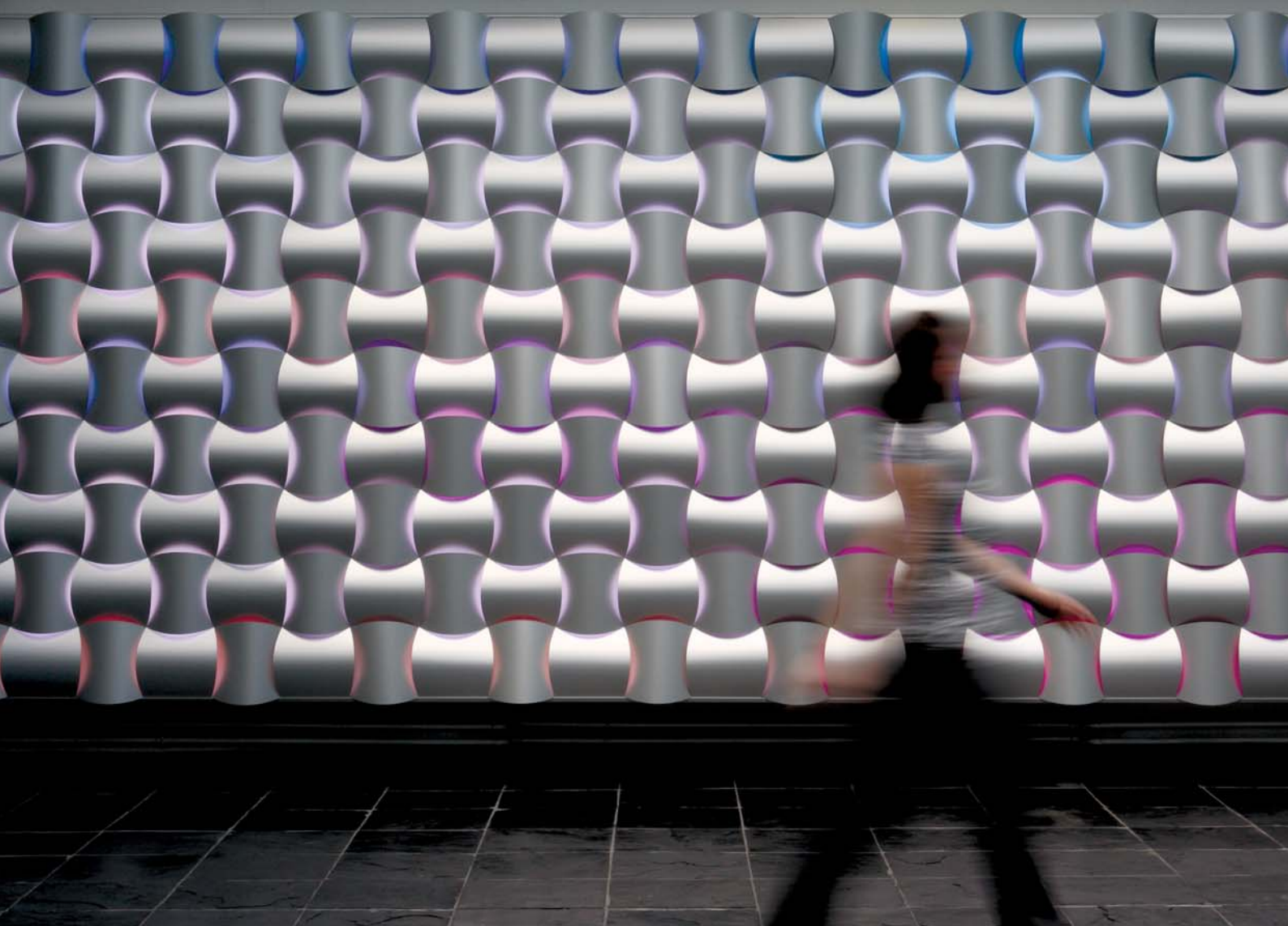




Workspace Group

Workspace Group PLC

Quarterly Report for the three months ended 30 June 2008



Performance Highlights

Results for the quarter ended 30 June 2008

Operating

- Good growth in revenue up 9.3% on prior year
- Net rental income £12.1m up 2.5% on prior year, adversely impacted by an increase in empty rates cost of £0.4m
- Total rent roll £52.2m up 8.2% on prior year. Like-for-like rent roll flat in the quarter
- Like-for-like occupancy 87.4%. Overall occupancy 84.1%, down 1.7% in quarter and on prior year
- Enquiry levels remain strong

