Workspace Group

Annual report and accounts 2000

Workspace Group PLC

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Workspace Group

Workspace Group specialises in supplying good value, small-unit accommodation for rent on user-friendly terms, principally to small and medium-sized enterprises (SMEs). The SME sector is a vibrant and growing marketplace. The Group encourages urban regeneration and co-operation between the private and public sectors. At the same time it produces an attractive financial return for its shareholders.

Founded in July 1987, Workspace Group now owns 94 estates valued at £312.4m and comprising almost 6m sq ft providing accommodation for nearly 3,000 small businesses in London, the South East and the Midlands.

Workspace Group views its tenants as valued customers who have chosen the Group because of the location and quality of the service it provides. Efficient in-house management and marketing of its estates enables Workspace Group to offer a superior service, to create high levels of occupancy, and to improve rental levels. The addition of other essential business services, insurance for example, complements this offer.

The Group selects its property acquisitions with care. It prefers to buy the freehold or long-leasehold interest of properties which have scope for improvement. This enables it to reap the long-term benefit generated through its management. Its success in these aims has led to buoyant revenues, rising capital values and a high total return to shareholders.

For more information about Workspace Group visit our website: www.workspacegroup.co.uk

Workspace Group: the year at a glance

- Turnover up 28.9% to £29.3m
- Profit before tax on trading activities up 19.5% to £8.3m
- Earnings per share on trading activities up 20.4% to 40.2p
- Net asset value per share up 32.4% to £9.04
- Ordinary dividend up 10.5% to 21p
- Annual rent roll at year end up 48.9% to £25.9m
- Uplift on revaluation of properties 11.4%, producing a surplus of £31.2m
- Net investment in property £87.1m

Five-year summary 1996–2000

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Rent receivable	**23.4**	18.2	16.6	13.5	11.2
Service charges and other income	**5.9**	4.5	4.6	3.6	2.8
Turnover	**29.3**	22.7	21.2	17.1	14.0
Profit before taxation	**8.8**	8.3	6.3	4.8	4.2
Profit after taxation	**6.5**	6.5	4.9	3.8	3.3
Profit before taxation (on trading operations)	**8.3**	7.0	5.6	4.8	4.2
Earnings per ordinary share (pence)	**41.6p**	41.2p	31.3p	24.7p	21.3p
Earnings per share on trading operations (pence)	**40.2p**	33.4p	27.0p	24.7p	21.3p
Dividends per ordinary share (pence)	**21.0p**	19.0p	17.0p	15.0p	13.0p
Properties at valuation	**304.2**	186.0	161.3	125.6	103.8
Less net liabilities	**(6.4)**	(11.7)	(5.8)	(7.6)	(12.9)
Less: long-term indebtedness	**(154.8)**	(65.9)	(72.5)	(53.3)	(37.6)
Net assets	**143.0**	108.5	83.0	64.6	53.3
Net assets per ordinary share	**£9.04**	£6.83	£5.23	£4.17	£3.44

Chairman's statement

This has been another year of significant progress by Workspace Group. It has again delivered an excellent performance in its profits, earnings and net asset value growth and in share price performance. The Group continues to demonstrate its ability to add value through its active management.

My first year as Chairman saw strong growth from our portfolio. Over the last five years our earnings per share has increased by 105.9%, a compound annual growth of 15.5%, and our net asset value per share by 170.9%, a compound annual growth of 22.1%. This performance is amongst the best in the sector and has been driven by the Group's longstanding strategy of providing workspace for the small and medium-sized enterprises (SMEs) market, actively managing our properties, adding value to our offering and concentrating on London and the South East.

Results

The Group has this year produced another set of record financial results. Rental income during 1999/2000 was £23.4m, up 28.5% on the previous year, whilst turnover was up 28.9% to £29.3m. These increases were attributable to both rental growth and the contribution from the Tonex portfolio reported on below. Profits before tax from trading operations increased by 19.5% to £8.3m and earnings per share by 20.4% to 40.2p. The value of the Group's portfolio increased by £118.3m or 63.6%. Of this, £87.1m arose from new net investment and £31.2m from increases on revaluation. This has been reflected in an increase of 32.4% in net asset value per share to £9.04.

Comparing your Company to the external yardstick of the Investment Property Databank (IPD) shows an ungeared total return for our portfolio of 24.9% against the IPD All-Fund performance of 15.2%. This outperformance is a consistent feature whether measured over one, three or five years reflecting the long-term benefits of the Group's active management approach.

Highlights of the year

This has been an exciting year. In July 1999 we completed the purchase of the Tonex portfolio of 23 estates for a consideration of £74.7m, enlarging our portfolio by 40%. Details of this acquisition were included in a circular to shareholders last June. Twenty-one of the properties are in London, our main area of operation, the others being in the South East and the Midlands where we already have a significant presence. This portfolio plays to our strengths not just in terms of location but in the rental growth opportunities available to our style of active management. The average estimated rental value at the time of acquisition was £4.82 per sq ft, compared with an average of £8.54 per sq ft for our similar types of property. The management team has set about the challenge with some relish. Some disposals have been made, development and improvement opportunities identified and rents uplifted by 31p per sq ft by the year end. This was an excellent acquisition and one that will provide significant benefits to shareholders for some years to come.

770 lettings were achieved in the year. Of these two are exceptional. Firstly the whole of 1-10 Union Street, Southwark, was let to J Sainsbury for a rental of £2m per annum, subject to completion of a major refurbishment. Secondly, the whole of the office space at the recently refurbished and extended Ensign Court on the fringe of the City of London was let to News International, taking the total rent of this property to £411,000 per annum compared with £95,000 prior to its refurbishment. Both of these major lettings are a direct result of the broad vision the Company brings to making the best use of its portfolio. I am confident that further added-value opportunities will be created in the future.

Dividend

A final dividend of 15p, making 21p for the year, an increase of 10.5% over last year, is recommended by the Board. This is in keeping with its policy of increasing the dividend by a margin above the rate of inflation. Dividends are covered 1.91 times by post tax operating profits, excluding other items.

Board and staff

I was delighted to be invited by the Board to succeed Alan Porter as Chairman on his retirement last September. Alan led the Company from its formation in 1987, taking it from its small innovative beginnings to being one of the leaders in our sector. He left with our thanks and best wishes for what will no doubt be a long and very active retirement. I have served as a Non-executive Director since 1992 and my role as Chairman will be a non-executive one. As a result, Harry Platt became Chief Executive on 1 October last year. I am pleased to welcome Dr Christopher Pieroni, of property advisers Colliers Conrad Ritblat Erdman, as a Non-executive Director of the Company.

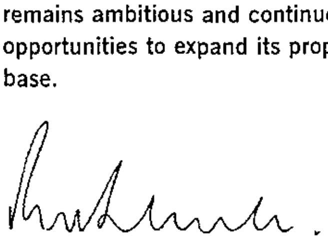
Shareholders will be aware from previous reports that the success of Workspace Group is very much due to the efforts of the whole team. This has been strengthened since the Tonex purchase and our new members have been rapidly integrated into the business and in turn have brought with them fresh ideas. My thanks go to everyone – staff and Board – for their efforts during what has been a year of substantial progress.

Prospects

Workspace Group has always concentrated on providing accommodation and services for the small and medium-sized enterprises market. There are some 1.2m SMEs employing up to 50 people and they are a vibrant and resilient group. They represent a very large market, one that is dynamic and growing. Meeting the needs of this market requires an equally dynamic company for consistent success – and Workspace Group has achieved that.

We have an increasingly dominant position in London, the area of greatest growth for our market, and our offering is clearly relevant to today's SMEs. It is particularly pleasing to note how many of our newer tenants are part of the new economy. By continuing to focus on the SME market, extracting best value from our portfolio either from the reversionary rental opportunity that exists, or from development and alternative use potential, we shall continue to add value for our shareholders.

Our progress has continued into the new year. There remains excellent scope for both rental and capital growth from our portfolio. Your Company remains ambitious and continues to seek opportunities to expand its property and tenant base.



Phillip Rhodes
Chairman

Operating review: adding value

"Demand for the Group's product remains strong – and its principal operating locations vibrant – promising continued growth in rent, earnings and assets. With much of its portfolio in improving locations there continue to be opportunities for the Group to secure added value from the alternative use and refurbishment of many of its properties."

Harry Platt, Chief Executive

Key events

Three major events in the year stand out: the acquisition of the Tonex portfolio in July 1999; the related financing of this transaction and the letting of 1-10 Union Street to J Sainsbury.

In July 1999 the Group acquired a portfolio of 23 estates (the Tonex portfolio), with over 800 lettable units and a floor area of almost 2m sq ft, for £74.7m. Linked with the acquisition was the deferred purchase in January 2001, following settlement of a rent review, of a further property in London for a consideration of £6.5m plus an overage payment based upon the rent to be settled on review at that time.

The portfolio fits well with the Group's holdings. The properties and their use are similar to the Group's existing portfolio, namely multi-let properties occupied principally by small to medium-sized enterprises (SMEs). Twenty-one of the estates are located in London. Over 40% of the portfolio, by value, is located in central London, much of this near to the route of the new Jubilee Line extension in areas likely to see economic uplift over the immediate future. Overall, the acquisition improved the Group's penetration of the key London market and it now holds the largest portfolio of workspace properties let to SMEs in London.

The acquisition offered particular scope for adding value through both improvement of rental levels at certain properties and selective disposals of others. The average rental of the portfolio at acquisition was £4.13 per sq ft compared with an Estimated Rental Value (ERV) at that stage of £4.82 per sq ft and a comparable average value for Workspace's existing similar estates of £8.54 per sq ft. By 31 March 2000 the average rental of retained properties had increased to £4.44 per sq ft, an uplift on a like-for-like basis of 8.6% over the eight months of ownership, with the average ERV increasing by 10.8% to £5.47 per sq ft leaving more to go for. At the same time four properties regarded as having limited growth potential, or where there was substantially better alternative use potential together with some vacant land, were sold for £3.93m, yielding 20.8% over the aggregate purchase cost of these properties.

At 31 March 2000 the remaining acquired properties were valued at £82.1m by Insignia Richard Ellis, an uplift of 8.5% over the book cost of these properties.

The purchase of the Tonex portfolio was financed entirely by debt. At the same time part of the Group's existing loan facilities was refinanced. This enabled the construction of a £122m facility in anticipation of a refinancing via a commercial paper programme, which in turn it is proposed will be covered by a bond issue. This route was selected by the Company since it offered the key advantage of certainty of availability of finance to complete the purchase without diluting existing shareholders' equity. Use of the securitisation route provided other advantages in loan covenants and other terms, whilst providing a further platform for financing the Group's activities in the future. Full details of the financing are included in the Financial Review.

The third landmark event of the year was the letting of 1-10 Union Street to J Sainsbury. This vacant former Royal Mail sorting office was originally acquired in April 1998 with the intention of refurbishing it and creating a further business centre in Southwark following the Group's success with the nearby Leathermarket. Recognising the improving fortunes of the area, and in parallel with negotiations of the necessary planning approvals for the development of a business centre, the property was also marketed for sole occupancy. J Sainsbury agreed to take the property on a 15-year lease at an initial rental of £2m per annum, subject to the completion of certain refurbishment works. An agreement for lease was exchanged in September 1999. Fuller details of the letting to and the development agreement with J Sainsbury and of the project finance package are given later. The Group's ambitions for a new business centre in the Southwark area were fulfilled by the acquisition of the Great Guildford Business Square as part of the Tonex acquisition.

Our market place

We focus our activities on London, the South East and the Midlands where 60% of the UK's 1.2m small and medium-sized enterprises (SMEs) are based and where business is forecast to continue to grow.

Since we currently accommodate almost 3,000 of these 650,000 businesses, it is clear that there is enormous potential for Workspace Group to continue to acquire more properties and tenants without even beginning to approach saturation point.

Adding value through management

Our new customers are often people looking to move from a back room environment to more formal business premises. Many of them will, in time, relocate within our portfolio as their need for space increases. Churn – the formation, expansion, reduction and closure of business – is an important aspect of the SME market; it provides new tenants, relocates others, and creates a continuing opportunity to increase rents. Our property management operations – letting, estate management, credit control – are all undertaken in-house and are attuned to the flexibility needed in this market place. This enables us to foster close contact with our tenants, to monitor changes in the market, and to maintain exacting standards. We try to work closely with our tenants; to understand and be responsive to their needs. This is reflected in our flexible leasing approach and through a combination of focus groups, entry and exit interviews and active centre management.

In many of the locations in which the Group operates the introduction of competing workspace is constrained either by low rental values which are unable to support development or by high alternative use values for land.

During the year under review 3,858 enquiries for space were received in London and 807 in the Midlands. The principal generators of enquiries continued to be estate signboards and referrals from existing tenants. Following the Tonex portfolio acquisition and the rebranding of the properties, an immediate uplift in enquiry levels was noted in the London region. These enquiries are valuable not only as a source of lettings but also as indicators of levels of activity within the SME sector and industry sub-sectors, essential for the effective adjustment of the Group's offering to current and emerging demand areas. By operating in the economically vigorous SME market and continuously monitoring both its tenant profile and that of its enquirers, the Group is able to target emerging "value-adding" businesses – those best able to pay improving rents.

Occupancy, turnover and rent

Occupancy of core properties (those held throughout the year and not subject to redevelopment) remained steady at around 92%, which the Group regards as effective full occupancy. Low vacancy rates and continuing high levels of enquiries have aided rental review programmes and improved rentals on re-lettings (approximately 40% of the Group's portfolio is subject to rental review or re-letting each year).

With the progress in letting up space at properties subject to development, principally Ensign Court, the overall occupancy levels in London and the South East improved from 85.1% to 86.1%. Occupancy levels in the Midlands also improved from 93.0% to 94.2%, with those on the Tonex portfolio remaining at 85% (the level at the time of acquisition). This latter statistic disguises the real level of activity at these newly acquired properties where as a result of tenant churn not only has the quality of the income stream improved but also an uplift of 8.6% (on a like for like basis) in rentals was achieved over the eight months since acquisition.

