



# 2002



**Interim Report**  
for the six months ended 30 September 2002



## Highlights

- Trading pre-tax profits for the six month period up 4.7% to £5.84 million.†
- Valuation surplus of £8.6 million in the half year with a total property valuation of £467.1 million (up 11% in the half year and 32% over 12 months).
- Net Asset Value per share at 30 September 2002 up 4.7% to £14.17 in six months, and up 11.6% over twelve months (31 March 2002: £13.53; 30 September 2001: £12.70).
- Basic trading earnings per share at 25.7p for the half year, up 1.2% (30 September 2001: 25.4p).†
- Turnover at £21.4 million for the half year, up by 10.0%.
- Total annual rent roll increased during the half year by 13.1% to £33.4 million (up 25.8% on September 2001).
- Average like for like rentals up 5.3% over half year to £7.75 per sq. ft.
- Bank loan facilities increased to £300 million (£201 million drawn down), leaving substantial investment capacity; incurred exceptional write-off of non-cash refinancing costs of £1.8 million.
- £34.8 million acquisitions, with £0.8 million disposals during the half year.
- Interim dividend is increased by 7.1% from 7.0p to 7.5p.

†The first half of 2001/02 included a contribution from the Midlands portfolio which was disposed of on 15 June 2001. The funds realised from this disposal were reinvested in properties in London and the South East which provide a lower initial yield, which has had the effect of slowing immediate growth whilst benefitting prospects going forward.

## Operating and Financial Review

### Overview

It is pleasing to report again on the continuing steady progress of your company. This is especially so at a time when there are uncertainties in both the economy at large and financial markets in particular. We have long argued the strengths and resilience of the SME sector. Whilst the covenants of some of our customers may be weak, their combined strength is considerable. This is shown in these results. As important though, is the long term growth potential of SMEs in London and the South East as we focus our business on being the main supplier of accommodation servicing them.

Over the half year total rents, including acquisitions, have increased by £3.9 million (or 13.1%) from £29.56 million to £33.44 million. On a like for like basis, they have increased by in excess of £1.1 million per annum (an annualised growth rate of 10%, broadly in line with the last two years) whilst occupancy has been relatively stable. These increases have resulted in growth of turnover of 10.0%, operating profits of 7.4% and trading profits before tax of 4.7%.

Our valuation performance has once again been underpinned by improving rental income. Properties held throughout the period increased in value by 2.2%, with a valuation surplus overall of £8.60 million, of which £8.09 million has been included in these interim accounts.

Following the refinancing of its securitised loan through a new senior debt facility with Bradford & Bingley the Group had, at 30 September, £57 million of undrawn facilities available for drawdown, together with a further £30 million of properties available to secure further borrowings. Further details of this new facility are given below. This new loan, together with the NatWest facility secured by the Group shortly before the end of the last financial year, takes to £300 million the new arrangements secured over the last 6 months. Availability of such substantial sums for investment into the Group's activities is tacit acknowledgement of the quality of the Group's portfolio and the success of its business.

Whilst the refinancing of its debt has opened substantial opportunity through increased availability of funding, it has attracted a cost. The results for the half year include an exceptional £1.8 million charge arising from the write-off of capitalised financing costs associated with the securitisation arranged in 1999 (which would otherwise have been written off over the life of the loan). Whilst a substantial sum, when measured against the benefits accruing to the Group from the Tonex portfolio bought with the original loan, it has been returned many times. By working its debt structure hard the Group has avoided the need to call for new equity since 1994 during which time the value of its portfolio has increased almost fivefold from £81.7 million to £467.1 million. It now has the capacity to take this process forward through the next stage of its growth.

Your Board considers that, given the continuing improvements in profitability of your company and its good dividend cover, the interim dividend should be increased by 7.1% to 7.5p. It intends to increase the dividend for the year as a whole in line with the pattern of dividend growth established in previous years.

In line with developments in best practice for interim reporting, your Board has decided to expand the format of its customary quarterly report to provide a more detailed progress statement for the half year. It is our intention to continue with our customary quarterly updates. These, together with copies of institutional presentations will be placed in the "investor relations" section of the Group's website. Whilst we have expanded areas of financial reporting within this new format for our interim report, we have preserved the key tables detailing acquisitions, disposals and portfolio progress.

On 19 November 2002 Tony Hales, who recently joined the Board of the Company as a non-executive director, was appointed Chairman. Phillip Rhodes, who has been a non-executive director since July 1992 and Chairman since September 1999, is retiring to focus on his other business interests.

### Portfolio

During the half year the annual rent roll of occupied units increased by £3.88 million, or 13%, to £33.44 million.

Four properties were acquired over the half year together with additions to our existing interests in three other properties at total cost of £34.8 million (showing an initial income of £3.2 million). One property was disposed of during this period. The table below shows the main details of acquisitions and disposals in this period.