Valuation

- Property valuation £954m, down 4.0% in the quarter
- Total reversionary yield 8.1%, out 44bps in the quarter and 163bps over last year
- Equivalent yield 7.3% (6.9% at March 2008)
- Estimated rental value £77.3m, up 1.6% in the quarter
- Initial yield on like-for-like properties 6.0% (5.7% at March 2008)
- Diluted adjusted NAV per share 285p, down 8.4% in the quarter

Financial

- Trading profit before interest and share of joint venture profits/losses £9.5m (2007: £9.4m)
- Trading profit £2.1m (2007: £2.7m)
- Loss before tax £45.0m after property valuation reduction

Notes:

- (1) Core property portfolio comprises 107 estates, 93 like-for-like properties and 14 undergoing redevelopment/refurbishment or recently acquired.
- (2) Trading profit represents net rental income less administrative expenses, interest costs and share of joint venture trading profits/losses.

Operating and Financial Review

Chairman's Statement

The UK economic outlook continues to be challenging. We are experienced in managing through difficult times and are taking action to maintain occupancy levels, improve rents and preserve operational cashflow. We are a highly customer focused operation which allows us to be in touch, alert and proactive to market changes and customer sentiment.

Property yields over which we have no control have continued to move out in the quarter in line with the wider commercial property market. This is reflected in the 4% reduction in the valuation.

Chief Executive's Statement

In this environment we are focusing on customer retention, ensuring that occupancy levels remain high and minimising non-essential capital expenditure and discretionary spend.

The demand for space from small and medium-sized enterprises (SMEs) has remained strong throughout the quarter. Enquiries averaged 875 per month over the three months, with 110 deals converted per month, (34 renewals and 76 new deals per month). Our level of conversions to lettings from enquiries is unchanged and the rents we are achieving are generally ahead of our reversionary rental levels. We have seen no significant increase in bad debt levels.

Occupancy levels remain around our targeted level, with like-for-like occupancy of 87.4% as at 30 June 2008. As you would expect, we have seen an increase in the level of churn and notices to vacate over the last three months. Further, the time taken to complete new deals is taking longer. This has impacted on the volatility of occupancy levels at estates across the portfolio. An analysis of the trend in occupancy is set out below:

	No. of Estates	June 2008	Occupancy March 2008	June 2007
Like-for-like properties	93	87.4%	89.3%	89.1%
Refurbishments/developments	7	68.4%	67.2%	63.7%
Acquisitions, in last 12 months	7	68.6%	73.9%	–
Total	107	84.1%	85.8%	85.8%

Progress on more recently refurbished sites is set out below:

	Completion date	Occupancy June 2008	March 2008
Greville Street	June 2007	73%	64%
Lombard House	June 2007	58%	46%
Canterbury Court, Kennington	January 2008	64%	61%

Refurbishment at Neil House which we acquired in October 2007 was completed on 11 July 2008 at a total cost of £1.3m, and the refurbished floors are now being let out.

Operating and Financial Review

continued

Like-for-like rent roll at the end of June 2008 was £46.4m, up 6.5% over the year but flat in the quarter.

	Rent roll at 30 June 2008	3 months change	6 months change	12 months change
Annual rent roll – like-for-like	£46.4m	0.0%	+2.5%	+6.5%
Annual rent roll – total	£52.2m	-0.7%	+2.0%	+8.2%

The reduction in total rent roll in the quarter resulted from planned customer vacations at the Chester and Cranmer buildings on the Kennington estate which will be subject to minor refurbishment prior to being relet at targeted higher rents later in the financial year.

Valuation

As in previous quarters a property portfolio valuation was undertaken independently by our valuers CB Richard Ellis (CBRE). This has resulted in a net overall reduction of £39m in the quarter. A summary of the movements in our portfolio value for the quarter is set out below:

	£m
Valuation at 31 March 2008	993
Property acquisitions (including fees)	4
Capital expenditure on properties	3
Valuation deficit	(46)
Valuation at 30 June 2008	954

The valuation includes only £13m of alternative use potential at 30 June 2008 (down from £21m at March 2008) representing less than 1.5% of the total valuation. At 30 June 2008 the yields on the portfolio were:

	Total	Like-for-like
No. of estates	107	93
Initial Yield	5.5%	6.0%
Equivalent Yield (based on 90% occupancy)	7.3%	7.3%
Reversionary Yield	8.1%	8.1%

Total reversionary yield has softened by 44 bps in the last quarter, 91 bps over the last six months and 163 bps over the last year.

