audited year ended 31 March		Unaudited 6 months ended 30 September	
		2004 £000	2003 £000
15,120	Reported profits on ordinary activities before taxation	6,539	6,639
4,408	Realisation of property revaluation gains of previous years	14,252	–
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,849)	–
18,313	Historical cost profit on ordinary activities before taxation	16,942	6,639
8,745	Historical cost profit for the period retained after taxation and dividends	12,986	2,963

Consolidated Balance Sheet

as at 30 September 2004

Audited 31 March 2004 (restated) £000		Notes	Unaudited 30 September 2004 £000	2003 (restated) £000
Fixed Assets				
	Tangible assets			
626,060	Investment properties	9	652,450	555,355
3,654	Other fixed assets		3,378	3,467
629,714			655,828	558,822
Current Assets				
–	Stock: properties for sale		–	10,673
6,795	Debtors	10	8,032	10,002
1,150	Investments	11	3,831	3,962
181	Cash at bank and in hand		196	414
8,126			12,059	25,051
(30,942)	Creditors: amounts falling due within one year	12	(33,622)	(29,331)
(22,816)	Net current liabilities		(21,563)	(4,280)
606,898	Total assets less current liabilities		634,265	554,542
	Creditors: amounts falling due after more than one year (including			
(305,756)	Convertible Loan Stock)	13	(306,239)	(291,101)
(5,483)	Provision for liabilities and charges	15	(5,801)	(4,502)
295,659			322,225	258,939
Capital and reserves				
1,673	Called up share capital	16	1,688	1,672
42,912	Share premium account	17	43,586	42,868
209,565	Revaluation reserve	17	222,346	178,672
47,715	Profit and loss account	17	60,701	41,933
(6,206)	Investment in own shares	18	(6,096)	(6,206)
295,659	Shareholders' funds – equity interests		322,225	258,939
£18.43	Net asset value per share	8	£19.87	£16.15
£17.72	Diluted net asset value per share	8	£19.17	£15.62

Consolidated Cash Flow Statement

for the 6 months ended 30 September 2004

Audited year ended 31 March 2004 £000		Notes to cash flow	Unaudited 6 months ended 30 September 2004 £000	2003 £000
31,615	Net cash inflow from operating activities	1	16,247	13,767
(15,692)	Return on investments and servicing of finance	2	(9,320)	(7,417)
(4,110)	Taxation		(2,329)	(1,915)
(70,155)	Capital proceeds/(expenditure) – net	2	1,498	(46,190)
(4,952)	Equity dividends paid		(3,349)	(3,299)
(63,294)	Net cash inflow/(outflow) before use of liquid resources and financing		2,747	(45,054)
1,959	Management of liquid resources	2	(2,681)	(853)
59,720	Financing	2	1,289	45,175
(1,615)	Net cash inflow/(outflow)	3	1,355	(732)
	Reconciliation of net cash flow to movement in net debt			
(1,615)	Increase/(decrease) in cash		1,355	(732)
(1,959)	Increase/(decrease) in liquid resources		2,681	853
(59,766)	Outflow from movements in debt financing		(483)	(45,111)
(63,340)	Changes in net debt resulting from cash flows	3	3,553	(44,990)
(242,425)	Net debt at beginning of period		(305,765)	(242,425)
(305,765)	Net debt at period end		(302,212)	(287,415)

Notes to the cash flow statement

for the 6 months ended 30 September 2004

1. Reconciliation of operating profit to operating cash flows

Audited year ended 31 March 2004 £000		Unaudited 6 months ended 30 September 2004 £000	2003 £000
29,694	Operating profit	15,883	13,953
585	Depreciation charges	341	281
56	(Increase)/decrease in debtors	(1,756)	(1,061)
1,280	Increase in creditors	1,779	594
31,615		16,247	13,767