## Operating and Financial Review

continued

Name of Property	Description	Acquisition/ Sale Price	Annual Income
<b>Acquisitions:</b>			
<b>First Quarter</b>			
Darin Court, Milton Keynes	29,400 sq. ft business centre with 27 units	£3,000,000	£255,300
<b>Second Quarter</b>			
Stratford Office Village, London E15	52,000 sq. ft office park with 13 self contained units.	£8,800,000	£666,000
Enterprise House, London SE1	71,700 sq. ft, 35 unit business centre and office buildings	£16,025,000	£1,196,000
Farnborough Business Centre, Farnborough	24,400 sq. ft, 16 unit industrial and office park	£3,800,000	£327,100
Clerkenwell Workshops London EC1R	Acquisition of head leasehold interest (freehold already owned)	£700,000	£390,000
Alpine Way, Beckton, London E6	Purchase of building works under funding agreement.	£2,337,000	£350,000
Brook Road, Redhill	Land, adjacent to existing holding. Acquired to secure marriage value.	£185,000	£nil
<b>Disposals</b>			
Brook Road, Redhill	Land, disposal of combined interests at location	£750,000	£20,000

At Clerkenwell Workshops the Group acquired the head leasehold interest in the property, having previously secured the freehold interest in December last year. This secured access to the full underlying rental stream at the property and provides the platform for improving returns from the property overall. Alpine Way was acquired from Greater London Enterprise last year. The terms of the acquisition provided for the purchase of the land initially followed by payment for the development works once complete. The works are now complete and the premises fully occupied. At Redhill the Group purchased a piece of land adjacent to its existing holding for £185,000 taking the total book cost to £388,000. It then sold the entire property for £750,000 realising a profit on disposal of £362,000.

Progress has been made on a number of the Group's "added value" projects. Planning Consent and a related Section 106 Agreement have been settled for the development of 47 flats on some land at the Group's Three Mills site. Likewise the London Borough of Lewisham Planning Committee approved a retail development on the Group's Thurston Road site. This decision was subsequently overturned by the Greater London Authority (GLA) who are concerned to see a more intensive mixed use of the site. The proposal is now under discussion with the GLA to see how this may be achieved. This could further improve value. A Planning Application for the Group's land at Hooley Lane, Redhill is still under discussion with the local Council, whilst the Group has now submitted a Planning Application at Wharf Road, Islington for a substantial mixed-use scheme.

## Operating and Financial Review

continued

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

	30 September 2002	30 June 2002	31 March 2002
Number of estates	90	88	87
Total floorspace at end of period (sq. ft.)	5,011,204	4,870,735	4,849,758
of which:			
Like for like portfolio (sq. ft)	4,431,036	4,428,604	4,427,872
Net Acquisitions/(Disposals) (sq. ft)	170,693	29,364	–
Three Mills and development (sq. ft)	409,475	412,767	421,886
Lettable units (number)	3,943	3,707	3,726
Annual rent roll of occupied units (£)	33,439,357	30,419,208	29,560,157
Average rent (£/sq. ft)	8.03	7.39	7.20
Average rent of like-for-like portfolio (£/sq. ft)	7.75	7.44	7.36
Occupancy overall	83.15%	84.52%	84.67%
Occupancy of like-for-like portfolio	87.15%	89.30%	89.15%

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

Average rent increased over the half year by an annualised rate of 24.4%. The increase on a like for like basis for the period was 10.9%. The overall average has been enhanced by the acquisition of a number of more centrally located London properties which carry higher rental values, in line with our policy of adding to our holdings in good fringe locations to benefit from the growth of London.

Occupancy is down slightly over the half year. This is due in part from the policy of allowing lower occupancy levels on those properties targeted for improvement or development works in the near future. Also there has been a decline in occupancy at the Group’s Kingsland Viaduct property due to uncertainties over the East London line. Against this, good progress is being made in lettings at Bow Enterprise Park following the relocation of the principal customer there to Alpine Way.

An independent external valuation of the Group’s portfolio was undertaken by Insignia Richard Ellis at 30 September 2002. This yielded a valuation surplus of £8.60 million of which £8.09 million, equivalent to 49 pence per share, has been recorded in the accounts taking NAV at 30 September to £14.17 per share. This valuation indicated a current estimated rental value (market rent) of the Group’s portfolio of £46.2 million. Allowing for a void of 10%, this would indicate an achievable rent roll at current market levels of £41.6 million, 25% above current passing rents.

During the half year the Workspace Group Employee Share Option Trust, acquired 506,770 shares in the Group. These shares were purchased at a price of £10.30. Of these shares 405,000 have been allocated for satisfaction of options that have been granted already with the remainder being held to satisfy options to be granted in the future. In accordance with generally accepted accounting principles, these shares have been eliminated for EPS and NAV per share calculation purposes.