Offsetting the softening in yields there has been growth in estimated rental values (ERVs), although growth in the quarter has been modest at 1.6%. Growth has slowed significantly compared to previous quarters with the focus now on occupancy and customer retention.

	ERV at 30 June 2008	3 months	6 months	12 months
ERV growth	£77.3 m	+1.6%	+7.2%	+16.3%

Operating and Financial Review

continued

Redevelopment update

While near-term opportunities for intensification of use are more limited in the current market environment we continue to progress planning options, change of use and refurbishment plans across the portfolio where timescales make this sensible. All projects have been reviewed to ensure that expenditure is minimised. No major refurbishments are planned during the current financial year.

We have received, since the quarter end, planning consent for a 17,000 sq ft extension to our existing 76,000 sq ft business centre at The Lightbox, Chiswick.

Acquisitions and Disposals

The first phase of the acquisition of International House, Brentford, (to be rebranded as Q West) was completed on 30 June 2008 for £4m and will be available for letting from September. The contracts for the purchase of this new 49,000 sq ft business centre were exchanged in June 2007 for £9.4m. The first phase represents the release of 21,000 sq ft of space with the second phase expected to complete in the second half of 2009. We believe this is an attractive asset, well located adjacent to the Great West Road (A4) in West London, acquired at a capital cost of some £190 per sq ft.

No other acquisitions are anticipated in the immediate future, although we continue to believe there will be good buying opportunities over the next two years.

No disposals took place in the quarter to 30 June 2008, although some are planned in the second quarter.

Operating and Financial Review

continued

Trading Performance

The consolidated income statement is set out on page 9 of this report. A more detailed analysis of trading performance split between like-for-like properties and other properties (comprising recent acquisitions and refurbishments/redevelopments) is set out below:

	3 months to 30 June 2008			3 months to 30 June 2007
	Like-for-like	Other	Total	Total
No of properties	93	14	107	101
	£m	£m	£m	£m
Net rental income	10.9	1.2	12.1	11.8
Administrative expenses	(1) (2.3)	(0.3)	(2.6)	(2.4)
Trading profit before interest	8.6	0.9	9.5	9.4
Interest	(2) (5.8)	(1.3)	(7.1)	(6.7)
Share of joint venture loss	–	(0.3)	(0.3)	–
Trading profit	2.8	(0.7)	2.1	2.7
Change in fair value of investment properties and derivative financial instruments			(48.0)	22.6
Share of joint venture tax			0.9	(0.4)
Group (loss)/profit before tax			(45.0)	24.9

(1) Administrative expenses have been apportioned on a pro-rata basis to net rental income.

(2) Interest has been apportioned on a pro-rata basis to the valuation of properties at 30 June.

The main features of operating performance in the current quarter have been:

- Good growth in revenue up 9.3% compared to the June 2007 quarter.
- Net rental income £12.1m up 2.5% on prior year adversely impacted by a £0.4m increase in rates from the changes to empty rates legislation.
- Interest costs up by £0.4m on borrowings of £445.9m at 30 June 2008 (30 June 2007: £380.9m). The average interest cost in the quarter was 6.4% (2007: 6.8%).
- Total capital expenditure in the quarter was £3m (2007: £5.7m), £1.1m on like-for-like properties and £1.9m on refurbishments.

Operating and Financial Review

continued

Net Assets and Financing

Net assets have fallen in the quarter by £40m to £497m largely as a result of the net revaluation reduction of £39m. Diluted net asset value (NAV) per share of £2.85 is 8.4% down in the 3 months and 18.3% down over 12 months.

The Group's borrowing facilities at 30 June 2008 were £499m with unutilised borrowing capacity of £53m. The maturity of the facilities is summarised below:

	Facilities 30 June 2008 £m
Repayable between 4-5 years	150
Repayable between 2-3 years	270
Repayable in less than 1 year	79
	499

The Group's borrowings are currently hedged by a £150m fixed rate swap at 5.4%, and £210m of interest rate collars, capped at rates between 6.95% and 8.0%.

Glebe JV

Occupancy levels at our joint venture properties are stable at 80.0% (79.8% at March 2008) with rent roll growing 3.3% in the quarter to £7.4m. The property valuation fell by 3.9% to £163m with the reversionary yield softening by 40 bps to 7.0%.