Rents have again increased strongly throughout the year. Average rentals of the core portfolio held at 31 March 2000 increased by 8.3% (1999: 5%) during the year, from £6.00 per sq ft to £6.50. The principal increases continued to be in London and the South East where the average rent per sq ft of the core portfolio rose by 12.5% (1999: 5.5%) from £6.87 to £7.73. The rolling rent review and lease renewal programme continued and in 1999/2000 impacted on 13.4% of the opening rent roll. The uplift achieved during the year of £0.47m on reviews and renewals represents a 20.0% increase on previous passing levels. High levels of occupancy, improvements in average rent and the increase in size of the portfolio have all contributed to the 28.9% increase in turnover during the year.

Local market presence, attentive in-house management and constant monitoring of occupancy and rental income gives the Group an unparalleled understanding of its market.

Operating review

Adding value through acquisition

Acquisitions and disposals

During the year the Group invested £77.0m in new properties. The majority of this was in the £74.7m acquisition of the Tonex portfolio. The remaining £2.3m was invested in the Sugarhouse Business Centre, the Shaftesbury Business Centre and in a small plot of land at Brook Road, Redhill. All these properties are adjacent to existing investment properties held by the Group (3 Mills Studios, Pall Mall Deposit and Hooley Lane respectively).

The Tonex acquisition represented a major opportunity for the Group. The portfolio was well known to the Company, having monitored its performance and progress for some time. With its strong London and South East presence and focus on short-term lettings to SMEs, the properties and their use were closely allied to the Group's existing holdings. Our knowledge of the market and the portfolio greatly reduced the customary risks associated with such a large acquisition and enabled us to move quickly when it became available. This acquisition followed the pattern of a number of previous acquisitions where vendors seeking an off-market sale recognised Workspace Group's ability to assess and complete transactions quickly.

The Tonex properties themselves, whilst generally sound and located well, had not been improved to the standard operated elsewhere within the Group's portfolio. They offer considerable scope for improvement through a rolling programme which will add considerably to the reversionary rental potential of the portfolio.

During the year six properties, together with a parcel of land at one further property, were sold. Two of the sales, Westgate and Malham Road, were properties held at 31 March 1999 but which had limited growth potential. These were sold for an aggregate sum of £1.51m and an excess of £0.10m (7.1%) over valuation at 31 March 1999. The other four properties and land parcel were part of the Tonex portfolio and realised an aggregate sum of £3.93m, an excess of £0.67m (20.8%) over cost.

The Group has identified a number of other sites where there is potential for added value through conversion to residential/live-work, retail or leisure uses and where disposals in due course might occur. In addition to these potential opportunities there are a number of opportunities to add value by extending, upgrading or converting existing properties to produce additional workspace for letting to SMEs. Through these schemes and the recycling of capital released on disposals, the Group is able to enhance shareholders' interests without recourse to new capital.

In July 1999 a fire completely destroyed the Group's property at Ferry Lane, Rainham. Subsequently the Group's claim was settled with insurers at £1.55m. The property was valued at £0.94m at 31 March 1999 and the cleared site at £0.45m at 31 March 2000. Allowing for costs of clearing the site and settling compensation with existing tenants a sum of £0.66m has been taken to profit.

Shortly after the year end the Group announced a joint venture with Copthorn Homes for the development of some vacant land for residential use at its 3 Mills Studios property. Negligible value is attributed to this land in the Group's books. The Group holds other properties where similar schemes are possible. In most cases these opportunities can be realised without significant erosion of the Group's core activity of provision of accommodation to SMEs and, through partnering or outright sale, without taking development risks.

Acquisitions during the year were made at a net aggregate yield of 9.16% with disposals at 8.34%.

Adding value through acquisition *continued*

Acquisitions in 1999/2000

	Description	Purchase price £	Initial annual income £
Sugarhouse Business Centre Stratford, London E15	Freehold (23,118 sq ft 20 units) Business centre	385,000	45,112
Tonex Portfolio, mainly London	Mainly freehold 23 estates (792 units, 1,881,302 sq ft)	74,700,000	6,807,754
Brook Road, Redhill	Land adjacent to existing storage land holding	250,000	20,000
Shaftesbury Business Centre North Kensington London W10	Freehold (11,012 sq ft 30 unit business centre)	1,700,000	180,800

Disposals in 1999/2000

		Disposal price £	Exit annual income £
	Westgate Business Centre, London E8	410,000	57,373
	Malham Road Industrial Estate, London SE23	1,100,000	106,000
*	Tysoe Studios, London EC1	1,330,000	81,030
*	Church Road Studios, London E12	425,000	51,835
*	Cape House (front and rear), London E14	1,100,000	70,000
*	St Anne's Trading Estate, London E14	900,000	87,316
*	Land at Westminster Business Square, London SE1	175,000	–

*These properties were purchased as part of the Tonex portfolio.

In addition, notice under an option was served before the year end by the tenant for the purchase of South Block, Westminster Business Square, London SE1. This sale was completed on 19 April 2000 for £1,235,000, at which time a further option agreement was entered into for the sale (at a consideration of £500,000) of some vacant land adjacent to the property.

Operating review

Adding value through development

Development and refurbishment

The Group's core activity is investment in and letting of small unit accommodation. As such it is not a property development company but will from time to time engage in development activities to improve the quality of the assets it holds, and hence the return from these assets.

During 1999 the Group had five major projects in progress, with a number of smaller initiatives at other properties. The major projects, in which £8.9m was invested during the year, were at 1-10 Union Street, Ensign Court, Kingsland Viaduct, Helix Business Park (Surrey Heath) and 3 Mills Studios.

The £11m refurbishment of 1-10 Union Street is the most significant project in progress presently. To expedite completion of the development, management responsibilities have been passed through to J Sainsbury under a development agreement which also caps the Group's financial liability. Through this and the fixed-rent start date of 31 March 2001 most of the risks associated with development activity have been covered. In addition to the £11m building refurbishment J Sainsbury will invest approximately £9.5m in the fit-out works prior to taking occupation of the building. The works were commenced in September 1999 and should be completed, with J Sainsbury taking occupation, by September 2000.

Alongside the agreement for lease and development agreement with J Sainsbury a project finance package, secured solely against the property and the agreement for lease, was negotiated with National Westminster Bank. This package provides all development finance including interest up to rent commencement in March 2001. On completion the Group's investment in 1-10 Union Street will represent a substantial proportion of the Group's overall net worth and it is proposed that the property will be sold to enable reinvestment in property more closely aligned to the Group's core business. On rent commencement the estimated total costs will be £18.4m showing a yield of 10.9%. This development has been included in the report and accounts at cost.

Works to add an additional floor and refurbish the upper floors of the Ensign Court, a former flatted factory located on The Highway in the fringe of the City of London, were completed in 1999. This space (15,983 sq ft) was let to News International on a 14-year lease (coterminous with the earlier letting of the ground floor to Oddbins) at a rent of £306,000, £19.15 per sq ft, in March 2000. Following these lettings the property has become more institutionally attractive and accordingly it is proposed that the investment be marketed during 2000/01.

The programme of improvement at Kingsland Viaduct is now largely complete. This series of 105 railway arches stretches for a mile between Broadgate in the City, to Dalston in Hackney, and comprises around 290,000 sq ft of space. Workspace Group is in a partnership agreement with The London Borough of Hackney and London Transport, under which it acquired an income-sharing long-leasehold interest in the property in return for an obligation to invest £2.3m. For the past four years a rolling refurbishment programme has resulted in 88 arches being improved. Rents for the newly-refurbished arches have been well ahead of our initial expectations.

Work on the 19,645 sq ft Helix Business Park was completed on programme and to budget. This is a new-build scheme of 20 units of small-unit light-industrial workspace in Camberley and is a joint venture with Surrey Heath Borough Council.

The property has attracted considerable interest and by late May 2000 seven units had been let at an average rent of £10.19 per sq ft. It is anticipated that at full occupancy the estate will yield £178,500, showing a 12.2% return on investment.

At 3 Mills Studios, the Group has this year focused on promoting the accommodation created during the conversion of the former bottling plant to create Rush House and the Rooftop and Waterhouse Studio complexes. In addition, works were completed to create 20 moorings for narrowboats on the site.

The refurbishment of the adjacent Sugarhouse Yard to bring back into use 45,500 sq ft of space has commenced. As noted earlier, a joint venture with Copthorn Homes was agreed following the year end for the development of residential accommodation on a vacant part of the site. Letting performance during the current year will be important in setting the future pace of development work at 3 Mills Studios.

Adding value through investment

The investment portfolio

At 31 March 2000 the Group owned 94 estates: some 5.68m sq ft of accommodation in 3,523 lettable units with an aggregate valuation of £312.4m. 86.1% of the portfolio by valuation, and 77.6% by space, is in London and the South East, with the rest in the Midlands. The Tonex portfolio acquired during the year represents 26.3% by value, 31.8% by space, of the total year-end holdings.

Portfolio valuation

At 31 March 2000 Insignia Richard Ellis valued the Group's portfolio at £312.4m showing a surplus (for accounts purposes) of £31.2m.

The valuation was conducted in compliance with the Practice Statements contained in the Appraisal and Valuation Manual prepared by the Royal Institution of Chartered Surveyors on the basis of open market valuation as defined in Statement 4.

The £216.3m sum for freehold properties includes a valuation of £18.7m for 1-10 Union Street, Southwark. Since this property is classified as undergoing development it is shown in the accounts at its book cost of £10.9m. The short leasehold Alpha Business Centre, valued at £0.35m, is also included in the accounts at a nominal £1. For accounts purposes, therefore, the Group's properties are valued at £304.3m, as shown below:

Analysis of valuation at 31.3.2000

	Valuation £m	Adjustment £m	Financial accounts £m
Freehold	216.3	(7.8)	208.5
Long leasehold	95.8	–	95.8
Short leasehold	0.3	(0.3)	–
Total	312.4	(8.1)	304.3

For properties held throughout the year (comparing their value at 31 March 1999, plus additions and improvements at cost, with that at 31 March 2000) the uplift was £24.2m or 13.2%. A further uplift of £7.0m or 8.1% arose from acquisitions.

Again we commissioned the Investment Property Databank (IPD) to compare our portfolio's ungeared performance with the All-Fund (All-Property) index over one, three and five calendar years. The Group's performance exceeded the All-Fund index by a wide margin in all these periods and achieved first percentile performance when measured over the one and three year periods.

Workspace Group v IPD All-Fund Index (%)

	One year %	Three years %	Five years %
Workspace Group	24.9	22.7	19.6
IPD All-Fund	15.2	15.1	12.1
Workspace Group Percentile rank	1st	1st	2nd

Improvements in valuation arise partly from market movements but also as a result of value-adding activity through acquisition, management and refurbishment/

redevelopment. Comparison against indices such as these segregates simple market movement from value-adding activity. With its top-ranking performance over the medium term the Group has demonstrated its ability to generate enhanced returns from its investments.

Adding value through best practice

Environmental and ethical approach

The Group pays careful regard to the environmental impact of its activities. Its approach is twofold. First, all proposed acquisitions and existing property holdings are investigated carefully to identify the extent of any contamination or potential contaminating activities previously present on site. These studies have identified that almost all the Group's properties were unlikely to suffer from contamination and that at those properties where the risk was higher, this was unlikely to give rise to damage and any associated liability. These reports have been made available to Insignia Richard Ellis for the purposes of the valuation. Second, the intensive style of management adopted by the Group and the risk assessment and management programme undertaken jointly with the Group's insurers, CGU, assists the recognition and prevention of pollution risks by its current tenants. As with all other risks, the Board has nominated a Director with specific responsibility for management of the Group's exposure to environmental and associated risks, and the risk is monitored regularly at Board level.

The Group considers that ethical and environmental policies should be founded not just on the avoidance of recognised unacceptable practice but on active implementation of policies and practices that benefit the community. It has published a statement on its practices and policies with an action programme for the year ahead. This statement and the Group's performance against the criteria will be reviewed annually as the Group seeks continuous improvement in its practices in this area. Copies of this statement may be obtained from the Company Secretary at the Company's registered office.

Risk management

The introduction of Turnbull has obliged all listed companies to address their risk management practices. The Board of Workspace Group believes that risk assessment and management was substantively covered by the Group's and Board's existing procedures. However, the Board has now formalised its reporting arrangements in this area through a regular review of all major risks.

The Group invests in secondary accommodation let generally to smaller businesses who have a weaker covenant. This has traditionally been perceived as a high-risk activity. However, the Group has nearly 3,000 customers and receives in excess of 4,600 enquiries for space per annum. Its exposure therefore to any single tenant or business sector is low. The letting risk is better assessed against the dynamics of the SME sector in the areas in which the Group operates rather than the fortunes of any one or group of tenants.

The SME sector is resilient, growing and supported by all political parties. The properties held by the Group are generally ideal for long-term use by SMEs, whose space requirements are generally simple. Our buildings are less prone to obsolescence, to change in technical and technological requirements and fashion than many. With the scale of our activities and the levels of our enquiries, the Group is well positioned to detect developing trends in its customer group and so adjust its service offering to maintain its relevance.

Day-to-day management of the Group's operations, including letting and property and financial management, follows simple but carefully constructed processes. The high numbers of tenants coupled with a high churn rate generate high volumes of activity. These demand responsive systems and procedures.

Through regular routine reporting of key statistics the Group is able to monitor developing patterns in its estates and respond swiftly.

As the Group's activities have expanded so has the awareness of the "Workspace Group" brand in the SME sector. This has been reinforced by a strong marketing programme to develop the brand with the objective of protecting and growing market share.

The commercial risks of the business are not the traditionally perceived property risks but more akin to those taken by a business-to-business service provider delivering services to the SME sector. Workspace Group though has the added comfort that payment for these services is provided in advance. By contracting with its customers for fixed regular payments, made in advance and often further secured by a deposit, financial risk is greatly reduced.