## Operating and Financial Review

continued

### Financial Review

At a headline level good progress continues to be made with turnover, PBT and NAV all ahead of comparable values. However, this progress is disguised to a degree by the inclusion in the first quarter last year of a contribution from the Group's former Midlands portfolio which was disposed of on 15 June 2001. The dilutive effect of this sale had been forecast at the time of the disposal. The Group stated that the disposal proceeds were to be reinvested in properties in London and the South East which could potentially reduce earnings by £0.5 million p.a. initially but would offer far greater growth potential. Adjusting for this yields the following comparison:

	6 months to 30 September 2001		6 months to	Increase on Adjusted Values £000
	Published	Adjusted	30 September	
	£000	£000	2002 £000	
Turnover	19,408	18,262	21,367	3,105
Gross Profit	13,911	13,005	15,153	2,148
Operating Profit	11,069	10,163	11,889	1,726
PBT	5,584	5,242	5,844	602

Adjusted values eliminate the revenues and costs associated with the Midlands properties together with interest computed on the sale proceeds. As may be seen, like for like growth in PBT is 11.5% from £5.24 million to £5.84 million.

As referred to in the Trading Review, a £1.8 million write-off has been charged to the P&L account in the half year as a result of the refinancing of the Group's principal debt facility. This was not a cash breakage cost but arose as a result of writing off previously capitalised expenditure incurred on raising the original facility with WestLB. The new facility offers greater availability of finance in terms of the total commitment available for drawing. At the same time the funds immediately drawable, based on the security provided, increased also. Both this and the NatWest facility secured earlier in 2002 are priced at a margin slightly below 1% over LIBOR, reflecting the progress that the Group has made over recent periods in pushing down borrowing costs.

With the expenditure on new investments and improving its existing stock the Group's gearing has moved up to 95.2% at the period end. With interest cover of 1.97 it is positioned well to service this debt. On announcing its 2000/01 results in June 2001 the Group indicated its target of seeking to expand organically, focusing on London and the South East and to double the value of the portfolio over the next five years. This plan was predicated on stable occupancy, rents increasing by 5% p.a. and an acquisition programme of £50 million – £60 million p.a. After 18 months the Group is on target for this plan with all these parameters being maintained or bettered. Furthermore, with the new financing facilities in place the Group has established the financial platform to deliver its proposed acquisition programme.

### Prospects

The fundamentals of our market place continue to remain strong. Nearly two months into the third quarter we are on target to meet our customary £0.5 million per quarter like for like increase in rents, and are confident that we will meet our targets for the year. Enquiries and conversion rates continue at good levels, and rents to increase with the rent review programme continuing to show good results. We have one acquisition in legal hands, and others under negotiation. Meanwhile, before the year end we should see some progress for those assets where we are seeking to "add value".

## **Independent review report to Workspace Group PLC**

### **Introduction**

We have been instructed by the company to review the financial information set out on pages 7 to 20. 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.

### **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 2002.

### **PricewaterhouseCoopers**

Chartered Accountants

London

22 November 2002

## Consolidated Profit and Loss Account

for the 6 months ended 30 September 2002

Audited year ended 31 March		Notes	Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September			
			2002 £000	2001 (restated) £000	Trading Operations £000	Other Items £000	Total 2002 £000	2001 (restated) £000
39,083	<b>Turnover – continuing operations</b>	2	<b>11,036</b>	9,395	21,367	–	<b>21,367</b>	19,408
(11,172)	Rent payable and direct costs		<b>(3,266)</b>	(2,792)	(6,214)	–	<b>(6,214)</b>	(5,497)
27,911	<b>Gross profit</b>		<b>7,770</b>	6,603	15,153	–	<b>15,153</b>	13,911
(5,964)	Administrative expenses		<b>(1,638)</b>	(1,441)	(3,264)	–	<b>(3,264)</b>	(2,842)
21,947	<b>Operating profit – continuing operations</b>		<b>6,132</b>	5,162	11,889	–	<b>11,889</b>	11,069
567	Surplus on disposal of investment property		<b>311</b>	374	–	313	<b>313</b>	377
333	Interest receivable	3	<b>60</b>	144	94	–	<b>94</b>	229
(10,819)	Interest payable and similar charges	4	<b>(5,089)</b>	(2,583)	(6,139)	(1,861)	<b>(8,000)</b>	(5,714)
12,028	<b>Profit on ordinary activities before taxation</b>		<b>1,414</b>	3,097	5,844	(1,548)	<b>4,296</b>	5,961
(3,068)	Taxation on profit on ordinary activities	5	<b>(417)</b>	(804)	(1,773)	491	<b>(1,282)</b>	(1,663)
8,960	<b>Profit on ordinary activities after taxation</b>		<b>997</b>	2,293	4,071	(1,057)	<b>3,014</b>	4,298
–	Equity minority interests	19	–	–	–	–	–	–
8,960	<b>Profit attributable to shareholders</b>		<b>997</b>	2,293	4,071	(1,057)	<b>3,014</b>	4,298
(4,192)	Dividends	6	<b>(1,156)</b>	(1,143)	(1,179)	–	<b>(1,179)</b>	(1,143)
4,768	Retained for the period		<b>(159)</b>	1,150	2,892	(1,057)	<b>1,835</b>	3,155
55.4p	Basic earnings per share	7	<b>6.7p</b>	14.1p	25.7p	(6.7p)	<b>19.0p</b>	26.7p
54.2p	Diluted earnings per share	7	<b>6.7p</b>	14.0p			<b>18.8p</b>	26.2p