Outlook

To date the level of customer enquiries and conversions has been strong and our newly refurbished properties are letting up well. We have seen an increase in customer churn and vacations but are still targeting to maintain occupancy at our like-for-like estates around the 90% level.

Commercial property yields have weakened in the first quarter and based on the further yield movements already reported in the sector for July we expect our yields to soften in the second quarter.

The fundamental strengths of the Company's business model are unchanged. We have an excellent portfolio of properties based in and around London, benefiting from London's position as a global hub for business and culture, providing space to the small business sector servicing this economy.

Operating and Financial Review

continued

Key Statistics

	Quarter ending 30/06/2008	Quarter ending 31/03/2008	Quarter ending 31/12/2007	Quarter ending 30/09/2007	Quarter ending 30/06/2007
Workspace Group directly owned portfolio					
Number of estates	107	106	106	104	101
Lettable floorspace (million sq ft)†	5.2	5.2	5.0	5.0	4.9
Number of lettable units	4,642	4,611	4,522	4,441	4,394
ERV	£77.3m	£76.1m	£72.1m	£69.3m	£66.5m
Initial Yield**	5.5%	5.3%	5.1%	4.8%	4.7%
Reversionary Yield*	8.1%	7.7%	7.2%	6.7%	6.5%
Net annual rent roll of occupied units	£52.2m	£52.6m	£51.1m	£49.5m	£48.2m
Average annual rent per sq ft	£12.03	£11.88	£11.80	£11.54	£11.47
Overall occupancy	84.1%	85.8%	86.2%	86.4%	85.8%
Like-for-like lettable floor space (million sq ft)	4.3	4.3	4.3	4.3	4.3
Like-for-like net annual rent roll	£46.4m	£46.4m	£45.3m	£44.4m	£43.5m
Like-for-like average annual rent per sq ft	£12.46	£12.19	£11.85	£11.57	£11.46
Like-for-like occupancy	87.4%	89.3%	89.5%	90.0%	89.1%
Workspace Glebe joint venture portfolio					
Number of estates	18	18	17	16	15
Lettable floorspace (million sq ft)†	1.2	1.2	1.2	1.2	1.2
Number of lettable units†	867	866	866	823	813
ERV	£11.3m	£11.2m	£10.7m	£10.4m	£10.3m
Reversionary Yield*	7.0%	6.6%	6.6%	6.2%	6.3%
Net annual rent roll of occupied units	£7.4m	£7.2m	£7.2m	£7.8m	£7.9m
Average annual rent per sq ft	£8.03	£7.80	£7.64	£7.87	£7.77
Overall occupancy	80.0%	79.8%	81.7%	85.3%	87.7%
Financial Performance (£m)					
Net rental income	12.1	12.1	11.8	11.4	11.8
Trading operations – operating profit	9.6	9.2	9.7	11.0	9.7
Revaluation (reduction)/surplus	(46.1)	(8.9)	(50.8)	(8.8)	21.0
(Loss)/profit before taxation	(45.0)	(1.7)	(52.9)	(5.0)	24.9
Property valuation	954	993	1,002	1,035	1,028
Net assets	497	537	542	597	608
Net asset value per share (£)	£2.91	£3.13	£3.16	£3.48	£3.54
Diluted adjusted net asset value per share (£)	£2.85	£3.11	£3.13	£3.43	£3.49
Net rental income interest cover (cumulative)	1.70x	1.68x	1.66x	1.71x	1.76x
Trading interest cover (cumulative)	1.35x	1.41x	1.44x	1.52x	1.45x
Gearing (%)	90%	82%	81%	71%	63%
Loan to value (%)	47%	44%	44%	41%	39%
Available borrowing facilities (£m)	53	61	62	79	118

†Excludes storage space

* Based on ERV divided by valuation

** Based on Rent Roll divided by valuation

The like-for-like portfolio is defined as properties that have been held throughout a 12 month period and have not been subject to a refurbishment programme in the last 24 months.

