



2002



Quarterly Report
for the three months ended 30 June 2002



Highlights

- Annual rent roll increased by £0.86m (2.9%) during the quarter from £29.56 million to £30.42 million.
- Average, like for like, rentals up 2% over quarter to £7.51 per sq. ft
- Pre-tax profits of £2.9 million for the quarter were level with the same period in 2001.†
- Turnover at £10.3 million for the quarter grew by 3% compared with the same period in 2001.†
- Basic earnings per share at 12.3p for the quarter down by 0.3p (or 2.4%) over the corresponding period in 2001.†
- Acquisitions in the quarter of £3.0 million at Darin Court, Milton Keynes, with other substantial acquisitions under negotiation.
- Facilities now in place to fund over £130 million acquisitions in our core market of London and the South East.
- Net asset value per share at 30 June 2002 rose to £13.58 (31 March 2002: £13.53).

† The first quarter 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 showing a lower initial yield in London and the South East which has had the effect of slowing immediate growth whilst benefiting prospects going forward.

Operating and Financial Review

Review of Activities

This has been another quarter of excellent progress, especially given the substantial shift in the spread of the portfolio since the comparable period last year. Throughout the quarter like for like occupancy has remained stable at above 89% whilst good progress has been made in lettings and renewals, driving the rent roll forward. Average rents of the London and South East portfolio have increased by 2.0% in the quarter (from £7.36 to £7.51 per sq. ft). The rent roll has increased by £0.86 million or 2.9% to £30.42 million (from £29.56 million). Of this change £0.26 million reflects the net effect of acquisitions whilst £0.60 million reflects underlying rental growth.

Profits in the first quarter this year at £2.9m are equivalent to those in the same period last year. This performance has been achieved despite the dilutive effect of the sale of the Group's Midlands portfolio at the end of the first quarter last year. Future years will benefit from the reinvestment of the proceeds in London and South East properties with greater growth potential.

Following the quarter end, the Group completed the reorganisation of its borrowing facilities and now has capacity for further substantial acquisitions in London and the South East.

One new property acquisition was contracted during the period, whilst others are in legal hands. Further progress was also made on the Group's sites earmarked for disposal for residential development at 3 Mills (Bridport Site) and Hooley Lane, Redhill.

Acquisitions and Disposals

One acquisition was made in the quarter, in Milton Keynes. Details are given below.

Name of Property	Description	Acquisition/ Sale Price	Annual Income
Acquisitions:			
Darin Court, Milton Keynes	29,400 sq. ft business centre with 27 units	£3,000,000	£255,300

Other acquisitions are in legal hands, or under negotiation.

Cash Flow and Financing

There was a net cash inflow of £0.20 million (2001: £0.98 million) during the period. Net cash flow from operating activities was an inflow of £5.6 million for the quarter (2001: £5.1 million). Capital expenditure in the quarter was £5.7 million. At the quarter end gearing stood at 79.9% (2001: 60.5%).

Following the renewal of its facility with the Royal Bank of Scotland (RBS) in March 2002 (which increased the loan by £67m to £100m over a five year term), the Group refinanced its facility with WestLB shortly after the quarter end. This was a £122 million commercial paper facility on which £114 million was drawn. The Group was obliged to refinance this facility and, having considered the range of opportunities available including bond issuance, concluded that the senior debt market offered the best option to it.

A new £200 million facility was negotiated with Bradford & Bingley Plc. This new arrangement, linked to that secured with RBS will provide the financial platform for the Group's future growth. In simple terms, the Group has over £130 million unutilised facilities of which £85 million is immediately available for drawdown for investment. Investment of this £85 million will provide the capacity to draw on the balance of the facilities.

