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Workspace Group

Annual report and accounts 2001

Location of Workspace estates

Contents

Workspace Group provides good value, small-unit accommodation for rent in London and the South East on user-friendly terms mainly to small and medium-sized enterprises (SMEs). The SME sector in London is a vibrant and growing marketplace and Workspace is the principal supplier of workspace in this market. 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.

At June 2001 Workspace Group owned 78 estates valued at £325.8m and comprising almost 4.6m square feet providing accommodation for nearly 3,200 small businesses in London and the South East.

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 23.6% to £36.2m
- Profits before tax up 123% to £19.5m
- Profit before tax on trading activities (excluding disposals) up 13.6% to £9.5m
- Earnings per share on trading activities (excluding disposals) up 8.7% to 43.7p
- Profit on disposals of properties of £10.1m (39.5p per share post tax)
- Net asset value per share up 32.0% to £11.93
- Ordinary dividend up 10.0% to 23.1p
- Annual rent roll at year end up 13.5% to £29.2m
- Uplift on revaluation of properties 11.8%, producing a surplus of £38.7m

Financial performance

Five-year summary 1997–2001

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Rent receivable	**28.5**	23.4	18.2	16.6	13.5
Service charges and other income	**7.7**	5.9	4.5	4.6	3.6
Turnover	**36.2**	29.3	22.7	21.2	17.1
Profit before taxation (on trading operations)	**9.5**	8.3	7.0	5.6	4.8
Profit before taxation	**19.5**	8.8	8.3	6.3	4.8
Profit after taxation	**13.2**	6.5	6.5	4.9	3.8
Earnings per share (pence)	**83.2p**	41.6p	41.2p	31.3p	24.7p
Earnings per share on trading operations (pence)	**43.7p**	40.2p	33.4p	27.0p	24.7p
Dividends per share (pence)	**23.1p**	21.0p	19.0p	17.0p	15.0p
Properties at valuation	**366.5**	304.2	186.0	161.3	125.6
Less net liabilities	**(16.6)**	(6.4)	(11.7)	(5.8)	(7.6)
Less: long-term indebtedness	**(158.4)**	(154.8)	(65.9)	(72.5)	(53.3)
Net assets	**191.6**	143.0	108.5	83.0	64.6
Gearing	**82%**	104%	63%	85%	83%
Net assets per share	**£11.93**	£9.04	£6.83	£5.23	£4.17

Portfolio and share price performance

Chairman's statement

Above: Chairman Phillip Rhodes.

Results

I am able to present the seventh successive year of record financial results. Rental income for 2000/01 was £28.5m, up 22.0% on the previous year, whilst turnover was up 23.6% to £36.2m. These increases were attributable primarily to rental growth. Profit before tax from trading operations increased by 13.6% to £9.5m as the Tonex portfolio acquired last year was refocused on improving long-term returns. Supplemented by surpluses on disposals of investment properties of £10.1m, earnings per share grew by 100% to 83.2p.

The value of the Group's portfolio increased by £62.3m following £33.2m of acquisitions, £35.6m of disposals and increases on valuation of £38.7m. This has resulted in an increase in net asset value per share of 32% to £11.93.

The Group's performance has been compared to the external yardstick of the Investment Property Databank (IPD). This shows an ungeared total return for our portfolio for the year of 22.8% against the IPD All-Fund performance of 11.5%. Again, this maintains Workspace's record of outperformance with top and first percentile ranking when viewed over one, three, and five years.

Dividend

A final dividend payment of 16.6p, making 23.1p for the year, an increase of 10.0% over last year, is recommended by the Board. It is the Board's intention to continue to increase dividends by 10% per year.

The business year

The Group's intensive management skills enable it to identify and respond to the changing nature and needs of its marketplace and its customers. The small and medium-sized enterprise (SME) business sector has continued both to thrive and to receive increasing acknowledgement and support from the government. The Group's success in providing accommodation and services to this sector is evident from the consistently high occupancy levels and the premium rentals that it achieves.

The attraction of the Workspace offering to this market is more than just space, it is the short leases, fast entry, flexible interesting accommodation, on-site support and additional business services – insurance, energy, telecommunications and now internet and e-commerce facilities. This comprehensive and developing package keeps Workspace Group at the forefront of the

Workspace Group's consistent strategy of providing space to small and medium-sized enterprises in London and the South East has extended its market leadership and produced another set of outstanding results. A compound annual growth in earnings per share of 31.3% and in net asset value per share of 28.2% over the last five years places our performance amongst the best in the sector.

provision of business space to the dynamic SME market. Maintaining the relevance and attractiveness of this offer in changing environments is a crucial part of our strategy.

Bringing this customer-focused approach to property investment, particularly the types of interesting but under-managed and under-developed buildings that Workspace specialises in, continues to bring excellent rewards to our shareholders. Our property investment activities have identified and completed some £33.2m of acquisitions this year, building on the £77.0m in the previous year. All of these offer opportunities in increased occupancy, rental income and capital values by applying the Workspace property management and marketing approach. Sourcing such opportunities in a competitive market place is a key skill, with several acquisitions coming from off-market deals or from long-term associations. The Operating Review reports in more detail on all of the Group's property transactions.

Also central to our strategy is making the best use of our portfolio and applying a broad vision of its potential in a changing property market. This is particularly appropriate to our strong presence in London where the wealth effect is rippling out from the centre, population decline has reversed and government attitudes have moved towards increasing density and mixed use of developed space. The Group's long experience in regeneration and the recycling of older buildings is proving very valuable in today's climate. It has an extensive programme of initiatives to release the maximum value from our properties and, in this dynamic environment, one that is kept under constant review.

Where properties do not meet the Group's criteria for growth in rental or capital values then it will seek to realise its investment and recycle the cash into better opportunities for the future. This strategy led it to sell Union Street and Ensign Court in the year following very successful re-developments and long-term lets, making substantial capital gains over the original investments. Total property disposals amounted to £35.6m in the year and these proceeds are being reinvested through our acquisition programme. Applying similar growth criteria also led to the decision to sell our Midlands portfolio, a transaction which was completed in June. It is the Board's intention to invest the £42.0m proceeds into the better performing London and South East markets.

The last year was another one of great activity for Workspace Group in pursuing its successful strategy. The Group is dependent on its staff team for its continued success and my thanks are due to everyone for their efforts and enthusiasm.

Above: Great Guildford Business Centre has undergone comprehensive renovation which is nearing completion on the upper floors.

Prospects

The year under review has seen excellent progress for Workspace Group. The results reflect this, but much of what has been achieved will benefit future years too. The pace of activity has continued into the new financial year with its clear focus on the South East, further acquisitions and an encouraging start to letting and rental review activity. With our clear and focused strategy we are confident that we will continue to add value for our shareholders.

Phillip Rhodes
Chairman

Operating review

Adding value through changing environments

"Occupancy has remained high throughout the period, providing a platform for good rental growth as well as a strong cash flow. Increasing demand driven by an increasing population and continuing concentration of economic activity in London is creating exciting development opportunities. By increasing site densities and mixing uses the Group will work its capital even harder."

Harry Platt, Chief Executive

Above: Harry Platt, Chief Executive, on site at the Kingsmill Business Park development in Kingston-upon-Thames.

Key events

The Group's portfolio performed well during the year with increasing rentals improving profitability and improving ERVs (estimated rental values) creating the platform for growth in the future. It is this strong and consistent base that gives the Group the foundation upon which to develop.

The Group has continued its pattern of consistent growth and improvement. Having absorbed the £75m acquisition of the Tonex portfolio, purchased in July 1999, and brought down gearing levels immediately post this transaction it has been active again in expanding its portfolio. During the year 12 purchases totalling £33.2m were made, the majority occurring in the second half. These and the Group's earlier acquisitions have performed well lifting profits before tax to £19.52m, helped by profits on disposal of investment properties of £10.06m, and yielding a valuation surplus of £38.67m or 243p per share, an increase of 11.8%. Over the year the portfolio rental grew by £3.48m to £29.23m; £2.00m arising from net acquisitions and £1.48m from reviews, renewals and letting of space.

The Group has continued to demonstrate the exciting characteristics of its portfolio. With 1.8m square feet, and increasing, within five miles of the Houses of Parliament, the opportunity to generate premium values by the transformation of properties, illustrated by its schemes at Ensign Court and Union Street, offers the prospect of continued increasing shareholder value.

At 31 March 2001 the Tonex portfolio had been held for 20 months. This portfolio comprised, on acquisition, slightly in excess of 2m square feet in 800 lettable units at 23 properties, mainly in London. Part of the acquisition was deferred until January 2001. During the period that it has been held, five properties and part of a further property have been disposed of realising £6.7m, a profit on acquisition cost of £1.61m (31.85%). At 31 March 2001, the remaining properties, whose original cost was £78.34m, were valued at £104.48m, a surplus of 33.37%. Over the period the properties have shown an average income return of 9.6% on acquisition cost. At 31 March 2001 the average rent for the Tonex properties was £4.74 per square foot, compared with an average of £4.13 per square foot at the time of acquisition, up 14.8%. This has been a successful acquisition, and with its average rentals still standing at a substantial discount to comparable values it continues to offer exciting potential. With the disposal of a number of properties and the acquisition of others adjacent to original Tonex properties the mix of the portfolio has changed. In future therefore, the Tonex results will not be reported separately.

During the year the Group disposed of five properties. Included in these were Ensign Court and Union Street. Hitherto disposals have generally been of ex-growth properties, which have limited potential in their current use or any alternative use, or of properties to developers

Left: Archer Street Studios, Soho, London, where an additional floor has been added at rooftop level.

Below: Alex James – owner and co-founder, Soul 24-7.com internet radio station, The Leathermarket.

where an alternative use significantly exceeded the value, both current and prospective, of their current use. These two properties differed in that the Group capitalised on its ownership of the property and interest from major occupiers to undertake a refurbishment. In both cases, armed with institutional long-term lettings, the properties post refurbishment no longer fitted the profile of the Group's typical investment but did show values substantially higher than their book cost. They were therefore sold to recycle the funds back into the Group's core activities. As described later the Group is not a property developer, but it will, where added value may be secured without taking full development risk, undertake development to generate enhanced returns for re-investment in its core business.

The Group's core activity remains the provision of small unit accommodation to SMEs and so development activities will always be ancillary to this activity. However it is by focusing on the core business that the opportunity

Above: Chris Camm, Mojo Haircutters, Archer Street Studios.

Left: Nicholas Corker and Josephine Pickett-Baker – Directors, Complete Fabrication Ltd, modelmakers, Faircharm Trading Estate, Deptford.

Adding value through changing environments

Right: Andrew Crawford – Fine Decorative Boxes, Acton Business Centre.

Far right: Renovated entrance, Great Guildford Business Centre.

for such activities will emerge from time to time and by expanding this core their scope increases correspondingly.

During the year the Board took the decision to re-focus its activities around its London and South East portfolio. At the end of the year this portfolio comprised 88.6% by value of the Group's total portfolio. In its acquisitions over the last two years the Group has found it increasingly difficult to justify investment outside of London and the South East, given the relative returns available from properties in this location by comparison with elsewhere. At the same time the Group has seen excellent growth in value from its London and South East properties, a performance that has not been mirrored elsewhere. Also its London and South East properties are regarded as holding far greater latent potential for further growth in value arising from changes in use or redevelopment to an increased density than elsewhere.