Consolidated Income Statement

Audited Year ended 31 March 2008 £m	Notes	Unaudited 3 months ended 30 June 2008 £m	Unaudited 3 months ended 30 June 2007 £m
66.9	Revenue	17.6	16.1
(19.8)	Direct costs	(5.5)	(4.3)
47.1	Net rental income	12.1	11.8
(10.1)	Administrative expenses	(2.6)	(2.4)
(47.5)	Change in fair value of investment property	(46.1)	21.0
2.2	Other income	–	–
2.2	Profit on disposal of investment properties	–	–
(6.1)	Operating (loss)/profit	(36.6)	30.4
0.1	Finance income – interest receivable	–	–
(28.2)	Finance costs – interest payable	(7.1)	(6.7)
–	Change in fair value of derivative financial instruments	1.3	0.2
(2.8)	Share of joint venture post tax (loss)/profit	(2.6)	1.0
(37.0)	(Loss)/profit before tax	(45.0)	24.9
2.3	Taxation	–	–
(34.7)	(Loss)/profit for the period after tax and attributable to equity shareholders	(45.0)	24.9
(20.2)p	Basic earnings per share	(26.3)p	14.5p
(20.2)p	Diluted earnings per share	(26.3)p	14.3p

Consolidated Statement of Recognised Income and Expense (SORIE)

Audited Year ended 31 March 2008 £m	Unaudited 3 months ended 30 June 2008 £m	Unaudited 3 months ended 30 June 2007 £m
(34.7)	(Loss)/profit for the financial period	(45.0)
(2.9)	Fair value movement on derivatives	6.6
(37.6)	Total recognised income and expense for the period	(38.4)

Consolidated Balance Sheet

Audited 31 March 2008 £m		Notes	Unaudited 30 June 2008 £m	Unaudited 30 June 2007 £m
Non-current assets				
994.3	Investment properties	7	954.9	1,028.1
0.3	Intangible assets		0.3	0.3
3.2	Property, plant and equipment		3.1	3.3
15.7	Investment in joint venture	14	13.1	19.5
1,013.5			971.4	1,051.2
Current assets				
12.5	Trade and other receivables		13.2	11.0
–	Financial assets – derivative financial instruments		4.8	0.4
4.0	Current tax asset	9	4.0	–
2.5	Cash and cash equivalents		2.6	2.5
19.0			24.6	13.9
Current liabilities				
(63.4)	Financial liabilities – borrowings	8	(55.9)	(5.9)
(3.1)	Financial liabilities – derivative financial instruments		–	(0.4)
(31.5)	Trade and other payables		(30.1)	(34.8)
–	Current tax liabilities	9	–	(17.1)
(98.0)			(86.0)	(58.2)
(79.0)	Net current liabilities		(61.4)	(44.3)
Non-current liabilities				
(378.0)	Financial liabilities – borrowings	8	(393.0)	(378.0)
(0.2)	Deferred tax liabilities		(0.2)	(0.2)
(19.5)	Provisions	12	(19.5)	(20.9)
(397.7)			(412.7)	(399.1)
536.8	Net assets		497.3	607.8
Shareholders' equity				
17.4	Ordinary shares	13	17.4	17.4
30.8	Share premium	13	30.8	30.7
(4.5)	Investment in own shares	13	(5.7)	(2.7)
(0.9)	Other reserves	13	5.8	1.5
494.0	Retained earnings	13	449.0	560.9
536.8	Total shareholders' equity	13	497.3	607.8
£3.13	Net asset value per share (basic)	6	£2.91	£3.54
£3.11	Diluted adjusted net asset value per share	6	£2.85	£3.49

Consolidated Cash Flow Statement

Audited Year ended 31 March 2008 £m		Notes	Unaudited 3 months ended 30 June 2008 £m	Unaudited 3 months ended 30 June 2007 £m
Cash flows from operating activities				
41.6	Cash generated from operations†	10	8.8	9.2
0.1	Interest received		–	–
(30.2)	Interest paid		(9.3)	(6.8)
(18.9)	Tax (paid)/refunded		–	(0.2)
(7.4)	Net cash from operating activities		(0.5)	2.2
Cash flows from investing activities				
(31.3)	Purchase of investment properties		(4.0)	–
(18.7)	Capital expenditure on investment properties		(3.0)	(5.7)
10.4	Net proceeds from disposal of investment properties		–	–
(0.4)	Tax paid on disposal of investment properties		–	(0.4)
(0.2)	Purchase of intangible assets		–	–
(0.5)	Purchase of property, plant and equipment		–	(0.2)
(4.0)	Movement in short-term funding balances with joint venture†		1.4	0.6
(44.7)	Net cash from investing activities		(5.6)	(5.7)
Cash flows from financing activities				
0.1	Net proceeds from issue of ordinary share capital		–	–
57.6	Net proceeds from issue of bank borrowings		6.7	–
–	Net repayment of bank borrowings		–	(0.9)
(0.8)	ESOT shares net (purchase)/release		(1.2)	0.8
(0.1)	Finance lease principal payments		(0.1)	–
(7.3)	Dividends paid to shareholders		–	–
49.5	Net cash from financing activities		5.4	(0.1)
(2.6)	Net decrease in cash and cash equivalents		(0.7)	(3.6)
1.5	Cash and cash equivalents at start of period	11	(1.1)	1.5
(1.1)	Cash and cash equivalents at end of period	11	(1.8)	(2.1)

†Movement in joint venture funding now shown under investing activities. June 2007 comparatives amended to accord with this treatment.