### Statement of Total Recognised Gains and Losses

Audited year ended 31 March		Unaudited 6 months ended 30 September	
		2002 £000	2001 (restated) £000
8,960	Profit for the financial period	<b>3,014</b>	4,298
26,863	Unrealised surplus on revaluation of investment properties	<b>8,091</b>	14,389
(150)	Taxation on valuation surpluses realised on sale of properties	–	–
35,673	Total recognised gains relating to the financial period	<b>11,105</b>	18,687
(3,128)	Prior year adjustment	–	(3,128)
32,545	Total gains recognised since last financial statements	<b>11,105</b>	15,559

### Note of Historical Cost Profits and Losses

Audited year ended 31 March		Unaudited 6 months ended 30 September	
		2002 £000	2001 (restated) £000
12,028	Reported profits on ordinary activities before taxation	<b>4,296</b>	5,961
5,014	Realisation of property revaluation (losses)/gains of previous years	<b>(87)</b>	4,270
(150)	Taxation on valuation surpluses realised on sale of properties	–	–
16,892	Historical cost profit on ordinary activities before taxation	<b>4,209</b>	10,231
9,632	Historical cost profit for the period retained after taxation and dividends	<b>1,748</b>	7,425

**Consolidated Balance Sheet**

as at 30 September 2002

<b>Audited</b>			<b>Unaudited 30 September</b>	
<b>31 March</b>		Notes	<b>2002</b>	<b>2001</b>
<b>2002</b>			<b>2002</b>	<b>(restated)</b>
<b>£000</b>			<b>£000</b>	<b>£000</b>
<b>Fixed Assets</b>				
	Tangible assets			
414,707	Investment properties	8	<b>462,763</b>	353,734
3,540	Other fixed assets		<b>3,830</b>	1,686
1,015	Investment in own shares	9	<b>6,249</b>	1,015
419,262			<b>472,842</b>	356,435
<b>Current Assets</b>				
150	Stock: properties for sale		<b>150</b>	–
6,189	Debtors	10	<b>6,619</b>	7,973
5,443	Investments	11	<b>1,032</b>	6,188
340	Cash at bank and in hand		<b>1,002</b>	281
12,122			<b>8,803</b>	14,442
(30,964)	Creditors: amounts falling due within one year	12	<b>(24,381)</b>	(25,717)
(18,842)	<b>Net current liabilities</b>		<b>(15,578)</b>	(11,275)
400,420	<b>Total assets less current liabilities</b>		<b>457,264</b>	345,160
	Creditors: amounts falling due after more than one year (including			
(175,730)	Convertible Loan Stock)	13	<b>(221,821)</b>	(134,636)
(3,365)	Provision for liabilities and charges	15	<b>(3,742)</b>	(3,265)
221,325			<b>231,701</b>	207,259
<b>Capital and reserves</b>				
1,648	Called up share capital	16	<b>1,661</b>	1,644
42,030	Share premium account	17	<b>42,467</b>	41,905
144,588	Revaluation reserve	17	<b>152,766</b>	132,858
33,059	Profit and loss account	17	<b>34,807</b>	30,852
221,325	Shareholders' funds – equity interests		<b>231,701</b>	207,259
–	Equity minority interests	19	–	–
221,325	<b>Capital Employed</b>	18	<b>231,701</b>	207,259
£13.53	Net asset value per share		<b>£14.17</b>	£12.70

## Consolidated Cash Flow Statement

for the 6 months ended 30 September 2002

Audited year ended 31 March 2002 £000		Notes to cash flow	Unaudited 6 months ended 30 September	
			2002 £000	2001 £000
23,429	<b>Net cash inflow from operating activities</b>	1	<b>11,835</b>	9,031
(11,261)	Return on investments and servicing of finance	2	<b>(6,780)</b>	(5,673)
(5,564)	Taxation		<b>(1,259)</b>	(2,301)
(23,278)	Capital (expenditure)/proceeds – net	2	<b>(45,011)</b>	26,818
(3,796)	Equity dividends paid		<b>(3,035)</b>	(2,659)
(20,470)	<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(44,250)</b>	25,216
(70)	Management of liquid resources	2	<b>4,411</b>	(815)
19,751	Financing	2	<b>42,477</b>	(22,733)
(789)	<b>Net cash inflow/(outflow)</b>	3	<b>2,638</b>	1,668
	<b>Reconciliation of net cash flow to movement in net debt</b>			
(789)	Increase/(decrease) in cash		<b>2,638</b>	1,668
70	(Decrease)/increase in liquid resources		<b>(4,411)</b>	815
(18,201)	(Outflow)/inflow from movements in debt financing		<b>(42,738)</b>	23,870
(18,920)	<b>Changes in net debt resulting from cash flows</b>	3	<b>(44,511)</b>	26,353
(157,147)	Net debt at beginning of period		<b>(176,067)</b>	(157,147)
(176,067)	Net debt at period end		<b>(220,578)</b>	(130,794)