Operating and Financial Review continued

Occupancy and Trading Statistics

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

	30 June 2002	31 March 2002
Number of estates	88	87
Total floorspace at end of period (sq. ft.)	4,870,735	4,849,758
of which:		
London and South East (sq. ft.)	4,457,968	
Three Mills and developments (sq. ft.)	412,767	
Lettable floorspace of like for like portfolio (sq. ft.)	4,428,604	4,427,872
Lettable units (number)	3,705	3,726
Annual rent roll of occupied units (£)	30,419,208	29,560,157
Average rent (£/sq. ft)	7.39	7.20
Average rent of like-for-like portfolio (£/sq. ft)	7.51	7.36
Occupancy overall	84.52%	84.67%
Occupancy of like-for-like portfolio	89.21%	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.

Current Trading

Despite the turmoil in the financial markets, confidence in the SME sector in London and the South East remains buoyant with a good level of enquiries. Now, midway through the second quarter, Workspace's like-for-like rent roll continues to grow and we are currently on target to meet our expectations for the year. Meanwhile, we have the funds in place to expand our business and we have a number of potential acquisitions either in legal hands or under negotiation.

Unaudited Consolidated Profit and Loss Account

for the 3 months ended 30 June 2002

	3 months ended 30 June	
	2002	2001
		(restated)
	£000	£000
Turnover – continuing operations	10,331	10,013
Rent payable and direct costs	(2,948)	(2,705)
Gross profit	7,383	7,308
Administrative expenses	(1,626)	(1,401)
Operating profit – continuing operations	5,757	5,907
Profit on Disposal of investment property	2	3
Interest receivable	34	85
Interest payable and similar charges	(2,911)	(3,131)
Profit on ordinary activities before taxation	2,882	2,864
Taxation on profit on ordinary activities	(865)	(859)
Profit attributable to shareholders	2,017	2,005
Dividends	(23)	–
Retained for the period	1,994	2,005
Earnings per shares (basic)	12.3p	12.6p
Diluted earnings per share	12.1p	12.2p

Other than the profit for the period there were no other recognised gains or losses during the period (2001: Nil).

Consolidated Balance Sheet

	Unaudited 30 June 2002 £000	Audited 31 March 2002 £000
Fixed assets		
Tangible assets		
Investment properties	419,544	414,707
Other fixed assets	3,723	3,540
Investment in own shares	977	1,015
	424,244	419,262
Current Assets		
Stock: properties for sale	150	150
Debtors	6,600	6,189
Investments	5,304	5,443
Cash at bank and in hand	290	340
	12,344	12,122
Creditors: amounts falling due within one year		
Loans and overdrafts	(5,832)	(6,120)
Others	(24,982)	(24,844)
Net current liabilities	(18,470)	(18,842)
Total assets less current liabilities	405,774	400,420
Creditors: amounts falling due after more than one year (loans including Convertible Loan Stock)	(178,441)	(175,730)
Provision for liabilities and charges	(3,601)	(3,365)
	223,732	221,325
Capital and reserves		
Called up share capital	1,659	1,648
Share premium account	42,432	42,030
Revaluation reserve	144,588	144,588
Profit and loss account	35,053	33,059
Shareholders' funds – equity interests	223,732	221,325
Minority Interests	–	–
Capital Employed	223,732	221,325
Net asset value per share	£13.58	£13.53
Movement in shareholders' funds		
Profit for the financial period	2,017	8,960
Dividends	(23)	(4,192)
	1,994	4,768
Issue of Shares	11	30
Share premium account	402	1,364
Revaluation reserve – increase	–	26,863
Taxation on valuation surpluses realised on sale of properties	–	(150)
Net movement in shareholders' funds for the financial period	2,407	32,875
Shareholders' funds as at 1 April 2002/2001	221,325	188,450
Shareholders' fund as at 30 June 2002/31 March 2002	223,732	221,325