Notes to the Quarterly Report

For the 3 months ended 30 June 2008

1. Analysis of net rental income

Year ended 31 March 2008				3 months ended 30 June 2008			3 months ended 30 June 2007		
Revenue	Direct	Net		Direct	Net	Revenue	Direct	Net	
£m	Costs	Rental	Revenue	Costs	Income	£m	Costs	Income	
	£m	Income	£m	£m	£m	£m	£m	£m	
51.4	(0.5)	50.9	Rental income	13.6	(0.1)	13.5	12.5	(0.1)	12.4
13.5	(18.2)	(4.7)	Service charges and other recoveries	3.6	(5.2)	(1.6)	3.2	(4.0)	(0.8)
			Services, fees, commissions and						
2.0	(1.1)	0.9	sundry income	0.4	(0.2)	0.2	0.4	(0.2)	0.2
66.9	(19.8)	47.1		17.6	(5.5)	12.1	16.1	(4.3)	11.8

The Group operates a single business segment, providing business accommodation for rent in London, which is continuing.

2. Other income

Year ended 31 March 2008 £m		3 months ended 30 June 2008 £m	3 months ended 30 June 2007 £m
2.2	Non-refundable option fees for potential sale of property	–	–
2.2		–	–

3. Profit on disposal of investment properties

Year ended 31 March 2008 £m		3 months ended 30 June 2008 £m	3 months ended 30 June 2007 £m
11.0	Gross proceeds from sale of investment properties	–	–
(10.2)	Book value at time of sale plus sale costs	–	–
0.8		–	–
1.4	Movement in provision for tax indemnity	–	–
2.2	Pre-tax profit on sale	–	–

Notes to the Quarterly Report

continued

4. Finance income and costs

Year ended 31 March 2008 £m		3 months ended 30 June 2008 £m	3 months ended 30 June 2007 £m
0.1	Interest income on bank deposits	–	–
0.1	Finance income	–	–
(27.9)	Interest payable on bank loans and overdrafts	(7.0)	(6.1)
(0.5)	Amortisation of issue costs of bank loans	(0.1)	(0.1)
(0.1)	Interest payable on finance leases	(0.1)	(0.1)
(0.5)	Interest payable on 11.125% and 11.625% Debenture Stock 2007	–	(0.6)
0.8	Interest capitalised on property refurbishments	0.1	0.2
(28.2)	Finance expense	(7.1)	(6.7)
–	Change in fair value of financial instruments through the income statement	1.3	0.2
(28.1)	Net finance costs	(5.8)	(6.5)

5. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share ownership trust (ESOT).

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares: those share options granted to employees.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

(Loss)/profit Year ended 31 March 2008 £m	Earnings per share Year ended 31 March 2008 pence		(Loss)/profit		Earnings per share	
			3 months ended 30 June 2008 £m	3 months ended 30 June 2007 £m	3 months ended 30 June 2008 pence	3 months ended 30 June 2007 pence
(34.7)	(20.2)	Earnings used for basic earnings per share	(45.0)	24.9	(26.3)	14.5
–	–	Share option scheme dilution	–	–	–	(0.2)
(34.7)	(20.2)	Total diluted earnings	(45.0)	24.9	(26.3)	14.3

In accordance with IAS 33 'Earnings per share' no calculation of dilution is made where it would have an anti-dilutive effect.