Following a careful review of options, it was decided to dispose of the Midlands portfolio and in June 2001 it was sold to Northern Trust. The funds realised from this sale will be reinvested in London and the South East enabling the Group to strengthen further its dominant position in this market. The Group's customers are mainly locally based and so a wider regional presence is of marginal benefit to them, whereas an increased focus on a more tightly defined region, one in which (following the Midlands disposal) 33.4% of SMEs are based and the most economically active area for SMEs, gives the Group and its customers greater opportunity.

Our marketplace

At the year end the Group provided accommodation for 3,883 customers. With the Midlands disposal this has reduced to 3,062, a relatively small proportion of the 440,000 businesses in London and South East. Clearly, there is enormous potential for Workspace Group to continue to acquire more properties and tenants without even beginning to approach saturation point.

Our new customers are often people looking to move from a home-based 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 review and 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 marketplace. 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 entry and exit interviews and active centre management.

During the year under review 4,038 enquiries for space were received in London and 855 in the Midlands. These yielded 714 new lettings. The principal generators of enquiries continued to be estate signboards and referrals from existing tenants. 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 focusing of the Group's offering 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 89% 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

Above top: Residential moorings at 3 Mills Studios, Three Mill Lane, Bromley-by-Bow.

Above middle: Set construction on Stage A, 3 Mills Studios.

Above bottom: Conversion work in progress in Studio 8, 3 Mills Studios.

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 Helix Business Park, Camberley, the overall occupancy levels in London and the South East improved from 86.1% to 86.4% (92.5% for core properties). Occupancy levels in the Midlands fell from 94.2% to 92.3% 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 in

Top: Jessie Carr – partner, Top of the Drops, specialist backdrop painters, Acton Business Centre.

Above: Bounds Green Industrial Estate, north London.

Above left: Dominic Schuster – partner, Compton and Schuster Ltd, conservation and restoration to gilded, painted and lacquered surfaces, Riverside Business Centre, Wandsworth.

Adding value through changing environments

Above: Leroy House, Islington, London.

Right: Aberdeen Centre, Islington, London.

these properties where as a result of tenant churn not only has the quality of the income stream improved but also an uplift of 12.2% (on a like-for-like basis) in Tonex rentals was achieved over the year.

Rents have again increased strongly throughout the year. Average rentals of the core portfolio held at 31 March 2001 increased by 15.3% (2000: 8.3%) during the year, from £5.22 per square foot to £6.02. The principal increases continued to be in London and the South East where the average rent per square foot of the core portfolio rose by 22.3% (2000: 12.5%) from £6.33 to £7.74. The rolling rent review and lease renewal programme continued and in 2000/01 impacted on 9.7% of the opening rent roll. The uplift achieved during the year of £0.88m on reviews and renewals represents a 35.1% 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 23.6% increase in turnover during the year.

Acquisitions

The Group is the largest supplier of space for SMEs in London and the South East. Even so it has a relatively small share of the potential customers. Its aim is to secure representation wherever SMEs are most active within London and the South East to extend its service offering to all; to take the Workspace formula and apply it to previously under-managed space thereby enhancing returns.

During the year the Group acquired 12 properties for a total consideration of £33.24m and disposed of properties totalling £35.59m (including £27.75m at Union Street). In the first half, as planned, the Group focused on driving forward performance from the Tonex portfolio, acquired in the previous year. Consequently just three purchases were made.

Barratt Way Industrial Estate, Harrow, is in a location in which the Group has long sought an increased presence but where there is a shortage of supply. Clyde House, Maidenhead is an office and industrial building close to the town centre. The property has potential for improvement as a business centre, with the opportunity to work with the local authority which owns adjacent properties. 57/59 Whitechapel Road is a small retail and office building immediately adjacent to the Group's Whitechapel Business Centre. This is an important strategic acquisition enabling, at some stage, the redevelopment of the whole site, to a much greater density.

In the second half the pace of acquisitions quickened with nine purchases completed (including the deferred acquisition of Tower Bridge Business Complex, Block F, part of the Tonex portfolio). At the end of the year the purchase of one property was in solicitors' hands. Details of this and other post balance sheet events are given on page 52.

During the year the Group announced an association with Greater London Enterprise (GLE), an enterprise vehicle co-owned by the London Boroughs and the City of London. The objectives of the association were, for GLE, to find an investment partner to take over completed small unit scheme developments and for Workspace to source new product. Jointly the parties present an attractive formula to local authorities for delivery of new projects in their districts. Two of the acquisitions, Wandsworth Business Village and Kingsmill Business Park, Kingston-upon-Thames were acquired under this initiative. Both are in locations where the Group has been keen to increase its presence. Wandsworth Business Village is an existing business centre, where GLE had obtained consent for further development. Kingsmill Business Park has been procured under a forward purchase agreement under which the completed building will be acquired in January 2002 once its construction is complete.

Bounds Green Industrial Estate is located in N11 immediately adjacent to the North Circular Road. It was acquired from the local authority and offers potential both from application of the Group's management formula and for future development. The Ivories is located near Essex Road in Islington, not far from the Group's existing Aberdeen Centre and Leroy House properties. Again this is an area in which the Group has been keen to expand. Redbridge Enterprise Centre, Ilford is a small industrial estate conveniently located by the town centre and near the North Circular Road. Parma House was purchased at auction. It sits alongside the Group's "Chocolate Factory"

Top: Artist David Mach, Faircharm Trading Estate, Deptford.

Above left: Robin Rawlinson – Director, Atomic Recording Studios, Tower Bridge Business Complex.

Above: The Ivories, Islington, London.

Left: Sarah Tremellen – founder, Bravissimo, a company that specialises in stylish lingerie, The Barley Mow Centre, Chiswick.

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Adding value through changing environments

Right: Flic McKinney – Director, McKinney MaCartney Management Ltd, film technician agents, The Barley Mow Centre.

Far right: The Barley Mow Centre, Chiswick, London.

property in the Haringey Heartlands development zone.

All these properties were income producing. The total investment showed an initial return of 7.70% with the prospect of rising to in excess of 9.0% in the immediate future, without taking account of the ongoing potential under the Group's management.

Disposals

During the year five disposals were made yielding a total surplus of £10.1m. Disposals are made either where the property is considered to be ex-growth in a location where there is little immediate prospect for growth, where development or refurbishment has created a more institutional investment package or where change of use will yield substantially improved value.

The most significant disposals in the year were Ensign Court and Union Street. Ensign Court was acquired as part of the original portfolio from the London Residuary Body in 1987. In 1998 its sole occupant, News International, vacated. At that time the property was valued at £1.1m. The building was refurbished at a cost of £1.2m and let to Oddbins and News International at a total rent of £0.4m. The property was sold for £4.65m. Union Street was similar. The property, acquired vacant for refurbishment as a business centre, was pre-let to J Sainsbury and following a major redevelopment programme sold for £27.75m, realising £9.5m profit.

As an investor and manager of property Workspace does not engage ordinarily in development, other than in small scale upgrades and improvements. Where major or speculative development is undertaken it is usually in partnership with a developer with recognised expertise in the relevant field. In the case of Union Street this was not possible due to the very tight timescales upon which J Sainsbury wished to secure occupation. As a result Workspace financed the works (to a capped limit of £11m) with J Sainsbury taking the role of developer. By this means and with a linked financing structure the Group was able to ringfence and limit its liabilities.

In addition to these disposals the Group also sold part of its estate at Westminster Business Square. An option has also been granted for some vacant land adjacent to the building, held at negligible cost, for a price of £0.5m. A further property, acquired as part of the Tonex portfolio, Phoenix Business Centre, was sold for £1.5m. This property was valued at £0.91m at 31 March 2000.

Finally, the land at Ferry Lane, held following a fire which totally destroyed the premises in July 2000, was sold at slightly above book value.

As noted earlier, following the year end the Group disposed of its Midlands portfolio to enable an increased focus on London and the South East. The Group has also disposed of its Ashburton Road property which sits on the site of the proposed new ground for Arsenal FC. The £45.1m proceeds from these disposals will, when added to the Group's existing capacity, facilitate an investment programme going forward of up to £100m.

Top: Adam Nightingale – Nightingale & Son, designers and manufacturers of bespoke mirrors and picture frames, Tower Bridge Business Complex.

Above: Radwan Issa – owner, Al-Jabal bakery, Acton Business Centre.

Left: Debby Sheehan – Centre Manager, Great Guildford Business Centre with Richard Fenner – Area Manager, in the newly renovated reception area.

Above: Great Guildford Business Centre.

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Right: Ming Veevers Carter – Director, Veevers Carter Flowers, Westminster Business Square.

Far right: Mark Leaver – Branch Manager, Nature Springs Water Company, Arklow Road Trading Estate, London.

Above: Chris Greenwood – co-owner, Cargo, Kingsland Viaduct.

Acquisitions in 2000/01

Name of property	Description	Purchase price £	Initial annual income £
57/59 Whitechapel Road, London E1	Freehold 3,379 sq ft retail unit with offices above adjacent to Whitechapel Technology Centre	400,000	29,800
Barratt Way, Harrow, Middlesex	Freehold 49,265 sq ft industrial estate	3,210,000	250,300
Clyde House, Maidenhead	Long leasehold 30,156 sq ft business centre	3,000,000	312,600
Lea Road, Waltham Abbey, Essex	Freehold 6,479 sq ft industrial unit adjacent to existing property	290,000	30,500
Block F, Tower Bridge Business Complex, London SE16	Freehold 141,881 sq ft deferred purchase of Tonex property	6,500,000	355,000
Bounds Green, London N11	Freehold 140,003 sq ft industrial estate	5,100,000	449,000
The Ivories, Islington, London N1	Freehold 24,802 sq ft business centre	4,000,000	350,100
Wandsworth Business Village, London SW18	Freehold 88,540 sq ft business centre	7,340,000	544,000
Redbridge Enterprise Centre, Ilford	Freehold 20,080 sq ft small unit industrial estate	1,500,000	146,400
Parma House, London N22	Freehold 36,509 sq ft business centre adjacent to Chocolate Factory	1,600,000	50,700
5 Payne Road, London E3	Freehold 3,307 sq ft industrial unit adjacent to existing property	300,000	25,000
Kingsmill Business Centre, Kingston	Purchase agreement for 42,000 sq ft business centre (under development)	N/A	N/A
Total		33,240,000	2,543,400

Disposals in 2000/01

Name of property	Disposal price £	Exit annual income £
Ensign Court, London E1	4,650,000	411,000
1–10 Union Street, London SE1	27,750,000	(Nil at time of disposal, agreed future rent £2,000,000)
South Block, Westminster Business Square, London SE1	1,235,000	82,500
Phoenix Business Centre, London E3	1,500,000	41,300
Ferry Lane, Rainham, Essex	458,000	–
Total	35,593,000	2,534,800

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 when appropriate engage in development activities to improve the quality of the assets it holds, and hence the return from these assets.