## Notes to the cash flow statement

for the 6 months ended 30 September 2002

### 1. Reconciliation of operating profit to operating cash flows

Audited year ended 31 March 2002 £000		Unaudited 6 months ended 30 September 2002 £000	2001 £000
21,947	Operating profit	11,889	11,069
554	Depreciation charges	366	265
(976)	Increase in debtors	(449)	(2,400)
1,904	Increase in creditors	29	97
23,429		11,835	9,031

### 2. Analysis of cash flow

Audited year ended 31 March 2002 £000		Notes to cash flow	Unaudited 6 months ended 30 September 2002 £000	2001 £000
<b>Returns on investments and servicing of finance</b>				
347	Interest received		109	224
(11,608)	Interest paid (including financing costs)		(6,889)	(5,897)
(11,261)	Net cash outflow		(6,780)	(5,673)
<b>Capital expenditure</b>				
(71,761)	Purchase of tangible fixed assets		(45,747)	(20,635)
48,300	Sale of tangible fixed assets		727	47,353
183	Grants received		9	100
(23,278)	<b>Net cash (outflow)/inflow</b>		(45,011)	26,818
<b>Management of liquid resources</b>				
(70)	Decrease/(increase) in short-term deposits	3	4,411	(815)
(70)	<b>Net cash inflow/(outflow)</b>		4,411	(815)
<b>Financing</b>				
1,394	Issue of ordinary share capital		449	1,266
23,000	Drawdown/(repayment) of bank loans	3	156,500	(21,500)
(1,140)	Repayment of Convertible Loan Stock	3	–	(1,140)
(3,503)	Repayment on mortgage	3	(114,472)	(1,359)
19,751	<b>Net cash inflow/(outflow)</b>		42,477	(22,733)

## Notes to the cash flow statement

continued

### 3. Analysis of net debt

Audited year ended 31 March 2002			Unaudited 6 months ended 30 September						
At		At		At		At	At		At
01/04/01	Cash flow	31/03/02		01/04/02	Cash flow	30/09/02	01/04/01	Cash flow	30/09/01
£000	£000	£000		£000	£000	£000	£000	£000	£000
206	134	340	Cash at bank and in hand	340	662	<b>1,002</b>	206	75	281
(1,844)	(923)	(2,767)	Bank overdrafts	(2,767)	1,976	<b>(791)</b>	(1,844)	1,593	(251)
(1,638)	(789)	(2,427)		(2,427)	2,638	<b>211</b>	(1,638)	1,668	30
			Debt due within one year:						
(2,798)	(862)	(3,660)	Securitised loan	(3,660)	3,660	–	(2,798)	162	(2,636)
287	20	307	Less cost of raising finance	307	30*	<b>337</b>	287	(27)	260
			Debt due after one year:						
(4,040)	1,140	(2,900)	11% Convertible Loan Stock	(2,900)	–	<b>(2,900)</b>	(4,040)	1,140	(2,900)
			11.125% First Mortgage						
(12,500)	–	(12,500)	Debenture	(12,500)	–	<b>(12,500)</b>	(12,500)	–	(12,500)
			11.625% First Mortgage						
(7,000)	–	(7,000)	Debenture	(7,000)	–	<b>(7,000)</b>	(7,000)	–	(7,000)
(115,177)	4,365	(110,812)	Securitised loan	(110,812)	110,812	–	(115,177)	1,197	(113,980)
(21,500)	(23,000)	(44,500)	Bank loan	(44,500)	(156,500)	<b>(201,000)</b>	(21,500)	21,500	–
1,846	136	1,982	Less cost of raising of finance	1,982	(740)*	<b>1,242</b>	1,846	(102)	1,744
(160,882)	(18,201)	(179,083)		(179,083)	(42,738)	<b>(221,821)</b>	(160,882)	23,870	(137,012)
5,373	70	5,443	Short-term deposits	5,443	(4,411)	<b>1,032</b>	5,373	815	6,188
(157,147)	(18,920)	(176,067)	<b>Total</b>	(176,067)	(44,511)	<b>(220,578)</b>	(157,147)	26,353	(130,794)

\*Includes non-cash writedowns of financing costs.

## 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 2002 included an unqualified report of the auditors. The Group's unaudited accounts for the period ended 30 September 2002 have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 2002. The full accounts for the year ended 31 March 2002 have been filed with the Registrar of Companies. 2001 comparatives have been restated due to the application of FRS19 (deferred tax).

### 2. Segmental analysis

Audited year ended 31 March 2002 £000		Unaudited		Unaudited	
		3 months ended 30 September 2002 £000	2001 £000	6 months ended 30 September 2002 £000	2001 £000
30,864	Rental Income	<b>8,780</b>	7,440	<b>16,969</b>	15,422
6,877	Service charge and other recoveries Services, fees, commissions and sundry income	<b>1,728</b>	1,679	<b>3,584</b>	3,394
1,342		<b>528</b>	276	<b>814</b>	592
39,083		<b>11,036</b>	9,395	<b>21,367</b>	19,408

### 3. Interest receivable

The following amounts were earned during the year:

Audited year ended 31 March 2002 £000		Unaudited		Unaudited	
		3 months ended 30 September 2002 £000	2001 £000	6 months ended 30 September 2002 £000	2001 £000
325	Short-term deposits	<b>60</b>	143	<b>93</b>	228
8	Other	–	1	<b>1</b>	1
333		<b>60</b>	144	<b>94</b>	229