The level of occupancy at which the Group breaks even, has been in the range 55-60% throughout the last five years. With current occupancy of 87.5% and a lowest level during the last economic downturn of 75% the Group has substantial resilience to changing economic circumstances.

Like most businesses the Group carries economic cycle risks. Experience has shown that this tends to be late cycle and smoothed. The former arises since customers typically operate out of a single unit and so do not have the option of downsizing as readily as larger businesses. Consequently customers will tend to trade through any cyclical downturn and where failure occurs it is generally later in the cycle. This downsizing is smoothed since government initiatives operate to support SMEs during the downturn, effectively reducing the levels of failures. Business failure in itself is predominantly the result of individual problems of traders, not through a failure of their markets. There are often others who step in and service the market of the failed businesses. This produces a continuing supply of SME customers.

Operating review

Adding value: the future

Priorities for 2000/01

Last year the Group expanded its customer base, and its portfolio, by almost 40%. It strengthened its management structure and staffing. It met its financial targets for growth in profits and net asset value. With these foundations, the Group is well placed to continue its progress.

The following specific priorities are identified for 2000/01:

- To maintain high occupancy levels on the core portfolio (90% to 95%) and continuing rental growth.
- To extract value from the newly acquired Tonex portfolio.
- To acquire further investment properties in the core areas of London, the South East and the Midlands. Expansion outside these areas is not ruled out where an acquisition would be of sufficient size and potential returns to justify establishing a new region.
- If market conditions are right, to dispose of those properties where we can no longer add value by our intensive management.
- To add value to our existing estates by selective refurbishment, extension and other initiatives.
- To extend the Group's services offering, taking account of new technologies to ensure we remain at the leading edge of service provision to our customers.
- To continue to increase profits, earnings per share, dividends and net asset value per share.

H. Platt.

Harry Platt
Chief Executive

Management and employees

R Mark Taylor
BSc FCA
Finance Director and Company Secretary

Mark Taylor (49) joined the Group in October 1995 as Finance Director. He trained with Touche Ross and was previously employed for 16 years by John Laing PLC, latterly as Joint Managing Director of John Laing Developments and Director of Group Investments. Following this he worked for a short period with the Ministry of Defence.

Alan H Cherry
MBE FRICS Hon MRTPI
Deputy Chairman*

Alan Cherry (66) joined the Board in 1992. He is Chairman of Countryside Properties PLC, a listed house building, property development and investment company. He is also a member of the board of the East of England Development Agency, a director of the East of England Investment Agency and a member of the Urban Task Force. He was a founder partner of the estate agency firm Bairstow Eves.

Madeleine Carragher
FRICS
Operations Director

Maddy Carragher (45) has worked for the Group since its establishment, initially as Estates Surveyor. She is responsible for the development and implementation of the Group's marketing strategy and the promotion, letting and overall management of the Group's estates. She was promoted to the main Board in January 1996. Prior to joining the Group she was a surveyor at DE&J Levy.

Phillip B Rhodes
FCA
Chairman*

Phillip Rhodes (53) joined the Board in July 1992 and was appointed Chairman in October 1999. He has been joint Managing Director of TLG plc, the holding company of the Thorn Lighting Group, and a director of BET PLC. He previously worked for Guinness PLC and Glaxo Holdings plc in both financial and general management positions.

J Patrick Marples
ARICS
Property Director

Patrick Marples (44) has worked as a property consultant for the Group since 1987. He joined the Board in November 1996 as Property Director, responsible for the investment management of the Group's property portfolio. Prior to becoming an independent property consultant in 1986, he was an associate partner of DE&J Levy.

Workspace Group aims to be an equal opportunity employer. In its recruitment, staff training and development and promotional policies, it aims to avoid discrimination on grounds of sex, race, age or disability. At 31 March 2000 the Group had 130 employees with an average age of 42 years, and average period of service with the Company of 3.7 years. 41% of staff were female.

The Group achieved Investor in People accreditation in 1997. Over recent periods it has paid particular attention to the training of its staff in customer care skills. The Group continues to monitor its staff and their training requirements as its business develops.

Advisers

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PricewaterhouseCoopers
1 Embankment Place
London WC2N 6NN

Solicitors
Norton Rose
Kempson House
PO Box 570
Camomile Street
London EC3A 7AN

Bankers
National Westminster Bank Plc
1 Princes Street
London EC2R 8PA

Financial advisers and stockbrokers
WestLB Panmure Limited
New Broad Street House
35 New Broad Street
London EC2M 1NH

Registrars
Computershare Services Plc
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7N4
Tel (0870) 702 0000

Registered office and headquarters
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Tel 020 7247 7614
Fax 020 7247 0157
Email:
info@workspacegroup.co.uk
Website:
www.workspacegroup.co.uk

Registered number
2041612

Harry Platt
MA MRTPI
Chief Executive

Harry Platt (48) joined the Group as Director and General Manager in April 1991, became Managing Director in April 1992 and Chief Executive in October 1999. He was Chief Executive of Harlow District Council between 1983 and 1989 and before that Assistant Chief Executive at the London Borough of Greenwich. Prior to joining the Group, he was Operations Director of Dixons Commercial Properties Limited.

Christopher Pieroni
BA MSc PhD*

Chris Pieroni (42) joined the Board in January 2000. After teaching Economics at Cambridge in the 1980s he joined PA Cambridge Economic Consultants before moving on to Price Waterhouse. He joined Colliers Erdman Lewis (CEL) in 1993 and was responsible for the Research and Consultancy Department before becoming Chief Operating Officer of CEL and Head of International for the group.

*Non-executive and member of Remuneration and Audit Committees.

Financial review

Profits

Profits before tax at £8.76m are 5.35% ahead of last year. Despite an increased taxation charge (effective rate up from 21.4% to 25.5%), earnings per share increased by 0.4p to 41.6p. For trading operations (ie excluding profits and losses on disposals together with other one-off costs) profits before tax were 19.5% and earnings per share 20.4% ahead of last year. The valuation surplus of £31.2m represents £1.98 per share, taking the net asset value at 31 March 2000 to £9.04 per share (1999: £6.83), an increase of 32.4%. This continues the unbroken pattern of growth delivered by the Group since its flotation in December 1993.

	1999/2000 growth	1998/99 growth	Compound growth 1995-2000
Improvement in trading PBT	19.5%	24.0%	28.0%
Improvement in EPS	1.0%	31.6%	15.5%
Improvement in dividends per share	10.5%	11.8%	16.0%
Improvement in NAV	32.4%	30.6%	22.1%

The strong underlying growth in 1999/2000 was a reflection of the improvement in rental income and the contribution from the newly-acquired Tonex portfolio.

Overheads (excluding other items) have fallen as a percentage of turnover from 15.1% to 14.5%. Net interest increased during the year by £3.84m. The increase in interest costs was attributable principally to the increased levels of borrowings following the £74.7m Tonex acquisition which was financed entirely by debt. Interest costs of £0.74m (1999: £0.73m) were capitalised during the year. These relate to interest charges on developments at 3 Mills Studios, Helix Business Park, Ensign Court, and 1-10 Union Street. The Group considers that with its careful focus on asset values underpinned by six-monthly independent valuations, its policy of capitalising interest presents no risk of overstatement of asset values.

The £993,000 of interest payable classified as "Other items" comprises breakage costs on repayment of mortgages of £528,000, and the write off of previously capitalised loan costs of £465,000 (both relating to the refinancing of the Group's existing mortgages at the time of the acquisition and new financing).

Taxation

The effective rate of corporation tax in 2000 was 25.5% (1999: 21.4%). The effective rate excluding surpluses on property disposals was 24.3% (1999: 23.8%). The rate increased during the year as predicted last year due to the absorption of all previously written-off ACT and capital losses in previous periods, with the result that none was available for off-set in 2000. It is likely that the Group's effective rate will stabilise at 27% or thereabouts.

Dividend

A final dividend of 15p per share is proposed. The interim dividend was 6p per share, and so the total dividend proposed for the year is 21p. The dividends are covered 1.98 times by earnings (1.91 times if based on trading income only). The appropriation of income during the year is illustrated on page 18.

Internal performance measures

Internal benchmark comparison shows:

Performance measures	**2000 £000**	1999 £000	1998 £000	1997 £000	1996 £000
Turnover per member of staff	**277**	277	247	231	209
Year-end investment in property (per member of staff)	**2,340**	2,268	1,967	1,610	1,505
Administration costs as a percentage of revenue	**14.5%**	15.1%	14.2%	14.6%	13.0%
Total return on equity	**36.9%**	36.3%	32.5%	27.5%	8.7%

Return on equity is computed by reference to pre-tax profits plus valuation surpluses/deficits divided by opening shareholders' funds (allowing for share capital increases during the year). Our target is to achieve over a 20% return on equity year on year, and in due course (with expansion of the portfolio) to maintain administration costs as a percentage of revenue at below 12%.

Financing

During the year a number of major financing initiatives were completed.

In order to finance the £74.7m purchase of the Tonex portfolio and repay certain existing loans a new £122m facility was negotiated with WestLB. This facility was drawn down at completion of the acquisition. The funding was structured initially as a secured term loan. However the loan was subsequently refinanced through a transfer into a commercial paper programme operated by WestLB, thereby reducing the funding costs by 15-20 basis points. It is intended that in due course the financing via the commercial paper programme will be refinanced through a bond issue. Whilst commercial paper is essentially a short-term financing instrument, by backing this with various liquidity facilities and a fall-back term loan commitment from WestLB, security (for ten years) and continuity of financing is assured. Securitisation was chosen as an appropriate funding route by comparison with existing facilities partly because it offered the opportunity to ringfence liability and hence risk at a time when relatively high (148%) gearing levels were being assumed. Its reliance on interest and debt service cover covenants in place of the more conventional interest and loan-to-value ratio covenants was also a key factor. Interest/debt service is driven by cash generation, which is the principal financial driver applied by Workspace Group.

Separately a £14.4m project finance package was negotiated with National Westminster Bank to fund the development works at 1-10 Union Street. The loan has a maturity of 14 September 2002 extending 18 months beyond the rent commencement date under the Sainsbury lease. The facility was structured to cover all development expenditure together with interest to the rent commencement date. Following this date all interest accruing, which will be covered 1.85 times by the £2.0m rental payment, will be paid. Drawdown under the loan also released £1.5m of the Group's investment in the property. Interest on the loan is at a margin of 1.10% over LIBOR until practical completion when it falls to 1.00%. The loan is ringfenced, being secured only against the Group's investment in the property and the Sainsbury lease. The Group will be seeking to dispose of this asset during 2000/01. On disposal it is anticipated that the property will yield 10.9% on the Group's investment of £18.4m.

Finally, the Group has increased and extended its revolving property loan facility with National Westminster Bank from £13m to £23m with a maturity of 18 months. The interest rate on this loan has been reduced from a margin of 1.5% to 1.1% over LIBOR. The Group also holds a £2.5m overdraft facility with National Westminster Bank which attracts interest at 1.5% over base rate.

Borrowings over recent years	2000	1999	1998	1997	1996
% fixed/hedged	**93%**	93%	59%	81%	52%
Average interest rates	**8.48%**	8.91%	9.56%	9.11%	10.5%
Interest cover	**1.87**	2.32	1.98	2.07	2.11
Year-end gearing	**104%**	63%	85%	83%	85%

Year-end gearing of 104% improved from a peak of 148% immediately following the Tonex acquisition. With the planned 1-10 Union Street and Ensign Court disposals it is set to reduce further. Interest cover at 1.87 is lower than last year due principally to the higher levels of borrowing. Both gearing and interest cover levels are within the levels historically set by the Board of 120% and 1.5 times. The Board again examined the possibility of redeeming or replacing its original £19.5m Debenture Stock, which carries historically high coupons averaging 11.30%. This initiative was not pursued due to the potentially high cost of redemption. The Debenture and Convertible Loan Stock represents just 16% of total borrowings (1999: 28%). As at 31 March 2000 the total Group indebtedness (bank borrowings net of cash in hand and at bank) amounted to £148.7m (1999: £68.4m). The maturity of net debt and the Group's borrowings by source at 31 March 2000 are shown below:

Maturity of net debt	%
Under 12 months	(3)%
Between one and five years	21%
Between five and ten years	24%
Over ten years	58%
Total	100%

Borrowings by source	%
Debentures	13%
Convertible loan stock	3%
Commercial paper/funding	77%
Bank borrowings	7%
Total	100%

The Group had further facilities of £19.0m undrawn at 31 March 2000.

At 31 March 2000 the average cost of floating rate funds was a margin of 1.03% over LIBOR or base rate (1999: 1.26%).
At 31 March 2000 the secured borrowings were covered 2.05 times by the value of charged property (with a further £14.8m uncharged giving an overall cover of 2.16 times). It should be noted that the market price of the Company's ordinary shares has risen above the conversion price of £5.00 for the Company's £4.04m of Convertible Loan Stock. The Directors believe that most stockholders, who receive interest at 11% on their investment, will wish to retain their stock for the time being because of its superior income yield.

Balance sheet and cash flow

The Group's net current liabilities at 31 March 2000 were £8.52m (1999: £13.86m). Current liabilities include tenants' deposits in the form of advance rent payments and quarterly and monthly rents and service charge payments in advance amounting in aggregate to £6.9m (1999: £4.0m). The Directors consider that in the normal course of business these liabilities are unlikely to require payment and properly form part of the working capital of the Group. Operating level net cash inflow of £20.2m (1999: £14.9m) improved, principally due to the contribution from the newly acquired properties together with increased profitability from existing properties.