The Group's major project at Union Street was completed in September 2000. Details of this development are given above. The three plots of land facing the property on Union Street, secured as part of the original acquisition, have been retained. Development opportunities for this land are under consideration both directly and jointly with others.

During the year initiatives for the extension of a number of properties were commenced. Planning consent has been obtained for the construction of a further floor on two of the blocks at the Leathermarket. Proposals are in hand for similar extensions at Leroy House and Westminster Business Square. Discussions are in progress with the London Borough of Hounslow for a joint development at the Barley Mow Centre, Chiswick.

Top: HSBC bank at the Whitechapel Business Centre.

Above: Jo Buckler – creative milliner and dress designer, Riverside Business Centre, Wandsworth.

Adding value through changing environments

Left: Major development at Archer Street Studios, Soho, London.

Above: Johnnie Mountain and David Orlowski – proprietors, Mosaica @ the factory, The Chocolate Factory, Wood Green.

This scheme would replace their existing library with a new facility together with workspace constructed over the library.

A joint venture with Copthorn Homes Ltd (part of Countryside Properties PLC) was entered into in July 2000 for the development of some vacant land at the Group's 3 Mills, Stratford, property. The proposal is for the development of approximately 50 residential units together with a Waterways Discovery Centre. The site is well located on the River Lea, immediately adjacent to the tidal mill and related museum and heritage area. Planning approval for the scheme has been applied for. Whilst satisfying the need for residential units it will result in no loss of business space at 3 Mills and will be sympathetic to the adjacent heritage site.

The Group has identified a number of similar opportunities and anticipates announcing its plans for these over future periods. These mixed development schemes are particularly interesting from a risk management viewpoint, since rather than increasing its investment in the property, as is customarily the case with development, the Group is generally able to retain its business space on the site whilst reducing its cash investment through disposal of the new development.

During the year the government released its white paper entitled "Our Towns and Cities: The Future". The new Mayor of London, Ken Livingstone, also launched the draft "London Plan". The consistent theme in these documents is the recycling of land and increasing of density of urban developed space. There is particular emphasis on "mixed use" schemes. Alongside this there appears to be a major and continuing change in the demographic profile of the communities in the Group's principal area of operation, London. Following many years of decline in population the trend has reversed and London is set to increase its population steadily over future periods. This will increase the pressure for more recycling of space with higher-density mixed use schemes. With its substantial holding of 1.8m square feet within five miles of Central London the Group is positioned well to respond to this challenge.

A number of smaller schemes subdividing and improving space at other Group properties were completed during the year.

The investment portfolio

At 31 March 2001 the Group owned 104 estates: some 5.79m square feet of accommodation in 4,330 lettable units. 87.8% of the portfolio by valuation, and 79.4% by space is in London and the South East, with the rest in the Midlands. Subsequent to the year end the Midlands portfolio was sold.

Portfolio valuation

At 31 March 2001 Insignia Richard Ellis valued the Group's portfolio at £366.9m showing a surplus (for accounts purposes) of £38.7m, an increase of 11.8%.

For accounts purposes, the Group's properties are valued at £366.5m, as shown below.

Analysis of valuation at 31 March 2001

	Valuation £m	Adjustment £m	Financial accounts £m
Freehold	313.6	–	313.6
Long leasehold	52.9	–	52.9
Short leasehold	0.4	(0.4)	–
Total	366.9	(0.4)	366.5

Left and below: Major roof conversion work at Archer Street Studios, Soho, London.

The short leasehold Alpha Business Centre, valued at £0.35m, is included in the accounts at a nominal £1.

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.

For properties held throughout the year (comparing their value at 31 March 2000, plus additions and improvements at cost, with that at 31 March 2001) the uplift was £37.96m or 12.95%. A further uplift of £0.71m or 2.1% arose from acquisitions (most of which occurred late in the year).

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

Workspace Group v IPD All-Fund benchmark (%)

(per annum)	One year	Three years	Five years
Workspace Group	22.8%	23.3%	22.2%
IPD All-Fund	11.5%	13.0%	13.5%
Workspace Group percentile rank	top	1st	1st

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 the Group has demonstrated its consistent ability to generate enhanced returns from its investments.

Adding value through changing environments

Above: Security systems are key to success in letting workspace.

Above right: Telephone switch hub at Workspace's head office, Magenta House, Whitechapel.

Services

The Group has for a number of years extended its service offering beyond accommodation alone. On a number of estates it has provided gas and electricity, now to 1,100 customers, and its business insurance programme now has 500 customers. This latter programme has won two awards; The British Insurance Awards' "Broker Initiative of the Year" (1999) and the Insurance Age "Awards 2000" for its risk management programme. Many of the Group's customers have benefited from the programme; many by the attractive pricing and extended range of cover, some by obtaining cover where other insurers had refused the risk. Some simply benefit by being able to negotiate better terms from their existing insurer.

Last year in setting our priorities for 2000/01 the Group targeted to extend this offer. In doing so it recognised that by aggregating customers and bulk buying services it could obtain a pricing advantage to be shared with its customers together with service level commitments that they would not be able to secure individually. It also offers the Group's customers the benefit of trading with a carefully selected supplier, committed to the provision of a quality service. During the year the Group launched one new initiative and another was launched shortly after the year end.

A pilot project selling telephone services to the Group's customers in partnership with Future Integrated Telephony PLC, trading as FIT4 Business, was launched at a number of the Group's estates. This pilot has been very successful with good take-up rates to date. In view of the success of the initial pilot exercise the programme has been extended to the Group's entire Midlands portfolio. It is intended that the offer will be extended to the Group's remaining London properties.

The second initiative targets the Group's London business centres. The Group recognises that increasingly its customers in these centres require connection to the various digital highways. It also recognises that the provision of digital services is a good candidate for cost efficiencies through aggregation of supplies. It has studied the offerings being made by others and is concerned to secure a formula that retains its control over its properties. Its plans involve the creation of a cabling infrastructure that will not just provide connectivity but will encourage the use of digital services over the network.

Following the year end the Group announced the establishment of a joint venture, Vylan, with Trams and iRevolution Group for the creation of a digital network. A pilot project involving the network cabling of three properties has commenced. These properties are to be interlinked, with connections to the internet and a data services centre in London's Docklands. The completed infrastructure will deliver broadband, internet, local network, data hosting and application service provision (ASP) to the Group's customers located at these properties. Our partners bring their digital services, networking, data management and ASP experience respectively to the venture. Many of the Group's customers already have internet, some broadband, connections. However, by aggregating these supplies and presenting them across a resilient network the Group is able to offer these services at more competitive rates.

It is anticipated that, following the successful completion of the pilot project, these services will be extended to all the Group's London centres. In due course as Voice over Internet Protocol (VoIP) supply becomes more resilient the Group will deliver telephony services to its customers through this network. In the short term its business centre customers will be offered the FIT4 Business package, alongside the digital services.

The Group is examining the provision of other standard small business requirements such as office equipment, stationery etc. In particular, it is examining how its existing website, which already features a tenants' directory established to help tenants inter-trade, could be linked to these other products to create a form of portal for SMEs.

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, Norwich Union, 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. Last year it 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 has been reviewed during the year as the Group seeks continuous improvement in its practices in this area. Copies of this year's review 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 has always been 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.

Through their focus on cash flow, the Group's day-to-day procedures in the letting and management of its properties control much of the operational risk associated with the Group's business. The commercial risk that the Group carries derives principally from its customer profile.

The Group invests in accommodation let generally to smaller businesses which have a weaker covenant.

Top: Tenants are encouraged to participate in schemes ensuring more secure centres.

Top left: Security initiatives: CCTV and signs.

Operating review

Adding value through changing environments

Right: Dede MacGillivray and Fiona Bentley – Directors, Dish: corporate and event catering, Alscot Road Industrial Estate.

Far right: Alan Church – Director, Hypnosis VFX: digital film effects for film titles and television, Archer Street Studios.

This has traditionally been perceived as a high-risk activity. However, the Group has nearly 3,900 customers and receives almost 5,000 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 recognised as important 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 in its areas of operation. 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% 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 risk. 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 and 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.

With the recent re-focusing of its activities to London and the South East, the Group's exposure to this region has increased. The Board considers that the long-term prospects of the South East, particularly for SMEs, remain better than those for the remainder of the UK, and so believes that this risk is greatly outweighed by the opportunities it creates. Its customer base within this region remains broadly distributed with no reliance on any single trading sector.

Far left: Sue Cartlidge – Managing Director, GFC Lighting, suppliers of integrated lighting for all environments, Westminster Business Square.

Middle: Harry Button – Commercial Manager, Stanger Science and Environment (part of the T Casella Group of companies), fire and environmental investigation, Great Guildford Business Centre, London.

Above: Cremer Business Centre, Shoreditch, London.

Priorities for 2001/02

The priorities identified for 2000/01 and achievement against them may be summarised as:

Priorities	Achievements
To maintain high occupancy levels and continuing rental growth.	Core occupancy throughout the year 89%; core rent up 15.3%.
To extract value from Tonex portfolio acquired in July 1999.	Rents up 14.8% since acquisition, cumulative valuation surpluses of £26.14m plus disposal profits of £1.61m (33.4% and 31.9% on cost respectively).
To acquire further investment properties in the core areas.	12 properties of total value £33.0m acquired in year in London and the South East.
To dispose of those properties where we can no longer add value by our intensive management.	Key disposals at Union Street and Ensign Court, realising £32.4m capital and £9.5m profit.
To add value to our existing estates by selective refurbishment, extension and other initiatives.	Programme in hand.
To extend the Group's service offering.	Telephony and digital services initiative launched.
To continue to increase profits, earnings per share, dividends and net asset value per share.	All increased: trading PBT by 13.6%; trading earnings per share by 8.7%; dividends by 10.0% and net asset value by 32.0%.

The following priorities are identified for 2001/02:

- To maintain high occupancy levels (90%+) and continuing rental growth.
- Following the disposal of the Midlands portfolio, to reinvest the proceeds in London and the South East, pursuing our objective to double our portfolio in this area over five years.
- To extend the programme for creation of added value at properties through extensions/ redevelopment/alternative use.
- On successful completion of the pilot scheme for a digital infrastructure, to start to roll this initiative out to our London business centres.
- To extend further service provision to the Group's customers possibly by using our website as a portal.
- To continue to increase profits, earnings per share, dividends and net asset value per share.

Management and employees

The Board

Phillip Rhodes, Patrick Marples, Christopher Pieroni, Alan Cherry, Mark Taylor, Madeleine Carragher, Harry Platt

Phillip Rhodes*
FCA
Chairman

Phillip Rhodes (54) joined the Board in July 1992 and was appointed Chairman in October 1999. He is also Chairman of the Asquith Court Group, a leading educational services provider. 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.

Patrick Marples
MRICS
Property Director

Patrick Marples (45) joined the Board in November 1996 as Property Director responsible for the investment management of the Group's property portfolio. He had previously worked as a property consultant for the Group since 1987 and prior to that he was an Associate Partner at DE&J Levy.

Christopher Pieroni*
BA(Hons) MSc(Econ) PhD(Cantab)

Chris Pieroni (43) 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. He is now Head of International for Colliers Conrad Ritblatt Erdman.