Year ended 31 March 2008 Number	Weighted average number of shares used for calculating earnings per share	3 months ended 30 June 2008 Number	3 months ended 30 June 2007 Number
171,397,941	Weighted average number of shares (excluding shares held in the ESOT)	171,234,917	171,548,826
2,318,044	Dilution due to Share Option Schemes	1,226,217	2,567,960
173,715,985	Used for calculating diluted earnings per share	172,461,134	174,116,786

Notes to the Quarterly Report

continued

6. Net assets per share

31 March 2008		30 June 2008	30 June 2007
£m	Net assets used for calculation of net assets per share	£m	£m
536.8	Net assets at end of period (basic)	497.3	607.8
3.3	Derivative financial instruments at fair value	(7.0)	–
(0.2)	Deferred tax on fair value change of investment properties	(1.7)	–
(0.1)	Deferred tax on derivative financial instruments	0.6	–
539.8	Adjusted net assets	489.2	607.8

Adjustments include amounts within Group's share of joint venture where applicable.

31 March 2008		30 June 2008	30 June 2007
Number	Number of shares used for calculating net assets per share	Number	Number
174,313,887	Shares in issue at period end	174,313,887	174,221,087
(2,937,951)	Less ESOT shares	(3,635,119)	(2,628,360)
171,375,936	Number of shares for calculating basic net assets per share	170,678,768	171,592,727
2,161,114	Dilution due to Share Option Schemes	1,208,446	2,567,960
173,537,050	Number of shares for calculating diluted adjusted net assets per share	171,887,214	174,160,687

7. Investment properties

31 March 2008		30 June 2008	30 June 2007
£m		£m	£m
1,001.6	Balance at beginning of period	994.3	1,001.6
49.6	Additions during the period	6.6	5.3
0.8	Capitalised interest on refurbishments	0.1	0.2
(10.2)	Disposals during the period	–	–
(47.5)	Change in fair value of investment property	(46.1)	21.0
994.3	Balance at end of period	954.9	1,028.1

Valuation

The Group's investment properties were revalued at 30 June 2008 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had both acted knowledgeably, prudently and without compulsion.

Notes to the Quarterly Report

continued

The reconciliation of the valuation report to the total shown in the Consolidated Balance Sheet as non-current assets, investment properties, is as follows:

31 March 2008 £m		30 June 2008 £m	30 June 2007 £m
993.2	Total per CB Richard Ellis valuation report	953.9	1,027.6
(2.7)	Owner occupied property	(2.7)	(2.7)
4.1	Head leases treated as finance leases under IAS 17	4.0	3.6
(0.3)	Short leases valued as head leases	(0.3)	(0.4)
994.3	Total per balance sheet	954.9	1,028.1

8. Financial liabilities – borrowings

31 March 2008 £m		30 June 2008 £m	30 June 2007 £m
63.4	Current liabilities	55.9	5.9
378.0	Non-current liabilities	393.0	378.0
441.4		448.9	383.9

Maturity:

31 March 2008 £m		30 June 2008 £m	30 June 2007 £m
Secured (excluding finance leases)			
63.4	Repayable in less than one year	55.9	5.9
–	– Repayable between one year and two years	–	–
225.0	Repayable between two years and three years	240.0	150.0
–	– Repayable between three years and four years	–	225.0
150.0	Repayable between four years and five years	150.0	–
438.4		445.9	380.9
(1.1)	Less cost of raising finance	(1.0)	(0.6)
437.3		444.9	380.3
Finance leases (part secured)			
4.1	Repayable in five years or more	4.0	3.6
441.4		448.9	383.9

9. Current taxes

31 March 2008 £m		30 June 2008 £m	30 June 2007 £m
4.0	Current tax asset	4.0	–
–	– Current tax liabilities	–	17.1

The liability at 30 June 2007 included the REIT conversion charge of £18.8m which was paid on 14 July 2007. The Group currently has a tax debtor of £4.0m which represents the recovery of tax paid in previous years.

Notes to the Quarterly Report

continued

10. Notes to cash flow statement

a) Reconciliation of profit for the period to cash generated from operations:

Year ended 31 March 2008 £m	3 months ended 30 June 2008 £m	3 months ended 30 June 2007 £m
(34.7) (Loss)/profit for the period	(45.0)	24.9
(2.3) Tax	–	–
0.6 Depreciation	0.1	0.2
0.1 Amortisation of intangibles	–	–
(2.2) Profit on disposal of investment properties	–	–
47.5 Change in fair value of investment property	46.1	(21.0)
0.4 Share based payments	0.1	–
– Fair value changes on financial instruments	(1.3)	(0.2)
(0.1) Interest income	–	–
28.2 Interest expense	7.1	6.7
2.8 Share in joint venture post tax loss/(profit)	2.6	(1.0)
Changes in working capital:		
(0.5) Increase in trade and other receivables	(2.3)	(2.7)
1.8 Increase in trade and other payables	1.4	2.3
41.6 Cash generated from operations	8.8	9.2