Report on Directors' remuneration

Procedure

The Board reports to shareholders on Directors' remuneration as set out below. In this matter the Board is advised by a Remuneration Committee composed of the three independent Non-executive Directors of the Company – Mr P B Rhodes (Committee Chairman), Mr A H Cherry and Dr C Pieroni. Dr Pieroni will assume the role of Chairman of the Committee during the current year. The Committee is required annually to consider and review all aspects of the Executive Directors' employment, performance and remuneration and the Group's policies on these matters, and to make recommendations to the full Board. The Committee does not make recommendations on the remuneration of Non-executive Directors, which is a matter solely for the full Board.

The Remuneration Committee consults with the Chief Executive about its proposals where appropriate and is able to obtain independent professional advice from remuneration and other consultants in order to carry out its duties. The members of the Remuneration Committee attend the Company's Annual General Meeting and are available to answer shareholders' questions about Directors' remuneration.

Policy on remuneration of Executive Directors and senior executives

1 Level of remuneration

The Group aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate Executive Directors and senior executives of the right calibre.

2 The main components

The Group operates performance-related reward policies in which targets are measurable. These are designed to provide for a significant element of "at risk" pay, which is only available when good results are achieved. In this way, shareholders and employees share in success. The main components are:

i Basic salary

Basic salary for each Director has been fixed taking into account advice from independent sources on the rates of salary for similar jobs in a selected group of comparable companies, and in the performance of the individuals. Increases in basic salary were again awarded in 1999-2000 to take account of the increased demands of the Group's business.

ii Annual performance bonus

The Group operates an annual bonus scheme which provides for a variable cash bonus based on profit and property portfolio performance measured against budget and improvements over the preceding year. The annual bonus for 1999-2000 was 25% of basic salary.

iii Long-term incentives

In addition to the annual bonus referred to above, the Group seeks to encourage and reward good long-term performance by providing incentives linked to the performance of the Company's shares. For 1999-2000, as in the previous year, the Board has decided to provide these incentives in the form of options on ordinary shares.

iv Share options

The Group believes that share ownership by Executive Directors and senior managers strengthens the link between their personal interests and those of ordinary shareholders. On 1 April 1999 the Board, on the recommendation of the Remuneration Committee, granted the following options exercisable at the then ruling mid market price of £4.995:

Executive Directors	No of options
A R Porter	7,580
H Platt	14,740
M Carragher	18,034
R M Taylor	17,000
J P Marples	17,000
	74,354
Senior managers	15,508
Total	89,862

The above options were granted pursuant to the rules of the Company's 1993 Share Option Scheme (full details of Directors' share options are provided on page 30). The exercise criteria determined by the Company require that no option may be exercised unless earnings per share over the period of three years from 31 March 1999 increase by a percentage which is not less than 9% more than the corresponding rise in RPI, expressed as a percentage, over the period. All of the total of 89,862 options granted during the year were granted pursuant to an annex to the Scheme which is "unapproved" for income tax purposes. These options have a seven-year life expiring on 31 March 2006.

It is proposed that a new share option scheme, to replace the existing 1993 Scheme which no longer conforms with best practice as advised by the ABI, be introduced to regulate the issue of share options. An EGM, which is to follow the Company's AGM, has been called to seek shareholders' approval to this scheme and a circular concerning the proposals accompanies this report and accounts.

v Pensions

The Company operates a defined contribution ("money purchase") pension scheme for Executive Directors. Because the Board regards annual cash bonuses as an integral part of remuneration they are treated as pensionable.

Total emoluments (excluding options and top up entitlements under the Long-Term Bonus Scheme) of the Directors for the year are shown below.

	Fees £000	Basic salaries £000	Performance bonus £000	Other benefits £000	**Total remuneration 2000 £000**	**Pension scheme contributions 2000 £000**	Total remuneration 1999 £000	Pension scheme contributions 1999 £000
Executive Directors								
A R Porter	–	62.4	–	205.1	**267.5**	**10.3**	180.2	30.1
H Platt (Chief Executive)	–	143.5	40.3	11.9	**195.7**	**17.5**	198.6	19.9
M Carragher (Operations Director)	–	101.3	25.3	4.3	**130.9**	**20.9**	139.3	24.1
R M Taylor (Finance Director)	–	101.3	25.3	8.5	**135.1**	**20.9**	141.5	14.3
J P Marples (Property Director)	–	100.0	25.0	8.1	**133.1**	**20.6**	133.7	22.5
Non-executive Directors (Fees)								
P B Rhodes (Chairman)	50.0	–	–	–	**50.0**	–	20.0	–
A H Cherry (Deputy Chairman)	20.0	–	–	–	**20.0**	–	20.0	–
C J Pieroni	4.2	–	–	–	**4.2**	–	–	–
	74.2	508.5	115.9	237.9	**936.5**	**90.2**	833.3	110.9

Mr Porter resigned as Chairman of the Company on 30 September 1999. A payment of £199,000 by way of compensation for loss of office was made and is included in Other benefits in the above table.

There are accrued top-up entitlements under the long-term bonus incentive scheme operated for 1995/96 and 1996/97 (payable in 1999 and 2000). These represent the total sums payable in the event that the qualification criteria are met over the qualifying period for each potential bonus award and are set out below. Entitlement for payment relating to 1995/96 crystallised during the year and is detailed below. The entitlement for 1996/97 will crystallise in June 2000.

	Accrued entitlementl 1.4.99 £000	Bonus payments made in year £000	Accrued entitlement 31.3.00 £000
H Platt	25.3	(6.5)	18.8
M Carragher	14.7	(1.3)	13.4
R M Taylor	16.6	(2.3)	14.3
J P Marples	5.7	–	5.7
	62.3	(10.1)	52.2

Service contracts and notice periods

All Executive Directors have rolling service contracts requiring 12 months' notice of termination on either side.

Non-executive Directors

The Chairman is engaged on a three-year contract from 1 October 1999, with the Deputy Chairman on a two-year contract from 29 July 1999.

Dr Christopher Pieroni was appointed as a Non-executive Director on 17 January 2000 on a three-year contract. As a new appointment this is subject to ratification at the Annual General Meeting.

The appointment or reappointment and the remuneration of Non-executive Directors are matters reserved for the Board. The annual fee payable to the Chairman is £80,000 and to each other Non-executive Director £20,000.

Report of the Directors

The Directors present their report and the audited accounts for the year ended 31 March 2000.

Principal activities

The Group is engaged in property investment in the form of letting small units of business accommodation located in the South East and the Midlands, intended primarily for new and small businesses. The Company has 14 active subsidiaries, ten of which are engaged in the Group's core activities. Details of the Company's subsidiaries are listed on page 52. LI Property Services Limited acts as an insurance agent and Enerjet Limited provides supplies of gas and electricity to its customers. Workspace Management Limited acts as manager for all the Group's property investment companies. Workspace Holdings Limited is an intermediate holding company formed for the purposes of the financing with WestLB.

Operating and financial review

A review of the Group's operations and financial affairs is set out on pages 6 to 25 of this report.

Profit and dividends

The Group profit after tax for the year attributable to shareholders amounted to £6,523,000 (1999: £6,536,000). The Directors recommend the payment of a final dividend of 15.0p (1999: 13.5p) net of tax making a total of 21p net of tax for the year (1999: 19p) leaving £3,225,000 to be transferred to reserves (1999: £3,547,000).

Fixed assets

The Group's fixed assets consist of investment properties £304,248,000 (1999: £185,978,000) and other assets £2,132,000 (1999: £2,203,000). The Group's investment properties have been independently valued by Insignia Richard Ellis, Chartered Surveyors, at 31 March 2000 at open market value. The surplus on revaluation (£31,209,000) has been carried to the revaluation reserve.

Directors

Mr P B Rhodes, Mr A H Cherry, Mr H Platt, Ms M Carragher, Mr J P Marples and Mr R M Taylor served the Company as Directors throughout the year. Mr A R Porter resigned on 30 September 1999. Dr C Pieroni was appointed as a Director on 17 January 2000 and, being eligible, offers himself for re-election at the Annual General Meeting. Mr P B Rhodes and Mr J P Marples retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Directors' interests

The beneficial interest of the Directors and their families in the ordinary shares of the Company are as follows:

Ordinary shareholdings:	**31 March 2000**	31 March 1999
P B Rhodes	**4,909**	4,909
A H Cherry	**1,000**	1,000
H Platt	**35,331**	7,341
M Carragher	**6,607**	6,607
J P Marples	**940**	940
C J Pieroni	**–**	–
R M Taylor	**3,948**	3,948
Total	**52,735**	24,745

None of the Directors has a beneficial interest in the shares of any other Group company.

Ordinary share options

Directors' options on ordinary shares

	At 31.3.99	Exercised/ lapsed during the year	Granted during the year	At 31.03.00	Exercise price	Normal exercise dates From	To
H Platt	30,000	(30,000)		–	£3.50	21.10.1994	20.10.2001
	21,430			21,430	£3.20	7.1997	7.12.2003
	20,438			20,438	£3.25	7.1998	7.12.2004
	78,132			78,132	£3.40	25.6.2000	24.6.2004
	21,000			21,000	£4.51	29.6.2001	28.6.2005
	4,058*			4,058*	£4.25	–	1.9.2003
			14,740	14,740	£4.995	1.4.2002	1.4.2006
M Carragher	10,000			10,000	£3.50	21.10.1994	20.10.2001
	11,710			11,710	£3.20	7.1997	7.12.2003
	15,155			15,155	£3.25	7.1998	7.12.2004
	63,135			63,135	£3.40	25.6.2000	24.6.2004
	4,181*			4,181*	£3.30	–	1.9.2002
	21,000			21,000	£4.51	29.6.2001	28.6.2005
			18,034	18,034	£4.995	1.4.2002	1.4.2006
			680*	680*	£5.40	–	1.9.2006
R M Taylor	66,176			66,176	£3.40	23.6.2000	24.6.2004
	8,824			8,824	£3.40	25.6.2000	24.6.2007
	1,045*			1,045*	£3.30	–	1.9.2002
	21,000			21,000	£4.51	29.6.2001	28.6.2005
	3,247*			3,247*	£4.25	–	1.9.2003
			17,000	17,000	£4.995	1.4.2002	1.4.2006
J P Marples	66,176			66,176	£3.40	23.6.2000	24.6.2004
	8,824			8,824	£3.40	25.6.2000	24.6.2007
	21,000			21,000	£4.51	29.6.2001	28.6.2005
			17,000	17,000	£4.995	1.4.2002	1.4.2006
Total	496,531	(30,000)	67,454	533,985			

* Options obtained under the rules of the Group's Employee Savings Related Share Option Scheme. All other options have been granted under the rules of the Company's Executive Share Option Scheme.

H Platt exercised his options on 30,000 shares under the Company's Executive Share Option Scheme on 14 February 2000. The market price of Workspace Group ordinary shares on that date was £7.85.

The rules of the Company's share option schemes provide that in all cases performance criteria expressed variously in terms of total profits, or net assets per share or earnings per share, must be achieved before options can be exercised.

The middle market price of Workspace Group PLC ordinary shares at 31 March 2000 was £8.125 and the range during the year to that date was £5.05 to £8.25.

The Company has a Directors' and Officers' liability insurance policy which indemnifies the Directors and Officers against breach of fiduciary duty.

Other than as indicated above, there have been no changes in these interests in the period between the balance sheet date and 26 June 2000.

No Director had, during the year, any beneficial interest in any contract significant to the Company's business.

Substantial interests in the share capital of the Company

At 1 June 2000 the Directors had been notified of the following shareholdings, amounting to 3% or more of the ordinary share capital of the Company:

Holder	% of share capital
Birkby Plc	20.0%
The Prudential Assurance Company Limited	8.4%
Friends Provident Funds	6.7%
Scottish Life Assurance Company	6.6%
Halifax PLC Group Funds	6.5%
Norwich Union Life Insurance Society	6.3%
Newton Investment Management – Smaller Companies Fund	6.1%
Baillie Gifford Smaller Companies Fund	4.4%
The Church Commissioners	3.5%

Donations

The Company has made no political or charitable donations other than minor sponsorships costing less than £7,700.

Health and safety

The Group's policy is to provide and maintain safe and healthy working conditions, equipment and systems of work for all its employees, and to provide such information, training and supervision as they need for this purpose. The Group accepts responsibility for the health and safety of other people who may be affected by its activities.

Whilst all employees of the Group have a responsibility in relation to health and safety matters, certain staff have been designated "workplace" responsibilities or other co-ordinating responsibilities throughout the Group, and ultimately, at Board level, the Chief Executive has overall responsibility.

Employment policies

The Group aims to create a working environment in which every current or prospective employee is given equal opportunity in selection, development and for promotion.

Purchasing policies and payments

The Group tries, wherever possible, to procure its own requirements from within its own tenant base providing tenants are competitive on price and quality. The Group's policy is that unless agreed otherwise at the time of the transaction its own payments to others for goods and services received are made on average within a month of the date of invoice.

The number of days for trade creditors outstanding at 31 March 2000 has not been calculated for the Company as it has no trade creditors.

Year 2000

No problems were encountered by the Group in the operation of installed equipment at its premises or in its computer systems at the millennium. The costs of upgrading systems and equipment for the millennium were absorbed in the normal programme of replacement and were not significant.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Annual General Meeting

The 14th Annual General Meeting of the Group will be held at the offices of WestLB Panmure Limited, New Broad Street House, 35 New Broad Street, London EC2M 1SQ on Monday 31 July 2000. Formal notice of the meeting is given on pages 58 and 59.