Alan Cherry*
MBE FRICS Hon MRTPI
Deputy Chairman

Alan Cherry (67) joined the Board in 1992. He is Chairman of Countryside Properties PLC, a listed housebuilding, 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.

Mark Taylor **Bsc FCA**
Finance Director and Company Secretary

Mark Taylor (50) 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.

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

Workspace Group aims to be an equal opportunity employer. In its recruitment, staff training and development and promotion policies, it seeks to avoid discrimination on grounds of sex, sexual orientation, race, age or disability. At 31 March 2001 the Group had 142 employees with an average age of 40.6 years and average period of service with the Company of 2.6 years. 36.6% of staff were female.

The Group achieved Investor in People accreditation in 1997. Following an external review this accreditation was renewed in May 2001. 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.

Madeleine Carragher
FRICS
Operations Director

Maddy Carragher (46) 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.

Harry Platt
MA MRTPI
Chief Executive

Harry Platt (49) 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.

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Registered number
2041612

Financial review

Profits

Profits before tax at £19.52m are 123% ahead of last year, helped largely by profits on disposal of investment properties of £10.06m (2000: £1.43m). Despite an increased taxation charge, earnings per share increased by 100% to 83.2p. For trading operations (ie excluding profits and losses on disposals together with other one-off costs) profits before tax were 13.6% and earnings per share 8.7% ahead of last year. The valuation surplus of £38.67m represents £2.43 per share, taking the net asset value at 31 March 2001 to £11.93 per share (2000: £9.04), an increase of 32.0%. This continues the unbroken pattern of growth delivered by the Group since its flotation in December 1993.

	2000/2001 growth	1999/2000 growth	Compound growth 1996–2001
Improvement in trading PBT	13.6%	19.5%	17.9%
Improvement in EPS	100.0%	1.0%	31.3%
Improvement in dividends per share	10.0%	10.5%	12.2%
Improvement in NAV	32.0%	32.4%	28.2%

Overheads (excluding other items) have fallen as a percentage of turnover from 14.5% to 13.8%. Net interest increased during the year by £1.40m. The increase in interest costs was attributable to the full year cost in 2000/01 of borrowings incurred on the £74.7m Tonex acquisition made in July 1999 offset to a degree by interest rate reductions. Interest costs of £1.14m (2000: £0.74m) 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.

Taxation

The effective rate of corporation tax in 2001 was 32.3% (2000: 25.5%). After allowing for a prior year adjustment of £0.1m the rate was 31.9%. The effective rate excluding surpluses on property disposals was 25.7% (2000: 24.3%). The increase at a trading level is due mainly to lower availability of industrial building allowances on new acquisitions compared with disposals. It is anticipated that the rate will stabilise at approximately 27%.

Dividend

A final dividend of 16.6p per share is proposed. The interim dividend was 6.5p per share, and so the total dividend proposed for the year is 23.1p (an increase of 10%). The dividends are covered 3.55 times by earnings (1.87 times if based on trading income only).

Internal performance measures

Internal benchmark comparison shows:

Performance measures	**2001**	2000	1999	1998	1997
Turnover per member of staff (£000)	**272**	277	277	247	231
Year-end investment in property per member of staff (£000)	**2,581**	2,340	2,268	1,967	1,610
Administration costs as a percentage of revenue	**13.8%**	14.5%	15.1%	14.2%	14.6%
Total return on equity	**40.7%**	36.9%	36.3%	32.5%	27.5%

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

The Group again increased and extended its revolving property loan facility with National Westminster Bank from £23m to £33m with a maturity of five years at an interest rate margin of 1.1% over LIBOR. The Group also holds a £2.5m overdraft facility with National Westminster Bank on which during the year the interest rate was reduced to 1.1% over base.

During the year, following the sale of 1–10 Union Street, the Group repaid the project finance loan negotiated to finance this development.

At the year end the Group's facilities and drawings thereon were:

	Facility agreement £m	Drawn £m	%
Debenture Stock	19.5	19.5	12%
Convertible Loan Stock	4.0	4.0	3%
WestLB loan	122.0	115.9	74%
NatWest property loan	33.0	21.5	14%
NatWest overdraft	2.5	1.8	1%
Deposits	–	(5.6)	(4%)
	181.0	157.1	100%

With the planned investment programme it is anticipated that additional facilities of approximately £70m will be sought in 2001/02.

Borrowings over recent years	**2001**	2000	1999	1998	1997
% fixed/hedged	**89%**	93%	93%	59%	81%
Average interest rates	**6.99%**	8.48%	8.91%	9.56%	9.11%
Interest cover	**2.70**	1.87	2.32	1.98	2.07
Year-end gearing	**82%**	104%	63%	85%	83%

Year-end gearing at 82% was reduced from 104%, principally due to the substantial inflows arising from the sales of Union Street and Ensign Court (total proceeds £32.4m) and increasing property values. Over the 20-month period from the acquisition of the Tonex portfolio, at which time gearing peaked at 148%, it has been progressively reduced to the current level. With the anticipated investment programme, and related borrowings, it will rise again to approximately 115% based upon current shareholders' funds. Interest cover at 2.70 times is significantly higher than last year due principally to the profits on disposal of investments. Interest cover on trading operations was 1.82 (2000: 1.91). 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 represent just 15% of total borrowings. As at 31 March 2001 the total Group indebtedness (bank borrowings net of cash in hand and at bank) amounted to £157.1m (2000: £148.7m). The maturity of net debt and the Group's borrowings by source at 31 March 2001 are shown below:

Maturity of net debt	%
Under 12 months	–
Between one and five years	23%
Between five and ten years	29%
Over ten years	48%
Total	100%

At 31 March 2001 the average cost of floating rate funds was a margin of 1.02% over LIBOR or base rate (2000:1.03%). At 31 March 2001 the secured borrowings were covered 2.05 times by the value of charged property (with a further £41.4m uncharged giving an overall cover of 2.31 times).

The market price of the Company's ordinary shares is 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 2001 were £18.59m (2000: £8.52m). The increase during the year has arisen principally due to reduced cash investments at the year end (down by £6.1m) and an increase in taxation creditor (up by £3.7m) due in turn largely to significantly increased profits on investment disposals. 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 £8.2m (2000: £6.9m). 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. Net cash inflow for operating activities at £22.8m (2000: £20.2m) 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 – Dr C Pieroni (Committee Chairman), Mr P B Rhodes and Mr A H Cherry. 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 based on the performance of the individuals. Increases in basic salary were again awarded in 2000/01 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 2000/01 was 39.9% 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 2000/01, as in the previous year, the Board has decided to provide these incentives in the form of options on ordinary shares (as detailed below).

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 9 August 2000 the Board, on the recommendation of the Remuneration Committee, granted the following options exercisable at the then ruling mid-market price of £9.225:

Executive Directors	Number of options
H Platt	41,000
M Carragher	30,000
R M Taylor	30,000
J P Marples	30,000
	131,000
Senior managers	22,500
Total	153,500

The above options were granted pursuant to the rules of the Company's 2000 Share Option Scheme which was approved at the July 2000 EGM (full details of Directors' share options are provided on page 30). The options granted to Directors equate to shares of a value equivalent (at the time of the grant) to two times the earnings of the Directors. The exercise criteria for one half of the shares subject to the option require that no option may be exercised unless earnings per share over the period of three years from 31 March 2000 increase by a percentage which is not less than 3% per annum more than the corresponding rise in RPI over the period, compound. The exercise criteria for the other half of the option requires, for full exercise, an increase in earnings per share of RPI plus 8% per annum (with proportionate exercise for achievement between these levels). Of the total, 138,546 options granted during the year were granted pursuant to an annexe to the Scheme which is "unapproved" for income tax purposes. All options have a ten-year life expiring on 9 August 2010.

v Pensions

The Company operates a defined contribution ("money purchase") pension scheme for Executive Directors. Because the Board regards annual cash bonuses when earned 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 2001 £000**	**Pension scheme contributions 2001 £000**	Total remuneration 2000 £000	Pension scheme contributions 2000 £000
Executive Directors								
H Platt (Chief Executive)	–	168.2	63.8	12.5	**244.5**	**28.8**	195.7	17.5
M Carragher (Operations Director)	–	120.0	47.9	5.4	**173.3**	**27.7**	130.9	20.9
R M Taylor (Finance Director)	–	120.0	47.9	9.1	**177.0**	**27.7**	135.1	20.9
J P Marples (Property Director)	–	115.0	45.9	10.9	**171.8**	**26.5**	133.1	20.6
A R Porter (retired 30.9.99)	–	–	–	–	**–**	**–**	267.5	10.3
Non-Executive Directors (fees)								
P B Rhodes (Chairman)	80.0	–	–	–	**80.0**	–	50.0	–
A H Cherry (Deputy Chairman)	20.0	–	–	–	**20.0**	–	20.0	–
C J Pieroni	20.0	–	–	–	**20.0**	–	4.2	–
	120.0	523.2	205.6	37.9	**886.6**	**110.7**	936.5	90.2

At 1 April 2000 there were accrued top-up entitlements under the long-term bonus incentive scheme operated for 1996/97 (as detailed below). These represent the total sums payable in the event that the qualification criteria are met over the qualifying period. The entitlement for 1996/97 crystallised and was paid in June 2000. No further awards have been made under the scheme, nor is it the current intention of the Board to reinstate awards. As described earlier long-term incentives are now provided by the grant of share options.

	Accrued entitlement 1.4.00 £000	Bonus payments made in year £000	Accrued entitlement 31.3.01 £000
H Platt	18.8	(18.8)	–
M Carragher	13.4	(13.4)	–
R M Taylor	14.3	(14.3)	–
J P Marples	5.7	(5.7)	–
	52.2	(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. A new contract for two years has been agreed with the Deputy Chairman, subject to confirmation of his re-appointment at this year's AGM. Dr Christopher Pieroni is appointed on a three-year contract from 17 January 2000.

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 2001.

Principal activities

The Group is engaged in property investment in the form of letting small units of business accommodation located in London, the South East and the Midlands, intended primarily for new and small businesses. The Group disposed of its Midlands-based portfolio shortly after the year end. 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 £13,222,000 (2000: £6,523,000). The Directors recommend the payment of a final dividend of 16.6p (2000: 15.0p) net of tax making a total of 23.1p net of tax for the year (2000: 21p) leaving £9,499,000 to be transferred to reserves (2000: £3,225,000).

Fixed assets

The Group's fixed assets consist of investment properties, £366,525,000 (2000: £304,248,000), and other assets £2,014,000 (2000: £2,132,000). The Group's investment properties have been independently valued by Insignia Richard Ellis, Chartered Surveyors, at 31 March 2001 at open market value. The surplus on revaluation (£38,673,000) 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, Dr C J Pieroni and Mr R M Taylor served the Company as Directors throughout the year. A H Cherry and R M Taylor retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

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

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

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 2001	31 March 2000
P B Rhodes	**4,909**	4,909
A H Cherry	**1,000**	1,000
H Platt	**33,665**	35,331
M Carragher	**29,107**	6,607
J P Marples	**940**	940
C J Pieroni	**336**	–
R M Taylor	**12,772**	3,948
Total	**82,729**	52,735

None of the Directors has a beneficial interest in the shares of any other Group company or non-beneficial interest in the Company or any other Group company.