### 4. Interest payable and similar charges

Audited year ended 31 March 2002 £000		Unaudited		Unaudited	
		3 months ended 30 September 2002 £000	2001 £000	6 months ended 30 September 2002 £000	2001 £000
361	11% Convertible Loan Stock 2011	<b>79</b>	91	<b>159</b>	202
1,391	11.125% First Mortgage Debenture Stock 2007	<b>347</b>	347	<b>695</b>	695
814	11.625% First Mortgage Debenture Stock 2007	<b>204</b>	204	<b>407</b>	407
7,486	Mortgage interest on securitised loan not wholly repayable within five years	<b>246</b>	2,001	<b>1,884</b>	4,047
1,007	Bank and other interest on amounts wholly repayable within five years	<b>2,520</b>	10	<b>3,299</b>	433
–	Finance costs written off	<b>1,861</b>	–	<b>1,861</b>	–
11,059		<b>5,257</b>	2,653	<b>8,305</b>	5,784
(240)	Interest capitalised on development properties	<b>(168)</b>	(70)	<b>(305)</b>	(70)
10,819	Charged to profit and loss account	<b>5,089</b>	2,583	<b>8,000</b>	5,714

## Notes to the Half Year Results

continued

### 5. Taxation

Audited year ended 31 March		Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September	
2002 £000		2002 £000	2001 (restated) £000	2002 £000	2001 (restated) £000
	Current tax:				
2,956	UK corporation tax on profit for the year	<b>276</b>	754	<b>905</b>	1,526
(125)	Prior year adjustments	–	–	–	–
2,831	Total current tax	<b>276</b>	754	<b>905</b>	1,526
	Deferred tax:				
237	Origination and reversal of timing differences	<b>141</b>	50	<b>377</b>	137
3,068	Tax on profit on ordinary activities	<b>417</b>	804	<b>1,282</b>	1,663

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

### 6. Dividends

Audited year ended 31 March		Unaudited 3 months ended 30 September		Unaudited 6 months ended 30 September	
2002 £000		2002 £000	2001 £000	2002 £000	2001 £000
1,143	Interim dividend per ordinary share 7.5p (2001 : 7.0p)	<b>1,193</b>	1,143	<b>1,193</b>	1,143
3,049	Final dividend per ordinary share (2001 : 18.5p)	<b>(37)</b>	–	<b>(14)</b>	–
4,192		<b>1,156</b>	1,143	<b>1,179</b>	1,143

The proposed interim dividend is payable on 3 February 2003 to shareholders on the register at the close of business on 6 January 2003.

## Notes to the Half Year Results

continued

### 7. Earnings per share and net assets per share

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

Audited year ended 31 March			Unaudited 6 months ended 30 September			
Profit	Earnings		Profit	Profit	Earnings	Earnings
2002	per share		2002	2001	per share	per share
£000	2002		(restated)	2001	2002	2001
	Pence		£000	£000	Pence	Pence
8,960	55.4	Profit for the year attributable to shareholders	<b>3,014</b>	4,298	<b>19.0</b>	26.7
(426)	(2.6)	Other items	<b>1,057</b>	(359)	<b>6.7</b>	(2.2)
8,534	52.8	Profit for the year attributable to shareholders used for calculating earnings per share excluding other items	<b>4,071</b>	3,939	<b>25.7</b>	24.5

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
2002	per share		2002	2001	per share	per share
£000	2002		(restated)	2001	2002	(restated)
	Pence		£000	£000	Pence	Pence
8,960		Profit for the year attributable to shareholders used for calculating basic earnings per share	<b>3,014</b>	4,298		
253		Interest saving net of taxation on 11% Convertible Loan Stock	<b>112</b>	141		
9,213	54.2	Profit for the year attributable to shareholders used in calculating the underlying diluted earnings per share	<b>3,126</b>	4,439	<b>18.8</b>	26.2
(426)	(2.5)	Other items	<b>1,057</b>	(359)	<b>6.3</b>	(2.1)
8,787	51.7	Profit for the year attributable to shareholders used in calculating the diluted earnings per share excluding other items	<b>4,183</b>	4,080	<b>25.1</b>	24.1

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 2002			Unaudited 6 months ended 30 September	
Number			2002	2001
			Number	Number
16,161,670	Used for calculating basic earnings per share		<b>15,865,684</b>	16,073,119
263,166	Dilution due to Share Option Scheme		<b>217,832</b>	269,150
580,000	Dilution due to Convertible Loan Stock		<b>580,000</b>	580,000
17,004,836	Used for calculating diluted earnings per share		<b>16,663,516</b>	16,922,269

Net assets per share have been calculated by dividing net assets of £231,701,000 (2001: £207,259,000) less investment in own shares of £6,249,150 by 15,906,795 (2001: 16,243,948) being the number of shares in issue at 30 September 2002 less investment in own shares of 699,190 (2001: 200,000).