Unaudited Consolidated Cash Flow Statement

for the 3 months ended 30 June 2002

	3 months ended 30 June	
	2002	2001
	£000	£000
Net cash inflow from operating activities	5,553	5,137
Returns on investments and servicing of finance	(2,049)	(2,674)
Taxation	(742)	(1,200)
Net capital (expenditure)/proceeds	(5,709)	38,916
Equity dividends paid	–	–
Net cash (outflow)/inflow before use of liquid resources and financing	(2,947)	40,179
Management of liquid resources	138	(17,009)
Financing	3,011	(22,195)
Net cash inflow	202	975
Reconciliation of net cash flow to movement in net debt		
Increase in cash	202	975
(Decrease)/Increase in liquid resources	(138)	17,009
(Outflow)/Inflow from movements in debt financing	(2,675)	22,073
Changes in debt resulting from cash flows	(2,611)	40,057
Net debt at 1 April	(176,067)	(157,147)
Net debt at 30 June	(178,678)	(117,090)

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 2002 included an unqualified report of the auditors. The Group's unaudited quarterly accounts for the period ended 30 June 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.

2. Segmental Analysis

	3 months ended 30 June	
	2002	2001
	£000	£000
Rental Income	8,189	7,982
Service charges and other recoveries	1,856	1,715
Fees, commissions, and sundry income	286	316
	10,331	10,013

3. Interest Payable

	3 months ended 30 June	
	2002	2001
	£000	£000
Convertible loan stock and debenture stock interest	631	662
Mortgage and bank loan interest	2,394	2,445
Bank and other interest	23	24
Net development interest capitalised	(137)	–
Charged to profit and loss account	2,911	3,131

4. Taxation

The taxation charge for the three months ended 30 June 2002 is based on the estimated effective tax rate for the year ending 31 March 2003 of 30% (due provision being made for both current and deferred taxation liabilities). For comparative purposes the taxation charge for the 3 months ended 30 June 2001 has been restated (30%).

5. Earnings Per Share and Net Assets Per Share

Earnings per share have been calculated by dividing the profit after tax for each period attributable to shareholders by the weighted average number of ordinary shares in issue during the period less 192,420 (30.6.2001: 200,000) holding in own shares, (16,340,209 shares). Net assets per share have been calculated by dividing net assets at the end of each period, less value of investment in own shares, by the number of shares in issue at that time, less 192,420 (31.3.2002: 200,000) holding in own shares, (16,402,695 shares).

6. Valuation

No valuation of investment properties has been carried out at 30 June 2002. The valuation shown in the unaudited accounts is based on the independent valuation at 31 March 2002, plus additions at cost less disposals at book value.

Notes to the Quarterly Results

continued

7. Creditors

Creditors falling due within one year include tenants' deposits of £4.4 million (31 March 2002: £4.2 million) and deferred rental and service charges of £4.9 million (31 March 2002: £5.1 million).

8. Financial Instruments

In accordance with the requirements of FRS 13, an assessment of the fair value of the Group's financial instruments held for financing purposes has been undertaken as at 30 June 2002. The results are summarised as follows:

	Book Value £ Million	Fair Value £ Million	Difference £ Million
Short term borrowings and current part of long term borrowings	(5.8)	(5.8)	–
Long term borrowings	(178.4)	(183.8)	(5.4)
Financial Assets	5.6	5.6	–
Interest rate Caps /Collars	0.3	(2.5)	(2.8)
	(178.3)	(186.5)	(8.2)

This represents 49.6 pence per issued ordinary share and if applied to net asset value per share at 30 June 2002 would reduce the latter to £13.08. On a diluted basis, allowing for conversion of the Group's convertible loan stock, this adjustment reduces to 31.6 pence per share. However, the Group has no obligation or present intention to repay its Debenture and Convertible borrowings other than at maturity, when they will be repaid at par. Cash outflows arising from these borrowings will be limited to the future fixed interest payments and redemption at par. These outflows are unaffected by the notional market or fair values referred to above.

9. Interim Statement

Copies of this statement will be dispatched to shareholders on Monday 12 August 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 new and emerging businesses in Greater London and the Home Counties.

Directors

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