Ordinary share options

Directors' options on ordinary shares

	At 31.3.00	Granted during the year	Exercised/ lapsed during the year	At 31.3.01	Exercise price	Normal exercise date From	To
H Platt	21,430			21,430	£3.20	07.1997	07.12.2003
	20,438			20,438	£3.25	07.1998	07.12.2004
	78,132			78,132	£3.40	25.06.2000	24.06.2004
	21,000			21,000	£4.51	29.06.2001	28.06.2005
	4,058*			4,058*	£4.25	–	01.09.2003
	14,740			14,740	£4.995	01.04.2002	01.04.2006
		41,000		41,000	£9.225	09.08.2003	09.08.2010
M Carragher	10,000		(10,000)	–	£3.50	21.10.94	20.10.2001
	11,710		(11,710)	–	£3.20	07.1997	07.12.2003
	15,155		(15,155)	–	£3.25	07.1998	07.12.2004
	63,135		(63,135)	–	£3.40	25.06.2000	24.06.2004
	4,181*			4,181*	£3.30	–	01.09.2002
	21,000			21,000	£4.51	29.06.2001	28.06.2005
	18,034			18,034	£4.995	01.04.2002	01.04.2006
	680*			680*	£5.40	–	01.09.2006
		30,000		30,000	£9.225	09.08.2003	09.08.2010
R M Taylor	66,176		(66,176)	–	£3.40	23.06.2000	24.06.2004
	8,824		(8,824)	–	£3.40	25.06.2000	24.06.2007
	1,045*			1,045*	£3.30	–	01.09.2002
	21,000			21,000	£4.51	29.06.2001	28.06.2005
	3,247*			3,247*	£4.25	–	01.09.2003
	17,000			17,000	£4.995	14.02.2002	01.04.2006
		30,000		30,000	£9.225	09.08.2003	09.08.2010
J P Marples	66,176		(9,176)	57,000	£3.40	23.06.2000	24.06.2004
	8,824		(8,824)	–	£3.40	25.06.2000	24.06.2007
	21,000			21,000	£4.51	29.06.2001	28.06.2005
	17,000			17,000	£4.995	01.04.2002	01.04.2006
		30,000		30,000	£9.225	09.08.2003	09.08.2010
		1,291*		1,291*	£7.50	–	01.09.2003
Total	533,985	132,291	(193,000)	473,276			

* 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 Schemes.

M Carragher exercised her options on 100,000 shares, R M Taylor on 75,000 shares and J P Marples on 8,000 shares on 4 July 2000. The market price of Workspace Group ordinary shares on that date was £9.00. J P Marples exercised his option on a further 10,000 shares on 29 March 2001. The market price of Workspace Group shares on that date was £11.75.

There have been no changes in these interests in the period between the balance sheet date and 22 June 2001.

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 2001 was £11.825 and the range during the year to that date was £8.10 to £13.575.

Substantial interests in the share capital of the Company

At 14 June 2001 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
Newton Investment Management Funds	13.5%
The Prudential Assurance Company Limited	8.4%
Clerical Medical	7.3%
Scottish Life Assurance Company	6.5%
Friends Provident Funds	6.3%
Norwich Union Life Insurance Society	6.2%
Scottish Equitable	3.8%
Standard Life	3.4%
The Church Commissioners	3.4%

Donations

The Company has made no political or charitable donations other than minor charitable sponsorships costing less than £15,000.

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 2001 has not been calculated for the Company as it has no trade creditors.

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 15th 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 30 July 2001. 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 6 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 6 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 £539,317 (being one-third of the issued share capital of the Company). Resolution 7 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 80,897, 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 8 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 1,617,951 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 29 July 2002 or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2002.

(c) Increase in authorised share capital

Resolution 9 increases the authorised share capital to a level necessary to accommodate issues that might arise under the exercise of the powers in Resolutions 6 and 7 together with the conversion of the Company's convertible loan stock and exercise of options over shares.

By order of the Board
R Mark Taylor
Secretary

22 June 2001

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. The Directors believe that the Company has fully complied with the Combined Code during and after the year ended 31 March 2001.

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.

Mr P B Rhodes as Non-Executive Chairman 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 professional advice and services 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 Nomination and Remuneration Committee and an Audit Committee, both of which consist exclusively of the Non-Executive Directors. The Audit Committee, which is chaired by Mr P B Rhodes, 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 Nomination and Remuneration Committee, which is chaired by Dr C J Pieroni, advises the Board on senior appointment and 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 Directors have performed this review on a continuing basis throughout the year. This process is monitored by the Audit Committee. 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. A commentary on risk is included on pages 18 and 19 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 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.

(c) risk management

The Board has undertaken a review of the Group's activities with a view to identifying all sources of risk. For all risks recognised not addressed by the above financial controls, it has established a programme of management, monitoring and reporting.

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 the 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 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 audit 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 state of affairs of the Company and the Group at 31 March 2001 and of 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 6RH

22 June 2001

Consolidated profit and loss account

For the year ended 31 March 2001

	Notes	2001 Trading operations £000	2001 Other items £000	2001 Total £000	2000 Trading operations £000	2000 Other items £000	2000 Total £000
Turnover – continuing operations	1	**36,222**	–	**36,222**	29,317	–	29,317
Rent payable and direct costs	1	**(10,258)**	–	**(10,258)**	(7,609)	–	(7,609)
Gross profit		**25,964**	–	**25,964**	21,708	–	21,708
Administrative expenses		**(4,988)**	–	**(4,988)**	(4,255)	–	(4,255)
Operating profit		**20,976**	–	**20,976**	17,453	–	17,453
Surplus on disposal of investment properties	2	–	**10,063**	**10,063**	–	1,429	1,429
Interest receivable	3	**418**	–	**418**	245	–	245
Interest payable	4	**(11,934)**	–	**(11,934)**	(9,373)	(993)	(10,366)
Profit on ordinary activities before taxation	5	**9,460**	**10,063**	**19,523**	8,325	436	8,761
Taxation on profit on ordinary activities	7	**(2,510)**	**(3,791)**	**(6,301)**	(2,019)	(219)	(2,238)
Profit on ordinary activities after taxation		**6,950**	**6,272**	**13,222**	6,306	217	6,523
Profit attributable to shareholders		**6,950**	**6,272**	**13,222**	6,306	217	6,523
Dividends	8	**(3,723)**	–	**(3,723)**	(3,298)	–	(3,298)
Retained for the year	20	**3,227**	**6,272**	**9,499**	3,008	217	3,225
Basic earnings per share	9	**43.7p**	**39.5p**	**83.2p**	40.2p	1.4p	41.6p
Diluted earnings per share	9	**42.9p**	**37.0p**	**79.9p**	39.7p	1.3p	41.0p

Statement of total recognised gains and losses

	2001 £000	2000 £000
Profit for the financial period	**13,222**	6,523
Unrealised surplus on revaluation of investment properties	**38,673**	31,209
Taxation on valuation surpluses realised on sale of properties	**(510)**	–
Total recognised gains relating to the financial period	**51,385**	37,732

Note of historical cost profits and losses

	2001 £000	2000 £000
Reported profits on ordinary activities before taxation	**19,523**	8,761
Realisation of property revaluation gains/(losses) of previous years	**2,346**	840
Taxation on valuation surpluses realised on sale of properties	**(510)**	–
Historical cost profit on ordinary activities before taxation	**21,359**	9,601
Historical cost profit for the year retained after taxation and dividends	**11,335**	4,065

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

Balance sheets

As at 31 March 2001

	Notes	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Fixed assets					
Tangible assets					
Investment properties	10	**366,525**	304,248	**44,585**	42,795
Other fixed assets	11	**999**	1,117	**207**	246
Shares in subsidiary undertakings		–	–	**23**	23
Investment in own shares	12	**1,015**	1,015	**1,015**	1,015
		368,539	306,380	**45,830**	44,079
Current assets					
Debtors	13	**5,844**	5,236	**125,781**	119,711
Investments	14	**5,373**	11,424	–	1,991
Cash at bank and in hand		**206**	201	-	–
		11,423	16,861	**125,781**	121,702
Creditors: amounts falling due within one year	15	**(30,013)**	(25,378)	**(35,711)**	(48,644)
Net current (liabilities)/assets		**(18,590)**	(8,517)	**90,070**	73,058
Total assets less current liabilities		**349,949**	297,863	**135,900**	117,137
Creditors: amounts falling due after more than one year (including Convertible Loan Stock)	16/17	**(158,371)**	(154,845)	**(45,040)**	(35,806)
		191,578	143,018	**90,860**	81,331
Capital and reserves					
Called-up share capital	19	**1,618**	1,591	**1,618**	1,591
Share premium account	20	**40,666**	39,795	**40,666**	39,795
Revaluation reserve	20	**122,739**	86,412	**15,703**	11,792
Profit and loss account	20	**26,555**	15,220	**32,873**	28,153
Shareholders' funds – equity interests		**191,578**	143,018	**90,860**	81,331
Net asset value per share	9	**£11.93**	£9.04		

These accounts and notes were approved by the Board of Directors on 22 June 2001.

H. Platt

H Platt
R M Taylor
Directors

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

Cash flow statement

For the year ended 31 March 2001

	Notes	2001 £000	2000 £000
Net cash inflow from operating activities	1	**22,793**	20,183
Returns on investments and servicing of finance	2	**(12,371)**	(11,655)
Taxation		**(3,085)**	(2,778)
Capital expenditure	2	**(12,994)**	(85,025)
Equity dividends paid		**(3,428)**	(3,057)
Net cash outflow before use of liquid resources and financing		**(9,085)**	(82,332)
Management of liquid resources	2	**6,051**	(9,092)
Financing	2	**4,517**	93,027
Net cash inflow	3	**1,483**	1,603
Reconciliation of net cash flow to movement in net debt			
Increase in cash		**1,483**	1,603
(Decrease)/increase in liquid resources		**(6,051)**	9,092
Outflow from movements in debt financing		**(3,848)**	(90,969)
Changes in net debt resulting from cash flows	3	**(8,416)**	(80,274)
Net debt at 1 April 2000		**(148,731)**	(68,457)
Net debt at 31 March 2001		**(157,147)**	(148,731)

Notes to the cash flow statement

For the year ended 31 March 2001

	Notes	2001 £000	2000 £000
1 Reconciliation of operating profit to operating cash flows			
Operating profit		**20,976**	17,453
Depreciation charges		**524**	485
Profit on sale of tangible fixed assets		**(38)**	(4)
Increase in debtors		**(202)**	(2,476)
Increase in creditors		**1,533**	4,725
		22,793	20,183

2 Analysis of cash flow

	Notes	2001 £000	2000 £000
Returns on investments and servicing of finance			
Interest received		**391**	239
Interest paid		**(12,762)**	(9,967)
Movement in cost of raising finance		**–**	(1,927)
Net cash outflow		**(12,371)**	(11,655)
Capital expenditure			
Purchase of tangible fixed assets		**(48,436)**	(91,731)
Sale of tangible fixed assets		**35,442**	6,576
Grants received		**–**	130
Net cash outflow		**(12,994)**	(85,025)
Management of liquid resources			
Decrease/(increase) in short-term deposits	3	**6,051**	(9,092)
Net cash inflow/(outflow)		**6,051**	(9,092)
Financing			
Issue of ordinary share capital		**898**	131
Mortgage on freehold property	3	**516**	117,459
Drawdown of bank loan	3	**3,103**	18,397
Repayment of mortgage	3	**–**	(42,960)
Net cash inflow		**4,517**	93,027