## Notes to the Half Year Results

continued

### 8. Investment properties

Audited 31 March 2002 £000		Freehold £000	Mainly Freehold £000	Long leasehold £000	Short leasehold £000	Unaudited 30 September	
						Total 2002 £000	Total 2001 £000
366,525	Balance at 1 April 2002/2001	302,755	66,077	45,875	–	414,707	366,525
71,216	Additions during the period	31,465	554	8,334	–	40,353	19,889
(47,977)	Disposals during the period	(388)	–	–	–	(388)	(47,069)
(1,920)	Reclassifications	–	–	–	–	–	–
26,863	Revaluation during the period	7,011	1,484	(404)	–	8,091	14,389
414,707	<b>Balance at period end</b>	340,843	68,115	53,805	–	462,763	353,734
	The historical cost of investment properties:						
269,359	Balance at period end	218,160	48,131	42,939	7	309,237	220,876

### Valuation

The Group's investment properties were valued by Insignia Richard Ellis, Chartered Surveyors, at 30 September 2002 on the basis of open market existing use value and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors.

### 9. 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 2002, the number of shares held by the Trust totalled 699,190 shares (2001: 200,000) with a nominal value of £69,919 (2001: £20,000) and the book value of the shares amounted to £6,249,000 (2001: £1,015,000). The shares, whilst legally not the property of the Company, have been included in fixed asset investments. At 30 September 2002 the market value of the shares held by the Trust was £7,656,000. 630,710 shares held by the Trust are subject to option awards.

### 10. Debtors

Audited 31 March 2002 £000		Unaudited 30 September	
		2002 £000	2001 £000
	<b>Amounts falling due within one year:</b>		
4,214	Trade debtors	<b>4,407</b>	4,761
–	Deposits on investment acquisitions	–	210
–	Deposit on investment disposal	–	50
724	Taxation and social security	<b>26</b>	30
1,104	Prepayments and accrued income	<b>2,059</b>	2,755
6,042		<b>6,492</b>	7,806
	<b>Amounts falling due after one year:</b>		
147	Advance commissions	<b>127</b>	167
6,189	Total debtors	<b>6,619</b>	7,973

### 11. Investments

Investments of £1,032,000 (2001: £6,188,000) comprise short-term deposits with an original maturity date of less than three months.

## Notes to the Half Year Results

continued

### 12. Creditors: Amounts falling due within one year

Audited 31 March 2002 £000		Unaudited 30 September	
		2002 £000	2001 £000
3,353	Secured mortgage borrowings (note 13)	–	2,376
2,767	Bank loan and overdraft (secured)	791	251
2,462	Trade creditors	2,088	2,205
1,993	Corporation tax payable	1,638	3,803
909	Taxation and social security	998	777
4,163	Tenants' deposits	4,575	3,869
7,203	Accruals	7,780	7,009
5,065	Deferred income – rent and service charges	5,318	4,290
3,049	Dividends	1,193	1,137
30,964		<b>24,381</b>	25,717

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

Audited 31 March 2002 £000		Unaudited 30 September	
		2002 £000	2001 £000
	Long-term borrowings consist of:		
	Unsecured:		
2,900	11% Convertible Loan Stock 2011	2,900	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
156,683	Other secured loans	199,421	114,612
179,083		<b>221,821</b>	137,012
(3,353)	Less: amounts falling due within one year	–	(2,376)
175,730		<b>221,821</b>	134,636

## 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:

<b>Audited</b>		<b>Unaudited 30 September</b>	
<b>31 March</b>		<b>2002</b>	<b>2001</b>
<b>2002</b>		<b>£000</b>	<b>£000</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>
6,120	Less than one year	<b>791</b>	2,627
3,660	Between one year and two years	–	3,660
3,670	Between two years and three years	–	3,670
4,275	Between three years and four years	–	3,660
49,380	Between four years and five years	<b>220,500</b>	4,880
116,727	In five years and more	<b>2,900</b>	120,510
<hr/>			
183,832		<b>224,191</b>	139,007
(1,982)	Less cost of raising finance	<b>(1,579)</b>	(1,744)
<hr/>			
181,850		<b>222,612</b>	137,263

ii Fair value of financial liabilities

Book and fair values of financial liabilities are:

<b>Audited</b>		<b>Unaudited 30 September</b>			
<b>31 March</b>		<b>2002</b>		<b>2001</b>	
<b>2002</b>		<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2001</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>Primary financial instruments</b>					
(6,120)	(6,120)	<b>(791)</b>	<b>(791)</b>	(2,627)	(2,627)
(175,730)	(181,293)	<b>(221,821)</b>	<b>(227,514)</b>	(134,636)	(139,936)
5,783	5,783	<b>2,034</b>	<b>2,034</b>	6,469	6,469
<b>Derivative financial instruments</b>					
283	(2,298)	<b>264</b>	<b>(5,358)</b>	300	1,100
<hr/>					
(175,784)	(183,928)	<b>(220,314)</b>	<b>(231,629)</b>	(130,494)	(134,994)

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 71.1p per share (53.3p based on diluted share capital).