2. Analysis of cash flow

Audited year ended 31 March 2004 £000		Notes to cash flow	Unaudited 6 months ended 30 September 2004 £000	2003 £000
Returns on investments and servicing of finance				
45	Interest received		45	18
(15,737)	Interest paid (including financing costs)		(9,365)	(7,435)
(15,692)	Net cash outflow		(9,320)	(7,417)
Capital expenditure				
(81,934)	Purchase of tangible fixed assets		(32,831)	(47,496)
28	Net distribution of own shares		110	28
11,751	Sale of tangible fixed assets		34,219	1,278
(70,155)	Net cash inflow/(outflow)		1,498	(46,190)
Management of liquid resources				
1,959	(Increase)/decrease in short-term deposits	3	(2,681)	(853)
1,959	Net cash (outflow)/inflow		(2,681)	(853)
Financing				
220	Issue of ordinary share capital		289	175
59,500	Drawdown of bank loans	3	1,000	45,000
59,720	Net cash inflow		1,289	45,175

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 30 September 2004 £000
Cash at bank and in hand	181	15	–	196
Bank overdrafts	(1,340)	1,340	–	–
	(1,159)	1,355	–	196
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)	(1,000)	–	(285,500)
Less cost of raising of finance	1,144	304	(187)	1,261
	(305,756)	(696)	213	(306,239)
Short-term deposits	1,150	2,681	–	3,831
Total	(305,765)	3,340	213	(302,212)

Notes to the Half Year Results

1. Basis of preparation

The unaudited financial information contained in this interim 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 30 September 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 are now shown as a deduction from shareholders' funds.

2. Segmental analysis

Audited year ended 31 March 2004 £000		Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September	
		2004 £000	2003 £000	2004 £000	2003 £000
39,504	Rental Income	10,696	9,606	21,417	19,086
9,059	Service charge and other recoveries	2,440	2,042	4,838	4,141
2,505	Services, fees, commissions and sundry income	371	454	656	787
51,068		13,507	12,102	26,911	24,014

3. Interest receivable

Audited year ended 31 March 2004 £000		Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September	
		2004 £000	2003 £000	2004 £000	2003 £000
30	Short-term deposits	24	7	41	18
15	Other	3	–	4	–
45		27	7	45	18

4. Interest payable and similar charges

Audited year ended 31 March 2004 £000		Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September	
		2004 £000	2003 £000	2004 £000	2003 £000
319	11% Convertible Loan Stock 2011	69	79	149	159
1,391	11.125% First Mortgage Debenture Stock 2007	347	347	695	695
814	11.625% First Mortgage Debenture Stock 2007	204	204	407	407
14,210	Bank and other interest on amounts wholly repayable within five years*	4,304	3,386	8,296	6,543
16,734		4,924	4,016	9,547	7,804
(1,106)	Interest capitalised on development properties	(326)	(234)	(542)	(440)
15,628	Charged to profit and loss account	4,598	3,782	9,005	7,364

*Includes amortisation of cost of raising finance.

Notes to the Half Year Results

continued

5. Taxation

Audited year ended 31 March 2004 £000		Unaudited		Unaudited	
		3 months ended 30 September 2004 £000	2003 £000	6 months ended 30 September 2004 £000	2003 £000
	Current tax:				
3,534	UK corporation tax on profit for the period	930	840	1,777	1,623
(323)	Adjustments in respect of previous periods	–	–	–	–
3,211	Total current tax	930	840	1,777	1,623
	Deferred tax:				
1,376	Origination and reversal of timing differences	87	191	318	395
4,587	Tax on profit on ordinary activities	1,017	1,031	2,095	2,018

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		Unaudited	
		3 months ended 30 September 2004 £000	2003 £000	6 months ended 30 September 2004 £000	2003 £000
1,653	Interim dividend per ordinary share 11.3p (2003 : 10.3p)	1,832	1,651	1,832	1,651
3,321	Final dividend per ordinary share	–	–	–	–
7	Under provision in prior year	29	7	29	7
4,981		1,861	1,658	1,861	1,658

The proposed interim dividend is payable on 1 February 2005 to shareholders on the register at the close of business on 7 January 2005.