Notes to the cash flow statement

3 Analysis of net debt

	At 1.4.00 £000	Cash flow £000	**At 31.3.01 £000**	At 1.4.99 £000	Cash flow £000	At 31.3.00 £000
Cash at bank and in hand	201	5	**206**	2	199	201
Bank overdrafts	(3,322)	1,478	**(1,844)**	(4,726)	1,404	(3,322)
	(3,121)	1,483	**(1,638)**	(4,724)	1,603	(3,121)
Debt due within one year:						
Securitised loan	(2,529)	(269)	**(2,798)**	–	(2,529)	(2,529)
Less cost of raising finance	340	(53)	**287**	–	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	–
Mortgage: Bradford & Bingley Building Society	–	–	**–**	(30,000)	30,000	–
Bristol & West Building Society	–	–	**–**	(10,000)	10,000	–
Securitised loan	(114,930)	(247)	**(115,177)**	–	(114,930)	(114,930)
Bank loan	(18,397)	(3,103)	**(21,500)**	–	(18,397)	(18,397)
Less cost of raising of finance	2,022	(176)	**1,846**	435	1,587	2,022
	(157,034)	(3,848)	**(160,882)**	(66,065)	(90,969)	(157,034)
Short-term deposits	11,424	(6,051)	**5,373**	2,332	9,092	11,424
Total	(148,731))	(8,416)	**(157,147)**	(68,457)	(80,274)	(148,731)

Accounting policies

31 March 2001

(a) Basis of consolidation and accounting

The Group accounts include the accounts of the Company and its subsidiary undertakings to 31 March 2001. 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 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.

(h) Financial instruments

Policies with regard to the treatment of financial instruments are described in note 17 to the accounts.

Notes to the accounts

For the year ended 31 March 2001

1 Segmental analysis

	Turnover 2001 £000	Costs 2001 £000	Gross profit 2001 £000	Turnover 2000 £000	Costs 2000 £000	Gross profit 2000 £000
Rental income	**28,534**	**(946)**	**27,588**	23,397	(802)	22,595
Service charges and other recoveries	**6,194**	**(9,047)**	**(2,853)**	4,609	(6,098)	(1,489)
Services, fees, commissions and sundry income	**1,494**	**(265)**	**1,229**	1,311	(709)	602
	36,222	**(10,258)**	**25,964**	29,317	(7,609)	21,708

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 2000 plus additions at cost since that date. Proceeds from the sale of investment properties totalled £35,593,000. The book value of these assets plus costs of sale totalled £25,530,000 yielding a surplus of £10,063,000.

3 Interest receivable

The following amounts were earned during the year:	2001 £000	2000 £000
Short-term deposits	**374**	230
Other	**44**	15
	418	245

4 Interest payable

The following amounts were payable during the year:	2001 £000	2000 £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 on securitised loan not wholly repayable within five years*	**8,922**	7,464
Bank and other interest on amounts wholly repayable within five years	**1,501**	995
	13,072	11,108
Interest capitalised on development properties	**(1,138)**	(742)
Charged to profit and loss account	**11,934**	10,366

* Net of amortisation of cost of raising finance £352,000 (2000: £617,000).

5 Profit on ordinary activities before taxation

The profit for the year is stated after charging:	2001 £000	2000 £000
Head rents payable	**946**	802
Auditors' remuneration	**78**	69
Non-audit fees paid to the Group's auditors	**74**	85
Depreciation	**524**	485
Salaries	**3,824**	2,969
Social security costs	**395**	285
Other pensions costs	**238**	196

Audit fees included in the Company's accounts were £5,700 (2000: £6,200). In addition, non-audit fees of £54,000 (2000: £442,000) paid to the Group's auditors have been capitalised within costs of raising finance.

6 Employees and Directors

Staff composition on the last day of the financial year was:	2001 Number	2000 Number
Executive Directors	**5**	4
Head office staff	**59**	56
Service charge recoverable staff	**78**	70
	142	130

The average number of persons employed during the year was 133 (2000: 106).

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 pages 29 and 30.

7 Taxation

	2001 £000	2000 £000
Corporation tax at 30% (2000: 30%)	**6,219**	2,238
Prior year adjustment	**82**	–
	6,301	2,238

The taxation charge for the year ended 31 March 2001 was £6,219,000 representing an effective rate of 31.9% (2000: 25.5%). Effective tax rate excluding property disposals amounted to 25.7% (2000: 24.3%).

The increase in the rate of taxation is due principally to lower availability of industrial building allowances on new acquisitions.

8 Dividends

	2001 £000	2000 £000
Interim dividend of 6.5p (2000: 6.0p) per ordinary share	**1,070**	941
Proposed final dividend of 16.6p (2000: 15.0p) per ordinary share	**2,653**	2,357
	3,723	3,298

The interim dividend was paid on 1 February 2001 and the proposed final dividend is payable on 1 August 2001 to shareholders on the register at the close of business on 6 July 2001.

9 Earnings per share and net assets per share

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

	Profit 2001 £000	Profit 2000 £000	Earnings per share 2001 Pence	Earnings per share 2000 Pence
Profit for the year attributable to shareholders	**13,222**	6,523	**83.2**	41.6
Other items	**(6,272)**	(217)	**(39.5)**	(1.4)
Profit for the year attributable to shareholders used for calculating earnings per share excluding other items	**6,950**	6,306	**43.7**	40.2

Reconciliation of profit used in calculating diluted earnings per share

	Profit 2001 £000	Profit 2000 £000	Earnings per share 2001 Pence	Earnings per share 2000 Pence
Profit for the year attributable to shareholders used for calculating basic earnings per share	**13,222**	6,523		
Interest saving net of taxation on 11% Convertible Loan Stock	**311**	311	—	
Profit for the year attributable to shareholders used in calculating the underlying diluted earnings per share	**13,533**	6,834	**79.9**	41.0
Other items	**(6,272)**	(217)	**(37.0)**	(1.3)
Profit for the year attributable to shareholders used in calculating the diluted earnings per share excluding other items	**7,261**	6,617	**42.9**	39.7

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

	2001 £000	2000 £000
Used for calculating basic earnings per share	**15,890,584**	15,684,658
Dilution due to Share Option Scheme	**244,256**	166,574
Dilution due to Convertible Loan Stock	**808,000**	808,000
Used for calculating diluted earnings per share	**16,942,840**	16,659,232

Net assets per share have been calculated by dividing net assets of £191,578,000 less investment in own shares of £1,015,000 (2000: £143,018,000) by 15,979,510 (2000: 15,713,815) being the number of shares in issue at 31 March 2001 less investment in own shares of 200,000. Other items in the current year comprise profits on disposal of investment properties (2000: profits on sale of investment properties less costs associated with the redemption of loans).

10a Investment properties – Group

	Freehold £000	Mainly freehold £000	Long leasehold £000	Short leasehold £000	Total £000
Balance at 1 April 2000	208,488	48,335	47,425	–	304,248
Additions during the year	42,377	2,814	3,701	–	48,892
Disposals during the year	(25,288)	–	–	–	(25,288)
Revaluation during the year	31,336	6,383	954	–	38,673
Balance at 31 March 2001	**256,913**	**57,532**	**52,080**	**–**	**366,525**
The historical cost of investment properties					
Balance at 1 April 2000	134,904	45,750	36,725	7	217,386
Balance at 31 March 2001	**154,788**	**48,564**	**40,426**	**7**	**243,785**

The Directors are advised that the value of the properties at 31 March 2001 was not less than their book cost (see note 10c).

Additions during the year are stated net of £100,000 relating to grants receivable (2000: £129,800) and include capitalised interest, gross of tax element, of £1,138,000.

10b Investment properties – Company

	Freehold £000	Mainly freehold £000	Long leasehold £000	Short leasehold £000	Total £000
Balance at 1 April 2000	24,320	11,975	6,500	–	42,795
Additions during the year	127	1,704	2	–	1,833
Disposals during the year	(4,571)	–	–	–	(4,571)
Revaluation during the year	2,949	131	1,448	–	4,528
Balance at 31 March 2001	**22,825**	**13,810**	**7,950**	**–**	**44,585**
The historical cost of investment properties					
Balance at 1 April 2000	15,102	11,453	4,439	7	31,001
Balance at 31 March 2001	**11,277**	**13,157**	**4,441**	**7**	**28,882**

10c Valuation

The Group's investment properties were valued by Insignia Richard Ellis, Chartered Surveyors, at 31 March 2001 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 £366,875,000 (2000: £312,385,000) including £350,000 (2000: £350,000) in respect of the Company's short leasehold interest (expiring 11 February 2011) in the Alpha Business Centre, Walthamstow. 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. After this adjustment the aggregate valuation for accounts purposes is £366,525,000 (2000: £304,248,000).

11a Other fixed assets – Group

Cost	Motor vehicles £000	Equipment and fixtures £000	Total £000
Balance at 1 April 2000	382	2,468	2,850
Additions during the year	84	528	612
Disposals during the year	(384)	(4)	(388)
Balance at 31 March 2001	**82**	**2,992**	**3,074**
Depreciation			
Balance at 1 April 2000	194	1,539	1,733
Charged during the year	60	464	524
Disposals during the year	(181)	(1)	(182)
Balance at 31 March 2001	**73**	**2,002**	**2,075**
Net book value 31 March 2001	**9**	**990**	**999**
Net book value 31 March 2000	188	929	1,117

11b Other fixed assets – Company

Cost	Equipment and fixtures £000	Total £000
Balance at 1 April 2000	598	598
Additions during the year	98	98
Disposals during the year	(4)	(4)
Balance at 31 March 2001	**692**	**692**
Depreciation		
Balance at 1 April 2000	352	352
Charged during the year	134	134
Disposals during the year	(1)	(1)
Balance at 31 March 2001	**485**	**485**
Net book value 31 March 2001	**207**	**207**
Net book value 31 March 2000	246	246

12 Investment in own shares

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 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 2001, the number of shares held by the Trust totalled 200,000 shares (2000: 200,000) with a nominal value of £20,000 (2000: £20,000) and the book value of the shares amounted to £1,015,000 (2000: £1,015,000). The shares, whilst legally not the property of the Company, have been included in fixed asset investments. At 31 March 2001 the market value of the shares held by the Trust was £2,365,000. 65,530 shares held by the Trust are subject to option awards.