## Notes to the Half Year Results

continued

### 15. Provision for liabilities and charges

Audited 31 March 2002 £000		Unaudited 30 September 2002 £000	2001 £000
	Deferred taxation:		
–	Balance at 1 April 2002/2001 (as previously stated)	<b>3,365</b>	–
3,128	Prior year adjustment	–	3,128
3,128	Balance at 1 April 2002/2001(as restated)	<b>3,365</b>	3,128
237	Deferred tax charge for the period	<b>377</b>	137
3,365	Balance at period end	<b>3,742</b>	3,265

If the investment properties were sold for their revalued amount there would be a potential liability to corporation tax of £40,050,000 (31 March 2002: £37,597,000; 30 September 2001: £32,928,000).

### 16. Share capital

Audited 31 March 2002 Number		Unaudited 30 September 2002 Number	2001 Number
	Authorised:		
21,500,000	Ordinary shares of 10p each	<b>21,500,000</b>	21,500,000
2002 £		2002 £	2001 £
	Issued:		
1,647,941	Fully paid ordinary shares of 10p each	<b>1,660,599</b>	1,644,395

## Notes to the Half Year Results

continued

### 17. Other reserves

Audited 31 March 2002 £000		Unaudited 30 September	
		2002 £000	2001 £000
<b>(a) Share premium account</b>			
40,666	Balance at 1 April 2002/2001	<b>42,030</b>	40,666
1,364	Additions	<b>437</b>	1,239
42,030	Balance at period end	<b>42,467</b>	41,905
<b>(b) Revaluation reserve</b>			
Property valuation surplus:			
122,739	Balance at 1 April 2002/2001	<b>144,588</b>	122,739
(5,014)	Disposals during the period	<b>87</b>	(4,270)
26,863	Revaluation adjustment	<b>8,091</b>	14,389
144,588	Balance at period end	<b>152,766</b>	132,858
<b>(c) Profit and loss account</b>			
26,555	Balance at 1 April 2002/2001 (as previously stated)	<b>33,059</b>	26,555
(3,128)	Prior year adjustment	–	(3,128)
23,427	Balance at 1 April 2002/2001 (as restated)	<b>33,059</b>	23,427
4,768	Retained profit for the period	<b>1,835</b>	3,155
5,014	Transfer from revaluation reserve	<b>(87)</b>	4,270
(150)	Taxation on valuation surpluses realised on sale of properties	–	–
33,059	Balance at period end	<b>34,807</b>	30,852

### 18. Reconciliation of movements in shareholders' funds

Audited 31 March 2002 £000		Unaudited 30 September	
		2002 £000	2001 (restated) £000
8,960	Profits for the financial period	<b>3,014</b>	4,298
(4,192)	Dividends	<b>(1,179)</b>	(1,143)
26,863	Unrealised surplus on revaluation of properties	<b>8,091</b>	14,389
(150)	Taxation on valuation surpluses realised on sale of properties	–	–
1,394	Issue of shares	<b>450</b>	1,265
32,875	Net addition to shareholders' funds	<b>10,376</b>	18,809
188,450	Opening shareholders' funds	<b>221,325</b>	188,450
221,325	Closing shareholders' funds	<b>231,701</b>	207,259

## Notes to the Half Year Results

continued

### 19. Equity minority intetrests

Audited 31 March 2002 £000		Unaudited 30 September 2002 £000	2001 £000
40	Share of loss of subsidiary undertaking	76	–
(40)	Provision against losses of subsidiary undertaking	(76)	–
–		–	–

£nil has been appropriated to minority interests in all periods shown in this statement.

### 20. Capital commitments

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

Audited 31 March 2002 £000		Unaudited 30 September 2002 £000	2001 £000
6,204	Under contract	3,762	2,556
11,396	Board authorised but not contracted	3,919	2,703

### 21. Subsequent events

Following the quarter end an option agreement was exchanged for the sale, for £2.4 million, of the plots of land in Union Street, Southwark retained following the development and disposal of the former Post Office premises. This land is valued in the Group's assets at £2.4 million.

### 22. Interim statement

This statement was approved by the board on 22 November 2002. Copies of this statement will be dispatched to shareholders on Monday 25 November 2002 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London E1 1DU from 9.00am on that day.

## Directors, Officers and Advisers

### The Business

Workspace Group is a specialised property investment company devoted to the provision of small unit light industrial, studio and office workspace for rent to small and medium sized enterprises in London and the South East.

### Directors

**Phillip P Rhodes FCA** (Chairman)\* (to 19 November 2002)  
**Antony J Hales BSc** (Chairman)\* (from 19 November 2002)  
**Alan H Cherry MBE DL FRICS Hon MRTPI** (Deputy Chairman)\*  
**Harry Platt MA MRTPI** (Chief Executive)  
**Madeleine Carragher FRICS** (Operations Director)  
**J Patrick Marples MRICS** (Property Director)  
**Christopher J Pieroni BA MSc PhD\***  
**R Mark Taylor BSc FCA** (Finance Director)

\*Non-executive and members of Remuneration and Audit Committees

### Secretary

**Iain G R MacDonald LLB, MBA**

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