Special business at the Annual General Meeting

In addition to the ordinary business of the meeting, three resolutions (numbered 7 to 9) are proposed as special and are concerned with the following matters:

a Directors' powers to allot securities – renewal of authority

By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or rights in respect of shares) without first offering them to existing shareholders in proportion to their holdings. Resolutions dealing with the authority of the Directors to allot shares will be proposed at the Annual General Meeting. Resolution 7 gives the Directors the necessary authority for the period of five years from the date of the passing of such resolution to allot shares up to an aggregate nominal amount of £530,460 (being one-third of the issued share capital of the Company). Resolution 8 empowers the Directors for the period of five years from the date of the passing of such resolution to allot shares for cash otherwise than to existing shareholders on a pro-rata basis up to an aggregate nominal amount of £79,569, which is equivalent to 5% of the issued share capital of the Company. It also enables the Directors, in the case of an issue by way of rights, to deal with fractional entitlements and to make such exclusions or other arrangements as may be appropriate to resolve legal, regulatory or practical problems which might arise, particularly with regard to overseas shareholders. It is intended to renew such authority and power at successive annual general meetings.

b Company's power to purchase own shares – renewal of authority

Resolution 9 authorises the Company to make market purchases (within the meaning of Section 163 of the Companies Act 1985) on the London Stock Exchange of up to an aggregate of 1,591,381 ordinary shares (equivalent to 10% of the issued share capital of the Company) at a minimum price per ordinary share of 10p and a maximum price of 105% of the average of the middle market quotations of the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased.

This proposal should not be taken as an indication that the Company will purchase shares at any particular price or indeed at all. The Directors will only consider making purchases if they believe that such purchases would result in an increase in earnings per share and are in the best interests of the shareholders.

The authority will expire on 30 July 2001 or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2001.

By order of the Board
R Mark Taylor
Secretary
26 June 2000

Corporate governance

As a listed company incorporated in the United Kingdom reporting on a financial year ending on or after 31 December 1998 the Company is required by the Listing Rules of the Financial Services Authority to publish a statement of compliance with the Principles of Governance and Code of Best Practice ("the Combined Code") developed by the Hampel Committee following earlier work by the Cadbury and Greenbury Committees. Save in respect of one matter, which is explained below, the Directors believe that the Company has fully complied with the Combined Code during and after the year ended 31 March 2000.

Board of Directors

The full Board of Directors meets regularly and retains full and effective control over the Group's activities. The normal Board compliment of the Company comprises four Executive Directors – a Chief Executive, a Finance Director, an Operations Director and a Property Director – and three Non-executive Directors who are independent of management and free from any personal business or other relationship with the Group.

During the year the vacant post of one Non-executive Director was filled by the appointment of Dr Christopher Pieroni. Following the resignation of the former Executive Chairman and the appointment of Mr P B Rhodes as Non-executive Chairman, Mr Rhodes has been nominated and is recognised as the Company's senior independent Non-executive Director.

All Directors have written contracts and in the case of Non-executive Directors these specify those corporate matters that are reserved for decision by the full Board together with the rights of individual Directors to seek independent advice paid for by the Company. Executive Directors have one-year rolling contracts of employment whilst Non-executive Directors are appointed by the full Board for a term not exceeding three years.

Whilst the Board retains final authority over all significant capital investment and borrowing transactions, week-by-week management is delegated to an Executive Board consisting of the Chief Executive, the Finance Director, the Operations Director, the Property Director and the Group's Divisional Director of Finance operating within an annual business plan and budget set by the full Board.

The Board has appointed a Remuneration Committee and an Audit Committee, both of which consist exclusively of the Non-executive Directors and are chaired by Mr P B Rhodes FCA. The Audit Committee meets with the Finance Director and with the external auditors. The external auditors attend part of each Audit Committee meeting without the presence of the Finance Director for independent discussions. The Audit Committee reviews the annual accounts and the preliminary financial results announcement prior to submission to the Board, considering the compliance with accounting standards, the scope and extent of the external audit programme and the appointment and remuneration of the auditors. The Audit Committee also considers all papers presented to the Board on risk assessment. The Chairman of the Audit Committee reports to the Board on matters discussed at Audit Committee meetings.

The Remuneration Committee advises the Board on executive remuneration policy and in particular makes recommendations regarding the terms of employment of Executive Directors and senior managers, their remuneration, and the award of share options and other incentives.

Internal control

The provisions of the Combined Code in respect of internal controls require that Directors review all controls including operational, compliance and risk management as well as financial controls. The Board has considered the requirements of the Financial Services Authority and implemented a programme for the identification, reporting and management of risks as advised by the Turnbull Committee. The formal requirements were not fully implemented throughout the entire year and so, whilst the Directors consider that financial and commercial risks were monitored through the Group's procedures, the Board reports under the dispensation granted by The Stock Exchange. A commentary on risk is included on page 18 of the Operating Review. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Company has an established framework of internal financial controls which, inter alia, include:

a Financial reporting

There is a comprehensive budgeting system with an annual business plan approved by the Board. Operating results and cash flow are reported monthly and compared with budget. Forecasts are reviewed regularly throughout the year. The Company reports to shareholders on a quarterly basis.

b Investment appraisal

The Company has clearly-defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where investment or development properties are being acquired. Post-investment appraisals are performed for major investments.

Directors' responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards which they consider to be applicable have been followed, subject to any explanations and material departures disclosed in the notes to the financial statements.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report

To the members of Workspace Group PLC

We have audited the financial statements on pages 36 to 52, including the additional disclosures on page 26 to 28 relating to the remuneration of the directors specified for our review by the Financial Services Authority, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 41.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 34, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2000 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
1 Embankment Place
London WC2N 6NN
26 June 2000

Consolidated profit and loss account

For the year ended 31 March 2000

	Notes	Trading operations 2000 £000	Other items 2000 £000	Total 2000 £000	Trading operations 1999 £000	Other items 1999 £000	Total 1999 £000
Turnover – continuing operations	1	29,317	–	29,317	22,741	–	22,741
Rent payable and direct costs	1	(7,609)	–	(7,609)	(6,071)	–	(6,071)
Gross profit		21,708	–	21,708	16,670	–	16,670
Administrative expenses		(4,255)	–	(4,255)	(3,426)	–	(3,426)
Operating profit		17,453	–	17,453	13,244	–	13,244
Surplus on disposal of investment properties	2	–	1,429	1,429	–	1,352	1,352
Interest receivable	3	245	–	245	135	–	135
Interest payable	4	(9,373)	(993)	(10,366)	(6,415)	–	(6,415)
Profit on ordinary activities before taxation	5	8,325	436	8,761	6,964	1,352	8,316
Taxation on profit on ordinary activities	7	(2,019)	(219)	(2,238)	(1,659)	(121)	(1,780)
Profit on ordinary activities after taxation		6,306	217	6,523	5,305	1,231	6,536
Profit attributable to shareholders		6,306	217	6,523	5,305	1,231	6,536
Dividends	8	(3,298)	–	(3,298)	(2,989)	–	(2,989)
Retained for the year	20	3,008	217	3,225	2,316	1,231	3,547
Basic earnings per share	9	40.2p	1.4p	41.6p	33.4p	7.8p	41.2p
Diluted earnings per share	9	39.7p	1.3p	41.0p	33.6p	7.3p	40.9p

Statement of total recognised gains and losses

	2000 £000	1999 £000
Profit for the financial period	6,523	6,536
Unrealised surplus on revaluation of investment properties	31,209	21,843
Total recognised gains relating to the financial period	37,732	28,379

Note of historical cost profits and losses

	2000 £000	1999 £000
Reported profits on ordinary activities before taxation	8,761	8,316
Realisation of property revaluation gains/(losses) of previous years	840	109
Historical cost profit on ordinary activities before taxation	9,601	8,425
Historical cost profit for the year retained after taxation and dividends	4,065	3,656

The notes on pages 41 to 52 form part of these financial statements.

Balance sheets

As at 31 March 2000

	Notes	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Fixed assets					
Tangible assets					
Investment properties	10	**304,248**	185,978	**42,795**	69,521
Other fixed assets	11	**1,117**	1,179	**246**	423
Shares in subsidiary undertakings		**–**	–	**23**	23
Investment in own shares	12	**1,015**	1,024	**1,015**	1,024
		306,380	188,181	**44,079**	70,991
Current assets					
Debtors	13	**5,236**	2,514	**119,711**	51,814
Investments	14	**11,424**	2,332	**1,991**	750
Cash at bank and in hand		**201**	2	**–**	–
		16,861	4,848	**121,702**	52,564
Creditors: amounts falling due within one year	15	**(25,378)**	(18,709)	**(48,644)**	(20,439)
Net current (liabilities)/assets		**(8,517)**	(13,861)	**73,058**	32,125
Total assets less current liabilities		**297,863**	174,320	**117,137**	103,116
Creditors: amounts falling due after more than one year (including Convertible Loan Stock)	16/17	**(154,845)**	(65,866)	**(35,806)**	(26,128)
		143,018	108,454	**81,331**	76,988
Capital and reserves					
Called up share capital	19	**1,591**	1,588	**1,591**	1,588
Share premium account	20	**39,795**	39,668	**39,795**	39,668
Revaluation reserve	20	**86,412**	56,043	**11,792**	23,097
Profit and loss account	20	**15,220**	11,155	**28,153**	12,635
Shareholders' funds – equity interests		**143,018**	108,454	**81,331**	76,988
Net asset value per share	9	**£9.04**	£6.83		

These accounts and notes were approved by the Board of Directors on 26 June 2000.

H Platt
R M Taylor
Directors

The notes on pages 41 to 52 form part of these financial statements.

Cash flow statement

For the year ended 31 March 2000

	Notes to cash flow	2000 £000	1999 £000
Net cash inflow from operating activities	1	**20,183**	14,924
Returns on investments and servicing of finance	2	**(11,655)**	(7,102)
Taxation		**(2,778)**	(1,257)
Capital expenditure	2	**(85,025)**	(1,831)
Equity dividends paid		**(3,057)**	(2,777)
Net cash (outflow)/inflow before use of liquid resources and financing		**(82,332)**	1,957
Management of liquid resources	2	**(9,092)**	1,896
Financing	2	**93,027**	(6,589)
Net cash inflow/(outflow)	3	**1,603**	(2,736)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		**1,603**	(2,736)
Increase/(decrease) in liquid resources		**9,092**	(1,896)
(Outflow)/inflow from movements in debt financing		**(90,969)**	6,611
Changes in net debt resulting from cash flows	3	**(80,274)**	1,979
Net debt at 1 April 1999		**(68,457)**	(70,436)
Net debt at 31 March 2000		**(148,731)**	(68,457)

Notes to the cash flow statement

For the year ended 31 March 2000

	Notes to cash flow	2000 £000	1999 £000
1 Reconciliation of operating profit to operating cash flows			
Operating profit		**17,453**	13,244
Depreciation charges		**485**	462
Profit on sale of tangible fixed assets		**(4)**	(9)
(Increase)/decrease in debtors		**(2,476)**	1,132
Increase in creditors		**4,725**	95
		20,183	14,924

2 Analysis of cash flow

		2000 £000	1999 £000
Returns on investments and servicing of finance			
Interest received		**239**	142
Interest paid		**(9,967)**	(7,240)
Movement in cost of raising finance		**(1,927)**	(4)
Net cash outflow		**(11,655)**	(7,102)
Capital expenditure			
Purchase of tangible fixed assets		**(91,731)**	(15,086)
Sale of tangible fixed assets		**6,576**	12,187
Grants received		**130**	1,068
Net cash outflow		**(85,025)**	(1,831)
Management of liquid resources			
(Increase)/decrease in short-term deposits	3	**(9,092)**	1,896
Net cash (outflow)/inflow		**(9,092)**	1,896
Financing			
Issue of ordinary share capital		**131**	18
Mortgage on freehold property	3	**117,459**	–
Drawdown/(repayment) of bank loan	3	**18,397**	(5,500)
Repayment of mortgage	3	**(42,960)**	(1,107)
Net cash inflow/(outflow)		**93,027**	(6,589)

Notes to the cash flow statement

3 Analysis of net debt

	At 1.4.99 £000	Cash flow £000	**At 31.3.00 £000**	At 1.4.98 £000	Cash flow £000	At 31.3.99 £000
Cash at bank and in hand	2	199	**201**	36	(34)	2
Bank overdrafts	(4,726)	1,404	**(3,322)**	(2,024)	(2,702)	(4,726)
	(4,724)	1,603	**(3,121)**	(1,988)	(2,736)	(4,724)
Debt due within one year						
Securitised loan	–	(2,529)	**(2,529)**	–	–	–
Less cost of raising of finance	–	*340	**340**	–	–	–
Debt due after one year						
11% Convertible Unsecured Loan	(4,040)	–	**(4,040)**	(4,040)	–	(4,040)
11.125% First Mortgage Debenture	(12,500)	–	**(12,500)**	(12,500)	–	(12,500)
11.625% First Mortgage Debenture	(7,000)	–	**(7,000)**	(7,000)	–	(7,000)
Mortgage: Lombard North Central	(2,960)	2,960	–	(4,067)	1,107	(2,960)
Mortgage: Bradford & Bingley Building Society	(30,000)	30,000	–	(30,000)	–	(30,000)
Bristol & West Building Society	(10,000)	10,000	–	(10,000)	–	(10,000)
Securitised loan	–	(114,930)	**(114,930)**	–	–	–
Bank loan	–	(18,397)	**(18,397)**	(5,500)	5,500	–
Less cost of raising of finance	435	*1,587	**2,022**	431	4	435
	(66,065)	(90,969)	**(157,034)**	(72,676)	6,611	(66,065)
Short-term deposits	2,332	9,092	**11,424**	4,228	(1,896)	2,332
Total	(68,457)	(80,274)	**(148,731)**	(70,436)	1,979	(68,457)

* *Net of amortisation in year of £617,000*

Accounting policies

31 March 2000

a Basis of consolidation and accounting

The Group accounts include the accounts of the Company and its subsidiary undertakings to 31 March 2000. The accounts have been prepared in accordance with applicable accounting standards. Compliance with SSAP 19 "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and amortisation and an explanation of the departure is given in Note c below.

b Rental income

Rental income represents amounts receivable in respect of rents from investment properties situated in the United Kingdom.

c Investment Properties

In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. No provision is made for depreciation of freehold properties or for amortisation of leasehold properties held on leases having more than 20 years unexpired. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is, in the opinion of the Directors, necessary for the accounts to show a true and fair view in accordance with applicable accounting standards.