13 Debtors

	Group		Company	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Amounts falling due within one year:				
Trade debtors	**3,202**	3,175	–	–
Amounts owed by subsidiary undertakings	–	–	**120,785**	118,400
Prepayments and accrued income	**1,792**	1,594	–	–
Deposits on investment acquisitions	**571**	240	–	–
Deposit on investment disposal	**50**	–	–	–
Taxation and social security	**42**	–	–	–
Corporation tax – payment on account	–	–	**4,996**	1,311
	5,657	5,009	**125,781**	119,711
Amounts falling due after one year:				
Advance commissions	**187**	227	–	–
Total debtors	**5,844**	5,236	**125,781**	119,711

14 Investments

Investments of £5,373,000 (2000: £11,424,000) comprise short-term deposits with an original maturity date of less than three months (held short term for debt service) under the securitised loan facility with WestLB of £2,785,000 and other deposits of £2,588,000.

15 Creditors: Amounts falling due within one year

	Group		Company	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Secured mortgage borrowings (note 16)	**2,511**	2,189	–	–
Bank loan and overdraft (secured)	**1,844**	3,322	–	–
Trade creditors	**1,496**	2,126	–	–
Amounts owed to subsidiary undertakings	–	–	**32,752**	46,037
Taxation and social security	**1,676**	1,107	**220**	222
Deferred income – rent and service charges	**4,948**	4,294	–	–
Tenants' deposits	**3,255**	2,595	–	–
Accruals	**7,054**	6,537	**86**	28
Corporation tax payable	**4,576**	851	–	–
Dividends	**2,653**	2,357	**2,653**	2,357
	30,013	25,378	**35,711**	48,644

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

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	2001 £000	2000 £000	**2001 £000**	2000 £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	**137,342**	133,494	**21,500**	12,266
	160,882	157,034	**45,040**	35,806
Less: amount falling due within one year	**(2,511)**	(2,189)	–	–
	158,371	154,845	**45,040**	35,806

The secured loans are secured on properties of value £325,426,000. 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 include a loan of £117,975,000 carrying an interest rate of 1.0% over LIBOR and repayable in 2011.

Workspace Holdings Ltd, 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 one ordinary share for every £5 of stock held.

Loans totalling £121,096,100 have a maturity of five years or more.

17 Borrowings and financial instruments

i Policies

The Group finances its operations 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. Details of the interest rate collar held by the Group to manage interest rate exposure on its £122m facility with WestLB are given in note 16. 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% (2000: 15%) of the Group's borrowings were fixed with a further 74% (2000: 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 2001 77% (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

All of the Group's financial assets comprising cash at bank and in hand are denominated in sterling. The interest rate profile at 31 March 2001 was:

	2001 £000	2000 £000
Fixed rate financial assets	**5,579**	11,625

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 2001 was:

	2001 £000	2000 £000
Floating rate financial instruments	**141,032**	138,838
Fixed rate financial liabilities	**23,540**	23,540
	164,572	162,378

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	6.7 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 2001 was 1.02%.

iv Maturity of financial liabilities

	Group		Company	
A maturity analysis of loans is shown below:	2001 £000	2000 £000	2001 £000	2000 £000
Less than one year	**4,355**	5,511	–	–
Between one year and two years	**3,660**	15,124	–	12,300
Between two years and three years	**3,660**	9,658	–	–
Between three years and four years	**3,670**	3,561	–	–
Between four years and five years	**25,775**	3,571	**21,500**	–
In five years and more	**123,452**	124,953	**23,540**	23,540
	164,572	162,378	**45,040**	35,840
Less cost of raising finance	**(1,846)**	(2,022)	**(34)**	(34)
	162,726	160,356	**45,040**	35,806

17 Borrowings and financial instruments continued

v Borrowing facilities

At 31 March 2001 the Group had undrawn borrowing facilities of £5,677,000 on which conditions precedent had been met (total undrawn £12,190,000). Of the total undrawn £656,000 had a maturity of less than 12 months with the remainder having a maturity of in excess of two years.

vi Fair value of financial liabilities

Book and fair values of financial liabilities are:

	Book value 2001 £000	**Fair value 2001 £000**	Book value 2000 £000	Fair value 2000 £000
Primary financial instruments				
Short-term liabilities	**(4,355)**	(4,355)	**(5,511)**	(5,511)
Long-term borrowing	**(158,371)**	(165,299)	**(154,845)**	(163,828)
Financial assets	**5,579**	5,579	**11,625**	11,625
Derivative financial instruments				
Interest rate swaps	**322**	1,076	**361**	(1,076)
	(156,825)	(162,999)	**(148,370)**	(158,790)

The fair value of the interest rate cap/collar swap has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates. The total fair value adjustment equates to 38.6p per share (15.6p based on diluted share capital).

18 Deferred taxation

	2001 £000	2000 £000
Potential deferred taxation on:		
Corporation tax payable if the investment properties were disposed of at their revalued amounts	**32,316**	24,456
Other short-term timing differences	**(546)**	(173)
	31,770	24,283
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

	2001 Number	2000 Number
Authorised:		
Ordinary shares of 10p each	**21,500,000**	21,500,000

	£	£
Issued:		
Fully paid ordinary shares of 10p each	**1,617,951**	1,591,382

During the year 265,695 shares were issued. 263,868 shares were issued on exercise of options under the Executive Share Option Scheme and the Employee Share Option Scheme. The issue price and market prices of Workspace Group ordinary shares at the time of exercise were as follows:

Exercise date	Number of shares	Issue price	Market price
26.06.00	30,000	£3.50	£9.30
04.07.00	156,713	£3.40	£9.00
04.07.00	15,000	£3.50	£9.00
04.07.00	11,710	£3.20	£9.00
04.07.00	15,155	£3.25	£9.00
04.01.01	25,290	£3.20	£10.62
29.03.01	10,000	£3.40	£11.75

1,827 shares were issued at a price of £3.20 on 2 February 2001 under the Save As You Earn share option scheme. The market price of Workspace Group ordinary shares on that day was £11.35.

At 31 March 2001 there were 730,366 (2000: 837,425) share options exercisable on the Company's ordinary share capital. Of these, 473,276 are Directors' share options and are disclosed in the report of the Directors, one former Director held options over 123,290 shares and 133,800 options are held by employees who are not Directors and these are analysed below:

Employee Share Option Scheme

	At 31.3.00	Granted during the year	Exercised/lapsed during the year	31.3.01	Exercise price £	Normal exercise date From	To
1991 Share Option Scheme	5,000		(5,000)	–	3.50	21.10.1994	20.10.2001
1993 Share Option Scheme	12,290			12,290	3.20	07.1997	07.12.2003
	14,976			14,976	3.25	07.1997	07.12.2003
	10,578		(10,578)	–	3.40	25.06.2000	24.06.2004
	17,648			17,648	3.40	25.06.2000	24.06.2007
	15,000			15,000	4.51	29.06.2001	28.06.2005
	9,508			9,508	4.995	01.04.2002	01.04.2006
2000 Share Option Scheme		22,500		22,500	9.225	09.08.2003	09.08.2007
	85,000	22,500	(15,578)	91,922			
Save As You Earn Scheme	1,827		(1,827)		3.20		01.01.2001
	1,074		(1,074)		3.63		01.07.2001
	10,660		(1,045)	9,615	3.30		01.09.2002
	3,545			3,545	3.30		01.09.2004
	6,813		(1,623)	5,190	4.25		01.09.2003
	15,125		(1,625)	13,500	5.40		01.09.2004
	816			816	5.40		01.09.2006
		6,685	(258)	6,427	7.50		01.09.2003
		2,785		2,785	7.50		01.09.2005
	39,860	9,470	(7,452)	41,878			

The exercise of all options, other than those obtained under the Group's Save As You Earn scheme, is dependent upon the Group achieving specified performance targets. The prescribed targets have been met in respect of all options granted in 1997 and earlier years, amounting to 110,999 ordinary shares.

20 Other reserves

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
(a) Share premium account				
Balance at 1 April 2000	**39,795**	39,668	**39,795**	39,668
Additions	**871**	127	**871**	127
Balance at 31 March 2001	**40,666**	39,795	**40,666**	39,795
(b) Revaluation reserve				
Property valuation surplus:				
Balance at 1 April 2000	**86,412**	56,043	**11,792**	23,097
Disposals during the year	**(2,346)**	(840)	**(617)**	(13,002)
Year end revaluation adjustment	**38,673**	31,209	**4,528**	1,697
Balance at 31 March 2001	**122,739**	86,412	**15,703**	11,792
(c) Profit and loss account				
Balance at 1 April 2000	**15,220**	11,155	**28,153**	12,635
Retained profit for the year	**9,499**	3,225	**4,613**	2,516
Transfer from revaluation reserve	**2,346**	840	**617**	13,002
Taxation on valuation surpluses realised on sale of properties	**(510)**	–	**(510)**	–
Balance at 31 March 2001	**26,555**	15,220	**32,873**	28,153

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 £8,336,000 (2000: £5,814,000).

21 Reconciliation of movements in shareholders' funds

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Profits for the financial period	**13,222**	6,523	**8,336**	5,814
Dividends	**(3,723)**	(3,298)	**(3,723)**	(3,298)
Unrealised surplus on revaluation of properties	**38,673**	31,209	**4,528**	1,697
Taxation on valuation surpluses realised on sale of properties	**(510)**	–	**(510)**	–
Issue of shares	**898**	130	**898**	130
Net addition to shareholders' funds	**48,560**	34,564	**9,529**	4,343
Opening shareholders' fund	**143,018**	108,454	**81,331**	76,988
Closing shareholders' fund	**191,578**	143,018	**90,860**	81,331

22 Capital commitments

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

	Group 2001 £000	Group 2000 £000
Under contract	**10,582**	8,799
Board authorised but not contracted	**5,145**	6,284

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*	Dormant	1 share of £1
Redhill Workspace Ltd	Property investment	1 share of £1
The Olde Corporation Ltd	Dormant†	1 share of £1
Exoport Ltd	Dormant	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 share capital of these subsidiaries is held by other Group companies.

† Ceased trading prior to the year end.

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

25 Subsequent events

On 12 April 2001 the Group completed the purchase of Harlow Enterprise Centre, Harlow, for the sum of £3.6m and has exchanged contracts for a further property, Quality Court, London WC2, for £4.22m. On 15 June the Group sold its entire Midlands portfolio (as listed on page 56, with the exception of Caxton Court, together with one further property included in the Tonex portfolio, Faircharm Trading Estate, Leicester. These properties were sold for £42.3m which, after allowing sale costs, was equivalent to the 31 March 2001 valuation for these properties. One further property, Ashburton Trading Estate, was sold on 22 June 2001 for £2.8m. This property was valued at £2.63m at 31 March 2001.

Five years of growth 1997–2001

Key property statistics	**31 March 2001**	31 March 2000	31 March 1999	31 March 1998	31 March 1997
Number of estates	**104**	91	73	75	71
Lettable floorspace (square feet)	**5,792,000**	5,657,876	3,824,913	3,721,827	3,297,434
Number of lettable units (units)	**4,330**	3,503	2,696	2,620	2,514
Average unit size (square feet)	**1,329**	1,615	1,412	1,421	1,312
Number of units occupied (units)	**3,883**	3,074	2,311	2,272	2,111
Number of units vacant (units)	**447**	429	385	348	403
Rent roll of occupied units	**£29,226,994**	£25,750,204	£17,361,828	£16,917,861	£14,757,424
Average rent per square foot*	**£5.84**	£5.21	£5.20	£5.18	£5.23
Overall occupancy*†	**87.04%**	87.52%	87.31%	87.71%	85.52%

* 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 Square feet	Number of units	Description	Tenure
■	Aberdeen Centre, Islington, London N5	64,644	146	Business centre	Freehold
	Acton Business Centre, London NW10	50,200	96	Business centre	Freehold
	Alpha Business Centre, Walthamstow, London E17	22,659	56	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	15,464	31	Business centre	Freehold
	Arches Business Centre, Southall, Middlesex UB2	40,725	20	Business centre	Freehold
	Artesian Close Industrial Estate, Brent, London NW10	22,745	18	Single-storey light industrial estate	Freehold
	Barlby Road, London W10	N/A	N/A	Land for development	Freehold
■	The Barley Mow Centre, Chiswick, London W4	79,749	225	Business centre	Freehold
*	Barratt Way Industrial Estate, Harrow	49,265	10	Single-storey light industrial estate	Freehold
	Belgravia Workshops, Islington, London N9	31,392	53	Business centre	Freehold
■	Boundary Business Centre, Woking GU21	45,452	26	Light industrial and Bl office estate	Freehold
*■	Bounds Green Industrial Estate, London N11	140,003	50	Industrial estate	Freehold
■	Bow Enterprise Park, London E2	64,088	32	Single-storey light industrial estate	Freehold
	Brook Road, Redhill, Surrey	N/A	1	Land for development	Freehold
	Brookway Trading Estate, Newbury, Berks RG14	17,395	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	18,772	14	Single-storey light industrial estate	Freehold
*	Clyde House, Maidenhead	30,156	3	Business centre	Long leasehold
	Cremer Business Centre, Shoreditch, London E2	41,362	50	Flatted industrial	Freehold
●	Glenville Mews Industrial Estate, Kimber Road SW18	44,953	32	Single-storey light industrial estate	Long leasehold
■	Grand Union Centre, North Kensington, London NW10	50,798	36	Business centre	Freehold
	Helix Business Park, Camberley	19,984	20	Business centre	Long leasehold
	Highway Business Park, Wapping, London E1	20,113	25	Single-storey light industrial estate	Freehold
	Holywell Centre, City of London EC2	21,870	79	Business centre	Freehold
	Hooley Lane Goods Yard, Redhill, Surrey RH1	N/A	21	Single-storey industrial and open storage land	Freehold
*	The Ivories, Islington, London	24,802	24	Business centre	Freehold
■	Kingsland Viaduct, Hackney, London E2	255,985	159	Railway arches	Long leasehold
*	Lea Road Trading Estate, Waltham Abbey, Essex	6,479	1	Industrial unit	Freehold
■	The Leathermarket, Bermondsey, London SE1	124,536	150	Business centre	Freehold
■	Leroy House, Islington, London N1	47,205	112	Business centre	Freehold
	Long Island House, Acton, London W3	25,748	19	Business centre	Freehold
	Magenta House, Whitechapel, London E1	11,930	13	Offices	Freehold
●	Maple Industrial Estate, Feltham, Middlesex TW13	18,210	18	Single-storey light industrial estate	Long leasehold
	The Microcentre, Reading, Berks RG2	12,659	12	Single-storey light industrial estate	Long leasehold

London and South East portfolio *continued*

Name of property	Lettable area Square feet	Number of units	Description	Tenure
■ 3 Mills Estate, Stratford, London E3	399,932	159	Industrial estate/film studios	Part freehold, part long leasehold
■ Pall Mall Deposit, North Kensington, London W10	50,234	105	Business centre	Freehold
* Parma House, London N22	36,509	5	Business centre	Freehold
■ Park Avenue Trading Estate, Luton, Beds LU3	204,041	38	Single-storey light industrial estate	Freehold
Parmiter Industrial Estate, Bethnal Green, London E2	34,561	32	Single-storey light industrial estate	Freehold
* 5 Payne Road, Tower Hamlets, London E3	3,307	1	Business centre	Freehold
Pensbury Industrial Estate, Wandsworth, London SW8	19,972	21	Single-storey light industrial estate	Freehold
Rainbow Industrial Park, Raynes Park, London SW20	37,724	19	Single-storey industrial and open storage land	Freehold
* Redbridge Enterprise Centre, Ilford, Essex	20,080	20	Single-storey light industrial estate	Freehold
● Redkiln Close Trading Estate, Horsham, W Sussex RH13	36,741	15	Single-storey light industrial estate	Long leasehold
Saffron Court Industrial Estate, Basildon, Essex SS15	56,918	42	Single-storey light industrial estate	Freehold
■ Seax Centre, Basildon, Essex SS15	128,298	29	Single-storey light industrial estate	Freehold
Shaftesbury Business Centre, North Kensington, London W10	12,558	30	Business centre	Freehold
Stevenage Enterprise Park, Stevenage, Herts SG1	29,181	30	Single-storey light industrial estate	Freehold
Sugar House Lane, 20 and 107 High Street, Stratford, London E15	47,560	18	Offices and warehousing	Freehold
Sugar House Business Centre, Stratford, London E15	23,120	20	Business centre	Freehold
Thurston Road Industrial Estate, Lewisham, London SE13	46,566	18	Single-storey light industrial estate	Freehold
Union Street (1–10), Southwark, London SE1	N/A	1	Land for redevelopment	Freehold
Union Walk, Shoreditch, London E2	26,620	24	Railway arches	Long leasehold
*■ Wandsworth Business Village, London	88,540	218	Business centre	Freehold
Watchmoor Park, Camberley, Surrey GU15	8,052	5	Single-storey light industrial estate	Long leasehold
Whitechapel Business Centre, Whitechapel, London E1	35,972	42	Business centre	Freehold
* 57/59 Whitechapel Road, London E1	3,379	4	Office/retail	Freehold
London and South East total	**2,820,578**	**2,482**		

Investment properties owned by the Group

Midlands portfolio

Name of property	Lettable area Square feet	Number of units	Description	Tenure
†● Aston Fields Trading Estate, Bromsgrove, Worcs	69,916	37	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	24	Single-storey light industrial estate	Long leasehold
† Bradford Court, Digbeth, Birmingham	21,977	54	Business centre	Freehold
† Brook Street, Tipton, West Midlands	32,768	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	4,429	4	Single-storey light industrial estate	Freehold
†● Derby Trading Estate, Derby	52,340	27	Single-storey light industrial estate	Long leasehold
† Enterprise Park, Newark, Notts	21,774	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	33,623	71	Business centre	Long leasehold
† Keys Court, Digbeth, Birmingham	7,981	31	Business centre	Freehold
†■ Leyland Trading Estate, Wellingborough, Northants	242,283	138	Single-storey light industrial estate	Virtual freehold
†● Long Lane Trading Estate, Blackheath, West 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, West Midlands	43,939	22	Single-storey light industrial estate	Long leasehold
†● Royal Oak Trading Estate, Daventry, Northants	45,420	32	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	48,770	28	Single-storey light industrial estate	Long leasehold
†● Stechford Trading Estate, Birmingham	35,231	21	Single-storey light industrial estate	Long leasehold
†● Tile Cross Trading Estate, Marston Green, Birmingham	34,271	21	Single-storey light industrial estate	Long leasehold
†● Two Woods Trading Estate, Brierley Hill, West Midlands	16,728	10	Single-storey light industrial estate	Long leasehold
†● Vauxhall Trading Estate, Saltley, Birmingham	24,498	10	Single-storey light industrial estate	Long leasehold
†● Vernon Trading Estate, Blackheath, West Midlands	20,206	12	Single-storey light industrial estate	Long leasehold
Midlands total	**1,055,797**	**789**		

Tonex portfolio

	Name of property	Lettable area Square feet	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	63,065	5	Single-storey light industrial estate	Leasehold
	Faircharm Trading Estate, Greenwich, London SE8	106,437	71	Industrial estate	Freehold
†	Faircharm Trading Estate, Leicester	217,413	64	Single-storey light industrial estate	Mainly freehold
■	Great Guildford Business Centre, Southwark, London SE1	96,815	117	Business centre	Freehold
	Greenheath Business Centre, Bethnal Green, London E2	57,793	88	Industrial estate	Mainly freehold
■	Hatton Square Business Centre, Clerkenwell, London EC1	43,268	52	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	41,151	30	Business centre	Mainly freehold
	N17 Studios, Tottenham, London N17	127,440	57	Two-storey light industrial estate	Mainly freehold
■	Parkhall Road Trading Estate, West Dulwich, London SE1	136,387	49	Industrial estate	Freehold
	Payne Road Studios, Tower Hamlets, London E3	20,044	22	Business centre	Freehold
	Phoenix Business Centre, Tower Hamlets, London E3	22,916	13	Business centre	Freehold
■	Riverside Business Centre, Earlsfield, London SW18	83,112	130	Business centre	Freehold
■	Tower Bridge Business Complex, Bermondsey, London SE16	426,830	211	Business centre	Part freehold, part leasehold
*■	Tower Bridge, Block F, Bermondsey, London SE16	141,881	1	Business centre	Freehold
	Waterside House, Hackney, London N1	7,735	5	Office	Freehold
*■	Westminster Business Square, Lambeth, London SE11	63,649	56	Business centre	Freehold
	Wharf Road Trading Estate, Hackney, London N1	36,345	26	Industrial estate	Freehold
	The Chocolate Factory, Wood Green, London N22	116,206	51	Business centre	Part freehold, part leasehold
	Tonex total	**1,915,625**	**1,057**		
	Portfolio total	**5,792,000**	**4,328**		

* Denotes those properties that were acquired during the year ended 31 March 2001.

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

■ Denotes properties with a value in excess of £5 million at 31 March 2001.

† Denotes property sold after the year end.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 15th 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 30 July 2001 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 2001 and the reports of the Directors and the auditors thereon.

2 To declare a final dividend on the ordinary shares of £2,652,619 (16.6p per share) in respect of the year ended 31 March 2001, payable on 1 August 2001 to shareholders on the register on 6 July 2001.

3 To re-elect as a Director A H Cherry who retires by rotation and, being eligible, offers himself for re-election.

4 To re-elect as a Director R M Tayor who retires by rotation and, being eligible, offers himself for re-election.

5 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:

6 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 £539,317 during the period commencing on the date of the passing of this resolution and expiring on 29 July 2006 (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.

7 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 6 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 £80,897,

and shall expire on 29 July 2006, 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.

8 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 1,617,951 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 29 July 2002, or at the conclusion of the Annual General Meeting of the Company to be held in 2002, 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.

9 To consider and, if thought fit, to pass the following resolution as an ordinary resolution, namely that the authorised share capital of the Company be increased to £25,000,000.

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

By order of the Board
R Mark Taylor Secretary, 22 June 2001

Notes

1 Only holders of ordinary shares on the register of members of the Company at 11.00 am on 28 July 2001 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 28 July 2001 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/her. 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 Hon MRTPI
Deputy Chairman*

Harry Platt MA MRTPI
Chief Executive

Madeleine Carragher FRICS
Operations Director

J Patrick Marples MRICS
Property Director

Christopher J Pieroni BA MSc PhD*

R Mark Taylor BSc FCA
Finance Director

* Non-Executive and 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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Financial advisers and stockbrokers

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