11. Reconciliation of cash and cash equivalents:

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

31 March 2008 £m	30 June 2008 £m	30 June 2007 £m
– Cash at bank and in hand	–	–
2.5 Restricted cash – tenants' deposit deeds	2.6	2.5
(3.6) Bank overdrafts	(4.4)	(4.6)
(1.1)	(1.8)	(2.1)

12. Provisions

31 March 2008 £m	30 June 2008 £m	30 June 2007 £m
20.9 Balance at start of period	19.5	20.9
(1.4) Provision for tax indemnity	–	–
19.5 Balance at end of period	19.5	20.9

On the formation of the joint venture in 2006 with Glebe (which was created by a merger and so triggered no tax liabilities) the Group gave an indemnity that should a tax liability arise in the future on the disposal of any of the properties that have been transferred, then the Group would pay to the joint venture a proportion of the liability based on the pre-merger gain. An appropriate provision under current tax law has been made for this liability.

Notes to the Quarterly Report

continued

13. Statement of changes in shareholders' equity

31 March 2008		Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	30 June 2008 Total equity £m	30 June 2007 Total equity £m
582.6	Balance at start of period	17.4	30.8	(4.5)	(0.9)	494.0	536.8	582.6
0.1	Share issues	–	–	–	–	–	–	–
(1.7)	ESOT shares net (purchase)/release	–	–	(1.2)	–	–	(1.2)	0.1
(7.3)	Dividends paid	–	–	–	–	–	–	–
0.7	Value of employee services	–	–	–	0.1	–	0.1	0.2
(2.9)	Fair value movement on derivatives	–	–	–	6.6	–	6.6	–
(34.7)	(Loss)/profit for the period	–	–	–	–	(45.0)	(45.0)	24.9
536.8	Balance at end of period	17.4	30.8	(5.7)	5.8	449.0	497.3	607.8

On 13 June 2008 the Employee Share Ownership Trust (ESOT) made a market purchase of 697,168 shares in the Company for a cash consideration of £1.2m.

14. Joint Venture

Workspace Group PLC holds 50% of the ordinary share capital of a joint venture company, Workspace Glebe Limited. Its interest in this joint venture has been equity accounted.

The Group's share of amounts of each of current assets, long term assets, current liabilities and long term liabilities, income and expenses are shown below:

Assets and liabilities:

31 March 2008 £m		30 June 2008 £m	30 June 2007 £m
81.9	Investment properties	78.6	79.2
1.3	Current assets	5.1	4.3
83.2	Total assets	83.7	83.5
(2.7)	Current liabilities	(4.7)	(2.2)
(64.8)	Non-current liabilities	(65.9)	(61.8)
(67.5)	Total liabilities	(70.6)	(64.0)
15.7	Group share of joint venture net assets	13.1	19.5

Income and expenses:

Year ended 31 March 2008 £m	3 months ended 30 June 2008 £m	3 months ended 30 June 2007 £m
5.0 Revenue	1.2	1.3
(1.3) Direct costs	(0.4)	(0.3)
3.7 Net rental income	0.8	1.0
(0.1) Administrative expenses	–	–
(2.0) Change in fair value of investment property	(5.6)	(0.1)
(3.9) Finance costs – interest payable	(1.1)	(1.0)
(1.5) Change in fair value of derivative financial instruments	2.4	1.5
(3.8) (Loss)/profit before tax	(3.5)	1.4
1.0 Taxation	0.9	(0.4)
(2.8) (Loss)/profit after tax	(2.6)	1.0

15. Basis of preparation

The financial information reflects the current versions of the standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as currently adopted by the European Union.

The Group's accounting policies are unchanged from those set out in the Annual Report and Financial Statements for the year ended 31 March 2008 and have been applied in preparing the financial information contained in this report.

This report was approved by the Board on 11 August 2008.

This report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year to 31 March 2008, which were prepared under IFRS have been delivered to the Registrar of Companies. The auditors' opinion on those financial statements was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985.

16. Quarterly Report

Copies of this statement will be dispatched to shareholders on 11 August 2008 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London, E1 1DU and on the Group's website www.workspacegroup.co.uk from 9.00am on that day.

17. Glossary of Terms

A full glossary of terms used within this report is included in the Group's Annual Report and Accounts 2008, available on the Group's website www.workspacegroup.co.uk.

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Workspace Group