The depreciation or amortisation (which would, had the provisions of the Act been followed, have reduced profit for the year) is only one of the factors reflected in the annual valuation and the amount attributable to this factor cannot reasonably be separately identified or quantified.

Properties held in the course of development are included in the balance sheet at cost, including interest and other outgoings. For this purpose, the amount of interest capitalised is calculated by reference to the actual interest rate payable on borrowings for development purposes or, as regards developments financed out of general funds, by reference to the average rate paid on funding the assets employed by the Company.

d Grants

Grants received in respect of improvements to investment properties are taken into account in determining the surplus or deficit on revaluation.

e Depreciation and amortisation

Depreciation is provided on equipment, fittings and motor vehicles on a straight line basis over their useful lives at a rate of 25% per annum.

f Deferred taxation

No provision is made for the amount of taxation which would become payable under present legislation if the properties held as investments were sold at the values at which they are stated in the financial statements.

Provision is made for deferred taxation on timing differences between the treatment of certain items for taxation and accounting purposes, only to the extent that it is reasonably probable that such taxation will be payable in the foreseeable future.

g Pensions

The cost of contributions in respect of defined contribution schemes and related benefits is charged to the profit and loss account as incurred.

Notes to the accounts

For the year ended 31 March 2000

1 Segmental analysis

	Turnover 2000 £000	Costs 2000 £000	Gross profit 2000 £000	Turnover 1999 £000	Costs 1999 £000	Gross profit 1999 £000
Rental income	**23,397**	**(802)**	**22,595**	18,207	(674)	17,533
Service charges and other recoveries	**4,609**	**(6,098)**	**(1,489)**	3,765	(5,213)	(1,448)
Services, fees, commissions and sundry income	**1,311**	**(709)**	**602**	769	(184)	585
	29,317	**(7,609)**	**21,708**	22,741	(6,071)	16,670

All business in the Group was continuing and occurred in the United Kingdom.

2 Surplus on disposal of investment properties

The profit arising on the sale of properties is calculated by reference to the book value at the date of sale. Book value comprises the valuation as at 31 March 1999 plus additions at cost since that date. Surplus on disposal of investment properties includes the excess of proceeds from insurance policies over costs, due allowance being given for the diminution in value of the property, following the destruction of the buildings at Ferry Lane by fire.

3 *Interest receivable*

The following amounts were earned during the year:	2000 £000	1999 £000
Short-term deposits	**230**	128
Other	**15**	7
	245	135

4 Interest payable

The following amounts were payable during the year:	2000 £000	1999 £000
11% Convertible Loan Stock 2011	**444**	444
11.125% First Mortgage Debenture Stock 2007	**1,391**	1,391
11.625% First Mortgage Debenture Stock 2007	**814**	814
Mortgage interest	**7,464**	3,669
Bank and other interest on amounts wholly repayable within five years	**995**	827
	11,108	7,145
Interest capitalised on development properties	**(742)**	(730)
Charged to profit and loss account	**10,366**	6,415

Mortgage interest includes early redemption and other loan breakage costs of £993,000.

5 Profit on ordinary activities before taxation

The profit for the year is stated after charging:	2000 £000	1999 £000
Head rents payable	**802**	650
Auditors' remuneration	**69**	47
Non-audit fees paid to the Group's Auditors	**85**	137
Depreciation	**485**	462
Salaries	**2,969**	2,429
Social Security costs	**285**	250
Other pensions costs	**196**	213

Audit fees included in the Company's accounts were £6,200 (1999: £9,400). In addition non-audit fees of £442,000 paid to the Group's auditors have been capitalised within cost of raising finance and investment properties.

6 Employees and Directors

Staff composition on the last day of the financial year was:	2000 Number	1999 Number
Executive Directors	**4**	5
Financial division staff	**28**	18
Marketing division staff	**8**	5
Estates division staff	**12**	7
Central Administration staff	**8**	10
	60	45
Service charge recoverable staff	**70**	37
	130	82

The average number of persons employed during the year was 106 (1999: 82).

The remuneration of the Executive Directors is determined by the Remuneration Committee of the Board. A table of the Directors' emoluments is included in the report of the Remuneration Committee on page 27.

The Company operates a bonus scheme for all Executive Directors and senior managers based on annual profit targets. The structure of the scheme and the level of bonus payments is determined by the Remuneration Committee.

Details of Directors' beneficial interests in the shares of the Company and in options to acquire shares in the Company are given in the Report of the Directors on page 30.

7 Taxation

	2000 £000	1999 £000
Corporation tax at 30% (1999: 31%)	**2,238**	1,780
Prior year adjustment	**–**	–
	2,238	1,780

The taxation charge for the year ended 31 March 2000 was £2,238,000 representing an effective rate of 25.5% (1999: 21.4%). Effective tax rate excluding property disposal amounted to 24.3% (1999: 23.8%).

The increase in the rate of taxation is due principally to the non-availability this year of ACT previously written off and brought forward losses (trading or capital) to offset against current tax liabilities.

8 Dividends

	2000 £000	1999 £000
Interim dividend of 6.0p (1999: 5.5p) per ordinary share	**941**	873
Proposed final dividend of 15.0p (1999: 13.5p) per ordinary share	**2,357**	2,116
	3,298	2,989

The interim dividend was paid on 1 February 2000 and the proposed final dividend is payable on 1 August 2000 to shareholders on the register at the close of business on 7 July 2000.

9 Earnings per share and net assets per share

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

	Profit 2000 £000	Profit 1999 £000	Earnings per share 2000 pence	Earnings per share 1999 pence
Profit for the year attributable to shareholders used for calculating basic earnings per share	**6,523**	6,536	**41.6**	41.2
Other items	**(217)**	(1,231)	**(1.4)**	(7.8)
Profit for the year attributable to shareholders used for calculating earnings per share excluding other items	**6,306**	5,305	**40.2**	33.4

Reconciliation of profit used in calculating diluted earnings per share.

	Profit 2000 £000	Profit 1999 £000	Earnings per share 2000 pence	Earnings per share 1999 pence
Profit for the year attributable to shareholders used for calculating basic earnings per share	**6,523**	6,536		
Interest saving net of taxation on 11% Convertible Loan Stock	**311**	307		
Profit for the year attributable to shareholders used in calculating the underlying diluted earnings per share	**6,834**	6,843	**41.0**	40.9
Other items	**(217)**	(1,231)	**(1.3)**	(7.3)
Profit for the year attributable to shareholders used in calculating the diluted earnings per share excluding other items	**6,617**	5,612	**39.7**	33.6

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

	2000 £000	1999 £000
Used for calculating basic earnings per share	**15,684,658**	15,867,911
Dilution due to Share Option Scheme	**166,574**	59,779
Dilution due to Convertible Loan Stock	**808,000**	808,000
Used for calculating diluted earnings per share	**16,659,232**	16,735,690

Net assets per share have been calculated by dividing net assets of £143,018,000 less investment in own shares of £1,015,000 (1999: £108,453,900) by 15,713,815 (1999: 15,876,268) being the number of shares in issue at 31 March 2000 less investment in own shares of 200,000.

10a Investment properties – Group

	Freehold £000	Mainly freehold £000	Long leasehold £000	Short leasehold £000	Total £000
Balance at 1 April 1999	133,278	12,900	39,800	–	185,978
Additions during the year	53,047	35,014	4,085	–	92,146
Disposals during the year	(4,675)	–	(410)	–	(5,085)
Revaluation during the year	26,838	421	3,950	–	31,209
Balance at 31 March 2000	**208,488**	**48,335**	**47,425**	**–**	**304,248**
The historical cost of investment properties					
Balance at 1 April 1999	86,046	10,736	33,146	7	129,935
Balance at 31 March 2000	**134,904**	**45,750**	**36,725**	**7**	**217,386**

The total of investment properties at £304,248,000 (1999: £185,978,000) includes £10,903,000 in respect of work in progress on the Union Street development (1999: £5,080,000 on the Union Street and Helix Business Park developments). As work in progress these properties have not been included in the accounts at valuation. The Directors are advised that the value of the properties at 31 March 2000 was not less than their book cost (see Note 10c).

Additions during the year are stated net of £129,800 relating to grants receivable (1999: £594,500) and include capitalised interest, gross of tax element, of £742,000.

10b Investment properties – Company

	Freehold £000	Mainly freehold £000	Leasehold £000	Short leasehold £000	Total £000
Balance at 1 April 1999	48,523	12,000	8,998	–	69,521
Disposals	(980)	–	(410)	–	(1,390)
Transferred to subsidiary undertakings	(27,672)	–	(2,425)	–	(30,097)
Additions during the year	1,422	1,642	–	–	3,064
Revaluation during the year	3,027	(1,667)	337	–	1,697
Balance at 31 March 2000	**24,320**	**11,975**	**6,500**	**–**	**42,795**
The historical cost of investment properties					
Balance at 1 April 1999	29,789	9,811	6,817	7	46,424
Balance at 31 March 2000	**15,102**	**11,453**	**4,439**	**7**	**31,001**

10c Valuation

The Group's investment properties were valued by Insignia Richard Ellis, Chartered Surveyors, at 31 March 2000 on the basis of open market existing use value and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors. The valuation at that date amounted to £312,385,000 (1999: £187,108,000) including £350,000 (1999: £210,000) in respect of the Company's short leasehold interest (expiring 11 February 2011) in the Alpha Business Centre, Walthamstow and £18,690,000 in respect of development property at 1-10 Union Street, Southwark SE1. For accounts purposes, as the unexpired term of the leasehold interest in Alpha Business Centre is less than 20 years, the valuation of the property has been retained at a nominal £1. The Union Street development has been valued at book cost £10,903,000. After these adjustments the aggregate valuation for accounts purposes is £304,248,000 (1999: £185,978,000).

11a Other fixed assets – Group

Cost	Motor vehicles £000	Equipment and fixtures £000	Total £000
Balance at 1 April 1999	368	2,118	2,486
Additions during the year	107	352	459
Disposals during the year	(93)	(2)	(95)
Balance at 31 March 2000	**382**	**2,468**	**2,850**
Depreciation			
Balance at 1 April 1999	164	1,143	1,307
Charged during the year	87	398	485
Disposals during the year	(57)	(2)	(59)
Balance at 31 March 2000	**194**	**1,539**	**1,733**
Net book value 31 March 2000	**188**	**929**	**1,117**
Net book value 31 March 1999	204	975	1,179

11b Other fixed assets – Company

Cost	Equipment and fixtures £000	Total £000
Balance at 1 April 1999	688	688
Additions during the year	29	29
Transferred to subsidiary undertakings	(119)	(119)
Balance at 31 March 2000	**598**	**598**
Depreciation		
Balance at 1 April 1999	265	265
Charged during the year	160	160
Transferred to subsidiary undertakings	(73)	(73)
Balance at 31 March 2000	**352**	**352**
Net book value 31 March 2000	**246**	**246**
Net book value 31 March 1999	423	423

12 Investment in own shares

The Company has established an Employee Share Ownership Trust to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 Share Option Scheme. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. At 31 March 2000, the number of shares held by the Trust totalled 200,000 shares (1999: 200,000) with a nominal value of £20,000 (1999: £20,000) and the book value of the shares amounted to £1,015,000 (1999: £1,024,000). The shares, whilst legally not the property of the Company, have been included in fixed asset investments.

13 Debtors

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Amounts falling due within one year:				
Trade debtors	**3,175**	1,270	–	–
Amounts owed by subsidiary undertakings	–	–	**118,400**	51,399
Prepayments and accrued income	**1,594**	977	–	415
Deposits on investment acquisitions	**240**	–	–	–
Corporation tax – payment on account	–	–	**1,311**	–
	5,009	2,247	**119,711**	51,814
Amounts falling due after one year:				
Advance Commissions	**227**	267	–	–
Total debtors	**5,236**	2,514	**119,711**	51,814

14 Investments

Investments of £11,424,000 (1999: £2,332,000) comprise short-term deposits with an original maturity date of less than three months. £1,991,000 of investments were in the hands of the Trustees to Debenture Stock-holders following the sale of a property, to be released to the Company upon lodgement of adequate security. The balance of £9,433,000 comprised deposits held for debt service and other costs under the securitised loan facility with WestLB of £3,691,000 and other short-term deposits of £5,742,000.

15 Creditors: amounts falling due within one year

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Secured mortgage borrowings (Note 16)	**2,189**	175	–	188
Bank loan and overdraft (secured)	**3,322**	4,726	–	4,000
Trade creditors	**2,126**	946	–	–
Amounts owed to subsidiary undertakings	–	–	**46,037**	12,429
Taxation and social security	**1,107**	1,200	**222**	220
Deferred income – rent and service charges	**4,294**	2,344	–	–
Tenants' deposits	**2,595**	1,662	–	–
Other creditors	–	1,024	–	1,024
Accruals	**6,537**	3,126	**28**	139
Corporation tax payable	**851**	1,172	–	105
Advance corporation tax payable	–	218	–	218
Dividends	**2,357**	2,116	**2,357**	2,116
	25,378	18,709	**48,644**	20,439

See Note 16 for details of security in relation to the bank loans and overdraft.

Other creditors in 1999 represent amounts owing relating to investment in the Company's own shares purchased for the Employee Share Ownership Trust (Note 12).

16 Creditors: amounts falling due after more than one year

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Long-term borrowings consist of:				
Unsecured:				
11% Convertible Loan Stock 2011	**4,040**	4,040	**4,040**	4,040
Secured:				
11.125% First Mortgage Debenture Stock 2007	**12,500**	12,500	**12,500**	12,500
11.625% First Mortgage Debenture Stock 2007	**7,000**	7,000	**7,000**	7,000
Other secured loans	**133,494**	42,501	**12,266**	2,776
	157,034	66,041	**35,806**	26,317
Less: amount falling due within one year	**(2,189)**	(175)	**–**	(188)
	154,845	65,866	**35,806**	26,128

The secured loans are secured on properties of value £297,595,000. Interest on the Debenture Stocks is payable on 31 March and 30 September in each year. Interest on the 11% Convertible Unsecured Loan Stock 2011 is payable on 30 June and 31 December each year. Other secured loans carry interest at a margin ranging from 1.10% to 1.50% over LIBOR/base rate.

Workspace Holdings Limited, the subsidiary company used for the WestLB financing, holds an interest rate collar on £120.1m which has a cap of 9% until 16 July 2001, falling then to 8% until 15 July 2009, and a floor of 5% until 16 July 2001, falling to 4.5% until 15 July 2009.

The 11% Convertible Unsecured Loan Stock 2011 holders have the option to convert in each year on the basis of 10p nominal of ordinary share capital for every £5 of stock held.

17 Borrowings and financial instruments

i Policies

The Group finances its operation through a mixture of retained profits and borrowings. The Group borrows at both fixed and floating rates of interest and then uses interest rate swaps and caps to generate the desired interest and risk profile. During the year and as part of the arrangements for the refinancing provided by WestLB the Group assigned its £20m interest rate cap and £20m interest rate swap to WestLB for incorporation in a new £122m amortising interest rate collar. No premium payment was made for this collar which is financed by a 0.22% adjustment to the interest rate margin paid on the borrowing.

The Group's policy is to fix or cap at least 50% of its borrowings. At the year end 15% of the Group's borrowings were fixed with a further 74% subject to a collar.

The Group's policy is to ensure that at least 50% of borrowings have a maturity in excess of five years. At 31 March 2000 82% of the Group's borrowings mature after five years or more.

The Group has taken advantage of the exemption for disclosure of short-term debtor and creditor balances.

ii Financial assets

Financial assets comprised:	2000 £000	1999 £000
Cash at bank and in hand	**201**	2
Cash on deposit	**11,424**	2,332
	11,625	2,334

iii Financial liabilities

All of the Group's financial liabilities are denominated in sterling. The interest rate profile of the Group's financial liabilities at 31 March 2000 was:

	2000 £000	1999 £000
Floating rate financial instruments	**138,838**	27,686
Fixed rate financial liabilities	**23,540**	43,540
	162,378	71,226

As noted above (Note 16) the Group has the benefit of an interest rate collar until July 2009.

For its fixed rate financial liabilities:

Weighted average interest rate	11.25%
Weighted average period fixed	7.69 years

Floating rate financial liabilities comprise mortgages that bear interest at rates based upon one, three, six or 12 month LIBOR. The average margin on these borrowings at 31 March 2000 was 1.03%.

iv Maturity of financial liabilities

A maturity analysis of loans is shown below:	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Less than one year	**5,511**	4,901	–	4,188
Between one year and two years	**15,124**	227	**12,300**	227
Between two years and three years	**9,658**	246	–	246
Between three years and four years	**3,561**	2,934	–	268
Between four years and five years	**3,571**	2,958	–	291
In five years and more	**124,953**	59,960	**23,540**	25,268
	162,378	71,226	**35,840**	30,488
Less cost of raising finance	**(2,022)**	(435)	**(34)**	(172)
	160,356	70,791	**35,806**	30,316

v Borrowing facilities

At 31 March 2000 the Group had undrawn borrowing facilities of £19,000,000 on which conditions precedent had been met.

vi Fair value of financial liabilities

Book and fair values of financial liabilities are:

	2000 Book value £000	2000 Fair value £000	1999 Book value £000	1999 Fair value £000
Primary financial instruments				
Short-term liabilities	**(5,511)**	**(5,511)**	(4,901)	(4,901)
Long-term borrowing	**(154,845)**	**(163,828)**	(66,305)	(79,425)
Financial assets	**11,625**	**11,625**	2,334	2,334
Derivative financial instruments				
Interest rate swaps	–	–	–	(1,022)
Interest rate cap/collar	**361**	**(1,076)**	415	102
	(148,370)	**(158,790)**	(68,457)	(82,912)

The fair value of the interest rate cap/collar have been determined by reference to market prices and discounted cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

18 Deferred taxation

	2000 £000	1999 £000
Potential deferred taxation on:		
Corporation tax payable if the investment properties were disposed of at their revalued amounts	**24,456**	14,932
Other short-term timing differences	**(173)**	(16)
	24,283	14,916
Provision made	**–**	–

Deferred tax on the revaluation of investment properties and industrial building allowances has not been provided for because in the Directors' opinion the properties are held for long-term investment purposes and not for resale.

19 Share capital

	2000 Number	1999 Number
Authorised:		
Ordinary shares of 10p each	**21,500,000**	21,500,000
	£	£
Issued:		
Fully paid ordinary shares of 10p each	**1,591,382**	1,587,627

During the year 37,547 shares were issued. 35,000 shares were issued at a price of £3.50 on exercise of options under the Executive Share Option Scheme and the Employee Share Option Scheme (30,000 on 14 February 2000 and 5,000 on 6 July 1999). The market price of Workspace Group ordinary shares on these days was £7.85 and £6.38 respectively. 2,547 shares were issued at a price of £3.25 on 1 December 1999 under the Save As You Earn Share Option Scheme. The market price of Workspace Group ordinary shares on that day was £7.60.

At 31 March 2000 there were 837,425 (1999: 775,312) share options exercisable on the Company's ordinary share capital. Of these, 533,985 are Directors' share options and are disclosed in the Report of the Directors, and 122,688 options are held by employees who are not Directors and these are analysed below:

Employee Share Option Scheme

	At 31.03.99	Granted during the year	Exercised/lapsed during the year	At 31.03.00	Exercise price £	Normal exercise date From	To
1991 Share Option Scheme	10,000	–	(5,000)	5,000	3.50	21.10.1994	20.10.2001
1993 Share Option Scheme	12,290	–	–	12,290	3.20	7.1997	7.12.2003
	14,976	–	–	14,976	3.25	7.1997	7.12.2003
	10,578	–	–	10,578	3.40	25.6.2000	24.6.2004
	17,648	–	–	17,648	3.40	25.6.2000	24.6.2007
	15,000	–	(2,172)	12,828	4.51	29.6.2001	28.6.2005
	–	15,508	(6,000)	9,508	4.995	1.4.2002	1.4.2006

Save As You Earn Share Option Scheme

At 31.03.99	Granted during the year	Exercised/lapsed during the year	At 31.03.00	Exercise price £	Normal exercise date
1,827	–	–	1,827	3.20	1.1.2001
1,074	–	–	1,074	3.63	1.7.2001
2,547	–	(2,547)	–	3.25	1.12.1999
11,078	–	(418)	10,660	3.30	1.9.2002
3,545	–	–	3,545	3.30	1.9.2004
7,218	–	(405)	6,813	4.25	1.9.2003
–	16,375	(1,250)	15,125	5.40	1.9.2004
–	816	–	816	5.40	1.9.2006

The exercise of all options, other than those obtained under the Group's Save As You Earn Share Option Scheme, is dependent upon the Group achieving specified performance targets. The prescribed targets have been met in respect of all options granted in 1994 and earlier years, amounting to 110,999 ordinary shares.

20 Other reserves

	Group 2000 £000	Group 1999 £000	**Company 2000 £000**	Company 1999 £000
(a) Share premium account				
Balance at 1 April 1999	**39,668**	39,651	**39,668**	39,651
Additions	**127**	17	**127**	17
Balance at 31 March 2000	**39,795**	39,668	**39,795**	39,668
(b) Revaluation reserve				
Property valuation surplus:				
Balance at 1 April 1999	**56,043**	34,309	**23,097**	17,252
Disposal	**(840)**	(109)	**(13,002)**	(1,864)
Year-end revaluation adjustment	**31,209**	21,843	**1,697**	7,709
Balance at 31 March 2000	**86,412**	56,043	**11,792**	23,097
(c) Profit and loss account				
Balance at 1 April 1999	**11,155**	7,499	**12,635**	9,663
Retained profit for the year	**3,225**	3,547	**2,516**	1,108
Transfer from revaluation reserve	**840**	109	**13,002**	1,864
Balance at 31 March 2000	**15,220**	11,155	**28,153**	12,635

Workspace Group PLC has not presented its own profit and loss account as permitted by Section 230(3) of the Companies Act 1985. The consolidated profit attributable to the shareholders dealt with in the accounts of the holding company was £5,814,000 (1999: £4,097,800).

21 Reconciliation of movements in shareholders' funds

	Group 2000 £000	Group 1999 £000	**Company 2000 £000**	Company 1999 £000
Profit for the financial period	**6,523**	6,536	**5,814**	4,097
Dividends	**(3,298)**	(2,989)	**(3,298)**	(2,989)
Unrealised surplus on revaluation of properties	**31,209**	21,843	**1,697**	7,709
Issue of shares	**130**	19	**130**	19
Net addition to shareholders' funds	**34,564**	25,409	**4,343**	8,836
Opening shareholders' funds	**108,454**	83,045	**76,988**	68,152
Closing shareholders' funds	**143,018**	108,454	**81,331**	76,988

22 Capital commitments

At the year end the estimated amounts of commitments for future capital expenditure were:

	Group 2000 £000	Group 1999 £000
Under contract	**8,799**	1,156
Board authorised but not contracted	**6,284**	4,317

23 Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge for the year represents contributions payable by the Company to the fund.

The Company's commitment with regard to pension contributions is equivalent to 10% of an employee's salary provided the employee contributes a minimum of 5%. For the Executive Directors and Divisional Directors the contributions are 16.5% and 6.5% respectively. The pension scheme is open to every employee after six months' qualifying service.

24 Subsidiary undertakings

The Company wholly owns the following subsidiary undertakings incorporated in the UK and registered in England, all of which are consolidated in the Group accounts:

Name	Nature of business	Share capital
Workspace 1 Ltd*	Property investment	2 shares of £1 each
Workspace 2 Ltd	Property investment	1 share of £1
Workspace 3 Ltd*	Property investment	2 shares of £1 each
Workspace 4 Ltd*	Property investment	2 shares of £1 each
Workspace 5 Ltd*	Property investment	2 shares of £1 each
Workspace 6 Ltd	Property investment	1 share of £1
Workspace 7 Ltd	Property investment	1 share of £1
Sussex Workspace Ltd*	Dormant	1 share of £1
Midlands Workspace Ltd*	†Property investment	1 share of £1
Redhill Workspace Ltd	Property investment	1 share of £1
The Olde Corporation Ltd	Property investment	1 share of £1
Exoport Ltd	†Property investment	2 shares of £1 each
Workspace Holdings Ltd	Holding company	2 shares of £1 each
London Industrial (Kingsland Viaduct) Ltd	Property investment	1 share of £1
LI Property Services Ltd	Insurance agents	100 shares of £1 each
Workspace Management Ltd	Property management	2 shares of £1 each
Enerjet Limited	Energy supply	1 share of £1

The Company also owns, through Midlands Workspace Ltd, 60% of the issued share capital (6 shares) in a dormant estate management company, Barrington Court Management Ltd.

*The share capital of these subsidiaries is held by other Group companies

†Ceased trading prior to the year end.

25 Subsequent Events

An investment property, South Block Westminster Business Square, London SE1, which was held in the books at a valuation of £1,230,000 was sold on 19 April 2000 for a consideration of £1,235,000. At the same time an option agreement was entered with the purchaser for the sale of some vacant land adjacent to the property for a consideration of £500,000.

Key property statistics

Key property statistics	**31 March 2000**	31 March 1999	31 March 1998	31 March 1997	31 March 1996
Number of estates	94	73	75	71	64
Lettable floorspace (sq ft)	5,677,521	3,824,913	3,721,827	3,297,434	2,864,766
Number of lettable units (units)	3,523	2,696	2,620	2,514	2,177
Average unit size (sq ft)	1,612	1,412	1,421	1,312	1,316
Number of units occupied (units)	3,079	2,311	2,272	2,111	1,757
Number of units vacant (units)	444	385	348	403	420
Rent roll of occupied units	£25,855,226	£17,361,828	£16,917,861	£14,757,424	£12,596,457
Average rent per sq ft*	£5.21	£5.20	£5.18	£5.23	£5.28
Overall occupancy*†	87.35%	87.31%	87.71%	85.52%	83.85%

* These figures are influenced by acquisitions and disposals.

† Includes floorspace withdrawn for refurbishment.

Investment properties owned by the Group

London and South East portfolio

	Name of property	Lettable area sq ft	Number of units	Description	Tenure
	Aberdeen Centre, Islington, London N5	64,975	144	Business centre	Freehold
	Acton Business Centre, London NW10	49,809	96	Business centre	Freehold
	Alpha Business Centre, Walthamstow, London E17	22,827	51	Business centre	Short leasehold
	Alscot Road Industrial Estate, Bermondsey, London E17	6,370	6	Single storey light industrial estate	Freehold
	Archer Street Studios, Archer Street, London W1	14,200	24	Business centre	Freehold
	Arches Business Centre, Southall, Middlesex UB2	40,725	20	Business centre	Freehold
	Artesian Close Industrial Estate, Brent, London NW10	22,747	16	Single storey light industrial estate	Freehold
■	The Barley Mow Centre, Chiswick, London W4	80,764	223	Business centre	Freehold
	Belgravia Workshops, Islington, London N9	33,757	53	Business centre	Freehold
■	Boundary Business Centre, Woking GU21	45,361	25	Light industrial and BI office estate	Freehold
■	Bow Enterprise Park, London E2	63,791	31	Single storey light industrial estate	Freehold
●	Brookway Trading Estate, Newbury, Berks RG14	17,519	10	Single storey light industrial estate	Long leasehold
●	Buzzard Creek Industrial Estate, Barking, Essex IG11	45,000	18	Single storey light industrial estate	Long leasehold
	Canterbury Industrial Estate, Lewisham, London SE15	18,283	13	Single storey light industrial estate	Freehold
	Cremer Business Centre, Shoreditch, London E2	41,362	41	Flatted industrial	Freehold
	Ensign Court, Wapping, London E4	19,552	12	Flatted industrial	Freehold
	Ferry Lane Industrial Estate, Rainham, Essex RM13	34,635	4	Cleared site	Freehold
●	Glenville Mews Industrial Estate, Kimber Road SW18	44,968	32	Single storey light industrial estate	Long leasehold
■	Grand Union Centre, North Kensington, London NW10	50,798	35	Business centre	Freehold
	Helix Business Park, Camberley	19,645	20	Business centre	Long leasehold
	Highway Business Park, Wapping, London E1	20,008	24	Single storey light industrial estate	Freehold
	Holywell Centre, City of London EC2	22,166	31	Business centre	Freehold
	Hooley Lane Goods Yard, Redhill, Surrey RH1	N/a	16	Single storey industrial and open storage land	Freehold
■	Kingsland Viaduct, Hackney, London E2	301,966	172	Railway arches	Long leasehold
■	The Leathermarket, Bermondsey, London SE1	125,098	148	Business centre	Freehold
	Leroy House, Islington, London N1	51,991	96	Business centre	Freehold
	Long Island House, Acton, London W3	26,580	18	Business centre	Freehold
	Magenta House, Whitechapel, London E1	11,930	11	Offices	Freehold
●	Maple Industrial Estate, Feltham, Middlesex TW13	18,268	18	Single storey light industrial estate	Long leasehold
	The Microcentre, Reading, Berks RG2	12,658	12	Single storey light industrial estate	Long leasehold
■	3 Mills Estate, Stratford, London E3	595,355	122	Industrial estate film studios	Part freehold, part long leasehold
■	Pall Mall Deposit, North Kensington, London W10	51,327	95	Business centre	Freehold
■	Park Avenue Trading Estate, Luton, Beds LU3	203,185	34	Single storey light industrial estate	Freehold
	Parmiter Industrial Estate, Bethnal Green, London E2	35,665	31	Single storey light industrial estate	Freehold
	Pensbury Industrial Estate, Wandsworth, London SW8	19,971	20	Single storey light industrial estate	Freehold

London and South East portfolio continued

	Name of property	Lettable area sq ft	Number of units	Description	Tenure
	Rainbow Industrial Park, Raynes Park London SW20	37,724	18	Single storey industrial and open storage land	Freehold
●	Redkiln Close Trading Estate, Horsham West Sussex RH13	36,741	13	Single storey light industrial estate	Long leasehold
	Saffron Court Industrial Estate, Basildon, Essex SS15	58,232	41	Single storey light industrial estate	Freehold
■	Seax Centre, Basildon, Essex SS15	128,658	28	Single storey light industrial estate	Freehold
*	Shaftesbury Business Centre, North Kensington London W10	11,012	30	Business centre	Freehold
	Stevenage Enterprise Park, Stevenage, Herts SG1	29,605	30	Single storey light industrial estate	Freehold
*	Sugarhouse Business Centre, Stratford, London E15	23,118	20	Business centre	Freehold
	Sugarhouse Lane (20, and 107 High Street) Stratford, London E15	47,560	17	Offices and warehouse	Freehold
	Thurston Road Industrial Estate, Lewisham London SE13	346,916	16	Single storey light industrial estate	Freehold
	Union Street (1-10), Southwark, London SE1	95,281	1	Vacant building undergoing refurbishment	Freehold
	Union Walk, Shoreditch, London E2	26,691	21	Railway arches	Long leasehold
	Watchmoor Park, Camberley, Surrey GU15	8,060	5	Single storey light industrial estate	Long leasehold
	Whitechapel Technology Centre, Whitechapel, London E1	36,272	36	Business centre	Freehold
	Total London and South East	**2,819,126**	**1,998**		

Investment properties owned by the Group

Midlands portfolio

	Name of property	Lettable area sq ft	Number of units	Description	Tenure
●	Aston Fields Trading Estate, Bromsgrove, Worcs	69,916	35	Single storey light industrial estate	Long leasehold
	Barrington Court, Brackley, Northants	10,690	6	Single storey light industrial estate	Freehold
●	Belfont Trading Estate, Halesowen, West Midlands	24,857	15	Single storey light industrial estate	Long leasehold
	Bentley Lane, Walsall, West Midlands	56,515	18	Single storey light industrial estate	Freehold
●	Bookvale Trading Estate, Witton, Birmingham	38,807	22	Single storey light industrial estate	Long leasehold
	Bradford Court, Digbeth, Birmingham	22,916	52	Business centre	Freehold
	Brook Street, Tipton, West Midlands	32,763	93	Business centre/ light industrial estate	Long leasehold
	Caxton Court, Milton Keynes, Bucks	43,964	32	Single storey light industrial estate	Freehold
	Deansbank Centre, Walsall, West Midlands	4,360	4	Single storey light industrial estate	Freehold
●	Derby Trading Estate, Derby	52,340	26	Single storey light industrial estate	Long leasehold
	Enterprise Park, Newark, Notts	21,756	12	Single storey light industrial estate	Long leasehold
●	Federation Road Trading Estate, Stoke on Trent, Staffs	34,752	6	Single storey light industrial estate	Long leasehold
	Jewellery Business Centre, Hockley, Birmingham	33,621	69	Business centre	Long leasehold
	Keys Court, Digbeth, Birmingham	8,212	29	Business centre	Freehold
■	Leyland Trading Estate, Wellingborough, Northants	246,933	135	Single storey light industrial estate	Virtual freehold
●	Long Lane Trading Estate, Blackheath, W Midlands	21,183	20	Single storey light industrial estate	Long leasehold
●	Park Trading Estate, Hockley, Birmingham	15,868	10	Single storey light industrial estate	Long leasehold
●	Primrose Hill Trading Estate, Netherton, W Midlands	43,939	21	Single storey light industrial estate	Long leasehold
●	Royal Oak Trading Estate, Daventry, Northants	45,420	31	Single storey light industrial estate	Long leasehold
	St David's Square, Peterborough, Cambridgeshire	53,007	29	Single storey light industrial estate	Freehold
●	Small Heath Trading Estate, Birmingham	48,771	28	Single storey light industrial estate	Long leasehold
●	Stechford Trading Estate, Birmingham	35,231	20	Single storey light industrial estate	Long leasehold
●	Tile Cross Trading Estate, Marston Green, Birmingham	34,271	20	Single storey light industrial estate	Long leasehold
●	Two Woods Trading Estate, Brierley Hill, W Midlands	16,728	10	Single storey light industrial estate	Long leasehold
●	Vauxhall Trading Estate, Saltley, Birmingham	17,848	10	Single storey light industrial estate	Long leasehold
●	Vernon Trading Estate, Blackheath, West Midlands	20,206	12	Single storey light industrial estate	Long leasehold
	Total Midlands	**1,054,874**	**767**		

Tonex portfolio

	Name of property	Lettable area sq ft	Number of units	Description	Tenure
*	Arklow Road Trading Estate, New Cross, London SE14	73,583	7	Single storey office and light industrial estate	Freehold
*	Ashburton Grove, Highbury, London N7	63,066	5	Single storey light industrial estate	Leasehold
*	Faircharm Trading Estate, Greenwich, London SE8	107,540	64	Industrial estate	Freehold
*	Faircharm Trading Estate, Leicester	217,240	59	Single storey light industrial estate	Mainly freehold
*■	Great Guildford Business Square, Southwark London SE1	92,995	63	Business centre	Freehold
*	Greenheath Business Centre, Bethnal Green London E2	59,404	47	Industrial estate	Mainly freehold
*	Hatton Square Business Centre, Clerkenwell London EC1	43,274	55	Business centre	Freehold
*	Lea Road Trading Estate, Waltham Abbey, Essex	56,471	15	Single storey industrial estate	Freehold
*	Mare Street Studios, Bethnal Green, London E8	41,146	23	Business centre	Mainly freehold
*	Parkhall Road Trading Estate, West Dulwich London SE1	136,267	42	Industrial estate	Freehold
*	Payne Road Studios, Tower Hamlets, London E3	19,776	14	Business centre	Freehold
*	Phoenix Business Centre, Tower Hamlets, London E3	22,916	13	Business centre	Freehold
*	Riverside Business Centre, Earlsfield, London SW18	82,516	90	Business centre	Freehold
*†	South Block Westminster Business Square, Lambeth, London SE11	8,254	1	Business centre	Freehold
*■	Tower Bridge Business Complex, Bermondsey London SE16	424,128	102	Business centre	Part freehold part leasehold
*	Waterside House, Hackney, London N1	7,735	5	Office	Freehold
*■	Westminster Business Square, Lambeth, London SE11	63,472	48	Business centre	Freehold
*	Wharf Road Trading Estate, Hackney, London N1	36,345	16	Industrial estate	Freehold
*	Wingate Trading Estate, Tottenham, London N17	131,183	54	Two storey light industrial estate	Mainly freehold
*	The Chocolate Factory, Wood Green London N22	116,210	35	Business centre	Part freehold part leasehold
	Tonex total	**1,803,521**	**758**		
	Portfolio total	**5,677,521**	**3,523**		

* Denotes those properties that were acquired during the year ended 31 March 2000.

● Denotes properties held on 999-year lease with option to purchase the freehold.

■ Denotes properties with a value in excess of £5m at 31 March 2000.

† Denotes property sold after the year end.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 14th Annual General Meeting of Workspace Group PLC will be held at the offices of WestLB Panmure Limited, New Broad Street House, 35 New Broad Street, London EC2M 1SQ on Monday 31 July 2000 at 11.00 am for the following purposes:

As ordinary business

1 To receive and adopt the Company's accounts for the financial year ended 31 March 2000 and the reports of the Directors and the Auditors thereon.

2 To declare a final dividend on the ordinary shares of £2,387,073 (15.0p per share) in respect of the year ended 31 March 2000, payable on 1 August 2000 to shareholders on the register on 7 July 2000.

3 To elect as a Director Dr C Pieroni who has been appointed as a Director since the last annual general meeting.

4 To re-elect as a Director Mr P B Rhodes who retires by rotation and, being eligible, offers himself for re-election.

5 To re-elect as a Director Mr J P Marples who retires by rotation and, being eligible, offers himself for re-election.

6 To re-appoint PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.

As special business

7 To consider and, if thought fit, to pass the following resolution as an ordinary resolution, namely:

THAT:

a the Directors be and they are hereby generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities, up to an aggregate nominal amount of £530,460 during the period commencing on the date of the passing of this resolution and expiring on 30 July 2005 (both dates inclusive), but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements;

b all authorities previously conferred under Section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and

c words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

8 To consider and, if thought fit, to pass the following resolution as a special resolution, namely:

THAT, subject to the passing of the resolution numbered 7 set out in the notice of this meeting:

a the Directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities pursuant to the authority given in accordance with Section 80 of the Act by the said resolution numbered 7 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

i in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the Directors, to holders of ordinary shares in the Company, to holders of 11% Convertible Unsecured Loan Stock 2011 of the Company and to holders of such other equity securities of the Company as the Directors may determine in proportion (as nearly as may be) to their respective holdings on a record date fixed by the Directors or (where applicable) in accordance with the rights for the time being attached to such stock or equity securities (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or with legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange, in any territory or otherwise howsoever);

ii in connection with the terms of any share option scheme for the time being operated by the Company; and

iii otherwise than pursuant to sub-paragraphs (i) or (ii) above, up to an aggregate nominal amount of £79,569, and shall expire on 30 July 2005, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements;

- **b** all powers previously conferred under Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and
- **c** words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

9 To consider and, if thought fit, to pass the following resolution as a special resolution, namely:

THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:

- **a** the maximum number of ordinary shares hereby authorised to be acquired is 1,591,381, representing 10% of the Company's issued share capital;
- **b** the minimum price which may be paid for an ordinary share is 10p;
- **c** the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased;
- **d** the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;
- **e** the authority conferred by this resolution shall expire on 30 July 2001, or at the conclusion of the Annual General Meeting of the Company to be held in 2001, if earlier, unless such authority is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and
- **f** the Company may enter into a contract to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be completed wholly or partly after expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract.

Registered Office:
Magenta House, 85 Whitechapel Road, London E1 1DU

By Order of the Board
R Mark Taylor, Secretary, 28 June 2000

Notes

1 Only holders of ordinary shares on the register of members of the Company at 11.00 am on 29 July 2000 shall be entitled to attend and vote or to be represented at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 11.00 am on 29 July 2000 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

2 A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

3 To be valid, an instrument appointing a proxy in respect of the meeting and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially, must be deposited at the registered office of the Company at least 48 hours before the time appointed for the holding of the meeting.

4 The appointment of a proxy will not preclude a member from attending and voting in person.

5 The Directors' service contracts, the register of Directors' interests in shares and the rules of the long-term bonus incentive scheme are available for inspection at the Company's registered office and will be available for inspection at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof.

Directors, officers and advisers

Directors
Phillip B Rhodes FCA
Non-executive Chairman*

Alan H Cherry MBE FRICS FSVA Hon MRTPI
Deputy Chairman*

Harry Platt MA MRTPI
Chief Executive

Madeleine Carragher FRICS
Operations Director

J Patrick Marples ARICS
Property Director

Christopher Pieroni BA MSc PhD*

R Mark Taylor BSc FCA
Finance Director

*Non-executive and member
of Remuneration and Audit Committees

Secretary
R Mark Taylor BSc FCA

Divisional Directors
Nirmal Chandra Saha MCOM MBA FCMA
Divisional Director, Finance

Simon Taylor FRICS
Divisional Director, Midlands

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Email: info@workspacegroup.co.uk
Website: www.workspacegroup.co.uk

Registered number
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Solicitors
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Kempson House
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London EC3A 7AN

Bankers
National Westminster Bank Plc
1 Princes Street
London EC2R 8PA

Financial advisers and stockbrokers
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