Notes to the Half Year 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 6 months ended 30 September			
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	4,444	4,621	27.6	28.9
(706)	(4.4)	Other items	335	(22)	2.0	(0.1)
		Profit for the period attributable to				
9,827	61.3	shareholders used for calculating earnings	4,779	4,599	29.6	28.8
		per share excluding other items				

Reconciliation of profit used in calculating diluted earnings per share:

Audited year ended 31 March			Unaudited 6 months ended 30 September			
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	4,444	4,621		
		earnings per share				
223		Interest saving net of taxation on 11%	104	112		
		Convertible Loan Stock				
		Profit for the period attributable to				
10,756	63.9	shareholders used in calculating the	4,548	4,733	27.0	28.3
(706)	(4.2)	underlying diluted earnings per share	335	(22)	1.9	(0.1)
		Other items				
		Profit for the period attributable to				
10,050	59.7	shareholders used in calculating the	4,883	4,711	28.9	28.2
		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		6 months ended 30 September	
Number		2004	2003
		Number	Number
16,021,462	Used for calculating basic earnings per share	16,128,828	16,002,851
227,276	Dilution due to Share Option Scheme	222,762	155,290
580,000	Dilution due to Convertible Loan Stock	500,000	580,000
16,828,738	Used for calculating diluted earnings per share	16,851,590	16,738,141

Notes to the Half Year Results

continued

8. Net assets per share

Net assets per share have been calculated by dividing net assets of £322,225,000 (2003: £258,939,000) by 16,216,145 (2003: 16,031,788) being the number of shares in issue at 30 September 2004 less investment in own shares of 667,066 (2003: 689,666).

Diluted net assets per share have been calculated by dividing net assets (as above) plus £2,500,000 (2003: £2,900,000) for the conversion of the Convertible Loan Stock by the number of shares as below:

Audited year ended 31 March 2004 Number		6 months ended 30 September 2004 Number	2003 Number
16,733,811	Shares in issue at end of period	16,883,211	16,721,454
(689,666)	Less ESOT shares	(667,066)	(689,666)
580,000	Dilution due to Convertible Loan Stock	500,000	580,000
227,276	Dilution due to Share Option Scheme	222,762	155,290
16,851,421	Used for calculating diluted net assets per share	16,938,907	16,767,078

9. Investment properties

Audited 31 March 2004 £000		Freehold £000	Mainly Freehold £000	Long leasehold £000	Short leasehold £000	Unaudited 30 September 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	33,273	399	70	–	33,742	45,498
(9,497)	Disposals during the period	(13,191)	(21,194)	–	–	(34,385)	–
642	Reclassification from other fixed assets	–	–	–	–	–	642
–	Reclassification to current assets	–	–	–	–	–	(10,673)
49,699	Revaluation during the period	19,043	5,375	2,615	–	27,033	14,398
626,060	Balance at period end	508,435	70,455	73,560	–	652,450	555,355
	The historical cost of investment properties:						
416,039	Balance at period end	336,228	37,854	55,559	7	429,648	381,885

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 30 September 2004 £000	2003 £000
	Amounts falling due within one year:		
4,765	Trade debtors	4,693	4,781
464	Deposits on investment acquisitions	–	–
4	Taxation and social security	4	2,776
1,562	Prepayments and accrued income	3,335	2,445
6,795		8,032	10,002

Notes to the Half Year Results

continued

11. Investments

Investments of £3,831,000 (2003: £3,962,000) comprise short-term deposits with an original maturity date of less than three months and tenants' security deposits.

Tenant's deposits represent returnable security deposits received from tenants. These are ring-fenced as per the terms of the individual lease contracts and cannot be used to fund the working capital of the Group, and are accordingly held separately from other cash balances.

12. Creditors: Amounts falling due within one year

Audited 31 March 2004 £000		Unaudited 30 September 2004 £000	2003 £000
1,340	Bank overdraft (secured)	–	690
1,902	Trade creditors	3,146	4,023
2,242	Corporation tax payable	5,539	1,632
1,757	Taxation and social security	1,574	284
5,461	Tenants' deposits	5,870	5,261
9,884	Accruals	10,834	10,506
5,035	Deferred income – rent and service charges	4,827	5,284
3,321	Dividends	1,832	1,651
30,942		33,622	29,331

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

Audited 31 March 2004 £000		Unaudited 30 September 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	284,239	268,701
305,756		306,239	291,101

Notes to the Half Year Results

continued

14. Borrowings and financial instruments

i Maturity of financial liabilities

A maturity analysis of loans is shown below:

Audited		Unaudited 30 September	
31 March		2004	2003
2004		£000	£000
£000		£000	£000
1,340	Less than one year	–	690
–	Between two years and three years	219,500	–
304,000	Between three years and four years	–	289,500
–	Between four years and five years	85,500	–
2,900	In five years and more	2,500	2,900
308,240		307,500	293,090
(1,144)	Less cost of raising finance	(1,261)	(1,299)
307,096		306,239	291,791

ii Fair value of financial assets and liabilities

Book and fair values of financial assets and liabilities are:

Audited		Unaudited 30 September			
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)	–	–	(690)	(690)
(305,756)	(312,196)	(306,239)	(313,134)	(291,101)	(296,621)
1,331	1,331	4,027	4,027	4,376	4,376
Derivative financial instruments					
206	(2,639)	186	(1,566)	225	(4,936)
(305,559)	(314,844)	(302,026)	(310,673)	(287,190)	(297,871)

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 53.3p (2003: 66.6p) per share and 21.5p (2003: 46.6p) per share based on diluted share capital.

Notes to the Half Year Results

continued

15. Provision for liabilities and charges

Audited 31 March 2004 £000		Unaudited 30 September 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	318	395
5,483	Balance at period end	5,801	4,502

If the investment properties were sold for their revalued amount there would be a potential liability to corporation tax of £54,130,000 (31 March 2004: £51,293,000, 30 September 2003: £44,305,000). In accordance with FRS 19 no provision has been made for these amounts.

16. Share capital

Audited 31 March 2004 Number		Unaudited 30 September 2004 Number	2003 Number
	Authorised:		
21,500,000	Ordinary shares of 10p each	21,500,000	21,500,000
		2004	2003
		£	£
	Issued:		
1,673,381	Fully paid ordinary shares of 10p each	1,688,321	1,672,145

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 Half Year Results

continued

17. Other reserves

Audited 31 March 2004 £000		Unaudited 30 September	
		2004 £000	2003 £000
(a) Share premium account			
42,697	Balance at 1 April 2004/2003	42,912	42,697
215	Additions	674	171
42,912	Balance at period end	43,586	42,868
(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)	–
49,699	Revaluation adjustment	27,033	14,398
209,565	Balance at period end	222,346	178,672
(c) Profit and loss account			
38,970	Balance at 1 April 2004/2003	47,715	38,970
5,552	Retained profit for the period	2,583	2,963
4,408	Transfer from revaluation reserve	14,252	–
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,849)	–
47,715	Balance at period end	60,701	41,933

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 30 September 2004, the number of shares held by the Trust totalled 667,066 shares (2003: 689,666) with a nominal value of £66,707 (2003: £68,967) and the book value of the shares amounted to £6,096,157 (2003: £6,205,627). At 30 September 2004 the market value of the shares held by the Trust was £13,341,320. 665,930 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 Half Year Results

continued

19. Reconciliation of movements in shareholders' funds

Audited 31 March 2004 (restated) £000		Unaudited 30 September	
		2004 £000	2003 (restated) £000
10,533	Profit for the financial period	4,444	4,621
(4,981)	Dividends	(1,861)	(1,658)
49,699	Unrealised surplus on revaluation of properties	27,033	14,398
(1,215)	Taxation on valuation surpluses realised on sale of properties	(3,849)	–
220	Issue of shares	689	175
28	Net distribution/(purchase) of own shares	110	28
54,284	Net addition to shareholders' funds	26,566	17,564
241,375	Opening shareholders' funds	295,659	241,375
295,659	Closing shareholders' funds	322,225	258,939

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 30 September	
		2004 £000	2003 £000
8,166	Under contract	7,102	4,349
15,391	Board authorised but not contracted	10,178	2,474

21. Post Balance Sheet Events

Following the period end contracts were exchanged for the purchase of Chiswick Studios, London, W4 for a cash consideration of £2.9m.

22. Interim statement

This statement was approved by the Board on 19 November 2004. Copies of this statement will be dispatched to shareholders on Monday 22 November 2004 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.
Directors	Antony J Hales BSc , (Chairman)* 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
Registered Office and Headquarters	Magenta House 85 Whitechapel Road London E1 1DU Tel: 020 7247 7614 Fax: 020 7247 0157
Registered Number	2041612
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 Property Group 3rd Floor, Waterhouse Square 138-142 Holborn London EC1N 2TH
Financial Advisers and Stockbrokers	Panmure Gordon 50 Stratton Street London W1J 8LL
Financial Advisers	N M Rothschild New Court St Swithin's Lane London EC4P 4DU
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH