

Workspace Group PLC

Annual Report and Accounts 2004

Registered number

2041612

Maximising
space

Maximising
growth



A45
COMPANIES HOUSE

A247YWHY

0201
03/07/04

Growth

£60.2m

Acquisitions during year –
£290.4m over last 5 years.

£628.5m

Properties – £108 value
per sq ft with £8.55 sq ft
average rent.

Customers

3,773

Customers in 101
estates (5.32m sq ft).

89%

Property located inside
M25 – 51% within 5 miles
of London Eye.

Flexibility

Responsibility

1,060

New lettings during year
(18% conversion rate).

6,052

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 Group, as the principal supplier of workspace in this market, shares in this growth – almost doubling the value of its portfolio in under three years.

At 31 March 2004 Workspace Group owned 101 estates valued at £628m and comprising over 5.3m sq ft providing accommodation for almost 3,800 customers in London and the South East.

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

The Group recognises its social and environmental responsibilities – whether through urban regeneration and co-operation between the private and public sectors, through recycling of waste or other initiatives. At the same time it produces an attractive financial return for its shareholders.

Details of publications or other information produced by Workspace Group may be found on the inside back cover.

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Our coverage area

Property acquired in 2003/04 (12)
 Portfolio property – Greater London (71)
 Portfolio property – outside London (18)
 Outside the M25
 Greater London
 Central London

Property acquired in 2003/04

- 1 National Works, Hounslow
- 2 Atlas Business Centre, NW2
- 3 Ellerslie Square, SW2
- 4 Michael Manley Centre, SW8
- 5 Rudolf Place, SW8
- 6 Zennor Road, SW12
- 7 Progress Way, Croydon
- 8 Hamilton Road, SE27
- 9 Hardess Street, SE24
- 10 Mahatma Gandhi Industrial Estate, SE24
- 11 Linton House, SE1
- 12 Poplar Business Park, E14

For further details of properties see page 54.

DTI classification of customer activities (%)

1 Services 37.1%	6 Utilities/infrastructure 2.3%
2 Design and creative 23.3%	7 Construction 1.9%
3 Manufacturing 15.8%	8 Retail 1.4%
4 Organisations 8.6%	9 Unclassified 1.2%
5 Storage and distribution 8.4%	



Financial highlights

£51.1m

Turnover +13.6%

£38.1m

Annual rent roll at year-end +6.1%

31.0p

Ordinary dividend +10.3%

£15.1m

Profit before tax +12.7%

£49.7m

Valuation surplus 8.6%

65.7p

Earnings per share +2.2%

£14.1m

Profit before tax on trading activities* +12.8%

£18.43

Net asset value per share +22.1%

61.3p

Earnings per share on trading activities* +2.0%

*Profit and earnings per share on trading activities are stated before profit on property disposals and other non-recurring items (see page 37).

Annual turnover (£m)

2000	29.3
2001	36.2
2002	39.1
2003	45.0
2004	51.1

Net asset value (pence per share)

2000	904
2001	1,173
2002	1,353
2003	1,510
2004	1,843

Investment property (£m)

2000	304.2
2001	366.5
2002	414.7
2003	505.5
2004	626.1

Earnings per share (pence per share)

2000	40.2	1.4	41.6
2001	44.1	39.5	83.6
2002	52.8	2.6	55.4
2003	60.1	4.2	64.3
2004	4.4	65.7	

— Trading
-- Other

Profit before tax (£m)

2000	8.3	0.5	8.8
2001	9.5	10.0	19.5
2002	11.5	0.5	12.0
2003	12.5	0.9	13.4
2004	1.0	15.1	

— Trading
-- Other

Year-end rent roll (£m)

2000	25.8
2001	29.2
2002	29.6
2003	35.9
2004	38.1

Chairman's statement

During my time as Chairman of your Company, I have visited many of its properties and met with many of its customers and staff. In these visits and meetings I have found the spirit of enterprise blossoming despite the challenging economic circumstances that have provided the backdrop for much of this period. Our customers are diverse and dynamic. It has been particularly interesting to see how these businesses have developed and adapted to the ever-changing, fast-moving markets of the twenty-first century.

It has been a challenging time for Workspace too. For a large part of the year rents moved sideways and occupancy dipped slightly. Occupancy bounced back and grew in the final quarter as business confidence recovered. Against this backdrop it is satisfying to present another set of excellent results.

Results

Yet again, Workspace has delivered record results. Year-end rent roll increased to £38.1m, an increase of 6.1% over the year. Like-for-like occupancy was broadly stable and, at the year-end, was a healthy 88%. Profit before tax from trading operations was £14.1m, with earnings per share from trading operations 61.3p, increases of 12.8% and 2.0% respectively. Growth in earnings per share

was depressed by an exceptionally low tax charge that arose last year. Two properties were sold, generating an exceptional profit before tax of £1.0m. Net profit before tax for the year was £15.1m, up 12.7% on the year.

I am pleased to report that our focus on managed "workspace" properties has continued to generate capital growth, with net asset per share rising 333p or 22.1% to £18.43. This is despite the recent dull period for rental growth and is attributable to the renewed interest of late in property as an investment asset class. Against the Investment Property Databank (IPD) – the standard industry benchmark covering all property – we have continued to perform very well. This benchmark shows us just outside the top decile in the current year (a period when retail property has continued to dominate

the investment market) with top percentile performance when measured over a longer five or ten year horizon. Finally, in terms of the results, I am pleased to report that on the key measure of total shareholder return (TSR) we have outperformed the FTSE Small Cap Index by a wide margin over the last five years, details of which can be found on page 30.

Strategy

Our consistent strategy is to invest in property that can provide good value, small-unit accommodation on flexible terms, where initial yields are attractive and where there is scope for the Group to improve value using its intensive management, proven systems and modest capital investment. This drives growth in earnings and asset values, creating shareholder value.

Longer term, the Group seeks to maximise value through redevelopment and regeneration. We have almost 3,800 customers, representing every sector of enterprise, both profit and non-profit. We have a particularly high number of customers from the "creative" sector, a vibrant part of the London community. We diversify operational risk by the sheer number of different customers and their wide range of activities.

Customers are the heart of our business and, during the year, we have adjusted the organisation of the Operations Team to be more aligned to our expanding customer base. We have responded to the more challenging market conditions with a number of marketing campaigns to build brand awareness and generate enquiries.

Governance

We have reviewed in detail our governance processes in the light of the new (2003) Combined Code. The Group consistently aims to operate to high standards of governance and a detailed compliance report is now on our website. The Group also seeks to be an excellent employer and has clear corporate social responsibility and environmental policies.

Real Estate Investment Trusts

We have monitored developments over the possible introduction of Real Estate Investment Trusts (REITs), noting the

Chancellor's consultation on PIFs launched in his Budget this year. We await the detail of the Government's proposals.

People

This is the last report in which Alan Cherry, Deputy Chairman, will feature as a member of the Board. Alan is the longest serving non-executive director of the Company – having provided 12 years' sterling service. He will retire at the AGM to be held in July 2004. Alan had planned to retire last year but stayed on for a further year, at the request of the Board, to provide an element of continuity at a time when Philip Rhodes, the previous Chairman, retired and Bernard Cragg and I joined the Board. He has through this time, as he did through all the years before, enriched the Company with his contribution.

I am delighted to welcome John Bywater as a non-executive director of the Company. John, a chartered surveyor by profession, brings a broad-based knowledge of the property market and is currently Managing Director of Hammerson UK PLC.

I must also thank the management and staff of the Group led by Harry Platt. This has been a challenging period – a time when their resourcefulness has been put to the test. The Group's results are a testimony to the manner in which they rose to this challenge.

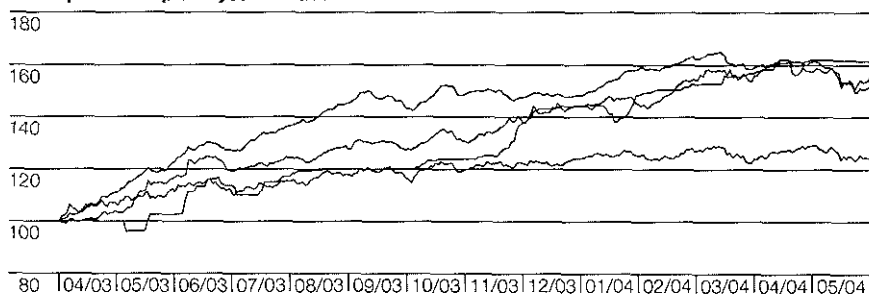
Current trading and prospects

Enquiry levels and conversions to lettings continue at good levels and there is evidence, through the faster rate of progress of lettings, of increasing customer confidence. Occupancy should improve from its current 88% level (excluding developments) to 90% during the year, creating the platform for renewed rental growth going forward. Earnings growth will be tempered this year – due to the run-through of the occupancy reductions during 2003/04, particularly in those properties which we are refurbishing – before returning to more normal patterns of growth in the following year. Against this, with the current strong demand for investment property and the anticipated growth in our rentals as occupancy is rebuilt and refurbished space let, there remains the prospect of good asset performance.

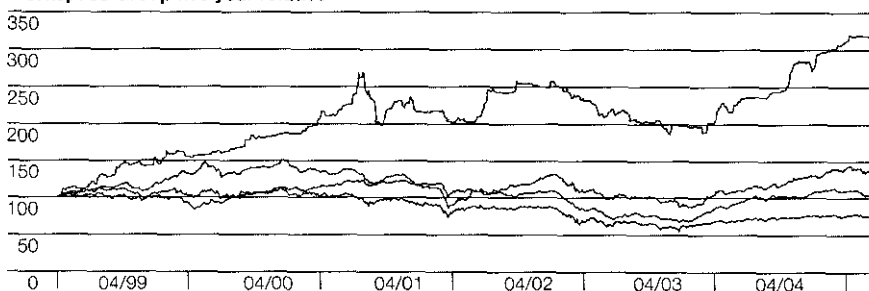
Dividend

The Board recommends a final dividend payment of 20.7p making 31.0p for the year, an increase of 10.3% over last year and making 16% compound growth over 10 years. The proposed dividend will be payable on 2 August 2004 to shareholders on the register on 2 July 2004.

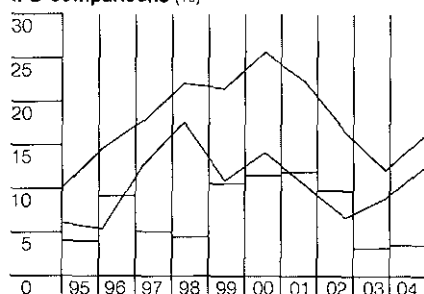
Workspace Group one year relative



Workspace Group five year relative



IPD comparisons (%)



Key notes:

IPD comparisons
— Workspace return
— IPD return
Bars = Difference

Workspace Group one and five year relative

— Workspace
... FTSE Small Cap
- - - FTSE Real Estate
- . - FTSE All Share

Growth

Workspace Group has grown substantially over the last ten years and plans to double again organically over the next five.

This is an ambition shared by many of our customers – a recent survey showed that two-thirds anticipated growth over the next year.

4

5

3

2

→ Acquisitions

Workspace has acquired an average of almost £60m of property per annum over the last five years. Its leading position in both letting and investment markets in its sector give it a unique insight.

→ Improvements

Workspace is focused on urban regeneration. It adds value to its properties by extending and refurbishing space to meet market demands.

→ London

By focusing its business in London, Workspace benefits from the long-term growth in the capital city.

1,2 Europa Building
3,4,5 Barley Mow

Customers

Our customers are engaged in all forms of professional, commercial, industrial, charitable and other activities – evidence indeed that our product services the broad spectrum of SME needs. Our customers enjoy above average success rates and we know that success breeds success.

→ Understanding

Understanding our customers is key to satisfying their needs. Workspace conducts regular surveys of customers and non-customers, performs entry and exit interviews, operates comment card schemes and runs focus groups. Its managers, as the Group's ambassadors, stay close to our customers.

→ Support

Workspace operates a number of support activities – from its add-on services through to web based and on-site events to assist customers' marketing. Its café breakout areas extend the reach of customers' own offices and enable networking between them. Workspace seeks successful "customers for life".

1

→ Responsibility

Workspace shares a common concern for the environment with its customers – evidenced not just through its urban regeneration activities, but also through its site management and recycling of waste and transportation initiatives.

2

1,2 Faircharm Studios
3 Shaftsbury Centre
4 Atlas Business Centre
5 Quality Court

3

4

5

1

2

3

Flexibility

Our simple, flexible and affordable lease is at the heart of everything we do. It allows our customers the freedom to grow or stay as long as it suits them to do so. Other services – power, insurance, communications – add to our offering.

4

5

6

7

→ Clusters

By identifying and investing in SME sector hot-spots, Workspace can ensure that the needs of all types of small businesses are catered for. The ability to offer our customers choice in terms of location, size and type of space is important in letting it.

→ Lease terms

Small businesses are always considering change and many relocate frequently – getting the flexibility and the right to break their lease counts.

→ Churn

Often compared to a revolving door, the exit of one tenant to be replaced by another enables regular renewal of lease terms. With a relatively low rental cost this accelerates earnings growth opportunities for our business.

1,2,3 The Leathermarket
4,5,6,7 Aladdin Business Park

Operating review

Another year of growth and progress

The Group has continued its pattern of strong growth. Over the last ten years the Group has increased profits and asset values (shareholder value) by five times or more. In summer 2001, following the sale of the Midlands portfolio, the Group presented plans to double the value of its portfolio through organic growth over a five-year period.

By September 2003 (after only two and a half years) the target had been 70% achieved. We have therefore set ourselves a new target, based on the same assumptions, of doubling again over the five years to September 2008. This last year has been challenging for many of our customers – even so, the Group's results show its resilience in these economic circumstances and that it is on track to meet its strategic objectives.

Key results

Once again, we are able to report growth in profits (trading profit before tax up 12.8%), net asset value per share (up 22.1% to £18.43), earnings per share (up 2.2% to 65.7p) and dividends (up 10.3% to 31.0p per share). A contribution of £1.0m before tax (4.4p per share) has also been secured from property disposals. This has been achieved in the context of a more challenging trading environment.

The total value of the Group's properties at 31 March 2004 was £628.5m. For properties held throughout the year (comparing this value at 31 March 2003, plus additions and improvements at cost, with that of March 2004) the uplift was £49.9m or 9.6%.

2003/04 Priorities

Achievements

2004/05 Priorities

Trading review

This was a year of contrasts. Over the first nine months occupancy declined slightly partly due to some customers who found trading more difficult at this time and partly due to others who took the advantage of low interest rates to move to owner occupied accommodation. This decline was exacerbated to a degree by our securing the vacation of space in certain properties either to prepare them for disposal (for redevelopment) or so that we could implement our refurbishment plans in the properties. In the final quarter, these patterns changed, with occupancy and, as a result, rent roll (on a like-for-like basis) stabilising and starting to grow again. Since the year-end, this pattern appears to have continued. Our experience reflects the pattern of market research and comment on the London economy, with a number of researchers noting an uplift of confidence particularly in the small and medium-sized enterprises (SME) sector since Christmas.

We are often questioned about the vulnerability of our business and its customer base at the weaker stages of the economic cycle. Early in 2003, post-Enron and with uncertainty over Iraq, business confidence was weak. It is pleasing to note therefore that at this time there was little more than a 3% drop in like-for-like occupancy over the first nine

month period and that over one-third of this was recovered in the following quarter.

In this more challenging market it has not been possible to grow rents (in terms of average rent per sq ft) during the year. Good rental growth occurs when the portfolio is effectively "fully occupied" – which we regard as the 90% occupancy level. In the circumstances, we consider that the standstill performance (average like-for-like rent increased by 0.6% over the year) was creditable, since it demonstrated that the price levels at which space was let were robust, supporting the ERVs (market rentals) that we target to reach over time.

Going forward, our immediate challenge is to build on the performance in the fourth quarter, taking occupancy back from its year-end 88% level to 90%, at which time we anticipate renewed rental growth. At the same time, we should see rental contributions start to flow from current refurbishment projects.

The quieter period in 2003/04 will have a dampening impact on earnings growth in 2004/05. However, with the continuing strength of the investment market, it is anticipated that asset growth, in terms of net asset value per share, will continue to be good through this period.

Our marketplace

The Group's business model is simple. We are a property-based business providing a variety of accommodation for SMEs in London and the South East. In this region we are by far the largest provider of such space, with 3,773 customers over 101 estates, in 5.32m sq ft of accommodation.

There are 3.7m businesses in the UK, of which 1.1m employ between one and twenty people. Of these 35% are based in London and the South East, with, in turn, over half in London itself. London alone accounts for 20% of business start-ups and closures in the UK each year and sees the greatest growth in higher "added-value" sectors. This is a huge marketplace and our market penetration remains low. There is therefore considerable scope for us to grow. To achieve this we currently monitor over 200 properties in London worth in excess of £500m and most of our acquisitions are drawn from this pool.

Our core product is an affordable, flexible lease which allows our customers to move in quickly and to expand or contract as their circumstances dictate.

1**Trading**

To continue to increase profits, earnings per share, dividends and net asset value per share.

Trading profit before tax up 12.8%, trading earnings per share up 2.0%; dividend up 10.3% and net asset value per share up 22.1%.

To continue to increase all operating measures to deliver enhanced shareholder value.

2**Operating**

To maintain high occupancy levels (90%) and continuing rental growth.

Year-end occupancy 88%, rental growth flat.

To improve occupancy to 90% and then renew rental growth.

3**Investment**

To continue expansion in London and the South East by acquiring in excess of £50m of property.

Over £60m of property acquired in year.

To continue with a further £60m acquisitions in year.

4**Added value**

To dispose of at least one property upon which change of use has been secured.

Canalot land sold for development, two other properties sold shortly after year-end.

To continue to identify and implement opportunities to improve properties with at least one further transaction in year.

5**Customer services**

To continue to extend and improve our customer services and particularly improve our marketing database.

Increased sales of both insurance and digital connectivity. Marketing database implemented supporting sales activity.

To streamline the entry process and to encourage local networking and events in our customer base, with more face-to-face contact between our customers.

6**Brand development**

To strengthen our brand awareness, reach more potential customers and increase the number of enquiries received.

Advertising campaign implemented. Recyclopedia and Beginners' Guide to Business Space published. Enquiries down 2% in quieter market (lettings up 29%).

To simplify and increase awareness of the Workspace brand as the leading provider of space for SMEs in London and the South East.

In many respects we are an hotelier of space for small businesses, focused on providing good customer service. With average rents of just £8.55 per sq ft and an average unit size of 1,169 sq ft, the "average" customer in London pays less than £10,000 per annum – which we believe should be readily affordable for small businesses operating in one of the best markets in the UK, if not the world.

Our new customers are often second stage businesses looking to move from a home environment to more formal business premises. Many of them will, in time, relocate within our portfolio as their need for space changes. Churn – the formation, expansion, reduction and closure of businesses – is a key characteristic of the SME market and source of opportunity for us. It provides us both with new customers and the opportunity to relocate others, each allowing us to review and increase rents.

Finally, the Group is very well placed to take advantage of current trends for the growth of London (in population and employment) and the call in the Mayor's London Plan for more intensive and mixed use of sites. Our assets are valued at a comparatively low level of £108 per sq ft, given that 51% by value is within five miles of the centre of London (89% inside the M25). They are not intensely developed and so, in the medium term, the potential for alternative use and intensification of use of our assets remains considerable.

Our business

During the year under review we received 6,052 enquiries which yielded 1,060 new lettings. The principal generators of enquiries continued to be estate signboards, internet references and referrals from existing customers. These enquiries are crucial to the Group's success: not only do they provide new lettings but they are also an indication of levels of activity within the SME sector and industry sub-sectors, enabling us to focus our offer effectively on emerging "value-adding" businesses – those best able to pay improving rents.

We are pleased to note that the lettings level for the year was broadly in line with the previous year. This supports the Group's long-held view that there are always new customers to be won at any stage of the economic cycle. The reduction in occupancy during early 2003/04 arose, therefore, not as a result of a shortage of lettings, but was attributable, rather, to increased levels of departure during the first part of the year – a factor which stabilised in the final quarter. Customers were also slower in making their leasing decisions in the earlier part of the year, a characteristic which changed with the rising confidence in the new calendar year.

Our marketing activities have been supported by a number of initiatives to promote the Group's brand during the year, including a poster campaign and

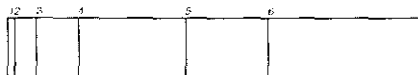
the publication of two self-help guides for SME's (copies of which can be found on our website). In addition, the Tenant Directory segment of the Group's website (a "yellow pages" type directory) has been extended by providing search engine links to our customers' services. This resulted in a significant increase in the number of website hits at a relatively low cost and has helped to extend brand awareness.

With its in-house management operations – lettings, estate management and credit control – the Group is attuned to the flexibility needed by the SME marketplace. This enables us to foster close contact with our customers, to monitor changes in the market and to maintain exacting standards. We try to work closely with our customers and 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. To continue an earlier analogy, the Group's operations are comparable in many respects with those of an hotelier: from the pricing of our product, the focus on occupancy and actual achieved rates for rentals, to the "front of house" management (easy-in-easy-out lettings and on-site management) and the provision of "add-on" services.

Our intensive management skills have been essential in a year which brought many challenges to our customers.

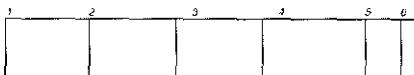
Portfolio by unit size (area %)

1 0-250 1.61%	5 2,500-5,000 20.03%
2 250-500 5.15%	6 5,000+ 36.72%
3 500-1,000 10.28%	
4 1,000-2,500 26.21%	



Portfolio by unit size (number of units %)

1 0-250 20.10%	5 2,500-5,000 8.58%
2 250-500 20.99%	6 5,000+ 4.45%
3 500-1,000 20.96%	
4 1,000-2,500 24.92%	



We have been able to maintain like-for-like occupancy in the 87% to 90% range, although the decline in occupancy in the first nine months of the year reduced the Group's capacity to grow rents. On a like-for-like basis, the increase in average rent over the year was 0.6% (2003: 7.4%) from £8.32 to £8.37 per sq ft. Occupancy also impacted on the rolling rent review and lease renewal programme, which in the year extended to 11.3% of the opening rent roll. The uplift achieved of £0.47m through rent reviews and lease renewals represents a 11.6% increase on previous passing levels for these tenancies. We anticipate that growth will return to more customary levels in 2005/06 as full occupancy is restored in the current year, 2004/05.

The Group has continued with and extended its association with Kingston University through the year, taking on a post-graduate researcher under the Government's TCS programme to work jointly on marketing research. Further updating research work by Kingston has been lodged in the Investor Relations section of the Group's website (for details see the inside back cover).

Portfolio

The cornerstone of the Group's target of doubling the value of its portfolio over a five-year period is its plan to acquire £50m – £60m of property each year, and to extract value from these and its existing

holdings through its active management. During the year the Group acquired £60.2m (excluding costs) of property and disposed of property for a total consideration of £11.0m.

Valuation

The total value of the Group's properties was £628.5m, an increase of £120.8m over the year. The average value of the Group's property was £108 per sq ft, with an immediate income yield on current rents passing of 6.37% and a yield at estimated current market rental values of 8.64% (total ERV £54.3m). We consider these to be robust values with continuing scope and opportunity for growth.

As a short leasehold asset, the Alpha Business Centre is included in the accounts at cost (cost £1, value £0.4m). Further, property used for Group occupation (Magenta House, value £2.0m) is reported as a fixed asset. Adjusting for these, the net value of the Group's portfolio for accounts purposes was £626.1m.

The valuation was conducted by CB Richard Ellis 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 2003 plus additions and improvements

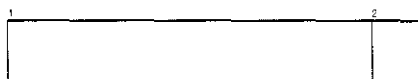
at cost, with that at 31 March 2004) the uplift was £49.6m or 9.6%. Of this total, £5.56m relates to properties of total value £43.8m that have been earmarked for sale following value added activities, an uplift of 14.5%. Acquisitions during the year showed a surplus on valuation of £0.3m (0.5%).

At the start of the year, the Chancellor announced the exemption from stamp duty of transfers of property in certain areas. 55% of the Group's properties (by value) were located in these areas. Analysis of the valuation and markets suggest that this factor contributed approximately £10.0m towards the Group's valuation surplus for the year.

Again, the Group's performance exceeded the Investment Property Databank (IPD) March Universe 2004 benchmark. In some years such as this, the performance of the Group's portfolio might be lower than other sectors (this year, retail/retail warehousing), but it is still ahead of the Universe. More importantly, the ungeared performance of our portfolio, when compared with IPD over the longer five and ten year periods, has always been in the top percentiles. The table following illustrates not only the Group's substantial outperformance of sector averages, but also the lower levels of volatility in our particular sector compared with commercial property more generally.

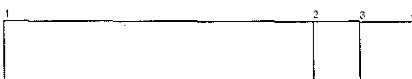
Like-for-like occupancy 2003 (%)

- 1 Occupied 88.25%
2 Vacant 11.75%



Valuation by investment tenure (%)

- 1 Freehold 75.0%
2 Long leasehold 11.2%
3 Part freehold/Part leasehold 13.7%
4 Short leasehold 0.1%



Total return (per annum)				
	One year	Three years	Five years	Ten years
Workspace Group	16.2%	14.9%	18.4%	17.8%
IPD March Universe	12.6%	9.4%	10.5%	10.5%
Workspace Group percentile rank	11 th	3 rd	top	top

This outperformance is illustrated graphically on page 5. 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 our value-adding activity. With its top-ranking performance the Group has demonstrated its consistent ability to generate enhanced returns from its investments.

Acquisitions

Poplar Business Park sits at the gateway to Docklands close to Canary Wharf. As such, it is almost uniquely positioned to service those businesses which need immediate access to the Docklands area but do not require prime Docklands space. It is a modern industrial/warehousing park which was constructed in the late 1980's and has featured on our target list of acquisitions for a number of years.

The acquisition of Progress Way, Croydon, has allowed the Group to secure

a presence in an area in which it was not previously represented. Progress Way runs behind the major A23, Purley Way thoroughfare. It therefore has potential not just in its own right but, in time, through linkage to the major Purley Way market.

The Lambeth portfolio (comprising the Ellerslie Square, Hardess Street, Hamilton Road, Mahatma Gandhi, Michael Manley, Zennor Road industrial estates and Rudolf Place) was acquired from Lambeth Borough Council. This portfolio of properties fits well with the Group's existing holdings increasing its representation in the area between its existing Westminster Business Square property and those at Pensbury and Glenville Mews. On acquisition the average rental values on the Lambeth properties were lower than those at the Group's immediately adjacent holdings indicating the scope for growth over time.

The Atlas Business Centre is located at Staples Corner on the North Circular Road, adjacent to the A5 and the start of the M1 motorway. It gives the Group a presence on the North Circular at a location which is almost equidistant between its existing properties at Bounds Green (to the East) and Acton (to the South) and in an area where it had no presence previously. It is within an active trading estate and should provide the platform for expansion in this significant part of North West London.

National Works is a medium-sized unit industrial estate located near the A4, Bath Road, midway between Hounslow and Heathrow Airport. It also provides the Group with a presence in a location in which it has sought property and fits well with the Group's other holdings.

Linton House Business Centre is located on the Southbank close to No 1 Union Street, which the Group successfully refurbished and sold three years ago and its retained land holdings which, as is noted below, were sold for development after the year-end. It is also close to two of the Group's other properties, the Great Guildford Business Centre and Surrey House. The Group has therefore a strong track record in this area. The centre has potential for expansion in time.

Disposals

Once again, headline profits have been assisted by profits of £1.0m realised on disposal of properties. Two disposals were completed during the year and two others contracted for sale with completion occurring shortly after the year-end (so that they will be accounted for in the accounts for the year to 31 March 2005).

The Group's interests in Kingsland Viaduct and Union Walk were sold to London Underground, its immediate landlord. These properties had been acquired in 1994 and 1996 under formulae by which the Group refurbished the railway arch accommodation in return

→ Atlas Business Centre

Located in Staples Corner on the North Circular, Atlas Business Centre gives the Group a presence in an area where we previously had none.

→ Michael Manley Centre

Part of the portfolio acquired from Lambeth Council, increasing the Group's representation in South London.

for a share of the rental income that the properties generated. The Group spent £3.5m in total on these works and has had good income returns. London Underground had planned for the routing of its ELLX extension over the Viaduct. A change of plan to extend its use to regional as well as local passenger services resulted in the issue of a Compulsory Purchase Order (CPO) on the Viaduct to facilitate the major works necessary. Terms were agreed with London Underground for a sale of the properties which avoided the need for implementation of the CPO, but preserved the payment of compensation for the blight that the order had caused. The Group received £8.25m, £7.82m of which was in consideration for its property interests and reinvestment costs, the remainder of £0.43m being allocated to rental blight compensation which was taken to trading profit. The sale at £7.82m showed a £0.53m profit over book value and £4.2m surplus on original cost. The pre-tax internal rate of return (IRR) over the holding period was 38%.

The other sale completed in the year was of a plot of land acquired as part of the Group's Canalot Studios acquisition, made in January 2003. Under the terms of this acquisition the Group was not obliged to pay the £1.5m consideration for the land until January 2004. During the year the land was marketed and a deal concluded

with Octavia Housing Association in February 2004 under the terms of which the land was sold on for £2.79m. This yielded £0.45m profit over book value at that stage, showing a surplus of £1.19m on original cost over the 39-day financial holding period.

Shortly after the year-end the Group disposed of its land at Hooley Lane, Redhill to Wimpey Homes for £10m. This land had been purchased at auction in 1997 for £0.96m and an overage payment obligation relating to development of the site was subsequently bought in 2001 for £1.3m. The original investment, which was let providing open storage space, showed a healthy return on cost rising from 13% on acquisition to in excess of 20%. Whilst managing the property and generating these returns the Group advanced proposals for the redevelopment of the land, securing a planning consent for residential accommodation. The property was valued at £9.9m in the Group's books at 31 March 2004 and so the sale will show a margin on book value of £0.1m, a surplus on cost of £7.27m and an IRR (pre-tax) of 49%.

The other post-balance sheet disposal was of the Group's land holdings in Union Street, Southwark (referred to in Acquisitions) which were retained following the successful sale of No 1 Union Street in December 2000. With a value of £0.65m attributed to them on acquisition, they have been sold for £1.88m (book value,

£1.88m). This disposal, which shows a pre-tax IRR of 23%, will also be accounted for in the year to 31 March 2005.

The option granted in respect of the Group's Payne Road properties was extended during the year. It is likely that these properties will be sold in the current year.

Adding value

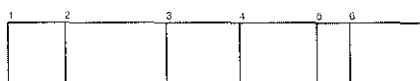
The Group's core activity is investment in, and the letting of, small-unit accommodation. As such, it is not a property development company but will, when appropriate, engage and work with partners in development activities to create additional value.

During the year refurbishment projects were completed at Quality Court, Europa House and parts of Enterprise and The Leathermarket, with works at Barley Mow completing shortly after the year-end in May. Works are continuing at the remainder of Enterprise and on a further extension at The Leathermarket with others due to start during the current year at Clerkenwell Workshops. In addition to these schemes proposals for alternative and mixed used schemes are being developed for the Group's Thurston Road, Greenheath, Wharf Road and Aberdeen Studios properties.

At Quality Court, the Group refurbished the former Patent Office, which had been occupied latterly by the London School of Economics, to provide an 18,000 sq ft

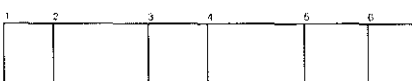
Portfolio area by location (%)

1 North 13.94%	4 West 18.53%
2 South 24.64%	5 Central 7.97%
3 East 17.74%	6 Outer 17.18%



Portfolio valuation by location (%)

1 North 11.86%	4 West 23.40%
2 South 22.99%	5 Central 15.35%
3 East 14.41%	6 Outer 11.90%



business centre targeted at providing small-unit space for smaller legal practices. The work was completed in October 2003 and, in a difficult market, was 15% let at 31 March 2004 (now 30% let).

The internal areas of Europa House were upgraded to provide more vibrant attractive "funky" space. The project was very successful and immediately attracted significant tenant interest. It was completed in November 2003 and was 67% let by the year-end.

The first stage of the Enterprise refurbishment (the works at Hatfield House, 52/54 Stamford Street) was completed in December 2003. The project has now progressed to 1/2 Hatfields where a reorganisation of the entrance areas and refurbishment of other areas is under-way.

At The Leathermarket a single storey extension of the Lafone House building has been completed (providing 3,300 sq ft) and a similar extension of Trowbray House is in progress (providing a further 2,700 sq ft).

At Barley Mow, a refurbishment of approximately 50% of the internal areas has been completed, including remodelling the reception and café. This will reinforce the centre as the premier business centre servicing the small business community in this part of West London. It will, through the internal reorganisation, provide a more attractive range of accommodation to customers.

The Clerkenwell project again involves the refurbishment of the entire building and reconfiguration of internal areas. The property was purchased in a run-down state. These works will bring the standard of accommodation alongside those in the Group's other properties, providing an attractive offer to its SME customers. A one-year programme of works is scheduled to commence in July 2004.

Progress at Thurston Road has been slowed by the changing attitude of the planning authority. Planning consent has now been received for a mixed retail warehouse development/housing use of the site. However, the Council is now looking for an even more intensive use of the site. Whilst frustrating, due to the delays it is causing, this should serve to enhance the value that the Group will finally extract from this site.

Other mixed use redevelopment schemes are under consideration at Greenheath, Wharf Road and Aberdeen Studios. Each comprises the demolition of the existing properties to allow for a more intensive development of the site with a similar level of business space being supplemented by residential developments. In each case the Group anticipates securing new space in place of its older buildings together with cash consideration for the land released for residential development. In all these cases our proposals are under discussion with the respective planning authorities.

Services

The Group has continued its services offering to its customers through the year. These provide a useful supplement to core earnings, but their principal objective is to increase the attractiveness of the Workspace offering and maintain high levels of occupancy and rental income.

At 31 March 2004 the Group supplied gas and electricity to customers at 993 units and had 688 business insurance customers. Energy turnover totalled £0.96m and insurance commission £0.40m in the year.

During the year the Group negotiated arrangements for the transfer of its Vylan activity to a new joint venture with Centric Telecom Ltd. This move was precipitated by a change of ownership in Trams, the Group's previous partner in Vylan. However, it offered the Group the opportunity of linking up with Centric, whose core activity is to provide services similar to those provided by Vylan with the economies of scale afforded by linking networks. Customer take up increased through the year reaching 198 by 31 March 2004 (31 March 2003: 153).

Environmental and ethical approach

The Group pays careful regard to the social and environmental impacts of its activities. It reports in detail separately in its CSR reports and annual progress reports against the targets it sets itself. Copies of these reviews can be obtained

→ Quality Court and The Leathermarket

During the year refurbishment projects were completed at Quality Court (above left), Europa House and parts of Enterprise House and The Leathermarket (above right), with works at Barley Mow completing shortly after the year-end in May.

from the Company Secretary at the Group's registered offices or from the Group's website (see the inside back cover).

There are two elements to its environmental approach. Firstly, 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 CB Richard Ellis for the purposes of the valuation. Secondly, 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, helps its customers to recognise and prevent pollution risks. As with all other risks, the Board has nominated a director (in this case the Chief Executive) 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 social and environmental policies should be founded not just on avoiding recognised unacceptable practice but on active implementation of policies and practices that benefit the community. The Group

will shortly publish its fifth statement on its practices and policies and report on its progress against the targets for performance it has set itself in this area.

In recognition of the importance of its customers in the arts and media sectors, the Group also introduced a Creative and Cultural Policy, details of which can be found on our website.

Risk management

The Board and management of the Company pay close attention to the risks inherent in its business. An assessment of these risks, in the form of response to frequently asked questions, may be found at the Group's website (see the inside back cover for details). The following commentary addresses some of the principal operational risks affecting the Group's business.

Through its 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 its 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. This has traditionally been perceived as a high-risk activity. However, the Group has nearly 3,800 customers and receives in excess of 6,000 enquiries for space per annum.

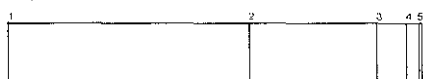
Its exposure, therefore, to any single customer or business sector is low. The letting risk is better assessed against the dynamics of the SME sector in the areas in which the Group operates, rather than in relation to the fortunes of any one or group of customers.

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 than many to obsolescence, to change in technical and technological requirements and fashion. 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, follow simple but carefully constructed processes. The high numbers of customers 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.

Rents by property type (%)

- 1 Business centres 58.6%
- 2 Industrial 30.6%
- 3 Warehouse 7.1%
- 4 Offices and studio 3.0%
- 5 Open storage 0.7%



Appropriation of trading income (%)

- 1 Direct costs 27.9%
- 2 Net interest 30.5%
- 3 Admin expenses 13.9%
- 4 Transferred to reserves 9.5%
- 5 Dividends 9.8%
- 6 Taxation 8.4%



As the Group's activities have expanded so has the awareness of the "Workspace Group" brand in the SME sector in London and the South East. This increasing awareness 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. Unlike most service providers, however, Workspace Group receives payment for these services in advance. By contracting with its customers for fixed regular payments, made in advance and often further secured by a deposit, the Group's 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 88% and a lowest level of 75% during 1991, the last economic downturn, 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. Any attrition is smoothed since government initiatives operate to support SMEs during the downturn effectively reducing the levels of failures. Business failure itself can create opportunity since often there are others prepared to step in and fill the vacuum created.

With the refocusing of its activities to London and the South East, the Group's exposure to the fortunes of this region is significant. The Board considers that the long-term prospects of the South East, particularly for SME's, remain better than those for the remainder of the UK, and so believe 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.

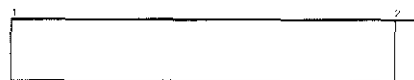
The key financial risk carried by the Group is its exposure to interest rate variations. These are managed in two ways. Firstly, through its investment in high yielding properties and its focus on management of the returns from these properties, the Group maintains high levels of interest cover. Notwithstanding a gearing level of 101% at 31 March 2004, the interest on these borrowings was covered 1.97 times. The Group further safeguards its position by use

of instruments to manage interest rate exposure. At 31 March 2004 59% of the Group's debt was subject to hedging either through fixed rate borrowings or through the use of interest rate collars.

Harry Platt Chief Executive

Borrowing sources (%)

- 1 Bank 92.7%
- 2 Debenture 6.4%
- 3 Convertible 0.9%



→ Creative and cultural policy

In recognition of the importance of our customers in the arts and media sectors, the Group has introduced a creative and cultural policy.

Acquisitions and disposals

Acquisitions 2003/04

Name of property	Description	Purchase price £000	Initial actual income £000	Market rent at 31/03/04 £000
Poplar Business Park, London E14	75,000 sq ft, 33 unit B1 estate	16,100	1,134	1,120
Progress Way, Croydon	31,000 sq ft, 19 unit B1 estate	3,380	260	277
Lambeth Portfolio (comprising Ellerslie Square, Hardess Street, Hamilton Road, Mahatma Gandhi, Michael Manley, Rudolf Place and Zennor Road)	169,460 sq ft, 109 units in seven properties mainly single storey light industrial buildings	15,530	1,056	1,314
Atlas Business Centre, London NW2	153,800 sq ft, 115 unit office and industrial estate	12,650	1,140	1,154
National Works, Hounslow	48,000 sq ft, 40 unit modern industrial estate	4,000	320	391
Linton House, London SE1	35,000 sq ft, 41 unit business centre	8,500	769	789
Total		60,160	4,679	5,045

Disposals 2003/04

Name of property	Disposal Price £000	Exit Annual Income £000
Kingsland Viaduct/Union Walk E2	8,250*	1,221 [†]
Canalot Land, W10	2,790	–
Total	11,040	1,221

Notes

* Of the total consideration of £8.25m, £430,000 of compensation was allocated against rental losses suffered due to a compulsory purchase order. This has been treated as trading income.

[†] The ownership structure for Kingsland Viaduct and Union Walk involved the pay away of approximately 45% of the gross income shown by way of ground rents.

Management and employees

The Group achieved Investors in People accreditation in 1997. Following external reviews the accreditation was renewed in 2001, 2002 and 2004. All staff participate in annual performance reviews in which training and other development needs are assessed. At the year-end the Company had 23 staff who were engaged in formal training programmes (for professional qualification, external degrees or as part of a vocational training programme). In addition to this, 445 individual units of training, totalling 675 days (4.4 days per member of staff), were delivered internally covering customer care, supervisory, management and information technology skills.

During the year, the Group undertook a root and branch review of its operations. Following this review the regional structure (comprising two regions covering "North and East" and "South and West") was retained but the structure within the regions was reorganised to create four portfolio groupings in each region. Each portfolio grouping has been established as a separate profit centre.

Staff are involved at all levels in the development of Group operating policies. This occurs formally through the Purchasing and IT Steering Groups and the regular Centre Managers Conference and informally through departmental and team working.

All staff participate in a bonus scheme which is related to both individual and corporate performance. In addition, each year, all staff are invited to participate in the Group's Save as You Earn Scheme which encourages individuals to acquire shares in the Company – at the year-end a third of the workforce were involved in this. Finally, all staff benefit from life insurance, and participate in the Group's pension scheme (see note 23 to the accounts).

01 **Antony Hales** BSc Chairman*

Tony Hales (56), joined the Board in November 2002 and was appointed Chairman in December 2002. He is currently Chairman of NAAFI Ltd and a non-executive director of Reliance Security Group plc and Aston Villa plc. He was previously Chief Executive of Allied Domecq plc and a non-executive director of HSBC Bank plc.

02 **Harry Platt** MA MRTPI Chief Executive

Harry Platt (52) 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.

* Non-executive

† Member of Remuneration, Nominations and Audit Committees

At 31 March 2004 the Group had 154 employees with an average age of 39 years and average period of service with the Company of six years. 32% of staff were female. Excluding directors, the average salary of staff is £25,640 p.a. The Group aims to be an equal opportunities employer. In its recruitment, staff training and development and promotion policies, it seeks to avoid discrimination on grounds of gender, sexual orientation, race, religion, age or disability.

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03 Alan Cherry CBE DL FRICS Hon MRTPI
Deputy Chairman*

Alan Cherry (70) joined the Board in 1992. He is Chairman of Countryside Properties PLC, a developer specialising in the creation of sustainable communities, and urban and rural regeneration. He was until recently a Board Member of the East of England Development Agency, and a member of the Government's Urban Task Force. He was a founder partner of the estate agency firm Bairstow Eves.

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

Chris Pieroni (46) joined the Board in January 2000. After teaching economics at Cambridge University 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. Following the merger of CEL and Conrad Ritblat, he was appointed Head of International for Colliers CRE.

05 Madeleine Carragher FRICS
Operations Director

Maddy Carragher (49) 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.

06 Patrick Marples MRICS
Property Director

Patrick Marples (48) 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.

07 Bernard Cragg BSc ACA**

Bernard Cragg (49) joined the Board in June 2003. He is Chairman of Datamonitor Plc and a non-executive director of Mothercare Plc, Bristol & West plc and Astro All Asia Networks PLC. He was formerly Group Finance Director and Chief Financial Officer of Carlton Communications Plc and a non-executive director of Arcadia plc.

08 Mark Taylor Bsc FCA

Finance Director and Company Secretary Mark Taylor (53) 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.

Not pictured **John Bywater** FRICS*

John Bywater (57) joined the Board in June 2004. He is a main Board director of Hammerson PLC and Managing Director of its UK activities. John started his career with British Rail, later joining the Burton Group, Allied Lyons and Donaldsons, Chartered Surveyors.

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Management team

Harry Platt
C.E.O.

Madeleine Carragher
Responsibilities include:
– Estate management
– Lettings
– Building maintenance
– Marketing

Patrick Marples
Responsibilities include:
– Property acquisitions
and disposals
– Development
opportunities
– Partnership schemes

Mark Taylor
Responsibilities include:
– Finance
– Company secretarial
– Investor Relations
– Workspace energy
– IT

Financial review

Profits

Trading profits before tax at £14.11m are 12.8% ahead of last year. In addition, profits on disposals yielded £1.01m (2003: £2.77m). Trading earnings per share increased by 2.0% to 61.3p. This improvement in earnings was dampened by an increased tax charge to normal levels after an exceptionally low charge reported last year. Elimination of the tax adjustment in respect of provisions for previous years made last year would have resulted in a higher, 29.5%, tax rate, which when applied to earnings would have resulted in trading earnings per share of 55p per share (making the increase to 61.3p this year an 11.5% uplift). The valuation surplus of £49.70m represents £3.10 per share, taking the net asset value at 31 March 2004 to £18.43 per share (2003: £15.10), an increase of 22.1%. This continues the unbroken pattern of growth delivered by the Group since its flotation in December 1993.

	2003/2004 growth	2002/2003 growth	Compound annual growth 1999-2004
Improvement in Trading PBT	12.8%	9.1%	15.2%
Improvement in Trading EPS	2.0%	13.8%	12.9%
Improvement in dividends per share	10.3%	10.2%	10.3%
Improvement in NAV	22.1%	11.6%	21.9%

Overheads have reduced again as a percentage of turnover from 14.6% to 13.9% (2002: 15.3%). Net interest increased during the year by £2.52m. This increase was attributable to the borrowings arising from the acquisition and capital expenditure programme of £70m (net). Interest costs of £1.11m (2003: £0.56m) were capitalised during the year on properties in process of development. 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 2004 was 30.3% (2003: 22.7%). The effective rate excluding surpluses on property disposals was 30.4% (2003: 22.5%). Last year's charge was reduced by an adjustment to prior year tax provisions of £0.92m arising from the settlement of tax liabilities in previous years. Leaving aside disposals, the tax rate next year should remain in the order of 30%.

Dividend

A final dividend of 20.7p per share is proposed. The interim dividend was 10.3p per share, and so the total dividend proposed for the year is 31.0p (an increase of 10.3%). The dividends are covered 2.11 times (2003: 2.32 times) by earnings, 1.97 times (2003: 2.17 times) if based on trading earnings only.

Internal performance measures

Internal benchmark comparison shows:

Performance measures	2004	2003	2002	2001	2000
Turnover per member of staff (£000)	332	314	294	272	277
Year-end investment in property per member of staff (£000)	4,092	3,261	2,984	2,581	2,340
Administration costs as a percentage of revenue	13.9%	14.6%	15.3%	13.8%	14.5%
Total return on equity	26.2%	15.0%	20.6%	40.7%	36.9%

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 a strong double digit 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

Following the debt refinancing in 2002/03, the Group opened the year with £81m of committed facilities. During the year the Group's investment programme (£70m net expenditure) has been financed using these facilities. Negotiations for the next round of financing have started. It is proposed that the existing facility with National Westminster Bank (NatWest) be extended from £100m to £150m with the term of the entire facility being refreshed to a new five-year period. The terms of this facility (principally a margin of 0.95% over LIBOR) and of the related overdraft facility (1.1% over base) remain unchanged. Preliminary discussions have been held with the Group's other lender, Bradford and Bingley Plc, with a view to a similar extension of its facility once the NatWest facility is utilised. This pattern of extending and renewing five-year term loans was described in last year's review. Through this approach, the Board considers the Group can access competitively priced funding on a flexible basis to match its cash demands for expansion. With regular reviews and renewals the maturity of these loans can be maintained in the 3-5 year range leaving flexibility should markets and circumstances change. The weighted average life of the Group's debt at 31 March 2004 was 3.2 years.

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

	2004 Facility amount £m	2004 Drawn £m	2004 % of Debt	2003 Drawn £m
Debenture Stock	19.5	19.5	6%	19.5
Convertible Loan Stock	2.9	2.9	1%	2.9
Bradford & Bingley Loan	200.0	200.0	65%	160.0
NatWest Property Loan	100.0	84.5	28%	65.0
NatWest Overdraft	2.5	1.3	–	–
Deposits	–	(1.3)	–	(3.6)
	324.9	306.9	100%	243.8

The available resources of approximately £18m are equivalent to three months' spend at the capital investment rate for 2003/04. However, immediately following the year-end sales realising a further £12m were completed with others in the pipeline.

Borrowings over recent years	2004	2003	2002	2001	2000
% Fixed/hedged	59%	75%	77%	89%	93%
Average interest rate (year-end)	5.8%	5.8%	5.8%	7.0%	8.5%
Interest cover	1.97	2.04	2.15	2.70	1.87
Trading interest cover	1.91	1.72	2.09	1.82	1.72
Year-end gearing %	101%	98%	81%	83%	104%
Debt: Portfolio value	49%	48%	43%	43%	49%

Year-end gearing increased marginally to 101% due to investment during the year, reduced by valuation surpluses. Both gearing and interest cover levels are within the levels historically set by the Board of 120% and 1.5 times.

The Debenture and Convertible Loan Stock, which attract an average 11.3% interest charge, represent just 7% of total borrowings. The maturity of net debt at 31 March 2004 is shown below:

Maturity of net debt	2004 %	2003 %	2002 %
Under 12 months	–	–	1%
1–5 years	99%	99%	34%
5–10 years	1%	1%	65%
10 years +	–	–	–
Total	100%	100%	100%

At 31 March 2004 the average cost of floating rate funds was a margin of 0.94% over LIBOR or base rate (2003: 0.94%). At 31 March 2004 secured borrowings were covered 1.83 times by the value of charged property (with a further £68.7m uncharged giving an overall cover of 2.06 times). Further details of debt facilities and borrowing policies are given in note 17 to the accounts (page 48).

Balance sheet and cash flow

The principal changes in the balance sheet over the year arise from the Group's continued investment programme and the improved values of its assets. Investment properties totalled £626.06m (2003: £505.49m). This increase of £120.57m arose principally from the net investment of £70.15m during the year and the valuation surplus of £49.70m recorded at the end of the year. The new investment was financed principally by the increase in borrowings over the year of £63.1m; the balance arising from cash generated from operations.

The Group's net current liabilities at 31 March 2004 were £22.82m (2003: £17.88m). 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 £10.5m (2003: £10.4m). The directors consider that in the normal course of business the majority of these liabilities are unlikely to require payment and properly form part of the working capital of the Group. Net cash inflow from operating activities at £31.6m (2003: £29.1m) improved, principally due to the contribution from newly acquired properties together with increased profitability from existing properties.

International Financial Reporting Standards (IFRS)

The Company will be obliged to report using IFRS for the financial year ending 31 March 2006, with its first IFRS based statements being for the quarter ending 30 June 2005. A conversion programme has been established and initial studies concerning this major change to financial reporting completed. Illustrative unaudited accounts have been prepared by reference to the principal standards giving rise to the most significant changes in the reporting of the Company's performance. Your Board believes that, whilst publication of these draft unaudited statements alongside the current financial statements prepared under current UK GAAP (generally accepted accounting principles) may be misleading, it should provide some guidance on the impact of IFRS. It will therefore include these statements as part of its briefings to analysts and investors (details of which can be found on the inside back cover).

Directors' remuneration report

The Board reports, in accordance with Schedule 7A to the Companies Act 1985, to shareholders on directors' remuneration as set out below. In this matter the Board is advised by a Remuneration Committee composed of the following non-executive directors of the company – Dr C J Pieroni (Committee Chairman), Mr A J Hales and Mr B Cragg. 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 and which is reviewed periodically by reference to independent professional advice. The Committee does not make recommendations for the remuneration of staff other than the executive directors and senior management, but does discuss remuneration policies with the executive directors.

The Remuneration Committee consults with the Chief Executive and its HR Adviser, John Miller, about its proposals where appropriate. Independent professional advice is taken from time to time from Investment Property Databank (IPD), KPMG, Norton Rose and other consultants appointed by the Committee in order to carry out its duties. The Group subscribes to the Monks Partnership (an advisory service of PwC) for the provision of salary survey information on senior executives. The remuneration policy for the Board is considered both in the wider context of the market and in terms of the remuneration structure operated within the Group. Mr Miller is retained by the Company to provide advice on HR matters on a company-wide basis. IPD has benchmarked the performance of the Group's property portfolio for ten years. Norton Rose, as the Group's legal adviser, provides services both in the context of transactions and wider commercial matters. KPMG and Monks Partnership provide no other service to the Group. All consultant advisers are considered by the Committee to be independent. The members of the Remuneration Committee attend the Company's Annual General Meeting and are available to answer shareholders' questions about directors' remuneration.

The sections of the report dealing with emoluments paid and share options held have been subject to review by the Company's auditors. The remaining sections are not subject to review.

Policy and practice on remuneration of executive directors and senior executives

1. Level of remuneration

The Company 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. The Company recognises that given the management intensive nature of its activities it is essential that a committed management team be engaged and retained. With the Group's focus on enhancing shareholder value through driving forward earnings and thereby asset growth, the Board considers that remuneration policies should be linked to the delivery of measurable targets linked to these.

2. The main components

The Company's policy is that remuneration arrangements should comprise both fixed and variable elements. It considers that fixed elements should be set at levels below median for the sector and that variable elements should extend the opportunity for total remuneration to achieve above median levels where good results are achieved. As such, the only fixed elements of remuneration are salaries, pension and other benefits, with annual performance

bonuses and long-term incentives, such as options, being performance related. In this way, shareholders and executives share in success. These policies apply to all executive directors and senior management of the Group. In setting the remuneration terms for the year the Committee reviewed its policies and considered that they continued to be in the interests of the Group and its shareholders. During the year the Remuneration Committee undertook a detailed review of all aspects of the remuneration of executive directors (taking advice from external consultants). Following this review:

- base salaries of executive directors were increased to levels below median comparatives;
- bonus levels, subject to more extensive performance targets, as described later, were increased;
- directors gave up their contractual entitlements to pension contributions by the Company on bonus payments, and
- a new Co-Investment Plan (see below) was established.

No major changes to remuneration policy are proposed in the immediate future. The Committee will however, continue to monitor the effectiveness of its policies.

The main components are:

i. Basic salary

Basic salary for each director is 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. Following the review of executive directors' remuneration packages referred to above, increases in basic salary were again awarded in 2003/04 to take account of the increased demands of the Group's business. These were 25% in respect of the Group Chief Executive and 16.7% in respect of all other executive directors.

ii. Annual performance bonus

The Group operates an annual bonus scheme which provides for a capped variable cash bonus. The bonus targets are set each year by the Remuneration Committee based on trading and portfolio performance and personal targets. The trading targets are linked to achievement of the budgeted trading profit before tax with bonus awards increasing in line with increases in profitability. In the year under review the bonus for achieving budgeted performance was 50% of salary with a sliding scale above and below this. No bonus was payable for performance at or below the trading profit before tax achieved in the previous year. Maximum bonus of 70% of salary arose if profits achieved 115% of trading profit for the previous year. The portfolio performance bonus is based upon achievement of a capital return from the portfolio better than that for a defined comparator index compiled by IPD. Where the combined relative performance of Workspace exceeds the index by 1% in each of the latest three years, then a bonus of 5% of salary is payable with increments to take up to a maximum of 20% of salary where the outperformance is 2.5% over the reference period. A bonus of 10% was payable on achievement of individual personal targets. The total maximum bonus if all targets were achieved was therefore 100% of salary. The bonus is awarded by the Remuneration Committee after consideration of the Group's and individuals' performance against these targets for the year. The annual bonus for 2003/04 for all executive directors was 79.5% 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 2003/04, as in the previous year, the Board has decided to provide these incentives in the form of options on ordinary shares and through the newly introduced Co-investment plan (both as detailed below).

iv. Share options

The Group believes that share ownership by executive directors and senior managers aligns their interests with those of ordinary shareholders. The Board considers that improvements in the Group's share price is dependent, inter alia, on the continued growth of the Group's earnings. For this reason and to marry the interests of shareholders and employees, it is the policy of the Group to grant options subject to criteria linked to the growth of earnings per share. Ordinarily, this is linked to achievement of earnings growth at a level in excess of RPI over the measurement period. Where grants in excess of one times earnings are made then these growth requirements are increased. Details of exercise criteria related to options over shares are given on page 30.

Entitlements under share options lapse on termination of employment unless termination arises due to exceptional circumstances, such as redundancy or death.

Following a review of its remuneration practices during the year, the Remuneration Committee resolved that all future grants of share options shall be on the basis of a single performance test and that where this test is not fulfilled or is only partly achieved, no retesting in future periods will be allowed. Further, it was resolved that, for all future grants of options, in the event of a change in ownership of the Company, options shall only vest to the extent that exercise tests have been fulfilled.

Options granted under the Group's Employee Savings Related Share Option Scheme are not subject to performance conditions as this is not permitted by the legislation governing such schemes.

v. Co-investment plan

At an EGM held on 16 March 2004 shareholders approval was obtained for a Co-investment plan to operate alongside the share option scheme. This plan is directed at increasing the directors' share ownership in the Company, whilst remunerating and

incentivising directors. It should further enhance the alignment of shareholder and directors interests. Under the plan 50% of the annual bonus awarded to directors will be invested in the Company's shares. The Company will then buy, in the market, a one for one (net) matching holding. These shares will then be held over a subsequent three-year qualification period. To qualify for full distribution of matching shares the total shareholder return (TSR) of Workspace Group over the reference period must exceed that of the company at the bottom of the top quartile of the FTSE Real Estate index, of which the Company is a constituent member. To qualify for any matching shares, the TSR performance must be above that of the company at the bottom of the fourth decile. In between these two measures there is a scaled award. The Company believes that linking awards to above average TSR aligns the interest of shareholder and employees. The first awards under this plan will be made in 2004/05.

vi. Pensions

The Company operates a defined contribution ("money purchase") pension plan for executive directors. Following the review on executive remuneration, pension contributions are made on salary payments only.

vii. Other benefits

The Company provides Life, Accident and Permanent Health Cover for all its employees (including directors). Membership of its health insurance programme is also made available. Directors have the choice of the use of a company car or the receipt of a cash alternative.

Assuming that the performance criteria for the exercise of options granted during the year are satisfied and that the share price at maturity of these options is 60% (option price £11.325, share price 31 March 2004 £15.775) above the option price, then the variable part of total remuneration would be 60% for all directors (at 30% above the option price: 53%).

Directors' appointments

The Group's policy is to engage all executive directors on rolling service contracts requiring twelve-month notice of termination on either side. Non-executive directors are ordinarily appointed on three-year contracts.

The details of the service contracts of those who served as directors during the year are:

	Contract date	Unexpired term	Notice period	Contractual termination payments*
A J Hales	04.11.2002	16 months	12 months	-
A H Cherry	10.06.2003	1 month	6 months	-
H Platt	01.12.1993	n/a	12 months	-
M Carragher	01.01.1996	n/a	12 months	-
B Cragg	01.06.2003	24 months	6 months	-
J P Marples	27.09.1996	n/a	12 months	-
C J Pieroni	10.06.2003	24 months	6 months	-
R M Taylor	22.09.1995	n/a	12 months	-

* Directors' contracts do not provide for compensation on termination of contract, other than in the form of customary notice provisions.

Emoluments

Total emoluments (excluding options) of the directors for the year are shown below:

	Fees £000	Basic salary £000	Performance bonus £000	Other benefits £000	Total remuneration 2004 £000	Pension scheme contributions 2004 £000	Total remuneration 2003 £000	Pension scheme contributions 2003 £000
Executive directors								
H Platt (Chief Executive)	–	250.0	198.7	16.5	465.2	41.3	336.1	52.8
M Carragher (Operations Director)	–	175.0	139.1	11.4	325.5	28.9	250.9	39.6
J P Marples (Property Director)	–	175.0	139.1	12.2	326.3	28.9	253.7	39.6
R M Taylor (Finance Director)	–	175.0	139.1	11.7	325.8	28.9	250.9	39.6
Non-executive directors (Fees)								
A J Hales (Chairman)	75.0	–	–	–	75.0	–	31.3	–
P B Rhodes	–	–	–	–	–	–	75.0	–
A H Cherry (Deputy Chairman)	25.0	–	–	–	25.0	–	25.0	–
C J Pieroni	25.0	–	–	–	25.0	–	25.0	–
B Cragg	20.8	–	–	–	20.8	–	–	–
	145.8	775.0	616.0	51.8	1,588.6	128.0	1,247.9	171.6

Shareholdings

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

Ordinary shareholdings:

	31 March 2004	31 March 2003
A J Hales	5,000	5,000
A H Cherry	1,000	1,000
H Platt	77,109	72,849
M Carragher	15,086	33,288
B Cragg	2,000	–
J P Marples	2,231	940
C J Pieroni	336	336
R M Taylor	17,064	13,817
Total	119,826	127,230

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.

Options

On 30 June 2003 the Board, on the recommendation of the Remuneration Committee, granted the following options exercisable at the mid market price on that date of £11.325:

	No. of options
Executive directors	
H Platt	27,300
M Carragher	20,500
J P Marples	20,500
R M Taylor	20,500
	88,800
Senior managers	
	46,400
Total	135,200

Details of the exercise conditions for these options are given in the table below.

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 and amended at the EGM held in July 2003 (full details of share options, exercise criteria and shareholdings of directors are given below). The options granted to directors this year, equated to shares of a value equivalent (at the time of the grant) to one times the earnings of the directors. A further 12,571 options were granted during the year under the Group's SAYE scheme, which all employees are entitled to join following any

probationary period relating to their employment. Following the grant of these options the Group had 811,490 options over shares outstanding, of which 688,530 were designated to be satisfied by shares held by the Group's ESOT and 122,960 through the issue of new shares. The shares held by the ESOT represent 4.1% of the issued share capital at 31 March 2004 with options to be satisfied by the grant of new shares representing 0.7% of the issued capital.

Of the total options granted during the year, 124,604 were granted pursuant to an annex to the Scheme which is "unapproved" for income tax purposes. All options have a ten year life expiring on 30 June 2013.

Options granted to directors over ordinary shares in the Company are as follows:

	At 31 March 2003	Granted during the year	Exercised/ lapsed/ during year	At 31 March 2004	Exercise price	Normal exercise date from	Normal exercise date to	Exercise terms (see table overleaf)
H Platt	50,000			50,000	£3.40	25.06.2000	24.06.2004	1
	21,000			21,000	£4.51	29.06.2001	28.06.2005	1
	4,058*		(4,058)	—	£4.25	—	01.09.2003	6
	14,740			14,740	£4.995	01.04.2002	01.04.2006	1
	41,000			41,000	£9.225	09.08.2003	09.08.2010	2
	17,500			17,500	£10.915	24.07.2004	24.07.2011	3
	41,000			41,000	£11.895	29.07.2005	29.07.2012	4
	—	27,300		27,300	£11.325	30.06.2006	30.06.2013	5
	—	1,016*		1,016*	£9.10	—	01.09.2006	6
M Carragher	21,000			21,000	£4.51	29.06.2001	28.06.2005	1
	18,034			18,034	£4.995	01.04.2002	01.04.2006	1
	680*			680*	£5.40	—	01.09.2006	6
	30,000			30,000	£9.225	09.08.2003	09.08.2010	2
	13,000			13,000	£10.915	24.07.2004	24.07.2011	3
	1,459*			1,459*	£9.85	—	25.07.2005	6
	31,000			31,000	£11.895	29.07.2005	29.07.2012	4
	—	20,500		20,500	£11.325	30.06.2006	30.06.2013	5
J P Marples	12,000		(12,000)	—	£3.40	23.06.2000	24.06.2004	1
	21,000			21,000	£4.51	29.06.2001	28.06.2005	1
	17,000			17,000	£4.995	01.04.2002	01.04.2006	1
	30,000			30,000	£9.225	09.08.2003	09.08.2010	2
	1,291*		(1,291)	—	£7.50	—	01.09.2003	6
	13,000			13,000	£10.915	24.07.2004	24.07.2011	3
	31,000			31,000	£11.895	29.07.2005	29.07.2012	4
	—	20,500		20,500	£11.325	30.06.2006	30.06.2013	5
	—	1,016*		1,016*	£9.10	—	01.09.2006	6
R M Taylor	21,000			21,000	£4.51	29.06.2001	28.06.2005	1
	3,247*		(3,247)	—	£4.25	—	01.09.2003	6
	17,000			17,000	£4.995	01.04.2002	01.04.2006	1
	30,000			30,000	£9.225	09.08.2003	09.08.2010	2
	13,000			13,000	£10.915	24.07.2004	24.07.2011	3
	364*			364*	£9.85	—	25.07.2005	6
	31,000			31,000	£11.895	29.07.2005	29.07.2012	4
	—	20,500		20,500	£11.325	30.06.2006	30.06.2013	5
	—	1,485*		1,485*	£9.10	—	01.09.2010	6
Total	545,373	92,317	(20,596)	617,094				

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

Details of the basis of the grant and the terms upon which the above grants of options were made are:

Basis of grant	Terms for exercise
1. Options granted within ABI guideline of 4x earnings (in total) limit	EPS growth of 9% over RPI for three-year period
2. 2 times total earnings	1 times earnings at EPS growth of RPI plus 3% p.a. compound plus 1 times earnings at EPS growth of RPI plus 8% p.a. compound (pro rata)
3. 1 times total earnings	EPS growth of RPI plus 3% p.a. compound
4. 2 times total earnings	1 times earnings at EPS growth of RPI plus 5% p.a. compound plus 1 times earnings at EPS growth of RPI plus 12% p.a. compound (pro rata)
5. 1 times total earnings	EPS growth of RPI plus 5% p.a. compound
6. Per Inland Revenue Rules	SAYE options with no terms for exercise

All options are subject to a single test which is related to published EPS growth. The Remuneration Committee considers this to be the appropriate approach given the Group's key focus on earnings growth. The hurdle rates are set recognising the challenges presented in generating above average rates of growth in a business whose complexity increases with the scale of its operations.

The prescribed targets have been met in respect of all options granted in 2000 and earlier years amounting to 331,774 ordinary shares.

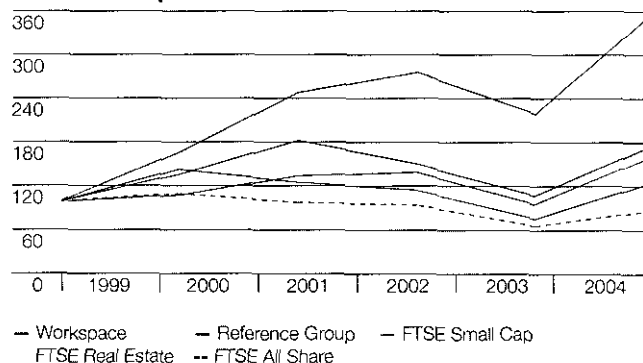
J P Marples exercised his options on 12,000 shares on 2 December 2003. The market price of Workspace Group ordinary shares at the time of exercise was £13.80 giving rise to a total gain of £124,800. H Platt, J P Marples and R M Taylor exercised options on shares under the Group's Sharesave Scheme on 2 September 2003. The market price of the shares at that date was £11.95 giving rise to gains of £31,247, £5,745 and £25,002 respectively.

There have been no changes in these share and option interests in the period between the balance sheet date and 11 June 2004. The middle market price of Workspace Group PLC ordinary shares at 31 March 2004 was £15.775 and the range during the year was £9.54 to £15.775.

Performance graph

The following graph compares the total shareholder return performance (TSR) of the Group with benchmark indices. Given the differing benchmarks used for such performance measurement your Board has decided to undertake this comparison against all of the FTSE All Share, FTSE Real Estate and FTSE Small Cap indices, all of which the Company is a constituent member. In addition, it has constructed a comparator index composed of a basket of companies engaged in similar activities to the Group. This has been calculated by reference to the TSR's of Ashtenne, Brixton Estates, Derwent Valley, MWB and Shaftesbury.

TSR indexed performance



The directors' remuneration report has been approved by the Board of directors and agreed on its behalf by:

Dr C Pieroni

Chairman of Remuneration Committee
11 June 2004

Report of the directors

The directors present their report and the audited financial statements for the year ended 31 March 2004.

Principal activities

The Group is engaged in property investment in the form of letting small-units of business accommodation located in London and the South East, intended primarily for new and small businesses. The Company has 15 active subsidiaries, 12 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 procures insurance on behalf of the Group. Workspace Management Limited acts as manager for all the Group's property investment companies. Workspace Holdings Limited is an intermediate holding company and borrower under the Group's facility with Bradford & Bingley PLC.

Operating and financial review

A review of the Group's operations and financial affairs is set out on pages 12 to 25 of this Report.

Profit and dividends

The Group profit after tax for the year attributable to shareholders amounted to £10,533,000 (2003: £10,367,000). The directors recommend the payment of a final dividend of 20.7p (2003: 20.6p) net of tax, making a total of 31.0p net of tax for the year (2003: 28.1p) leaving £5,552,000 to be transferred to reserves (2003: £5,896,000).

Fixed assets

The Group's fixed assets consist of investment properties, £626,060,000 (2003: £505,490,000) and other assets £9,860,000 (2003: £10,100,000). The Group's investment properties have been independently valued by CB Richard Ellis, Chartered Surveyors, at 31 March 2004 at open market value. The surplus on revaluation (£49,699,000) has been carried to the revaluation reserve.

Directors

Mr A J Hales, 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. Mr B Cragg joined as a non-executive director during the year. Following the year-end Mr J Bywater was appointed as a non-executive director. Mr Bywater being eligible, offers himself for election at the Annual General Meeting. M Carragher and R M Taylor retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. Mr A Cherry also retires by rotation at the Annual General Meeting. Brief biographical details of each of the directors including those standing for election appear on pages 22 and 23.

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

Details of the directors' shareholdings and options over shares are provided on pages 28 and 29.

Substantial interests in the share capital of the Company

At 8 June 2004 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
Friends Provident	8.4%
Clerical Medical	7.7%
Standard Life	6.4%
Newton Investment Management	6.2%
Scottish Equitable	4.2%
Workspace Group ESOT	4.1%
CCLA	4.0%
Legal & General	4.0%
Scottish Widows	3.6%
Salomon Brothers	3.5%
Scottish Life	3.4%
Hermes	3.1%

Donations

The Company has made no political donations. It has made charitable donations, principally through rental concessions and sponsorship, totalling £88,000 (2003: £4,000).

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. Reports on health and safety are made to each Board meeting.

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 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 2004 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 18th Annual General Meeting of the Company will be held at Magenta House, 85 Whitechapel Road, London E1 1DU on Tuesday 27 July 2004. 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 8 to 10) are proposed as special business 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) for cash 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 8 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 £476,619 (being the authorised but unissued share capital of the Company as at 11 June 2004).

Resolution 9 empowers the directors for the period of five years from the date of the passing of such resolution to allot shares for cash (or transfer equity securities which are from time to time held by the Company in treasury) otherwise than to existing shareholders on a pro-rata basis up to an aggregate nominal amount of £83,669, which is equivalent to 5% of the issued share capital of the Company as at 11 June 2004. 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.

There is no present intention of issuing any ordinary shares, except in connection with the Company's share option schemes. As at 11 June 2004 the Company held no equity securities in treasury.

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

Resolution 10 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 1,673,381 ordinary shares (equivalent to 10% of the issued share capital of the Company) at a minimum price per ordinary share of 10p and a maximum price of 105% of the average of the middle market quotations of the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased.

This proposal should not be taken as an indication that the Company will purchase shares at any particular price or indeed at all. The directors will only consider making purchases if they believe that such purchases would result in an increase in earnings per share and are in the best interests of the shareholders. Any shares purchased under the authority would either be cancelled, and the number of shares in issue would be reduced accordingly, or would be held in treasury.

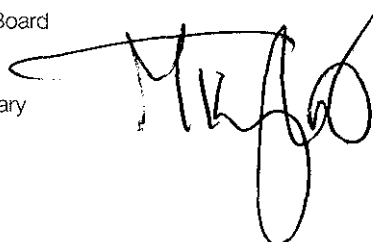
The authority will expire on 26 July 2005 or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2005. It is intended to renew such authority and power at successive annual general meetings.

By virtue of the Company (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (which came into force on 1 December 2003), certain listed companies which buy back their own shares are now permitted, subject to certain restrictions, to hold up to 10% of their issued shares in treasury rather than cancelling them as previously required. Instead, such repurchased shares may be held by companies as treasury shares and later resold for cash, transferred for the purposes of an employee share scheme, or cancelled. Whilst any shares are held in treasury, voting rights are suspended, dividends are not paid and companies cannot take advantage of statutory pre-emption rights in respect of the shares (other than in connection with a bonus issue of fully paid shares).

The directors would consider holding as treasury shares any shares which the Company repurchases pursuant to the authority provided by this resolution. To the extent that any shares repurchased by the Company are held in treasury, earnings per share will only be increased on a temporary basis until such time as the shares are sold or transferred out of treasury. Overall, the directors believe that the ability of the Company to hold shares in treasury will provide the Company with greater flexibility in the management of its share capital.

By Order of the Board

R Mark Taylor
Company Secretary
11 June 2004



Corporate governance

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 current (1998) Combined Code during and after the year ended 31 March 2004. During the year the Company undertook an internal assessment of its compliance with the provisions of the revised (2003) Combined Code. The results of this assessment have been published on our website (see the inside back cover).

Board of directors

The full Board of directors meets on a fixed bi-monthly frequency with other ad-hoc meetings as necessary. During the year to 31 March 2004 the Board held six meetings and two ad-hoc meetings. At the meetings just one director missed a single meeting due to other commitments. All other meetings were fully attended. The Board retains full and effective control over the Group's activities. It has reserved a number of matters for its exclusive consideration and approval. These include (but are not restricted to) the establishment and constitution of Board committees, identification of strategic objectives, approval of business plans, budgets and financial reports, acquisition of properties valued £5m or more and significant capital projects, provision of guarantees and treasury arrangements, stock issuance and risk management policies. More routine day-to-day matters are delegated by the Board to an Executive Board comprising the executive directors.

The Board reviews its performance and modus operandi and that of its committees annually. Included in this review is consideration of individual directors' performance (which in the case of the executive directors is undertaken as part of the wider performance appraisal process applied to staff across the entire Group) and a review of the performance of the Board as a whole (including its delegations, risk assessment and management processes, reporting procedures and effectiveness in monitoring performance and developing strategy). The Board's reviews of itself, its committees and its members conducted in the last year identified no significant weaknesses or deficiencies. Further, it is the policy of the Board to consider the suitability of the non-executive directors who are offered for re-election and review whether their continued contribution would be of benefit to the Company. There are no non-executive directors subject to re-election this year.

The normal Board complement of the Company comprises four executive directors – a Chief Executive, a Finance Director, an Operations Director (responsible for the day-to-day management of the Group's properties, marketing and product development) and a Property Director (responsible for acquisitions, disposals and developments to add value to the Group's investments) – and four non-executive directors who are independent (under the 1998 Code) of management and free from any personal business or other relationship with the Group.

Mr Hales, as Chairman, is not regarded as independent under the terms of the 2003 Combined Code. Mr Cherry, who has been a non-executive director and Deputy Chairman of the Company for 12 years, is not regarded as independent under the terms of this Code due to the length of his term of office. He had been due to retire as a director in July 2003, but remained as a director for a further year at the request of the Board to assist continuity in the Board following the retirement of Mr Rhodes in late 2002. Mr Cherry will retire following the AGM in July 2004.

Mr J Bywater was appointed as a non-executive director on 9 June 2004. In July 2004, Mr Hales will resign his membership of the Audit and Remuneration Committees (but will, by invitation of the Chairman of the respective committees, continue to attend their meetings) and Mr Bywater will become a member of all three Board committees. Messrs Bywater, Cragg and Pieroni are considered to be independent under the terms of the 2003 Combined Code.

The chairmanship of the Company and of its respective Board committees is drawn from the non-executive directors. All Board committees comprise exclusively of non-executive directors and each committee has had two independent non-executive directors throughout the year. It is the Company's policy to have at least one non-executive director who is a member of a recognised accounting body on the Group's Audit Committee.

The Chairman assists the executive directors in defining and developing the strategic plan for presentation to the Board and is responsible for monitoring the performance of the executive team in delivering this plan. The Chief Executive is responsible for the day-to-day management of the business, assisted by his other executive directors. The Chairman is not involved in an executive capacity in any of the Group's objectives.

The Company has instigated reviews for the development and succession of senior management, including its directors. It is the policy of the Company that each director should have one or more members of staff whose skills and abilities should make them suitable for progression over time to the Board.

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. Committees of the Board share these rights of access to independent advice also. All directors have access to the advice and services of the Company Secretary. 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.

Board committees

The Board has appointed Nominations, Remuneration and Audit Committees, all of which consist exclusively of the non-executive directors. The Terms of Reference of these committees are available from the Company Secretary or may be accessed through the Investor Relations area of the Group's website (see the inside back cover).

The Audit Committee, chaired by Mr B Cragg a Chartered Accountant, 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 and that disclosures are fair, balanced and appropriate, 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 and internal check and control. The Chairman of the Audit Committee reports to the Board on matters discussed at Audit Committee meetings. The Group's auditors report to the Committee annually confirming independence of all staff concerned with audit engagement.

Engagement of the Group's auditors on non-audit activities is not specifically excluded. However, such work is ordinarily only awarded following competitive tender and careful analysis by the Audit Committee of the potential for conflict arising as a result of the appointment. The Board considers that in certain circumstances, for example where accountants' reports are required in the context of a circular to shareholders, the Group's auditors may be better qualified to issue such a certificate than some third party. In the current year the Group's auditors have been engaged to provide advice on the preparation for implementation of International Financial Reporting Standards since the Audit Committee regarded their familiarity with the Group's business provided a unique insight in providing this service.

The Nominations and Remuneration Committees, which are chaired by Mr A J Hales and Dr C J Pieroni respectively, advise the Board on senior appointments and executive remuneration policy and in particular make recommendations regarding the terms of employment of executive directors and senior managers, their remuneration, and the award of share options and other incentives. Remuneration issues are dealt with separately at page 26 of these accounts.

Nominations Committee

The Nominations Committee will seek guidance and assistance in the appointment of directors. In the current year, assistance was obtained from an executive search agency specialising in the recruitment of non-executive directors in the appointment of Mr Bywater. Candidates for Board appointments are shortlisted and are interviewed by the Nominations Committee and the Chief Executive. Candidates for final selection meet with other members of the Board and are introduced to the Group's business before a selection is made.

During the year two meetings of the Nominations Committee, five meetings of the Remuneration Committee and three meetings of the Audit Committee were held. In addition to these formal meetings directors met alone and with advisers to conduct the business of these committees as required.

Shareholder contact

Meetings are held with principal shareholders following the announcement of the Group's interim and preliminary results. It is the practice of the Company that, ordinarily, meetings with shareholders will be attended by executive directors alone or accompanied by representatives of the Company's stockbroker. However, it is the practice also that such contact meetings shall be followed up by a telephone conversation between the Chairman or Senior Independent Non-executive Director (Dr Pieroni) and the shareholder. Further, the Company requires its Stockbroker to discuss meetings with shareholders also and report its findings to the Board. The Board believes that this provides a better form of governance than attendance at meetings by non-executive directors. Other ad-hoc meetings and site visits are arranged for shareholders throughout the year. In 2003 a dinner was held with principal shareholders which the full Board attended. It is anticipated that this will be an annual event. This has been found by both the Board and shareholders as an effective means by which the entire Board may be accessed by major shareholders.

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 Combined Code. The internal control and check system is designed to identify and manage risks, rather than eliminate them, and as such it 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. In addition to these the Group operates a range of operational reporting systems to monitor its business on a day-to-day basis.

(b) Investment appraisal

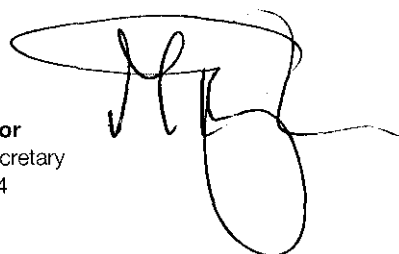
The Company has clearly-defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where investment or development properties are being acquired. Post-investment appraisals are performed for major 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. An analysis of the risks identified by the Board and a summary in the form of responses to frequently asked questions may be found in the Investor Relations section of the Group's website or from the Company Secretary at the Group's registered office.

The Board, advised by the Audit Committee, has during the year considered carefully the Group's internal control and check procedures during the current year. The group does not have an internal audit function. Since the Group invests in investment properties let on fixed terms, risks associated with its assets and revenues are not high. The Board consider that the control systems operated should reduce the risk of error, fraud or failure to a sufficiently low level that does not warrant the cost of an internal audit function. The Board continues to monitor the Group's activities to ensure the continued validity of this judgment.

The Group has established and communicated a mechanism for whistleblowing. This mechanism was introduced following the period under review in this report and accounts. Staff wishing to express concerns over any matter which they feel unable to discuss with their line management should raise these with the Chief Executive, or where the matter concerns an Executive Director, the Chairman.



R Mark Taylor
Company Secretary
11 June 2004

Directors' responsibilities

The directors are required by the Companies Act 1985 to confirm, if appropriate, and prepare financial statements on the going concern basis 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 judgments 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.

The directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

Independent auditors' report to the members of Workspace Group PLC

We have audited the consolidated financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. 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 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. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the Chairman's statement, the operating and financial reviews and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of 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 and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgments 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 and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH

11 June 2004



Consolidated profit and loss account

for the year ended 31 March 2004

	Notes	2004 Trading operations £000	2004 Other items £000	2004 Total £000	2003 Trading operations £000	2003 Other items £000	2003 Total £000
Turnover – continuing operations	1	51,068	–	51,068	44,965	–	44,965
Rent payable and direct costs	1	(14,229)	–	(14,229)	(12,944)	–	(12,944)
Gross profit		36,839	–	36,839	32,021	–	32,021
Administrative expenses		(7,145)	–	(7,145)	(6,554)	–	(6,554)
Operating profit		29,694	–	29,694	25,467	–	25,467
Surplus on disposal of investment properties	2	–	1,009	1,009	–	2,766	2,766
Interest receivable	3	45	–	45	173	–	173
Interest payable and similar charges	4	(15,628)	–	(15,628)	(13,132)	(1,861)	(14,993)
Profit on ordinary activities before taxation	5	14,111	1,009	15,120	12,508	905	13,413
Taxation on profit on ordinary activities	7	(4,284)	(303)	(4,587)	(2,812)	(234)	(3,046)
Profit on ordinary activities after taxation		9,827	706	10,533	9,696	671	10,367
Equity minority interests	25	–	–	–	–	–	–
Profit for the financial year		9,827	706	10,533	9,696	671	10,367
Dividends	8	(4,981)	–	(4,981)	(4,471)	–	(4,471)
Retained profit for the year	20	4,846	706	5,552	5,225	671	5,896
Basic earnings per share	9	61.3p	4.4p	65.7p	60.1p	4.2p	64.3p
Diluted earnings per share	9	59.7p	4.2p	63.9p	58.8p	4.0p	62.8p

Statement of total recognised gains and losses

for the year ended 31 March 2004

	2004 £000	2003 £000
Profit for the financial year	10,533	10,367
Unrealised surplus on revaluation of investment properties	49,699	19,701
Taxation on valuation surpluses realised on sale of properties	(1,215)	–
Total recognised gains relating to the financial year	59,017	30,068

Note of historical cost profits and losses

for the year ended 31 March 2004

	2004 £000	2003 £000
Reported profits on ordinary activities before taxation	15,120	13,413
Realisation of property revaluation gains/(losses) of previous years	4,408	15
Taxation on valuation surpluses realised on sale of properties	(1,215)	–
Historical cost profit on ordinary activities before taxation	18,313	13,428
Historical cost profit for the year retained after taxation and dividends	8,745	5,911

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

Profit and earnings per share on trading operations are stated before profit on property disposals and other non-recurring items.

Balance sheets

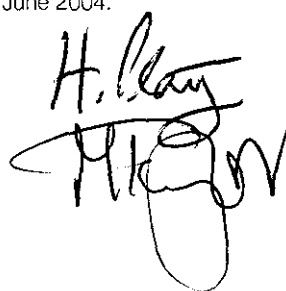
as at 31 March 2004

	Notes	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Fixed assets					
Tangible assets					
Investment properties	10	626,060	505,490	18,355	13,535
Other fixed assets	11	3,654	3,866	217	197
Shares in subsidiary undertakings		–	–	24	24
Investment in own shares	12	6,206	6,234	6,206	6,234
		635,920	515,590	24,802	19,990
Current assets					
Debtors	13	6,795	7,386	207,494	194,915
Investments	14	1,150	3,109	–	–
Cash at bank and in hand		181	456	–	–
		8,126	10,951	207,494	194,915
Creditors: amounts falling due within one year	15	(30,942)	(28,835)	(96,367)	(85,125)
Net current (liabilities)/assets		(22,816)	(17,884)	111,127	109,790
Total assets less current liabilities		613,104	497,706	135,929	129,780
Creditors: amounts falling due after more than one year (including Convertible Loan Stock)	16/17	(305,756)	(245,990)	(22,400)	(22,400)
Provision for liabilities and charges	18	(5,483)	(4,107)	(1,263)	(1,086)
		301,865	247,609	112,266	106,294
Capital and reserves					
Called up share capital	19	1,673	1,668	1,673	1,668
Share premium account	20	42,912	42,697	42,912	42,697
Revaluation reserve	20	209,565	164,274	4,336	1,115
Profit and loss account	20	47,715	38,970	63,345	60,814
Shareholders' funds – equity interests		301,865	247,609	112,266	106,294
Equity minority interests	25	–	–	–	–
Capital employed		301,865	247,609	112,266	106,294
Net asset value per share	9	£18.43	£15.10		
Diluted net asset value per share	9	£17.72	£14.61		

The financial statements were approved by the Board of directors on 11 June 2004.

H Platt
R M Taylor
Directors

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



Cash flow statement

for the year ended 31 March 2004

	Notes to cash flow	2004 £000	2003 £000
Net cash inflow from operating activities	1	31,615	29,112
Returns on investments and servicing of finance	2	(15,692)	(13,454)
Taxation		(4,110)	(2,372)
Net capital expenditure	2	(70,155)	(75,225)
Equity dividends paid		(4,952)	(4,227)
Net cash outflow before use of liquid resources and financing		(63,294)	(66,166)
Management of liquid resources	2	1,959	2,334
Financing	2	59,720	66,715
Net cash (outflow)/inflow	3	(1,615)	2,883
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash		(1,615)	2,883
Decrease in liquid resources		(1,959)	(2,334)
Outflow from movements in debt financing		(59,766)	(66,907)
Changes in net debt resulting from cash flows	3	(63,340)	(66,358)
Net debt at 1 April 2003		(242,425)	(176,067)
Net debt at 31 March 2004		(305,765)	(242,425)

Notes to the cash flow statement

for the year ended 31 March 2004

1. Reconciliation of operating profit to operating cash flows

	2004 £000	2003 £000
Operating profit	29,694	25,467
Depreciation charges	585	742
Profit on sale of tangible fixed assets	–	(3)
Decrease in debtors	56	1,339
Increase in creditors	1,280	1,567
	31,615	29,112

2. Analysis of cash flow

	Notes to cash flow	2004 £000	2003 £000
Returns on investments and servicing of finance			
Interest received		45	191
Interest paid (including financing costs)		(15,737)	(13,645)
Net cash outflow		(15,692)	(13,454)
Capital expenditure			
Purchase of tangible fixed assets		(81,934)	(73,192)
Net distribution/(purchase) of own shares		28	(5,219)
Sale of tangible fixed assets		11,751	3,037
Grants received		–	149
Net cash outflow		(70,155)	(75,225)
Management of liquid resources			
Decrease in short-term deposits	3	1,959	2,334
Net cash inflow		1,959	2,334
Financing			
Issue of ordinary share capital		220	687
Drawdown of bank loans	3	59,500	180,500
Repayment of securitised loan		–	(114,472)
Net cash inflow		59,720	66,715

3. Analysis of net debt

	At 1 April 2003 £000	Cash flow £000	Non-cash items £000	At 31 March 2004 £000
Cash at bank and in hand	456	(275)	–	181
Bank overdrafts	–	(1,340)	–	(1,340)
	456	(1,615)	–	(1,159)
Debt due after one year:				
11% Convertible Loan Stock	(2,900)	–	–	(2,900)
11.125% First Mortgage Debenture	(12,500)	–	–	(12,500)
11.625% First Mortgage Debenture	(7,000)	–	–	(7,000)
Bank loans	(225,000)	(59,500)	–	(284,500)
Less cost of raising finance	1,410	94*	(360)	1,144
	(245,990)	(59,406)	(360)	(305,756)
Short-term deposits	3,109	(1,959)	–	1,150
Total	(242,425)	(62,980)	(360)	(305,765)

* Included within interest paid.

Accounting policies

for the year ended 31 March 2004

(a) Basis of consolidation and accounting

The Group accounts include the accounts of the Company and its subsidiary undertakings to 31 March 2004. The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties in accordance with the Companies Act 1985 and applicable accounting standards in the UK. 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 (e) below.

(b) Turnover

Turnover comprises rental income and other sums receivable from occupiers of investment properties (including insurance charges, service charges, other recoverable costs, supplies of utilities and any premia associated with tenancies) together with commission, fees and other sundry income.

(c) Rent payable and direct costs

Rent payable and direct costs comprise ground rent payable and other property outgoings directly attributable to investment properties.

(d) Disposals

Profits are taken on the completion of the sale of investment properties. Where any aspect of a consideration is conditional, then the profit associated with that conditional item is deferred.

(e) Tangible assets

Tangible assets comprise investment properties including associated plant and equipment, fixed asset freehold property, office fixtures and fittings, motor vehicles and an investment in the Group's shares held by an ESOT trust.

In accordance with SSAP 19, investment properties are revalued at least annually and the aggregate surplus or deficit is transferred to revaluation reserve. No provision is made for depreciation of investment freehold properties or for amortisation of investment 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 financial statements 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.

Investment property acquisitions are not recognised until the contract is unconditional. The associated purchase costs will be capitalised.

Properties undergoing development works are included in the balance sheet at valuation after accounting for 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.

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

Other fixed assets are stated at cost less depreciation.

(f) Depreciation of tangible fixed assets

Depreciation is provided on tangible fixed assets on a straight line basis over their useful lives as follows:

Freehold property 2%
Equipment and fixtures 25%
Motor vehicles 25%

(g) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

On disposal of an investment property the element of tax relating to the profit in the year is charged to the profit and loss account and the element relating to earlier revaluation surpluses is included in the statement of total recognised gains and losses.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

In accordance with FRS 19 deferred tax has been recognised in respect of all timing differences which have originated, but not reversed, by the balance sheet date, except that deferred tax has not been recognised on any potential capital gain where a binding sale commitment is not in place.

FRS 19 requires inclusion of a provision for all capital allowances and industrial buildings allowances claimed which could reverse following a future disposal of property.

The Group does not discount deferred tax assets and liabilities.

(h) Pensions

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

(i) Financing

Policies with regard to borrowings, interest rate hedging and the treatment of financial instruments are described in note 17 to the accounts.

Costs associated with the raising of finance and hedging of interest rates are capitalised, amortised over the life of the facility or instrument and charged as part of interest costs.

(j) Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the length of the lease.

(k) Employee share schemes

Incentives in the form of shares are provided to employees under share option schemes. The Company has established an ESOT to satisfy part of its obligation to provide shares when employees exercise their options. The Company provides funding to the ESOT to purchase these shares. Any excess of the purchase price of the shares by the ESOT above the exercise price of the options is charged to the profit and loss account over the period of service in respect of which the options are granted. In respect of other share option grants, share options, when exercised, are accounted for as share issues at the exercise price.

Assets and liabilities of the ESOT are included in the Group balance sheet. Shares held by the ESOT are accounted for as fixed asset investments held at cost unless there is deemed to be a permanent impairment in value.

Notes to the financial statements

for the year ended 31 March 2004

1. Segmental analysis

	Turnover 2004 £000	Costs 2004 £000	Gross profit 2004 £000	Turnover 2003 £000	Costs 2003 £000	Gross profit 2003 £000
Rental income	39,504	(800)	38,704	35,667	(934)	34,733
Service charges and other recoveries	9,059	(13,033)	(3,974)	7,410	(11,311)	(3,901)
Services, fees, commissions and sundry income	2,505	(396)	2,109	1,888	(699)	1,189
	51,068	(14,229)	36,839	44,965	(12,944)	32,021

The Group operates a single business which is continuing and occurs wholly 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 2003 plus additions at cost since that date. Proceeds from the sale of investment properties totalled £10,637,000. Book value of these assets plus costs of sale totalled £9,628,000 yielding a surplus of £1,009,000.

During the year the Group disposed of its interests in Kingsland Viaduct and Union Walk which were subject to a compulsory purchase order (CPO). The consideration received of £8.25m included £0.78m in respect of compensation for blight (loss of income due to the CPO) and reinvestment compensation. Of this sum £0.35m has been treated as reinvestment compensation and added to the £7.47m consideration for the land interests (and included in the £10,637,000 referred to above). The remaining £0.43m has been treated as trading income, being compensation for income that might otherwise have been received.

3. Interest receivable

The following amounts were earned during the year:

	2004 £000	2003 £000
Short-term deposits	30	106
Other	15	67
	45	173

4. Interest payable and similar charges

The following amounts were payable during the year:

	2004 £000	2003 £000
11% Convertible Loan Stock 2011	319	361
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*	–	1,884
Bank and other interest on amounts wholly repayable within five years*	14,210	9,241
Finance costs written off	–	1,861
	16,734	15,552
Interest capitalised on development properties	(1,106)	(559)
Charged to profit and loss account	15,628	14,993

* Includes amortisation of cost of raising finance £359,700 (2003: £343,100).

5. Profit on ordinary activities before taxation

The profit for the year is stated after charging:

	2004 £000	2003 £000
Salaries	5,608	5,056
Social security costs	629	530
Other pensions costs	378	413
Depreciation	585	742
Operating lease rentals:		
– motor vehicles	114	126
– land and buildings	800	934
Auditors' remuneration	108	107
Non-audit fees paid to the Group's auditors	24	4

5. Profit on ordinary activities before taxation *continued*

Audit fees included in the Company's accounts were £7,900 (2003: £7,700). Non-audit fees paid in 2004 comprise fees for the review of the Group's quarterly statements of £4,000 (2003: £4,000) and fees in respect of advice over preparation for IFRS of £20,000.

6. Employees and directors

Staff composition on the last day of the financial year was:

	2004 No.	2003 No.
Executive directors	4	4
Head office staff	59	61
Service charge recoverable staff	90	90
	153	155

The average number of persons employed during the year was 154 (2003: 143).

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 28.

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 Remuneration Committee on pages 28 and 29.

7. Taxation

	2004 £000	2003 £000
Current tax:		
UK corporation tax on profit for the year	3,534	3,225
Adjustment in respect of previous periods	(323)	(921)
Total current tax	3,211	2,304
Deferred tax:		
Origination and reversal of timing differences	1,376	742
Taxation on profit on ordinary activities	4,587	3,046

Timing differences are mainly in respect of capital and industrial building allowances and capitalised interest. Of the total charge for the year £303,000 (2003: £792,300) related to exceptional items (arising from profits on property sales) as disclosed on the face of the profit and loss account.

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before taxation	15,120	13,413
Profit on ordinary activities at standard rate of corporation tax in the UK of 30% (2003: 30%)	4,536	4,024
Capital allowances in excess of depreciation	(746)	(485)
Expenses not deductible for tax purposes	26	17
Interest capitalised	(332)	(178)
Other timing differences	61	(107)
Capital gains adjustments	1,215	(46)
Capital gains charged direct to reserves	(1,215)	-
Reductions due to application of small companies rate	(11)	-
Adjustment in respect of previous periods	(323)	(921)
	3,211	2,304

8. Dividends

	2004 £000	2003 £000
Interim dividend of 10.3p (2003 – 7.5p) per Ordinary Share	1,653	1,193
Proposed final dividend of 20.7p (2003 – 20.6p) per Ordinary Share	3,321	3,292
Under/(Over) provision in prior year	7	(14)
	4,981	4,471

The interim dividend was paid on 2 February 2004 and the proposed final dividend is payable on 2 August 2004 to shareholders on the register at the close of business on 2 July 2004.

9. Earnings per share and net assets per share

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

	Profit 2004 £000	Profit 2003 £000	Earnings per share 2004 pence	Earnings per share 2003 pence
Profit for the year attributable to shareholders	10,533	10,367	65.7	64.3
Non trading other items	(706)	(671)	(4.4)	(4.2)
Profit for the year attributable to shareholders used for calculating trading earnings per share	9,827	9,696	61.3	60.1

Reconciliation of profit used in calculating diluted earnings per share:

	Profit 2004 £000	Profit 2003 £000	Earnings per share 2004 pence	Earnings per share 2003 pence
Profit for the year attributable to shareholders used for calculating basic earnings per share	10,533	10,367		
Interest saving net of taxation on 11% Convertible Loan Stock	223	223		
Profit for the year attributable to shareholders used in calculating the underlying diluted earnings per share	10,756	10,590	63.9	62.8
Non trading other items	(706)	(671)	(4.2)	(4.0)
Profit for the year attributable to shareholders used in calculating the diluted trading earnings per share	10,050	9,919	59.7	58.8

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

	2004	2003
Used for calculating basic earnings per share (excludes 689,666 held in the ESOT)	16,021,462	16,119,277
Dilution due to Share Option Scheme	227,276	158,075
Dilution due to Convertible Loan Stock	580,000	580,000
Used for calculating diluted earnings per share	16,828,738	16,857,352

Net assets per share have been calculated by dividing net assets of £301,865,000 (2003: £247,609,000) less investment in own shares of £6,205,600 by 16,044,145 (2003: 15,982,233) being the number of shares in issue at 31 March 2004 less investment in own shares of 689,666 (2003: 695,842). Non-trading other items in both years comprise profits on disposal of investment properties less (in 2003) previously capitalised finance charges written off on refinancing loans.

9. Earnings per share and net assets per share *continued*

Diluted net assets per share have been calculated by dividing net assets less investment in own shares (as previously shown) plus £2,900,000 (2003: £2,900,000) for the conversion of the Convertible Loan Stock by the number of shares as below:

	2004	2003
Shares in issue at year-end	16,733,811	16,678,075
Less ESOT shares	(689,666)	(695,842)
Dilution due to Convertible Loan Stock	580,000	580,000
Dilution due to Share Option Scheme	227,276	158,075
	16,851,421	16,720,308

10a. Investment properties – Group

	Freehold £000	Mainly freehold £000	Long leasehold £000	Short leasehold £000	Total £000
Balance at 1 April 2003	377,935	71,060	56,495	~	505,490
Additions during the year	58,302	4,841	16,583	~	79,726
Disposals during the year	(2,313)	~	(7,184)	~	(9,497)
Reclassification from other fixed assets	589	53	~	~	642
Revaluation during the year	34,797	9,921	4,981	~	49,699
Balance at 31 March 2004	469,310	85,875	70,875	~	626,060
The historical cost of investment properties:					
Balance at 31 March 2003	249,443	48,605	42,417	7	340,472
Balance at 31 March 2004	307,040	53,503	55,489	7	416,039

The directors are advised that the value of the properties at 31 March 2004 was not less than their book cost (see note 10c).

Properties classified as mainly freehold are those where the majority of the estate is owned freehold but where an element of the Group's interest is held leasehold.

Additions during the year are stated net of grants receivable – £nil (2003: £139,800) and include capitalised interest, gross of tax element, of £1,106,000 (2003: £559,000).

10b. Investment properties – Company

	Mainly freehold £000	Short leasehold £000	Total £000
Balance at 1 April 2003	13,535	~	13,535
Additions during the year	1,565	~	1,565
Reclassification from other fixed assets	17	~	17
Transfer from subsidiary undertaking	17	~	17
Revaluation during the year	3,221	~	3,221
Balance at 31 March 2004	18,355	~	18,355
The historical cost of investment properties			
Balance at 31 March 2003	12,413	7	12,420
Balance at 31 March 2004	14,012	7	14,019

10c. Valuation

The Group's investment properties were valued by CB Richard Ellis, Chartered Surveyors, at 31 March 2004 on the basis of open market value and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors. The valuation at that date amounted to £628,485,000 (2003: £507,690,000). This included £400,000 (2003: £300,000) 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. The adjustment from the valuation total to the accounts total may be reconciled as follows:

10c. Valuation *continued*

	2004 £000	2003 £000
Total per CBRE valuation report	628,485	507,690
Alpha	(400)	(300)
Magenta House (fixed asset)	(2,025)	(1,900)
Total per accounts	626,060	505,490

11a. Other fixed assets – Group

	Freehold property £000	Motor vehicles £000	Equipment and fixtures £000	Total £000
Cost				
Balance at 1 April 2003	2,146	20	4,620	6,786
Additions during the year	189	14	812	1,015
Disposals during the year	–	(9)	–	(9)
Reclassifications	13	–	(977)	(964)
Balance at 31 March 2004	2,348	25	4,455	6,828
Depreciation				
Balance at 1 April 2003	33	20	2,867	2,920
Charged during the year	36	1	548	585
Disposals during the year	–	(9)	–	(9)
Reclassifications	–	–	(322)	(322)
Balance at 31 March 2004	69	12	3,093	3,174
Net book value 31 March 2004	2,279	13	1,362	3,654
Net book value 31 March 2003	2,113	–	1,753	3,866

The reclassifications are to investment properties and freehold property.
Included in freehold property is land at cost of £500,000 (2003: £500,000).

11b. Other fixed assets – Company

	Equipment and fixtures £'000	Total £'000
Cost		
Balance at 1 April 2003	846	846
Additions during the year	129	129
Reclassifications	(20)	(20)
Balance at 31 March 2004	955	955
Depreciation		
Balance at 1 April 2003	649	649
Charged during the year	92	92
Reclassifications	(3)	(3)
Balance at 31 March 2004	738	738
Net book value 31 March 2004	217	217
Net book value 31 March 2003	197	197

The reclassifications are to investment properties.

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 and 2000 Executive Share Option Schemes. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. During the year the Trust transferred 6,176 shares to employees on exercise of options. At 31 March 2004, the number of shares held by the Trust totalled 689,666 (2003: 695,842) with a nominal value of £68,967 (2003: £69,584) and the book value of the shares amounted to £6,205,600 (2003: £6,233,500). The shares, whilst legally not the property of the Company, have been included in fixed asset investments. At 31 March 2004 the market value of the shares held by the Trust was £10,879,481. 688,530 shares held by the Trust are subject to option awards.

13. Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Amounts falling due within one year:				
Trade debtors	4,765	6,294	-	-
Amounts owed by subsidiary undertakings	-	-	201,997	193,616
Deposits on investment acquisitions	464	-	-	-
Taxation and social security	4	37	-	-
Corporation tax – payment on account	-	-	5,497	1,299
Prepayments and accrued income	1,562	1,055	-	-
	6,795	7,386	207,494	194,915

14. Investments

Investments of £1,150,000 (2003: £3,109,000) comprise short-term deposits of £nil (2003: £2,000,000) with an original maturity date of less than three months and other deposits, being tenants' security deposits, of £1,150,000 (2003: £1,109,000).

15. Creditors: amounts falling due within one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Bank loan and overdraft (secured)	1,340	-	-	-
Trade creditors	1,902	3,026	-	-
Amounts owed to subsidiary undertakings	-	-	92,966	81,696
Corporation tax payable	2,242	1,925	-	-
Taxation and social security	1,757	1,946	-	-
Tenants' deposits	5,461	5,154	-	-
Accruals	9,884	8,231	80	137
Deferred income-rent and service charges	5,035	5,261	-	-
Dividends	3,321	3,292	3,321	3,292
	30,942	28,835	96,367	85,125

16. Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Long-term borrowings consist of:				
Unsecured:				
11% Convertible Loan Stock 2011	2,900	2,900	2,900	2,900
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	283,356	223,590	-	-
	305,756	245,990	22,400	22,400

The secured loans are secured on properties with values totalling £559,755,000. Interest on the Debenture Stocks is payable on 31 March and 30 September 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 £200m carrying an interest rate of 0.94% over LIBOR and repayable in July 2007 and a loan totalling £84,500,000 carrying an interest rate margin of 0.95% over LIBOR repayable in March 2007. Workspace Holdings Ltd holds an interest rate collar on £107.9m which has a cap of 8% and a floor of 4.5% each until 15 July 2009. Workspace 2 Ltd holds an interest rate collar on £50m which has a cap of 7.5% and a floor of 4.55% each until April 2007.

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 £2,900,000 (2003: £2,900,000) have a maturity of five years or more (see note 17).

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 collars held by the Group to manage interest rate exposures are given in note 16. No premium payment was made for either of these collars. However, the £107.9m collar is financed by a 0.22% adjustment to the interest rate margin paid on the borrowings.

The Group's policy is to fix or cap interest rates on at least 50% of its borrowings. At the year-end 7% (2003: 9%) of the Group's borrowings were fixed with a further 52% (2003: 66%) subject to a collar.

Last year the Board reviewed the Group's policy with regard to maturity of its debt. It was recognised that over recent years its bank loan facilities, whilst of a longer term, invariably did not run for the full term. It was agreed therefore that on renegotiating these facilities a shorter five-year term was appropriate. It is anticipated that these facilities will be renewed during this term, increasing the facility amount and renewing the facility period. At 31 March 2004 the weighted average life of the Group's bank loan facilities was 3.2 years and 99% of the Group's total debt had a maturity of 1 to 5 years.

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 are denominated in sterling. The interest rate profile at 31 March 2004 was:

	2004 £000	2003 £000
Cash at bank and in hand (no interest)	181	456
Fixed rate short-term deposits	—	2,000
Floating rate short-term deposits	1,150	1,109
	1,331	3,565

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 2004 was:

	2004 £000	2003 £000
Floating rate financial instruments	285,840	225,000
Fixed rate financial liabilities	22,400	22,400
	308,240	247,400

As noted above (note 16) the Group has the benefit of interest rate collars operating in respect of each of its principal bank loan facilities.

For its fixed rate financial liabilities:

Weighted average interest rate 11.3%

Weighted average period fixed 3.5 years

Floating rate financial liabilities comprise bank loans that bear interest at rates based upon 1, 3, 6 or 12 month LIBOR.

The average margin on these borrowings at 31 March 2004 was 0.94%.

iv. Maturity of financial liabilities

A maturity analysis of loans is shown below:

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Less than one year	1,340	—	—	—
Between one year and two years	—	—	—	—
Between two years and three years	—	—	—	—
Between three years and four years	304,000	—	19,500	—
Between four years and five years	—	244,500	—	19,500
In five years and more	2,900	2,900	2,900	2,900
	308,240	247,400	22,400	22,400
Less cost of raising finance	(1,144)	(1,410)	—	—
	307,096	245,990	22,400	22,400

Cost of raising finance is being amortised over five years.

17. Borrowings and financial instruments *continued*

v. Borrowing facilities

At 31 March 2004 the Group had undrawn borrowing facilities of £16,841,700 (2003: £42,200,000) which conditions precedent had been met. Of the total undrawn facilities £1,341,700 (2003: £2,500,000) 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 assets and liabilities

Book and fair values of financial assets and liabilities are:

	2004 Book value £000	2004 Fair value £000	2003 Book value £000	2003 Fair value £000
Primary financial instruments				
Short-term liabilities	(1,340)	(1,340)	—	—
Long-term borrowing	(305,756)	(312,196)	(245,990)	(251,093)
Financial assets	1,331	1,331	3,565	3,565
Derivative financial instruments				
Interest rate cap/collar/swaps	206	(2,639)	244	(6,724)
	(305,559)	(314,844)	(242,181)	(254,252)

The fair value of the interest rate cap/collar/swaps have been determined by reference to market prices and discounted expected cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates. The total fair value adjustment equates to 57.9p per share (2003: 75.5p) (30.2p (2003: 59.3p) based on diluted share capital).

18. Provision for liabilities and charges

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Deferred taxation:				
Balance at 1 April 2003	4,107	3,365	1,086	1,252
Deferred tax charge/(credit) for the year	1,376	742	177	(166)
Balance at 31 March 2004	5,483	4,107	1,263	1,086
The provision for deferred tax comprises:				
Accelerated capital allowances	4,763	3,677	985	806
Capitalised interest	777	474	296	296
Other short-term timing differences	(57)	(44)	(18)	(16)
	5,483	4,107	1,263	1,086

If the investment properties were sold for their revalued amounts, there would be a potential liability to corporation tax of £51,293,000 (2003: £39,986,000). In accordance with FRS 19 no provision has been made for these amounts.

19. Share capital

	2004 Number	2003 Number
Authorised:		
Ordinary shares of 10p each	21,500,000	21,500,000
	2004 £	2003 £
Issued:		
Fully paid ordinary shares of 10p each	1,673,381	1,667,808

During the year 55,736 shares were issued. 39,266 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:

19. Share capital continued

Exercise date	Number of shares	Issue price	Market price
25.06.2003	12,290	£3.20	£11.25
25.06.2003	14,976	£3.25	£11.25
02.12.2003	12,000	£3.40	£13.80
	39,266		

16,470 shares were issued under the Save As You Earn Share Option Scheme. The Company has taken advantage of the dispensation under UITF17 'Employee Share Schemes' not to apply that abstract to the Group's Inland Revenue approved SAYE Scheme. The issue price and market price of Workspace Group ordinary shares at the time of exercise were as follows:

Exercise date	Number of shares	Issue price	Market price
02.09.2003	10,305	£4.25	£11.95
02.09.2003	5,808	£7.50	£11.95
03.10.2003	357	£9.85	£12.00
	16,470		

In addition, a further 6,176 shares were transferred to employees from the ESOT on exercise of options as follows:

Exercise date	Number of shares	Issue price	Market price
23.06.2003	6,176	£4.51	£11.60

At 31 March 2004 there were 811,490 (2003: 741,211) share options exercisable on the Company's ordinary share capital. Of these, 617,094 were directors' share options and are disclosed in the Report of the directors. 194,396 options are held by employees who are not directors and these are analysed below:

	At 31 March 2003	Granted during the year	Exercised/lapsed during the year	At 31 March 2004	Exercise price £	Normal exercise date from	Normal exercise date to
Employee Share Option Scheme							
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
	6,176	-	(6,176)	-	4.51	29.06.2001	28.06.2005
	8,332	-	(1,176)	7,156	4.995	01.04.2002	01.04.2006
2000 Share Option Scheme	22,500	-	-	22,500	9.225	09.08.2003	09.08.2010
	36,500	-	-	36,500	10.915	24.07.2004	24.07.2011
	47,000	-	(9,500)	37,500	11.895	29.07.2005	29.07.2012
	-	46,400	-	46,400	11.325	30.06.2003	30.06.2013
	147,774	46,400	(44,118)	150,056			
Save as You Earn Scheme	3,545	-	-	3,545	3.30		01.09.2004
	3,000	-	(3,000)	-	4.25		01.09.2003
	10,875	-	(250)	10,625	5.40		01.09.2004
	816	-	-	816	5.40		01.09.2006
	4,517	-	(4,517)	-	7.50		01.09.2003
	2,070	-	-	2,070	7.50		01.09.2005
	490	-	-	490	7.50		01.09.2007
	6,757	-	(1,222)	5,535	9.50		01.09.2004
	4,118	-	(355)	3,763	9.50		01.09.2006
	541	-	-	541	9.50		01.09.2008
	6,834	-	(1,978)	4,856	9.85		01.09.2005
	4,501	-	(604)	3,897	9.85		01.09.2007
	-	6,110	(852)	5,258	9.10		01.09.2008
	-	2,944	-	2,944	9.10		01.09.2010
	48,064	9,054	(12,778)	44,340			

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 2000 and earlier years, amounting to 361,430 ordinary shares.

20. Other Reserves

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
(a) Share premium account				
Balance at 1 April 2003	42,697	42,030	42,697	42,030
Additions	215	667	215	667
Balance at 31 March 2004	42,912	42,697	42,912	42,697
(b) Revaluation reserve				
Property valuation surplus:				
Balance at 1 April 2003	164,274	144,588	1,115	355
Disposals during the year	(4,408)	(15)	-	(588)
Year-end revaluation adjustment	49,699	19,701	3,221	1,348
Balance at 31 March 2004	209,565	164,274	4,336	1,115
(c) Profit and loss account				
Balance at 1 April 2003	38,970	33,059	60,814	52,706
Retained profit for the year	5,552	5,896	2,531	7,520
Transfer from revaluation reserve	4,408	15	-	588
Taxation on valuation surpluses realised on sale of properties	(1,215)	-	-	-
Balance at 31 March 2004	47,715	38,970	63,345	60,814

Workspace Group PLC has not presented its own profit and loss account as permitted by Section 230(3) of the Companies Act 1985. The profit attributable to the shareholders dealt with in the accounts of the Parent Company was £7,512,000 (2003: £11,991,000).

21. Reconciliation of movements in shareholders' funds

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Profit for the financial year	10,533	10,367	7,512	11,991
Dividends	(4,981)	(4,471)	(4,981)	(4,471)
Unrealised surplus on revaluation of properties	49,699	19,701	3,221	1,348
Taxation on valuation surpluses realised on sale of properties	(1,215)	-	-	-
Issue of shares	220	687	220	687
Net addition to shareholders' funds	54,256	26,284	5,972	9,555
Opening shareholders' funds	247,609	221,325	106,294	96,739
Closing shareholders' funds	301,865	247,609	112,266	106,294

22. Capital commitments

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

	2004 £000	2003 £000
Under contract	8,166	8,038
Board authorised but not contracted	15,391	2,913

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 which totals £378,000 (2003: £413,000) 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 range between 12.5% and 16.5% by the Company and 5.0% and 7.5% by the employee. The pension scheme is open to every employee after three 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 (ordinary shares)
Workspace 1 Ltd*	Property investment	2 shares of £1 each
Workspace 2 Ltd	Property investment	2 shares of £1 each
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
Workspace 8 Ltd	Property investment	2 shares of £1 each
Workspace 9 Ltd*	Property investment	1 share of £1
Workspace 10 Ltd	Property investment	1 share of £1
Redhill Workspace Ltd	Property investment	1 share of £1
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	Dormant at year-end	1 share of £1
Vylan Limited	Dormant at year-end	200 shares of £1 each

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

Interests in subsidiary undertakings are carried in the Company's balance sheet at cost less impairment. Impairment in subsidiaries is taken to the profit and loss account.

During the year the Group acquired the minority interest in Vylan that it did not previously own. A consideration of £93,000 was paid to the former shareholder and charged to the profit and loss account in the year. This payment comprised settlement of outstanding sums, compensation for termination of contracts, compensation for assistance in transferring operation arrangements for Vylan business to a new service provider and consideration for the transfer of the shares.

25. Equity minority interests

	2004 £000	2003 £000
Share of loss of subsidiary undertaking	–	74
Provision against losses of subsidiary undertaking	–	(74)
	–	–

£nil has been appropriated to minority interests. In October 2003 the Company acquired the minority interest in Vylan Limited.

26. Financial commitments

Annual commitments under operating leases are as follows:

	2004 £000	2003 £000
Motor vehicles:		
Leases expiring – within one year	17	21
– between two and five years	47	40
	64	61
Land and buildings:		
Leases expiring – after five years	461	882

27. Post balance sheet events

Following the year-end the sales of Hooley Lane, Redhill and the Union Street sites were completed for consideration of £10.0m and £1.88m respectively.

On 7 April 2004 the Group completed the purchase of the Quadrangle, a 26,000 sq ft business centre located in Fulham SW6 for a consideration of £4.64m.

Ten years of growth 1995–2004

	31 March 2004 £m	31 March 2003 £m	31 March 2002 £m	31 March 2001 £m	31 March 2000 £m	31 March 1995 £m	Five year Growth (compound)	Ten year Growth (compound)
Rents receivable	39.5	35.7	30.9	28.5	23.4	7.8	16.8%	21.8%
Service charges and other income	11.6	9.3	8.2	7.7	5.9	2.0		
Turnover	51.1	45.0	39.1	36.2	29.3	9.8	17.6%	22.2%
Profit before taxation (on trading operations)	14.1	12.5	11.5	9.5	8.3	2.4	15.2%	31.2%
Profit before taxation	15.1	13.4	12.0	19.5	8.8	2.4	12.7%	32.1%
Profit after taxation	10.5	10.4	9.0	13.3	6.5	2.3	10.0%	30.2%
Earnings per share (pence)	65.7p	64.3p	55.4p	83.6p	41.6p	20.2p	9.8%	18.1%
Earnings per share on trading operations (pence)	61.3p	60.1p	52.8p	44.1p	40.2p	20.2p	12.9%	17.2%
Dividends per share (pence)	31.0p	28.1p	25.5p	23.1p	21.0p	10.0p	10.3%	16.0%
Properties at valuation	626.1	505.5	414.7	366.5	304.2	81.7	27.5%	28.3%
Less net liabilities	(18.4)	(11.9)	(14.3)	(16.5)	(6.4)	(2.1)		
Less: long-term indebtedness	(305.8)	(246.0)	(179.1)	(161.5)	(154.8)	(27.9)		
Net assets	301.9	247.6	221.3	188.5	143.0	51.7	22.7%	26.2%
Gearing	101%	98%	81%	82%	104%	50%		
Net assets per share	£18.43	£15.10	£13.53	£11.73	£9.04	£ 3.33	21.9%	19.1%
Key property statistics								
Number of estates	101	92	87	104	91	54		
Lettable floorspace (m sq ft) [†]	5.32	5.10	4.85	5.79	5.66	2.03		
Number of lettable units (units)	4,547	4,164	3,726	4,328	3,503	1,740		
Average unit size (sq ft)	1,169	1,218	1,302	1,329	1,615	1,167		
Number of units occupied (units)	3,773	3,640	3,247	3,883	3,074	1,333		
Number of units vacant (units)	774	550	479	447	429	407		
Rent roll of occupied units	£38.09m	£35.91m	£29.56m	£29.23m	£25.75m	£9.37m		
Average rent per sq ft [*]	£8.55	£8.21	£7.20	£5.84	£5.21	£5.75		
Overall occupancy ^{*†}	83.82%	85.65%	84.67%	87.04%	87.52%	80.25%		

* These figures are influenced by acquisitions and disposals.

† Includes floorspace withdrawn for refurbishment.

‡ Excludes storage space.

Investment properties owned by the Group

at 31 March 2004

London, North and East portfolio

Name of property		Lettable area sq ft	No. of units	Description	Tenure
Aberdeen Centre, Islington, London N5	◆	65,550	140	Business Centre	Freehold
Alpha Business Centre, Walthamstow, London E17		22,168	53	Business Centre	Short leasehold
Alpine Park, Beckton E6		35,036	1	Warehouse	Freehold
Archer Street Studios, Archer Street, London W1	●	15,560	31	Business Centre	Freehold
Atlas Business Centre, Staples Corner, London NW2	◆▲	154,431	116	Offices and Industrial Estate	Freehold
Belgravia Workshops, Islington, London N9		33,821	53	Business Centre	Freehold
Bounds Green Industrial Estate, London N11	●	147,516	54	Industrial Estate	Freehold
Bow Enterprise Park, London E3	●	59,485	31	Single Storey Light Industrial Estate	Freehold
Buzzard Creek Industrial Estate, Barking, Essex IG11	✱	45,000	18	Single Storey Light Industrial Estate	Long leasehold
Caxton Court, Milton Keynes, Bucks MK8		43,964	32	Single Storey Light Industrial Estate	Freehold
Chocolate Factory, Wood Green, London N22	●	118,556	56	Business Centre	Part freehold Part leasehold
Cremer Business Centre, Shoreditch, London E2		41,364	43	Business Centre	Freehold
Darin Court, Milton Keynes, Bucks MK8		29,983	27	Business Centre	Long leasehold
Enterprise Business Centre, Southwark, London SE1	◆	68,765	31	Business Centre	Freehold
Great Guildford Street, Southwark, London SE1	◆	93,351	117	Business Centre	Freehold
Greenheath Business Centre, Bethnal Green, London E2	●	55,942	84	Business Centre	Mainly freehold
Harlow Enterprise Centre, Harlow, Essex CM20		51,851	28	Single Storey Light Industrial Estate	Freehold
Hatton Square Business Centre, Clerkenwell, London EC1	●	43,495	54	Business Centre	Freehold
Highway Business Park, Wapping, London E1		20,008	24	Single Storey Light Industrial Estate	Freehold
Holywell Centre, London EC2		20,658	78	Business Centre	Freehold
Ivories, Islington, London N1	●	24,802	24	Business Centre	Freehold
The Leathermarket, Bermondsey, London SE1	■	121,272	141	Business Centre	Freehold
Leroy House, Islington, London N1	●	46,819	105	Business Centre	Freehold
Magenta House, Whitechapel, London E1		7,425	1	Offices	Freehold
Mare Street Studios, Bethnal Green, London E8		41,153	31	Business Centre	Mainly freehold
N17 Studios, Tottenham, London N17	●	127,535	77	Business Centre	Mainly freehold

London, North and East portfolio *continued*

Name of property		Lettable area sq ft	No. of units	Description	Tenure
Park Avenue Estate, Luton, Beds LU3	●	204,041	37	Industrial Estate	Freehold
Parma House, London N22		36,129	6	Business Centre	Freehold
Parmiter Industrial Estate, Bethnal Green, London E2	●	34,571	31	Single Storey Light Industrial Estate	Freehold
5 Payne Road, Tower Hamlets, London E3		3,307	1	Warehouse	Freehold
Payne Road Studios, Tower Hamlets, London E3		20,045	23	Business Centre	Freehold
Poplar Business Park, London E14	◆▲	74,743	62	B1 Industrial & Warehousing Estate	Long leasehold
Redbridge Enterprise Centre, Ilford, Essex IG1		20,064	20	Single Storey Light Industrial Estate	Freehold
Saffron Court, Basildon, Essex SS15	●	56,386	41	Single Storey Light Industrial Estate	Freehold
Seax Centre, Basildon, Essex SS15	●	128,298	29	Light Industrial Estate	Freehold
Seedbed Centre, Romford, Essex RM7		31,620	40	Business Centre	Freehold
Stevenage Enterprise Park, Stevenage, Herts SG1		27,615	30	Single Storey Light Industrial Estate	Freehold
Stratford Office Village, Stratford, London E15	◆	51,986	22	Offices	Freehold
Surrey House, Southwark, London SE1		16,869	1	Offices	Freehold
Tower Bridge Business Complex, Bermondsey, London SE16	■	426,633	191	Business Centre	Mainly freehold
Tower Bridge, Block F, Bermondsey, London SE16	●	141,881	1	Warehouse	Freehold
Union Court, Clapham, London SW4	●	67,832	15	Business Centre	Freehold
Union Street, Southwark, London SE1		0	0	Land for development	Freehold
Waterside House, Islington, London N1		7,735	5	Offices	Freehold
Wharf Road Trading Estate, Islington, London N1		36,347	20	Business Centre	Freehold
Whitechapel Business Centre, Whitechapel, London E1	●	35,972	38	Business Centre	Freehold
57/59 Whitechapel Road, London E1		3,379	4	Office/retail	Freehold
Total		2,960,963	2,067		

▲ denotes those properties that were acquired during the year.

✱ denotes those properties held on 999 year lease with option to purchase freehold.

● denotes properties with a value of between £5m and £10m at 31 March 2004.

◆ denotes properties with a value of between £10m and £20m at 31 March 2004.

■ denotes properties with a value in excess of £20m at 31 March 2004.

London, South and West portfolio

Name of property		Lettable area sq ft	No. of units	Description	Tenure
Acton Business Centre, London NW10	●	50,362	96	Business Centre	Freehold
Aladdin Workspace, Greenford, Middlesex UB6	●	46,032	61	Business Centre	Freehold
Alscot Road Industrial Estate, Bermondsey, London SE1		6,370	6	Single Storey Light Industrial Estate	Freehold
Arches Business Centre, Southall, Middlesex UB2		40,725	21	Business Centre	Freehold
Artesian Close Industrial Estate, Brent, London NW10		22,746	17	Single Storey Light Industrial Estate	Freehold
Barley Mow Centre, Chiswick, London W4	◆	75,098	228	Business Centre	Freehold
Barratt Way Industrial Estate, Harrow, Middlesex HA3		49,265	10	Single Storey Light Industrial Estate	Freehold
Boundary Business Centre, Woking, Surrey GU21	●	45,240	25	Light Industrial and B1 Office Space	Freehold
Brookway Trading Estate, Newbury, Berks RG14		17,339	10	Single Storey Light Industrial Estate	Long leasehold
Canalot Studios, Ladbroke Grove, London W10	◆	52,126	103	Business Centre	Freehold
Canterbury Industrial Estate, Lewisham, London SE15		18,772	13	Single Storey Light Industrial Estate	Freehold
Charles House, Southall, Middlesex UB2	●	75,650	81	Business Centre	Freehold
Clerkenwell Workshops, Clerkenwell, London EC1	●	47,969	156	Business Centre	Freehold
Clyde House, Maidenhead, Berks SL6		30,156	4	Business Centre	Long leasehold
Ellerslie Square Industrial Estate, London SW2	▲	16,980	8	Single Storey Light Industrial Estate	Freehold
Europa Building, Acton, London NW10		26,908	26	Business Centre	Freehold
Faircharm Trading Estate, Greenwich, London SE8	●	106,607	79	Business Centre	Freehold
Farnborough Business Centre, Farnborough, Hants GU14		24,268	16	Light Industrial and B1 Office Space	Freehold
Glenville Mews Industrial Estate, Kimber Road, London SW18	●×	44,967	32	Single Storey Light Industrial Estate	Long leasehold
Grand Union Centre, North Kensington, London W10	◆	50,798	36	Business Centre	Freehold
Hamilton Road Industrial Estate, West Norwood, London SE27	▲	23,658	12	Single Storey Light Industrial Estate	Freehold
Hardess Street Industrial Estate, Camberwell, London SE24	▲	9,180	4	Single Storey Light Industrial Estate	Freehold
Helix Business Park, Camberley, Surrey, GU15		20,018	20	Light Industrial Estate	Long leasehold
Hookey Lane Goods Yard, Redhill, Surrey RH1	●	293,141	18	Land for development	Freehold
Kingsmill Business Park, Kingston, Surrey KT1	●	42,450	22	Light Industrial and B1 Office Space	Long leasehold
Ladbroke Hall, North Kensington, London W10		15,202	9	Business Centre	Freehold
Linton House, London SE1	●▲	35,043	41	Business Centre	Freehold
Long Island House, Acton, London W3		29,968	19	Business Centre	Freehold
Mahatma Gandhi Industrial Estate, London SE24	▲	16,750	17	Single Storey Light Industrial Estate	Freehold
Maple Industrial Estate, Feltham, Middlesex TW13	×	18,210	18	Single Storey Light Industrial Estate	Long leasehold
Michael Manley Industrial Estate, London SW8	▲	5,800	4	B1 Industrial and Warehousing Estate	Freehold
Microcentre, Reading, Berks RG2		12,659	12	Single Storey Light Industrial Estate	Long leasehold
National Works, Hounslow, Middlesex	▲	49,244	40	Single and Two Storey Light Industrial Estate	Freehold
Pall Mall Deposit, North Kensington, London W10	●	49,767	103	Business Centre	Freehold
Parkhall Road Trading Estate, West Dulwich, London SE21	●	128,756	94	Industrial Estate	Freehold
Pensbury Industrial Estate, Wandsworth, London SW8		19,971	21	Single Storey Light Industrial Estate	Freehold
Progress Way Business Park, Croydon CR0	▲	31,002	19	B1 Industrial and Warehousing Estate	Freehold
Quality Court, off Chancery Lane, London WC2	●	17,972	36	Offices	Freehold

London, South and West portfolio *continued*

Name of property		Lettable area sq ft	No. of units	Description	Tenure
Rainbow Industrial Estate, Raynes Park, London SW20		155,186	19	Single Storey Industrial and Open Storage Land	Freehold
Redkirk Close Trading Estate, Horsham, West Sussex RH13	✱	36,741	12	Single Storey Light Industrial Estate	Long leasehold
Riverside Business Centre, Earlsfield, London SW18	●	80,879	140	Business Centre	Freehold
Rudolf Place, London SW8	▲	14,760	19	Light Industrial and B1 Office Space	Freehold
Shaftesbury Centre, North Kensington, London W10		12,558	29	Business Centre	Freehold
Thurston Road Industrial Estate, Lewisham, London SE13	●	46,569	19	Single Storey Light Industrial Estate	Freehold
Wandsworth Business Village, London SW18	●	86,412	215	Business Centre	Freehold
Watchmoor Park Trading Estate, Camberley, Surrey GU15		8,052	5	Single Storey Light Industrial Estate	Freehold
Westbourne Studios, Ladbrooke Grove, London W10	◆	55,048	97	Business Centre	Long Leasehold
Westminster Business Square, Vauxhall, London SE11	◆	63,789	56	Business Centre	Freehold
Westwood Business Centre, Acton, London NW10	●	67,283	26	Business Centre	Freehold
Windmill Place Business Centre, Hanwell UB2		25,779	62	Business Centre	Freehold
Zennor Road Industrial Estate, London SW12	●▲	64,698	30	Single Storey Light Industrial Estate	Freehold
Total		2,384,923	2,266		

3 Mills

Name of property		Lettable area sq ft	No. of units	Description	Tenure
Sugar House Business Centre, Stratford, London E15		20,415	19	Business Centre	Freehold
Sugar House Lane Yard, 20 & 107 High Street, London E15		46,564	17	Offices and Warehousing	Freehold
Three Mills Estate, Stratford, London E3	◆	359,837	152	Industrial Estate/ Film Studios	Part freehold, part long leasehold
Total		426,816	188		
Grand total		5,772,702	4,521		

▲ denotes those properties that were acquired during the year.

✱ denotes those properties held on 999 year lease with option to purchase freehold.

● denotes properties with a value of between £5m and £10m at 31 March 2004.

◆ denotes properties with a value of between £10m and £20m at 31 March 2004.

■ denotes properties with a value in excess of £20m at 31 March 2004.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eighteenth Annual General Meeting of Workspace Group PLC will be held at the Company's head office at Magenta House, 85 Whitechapel Road, London E1 1DU on Tuesday 27 July 2004 at 11.30am for the following purposes:

As ordinary business:

1. To receive and adopt the Company's accounts for the financial year ended 31 March 2004 and the reports of the Directors and the Auditors thereon.
2. To declare a final dividend on the ordinary shares of £3,321,207 (20.7p per share) in respect of the year ended 31 March 2004, payable on 2 August 2004 to shareholders on the register on 2 July 2004.
3. To elect as a Director J Bywater who has been appointed as a Director since the last Annual General Meeting.
4. To re-elect as a Director M Carragher who retires by rotation and, being eligible, offers herself for re-election.
5. To re-elect as a Director R M Taylor who retires by rotation and, being eligible, offers himself for re-election.
6. To consider, and if thought fit, approve the Report on Directors' remuneration contained within the Report and Accounts for the year ended 31 March 2004.
7. To re-appoint PricewaterhouseCoopers LLP as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.

As special business:

8. 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 £476,619 during the period commencing on the date of the passing of this resolution and expiring on 26 July 2009 (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.

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

THAT:

- (a) the Directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the 'Act');
 - (i) subject to the passing of the resolution numbered 8 set out in the notice of this meeting, to allot equity securities pursuant to the authority given in accordance with section 80 of the Act by the said resolution number 8; and
 - (ii) to transfer equity securities which are held by the Company in treasury;

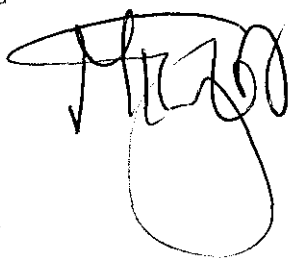
as if section 89(1) of the Act did not apply to any such allotment or transfer, provided that this power shall be limited to the allotment or transfer of equity securities:

 - (A) 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);
 - (B) in connection with the terms of any share option scheme for the time being operated by the Company (and any shares acquired or held by the Company in treasury may be transferred in satisfaction of the exercise of options under any such scheme); and
 - (C) otherwise than pursuant to sub-paragraphs (A) or (B) above, up to an aggregate nominal amount of £83,669, and shall expire on 26 July 2009, 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.

10. 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 1,673,381;
 - (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 26 July 2005, or at the conclusion of the Annual General Meeting of the Company to be held in 2005, 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.

By Order of the Board

R Mark Taylor
Company Secretary
11 June 2004



Registered Office
Magenta House
85 Whitechapel Road
London E1 1DU

Notes

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders in the register of members of the Company 48 hours before the time for which the meeting is called 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 48 hours before the time for which the meeting is called shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. If the meeting is adjourned to a time not more than 48 hours after the time fixed for the original meeting, the above specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11.00am on the day which is two days before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.
3. 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 in his or her place. A proxy need not be a member of the Company.
4. To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notari ally, must be signed and lodged with the Company's registrars, Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH not less than 48 hours before the time appointed for the meeting or an adjourned meeting.
5. A form of proxy is provided with this notice. Completion and return of such proxy will not preclude a member from attending and voting in person.
6. The Directors' service contracts and 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

Antony J Hales, BSc
(Chairman)*†

Alan H Cherry, CBE, DL FRICS
Hon MRTPI
(Deputy Chairman)*

Harry Platt, MA, MRTPI
(Chief Executive)

John Bywater, FRICS*

Madeleine Carragher, FRICS
(Operations Director)

Bernard Cragg, BSc, ACA*†

J Patrick Marples, MRICS
(Property Director)

Christopher J Pieroni, BA MSc PhD*†

R Mark Taylor, BSc, FCA
(Finance Director)

* Non-executive

† Member of Remuneration, Nominations and Audit Committees

Company Secretary

R Mark Taylor, BSc, FCA

Registered office and headquarters

Magenta House
85 Whitechapel Road
London E1 1DU
Tel: 020 7247 7614
Fax: 020 7247 0157
Email: info@workspacegroup.co.uk
Website: www.workspacegroup.co.uk

Registered number

2041612

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors

Norton Rose
Kempson House
Canomile Street
London EC3A 7AN

Bankers

The Royal Bank of Scotland
Corporate Banking London Property Group
3rd Floor, Waterhouse Square
138-142 Holborn
London EC1N 2TH

Financial advisers and stockbrokers

Panmure Gordon
50 Stratton Street
London W1J 8LL

Financial advisers

N M Rothschild
New Court
St Swithin's Lane
London EC4P 4DU

Registrars

Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

For additional information

Workspace publishes, both on its website and in hard copy, a wide range of material to assist customers, investors and other interested parties. These are the principal documents. Should you need assistance in accessing any of this material then contact the Company Secretary at the Company's registered office (details on page 60).

Section within Annual Report and Accounts	Title	Description
Financial highlights		
Chairman's statement		
Operating review	• Customer Charter • Small Business Links •† Corporate Responsibility Statements • Developments • Tenant Information † FYI † Changing Environments † Dynamic Environments † Recyclopedia † Beginners' Guide to Finding the Right Business Space •† Individual Property Information Sheets	Information for small businesses on where to get help Bi-annual policy reports with annual updates on achievement against targets Details of projects to improve properties Tenant newsletter Book tracking history of a selection of Workspace properties Book describing the activities of a range of Workspace SME customers Guide to recycling of business waste Self-help guide to finding accommodation for SMEs
Acquisitions and disposals	• Press Releases	
Management and employees	• Board Members	
Financial review	• Equity Growth Reports • Brokers	Independent financial analysts reports
Directors' remuneration report		
Report of directors		
Corporate governance	• Corporate Governance Questionnaire • Board Committees' Terms of Reference • Board Delegations	Self assessment of compliance with 2003 code
Directors' responsibilities	• Risk Management	Assessment of risks and approach to them
Auditors' report		
Accounts and notes	•† Annual Accounts •† Quarterly Statements	
Ten years of growth		
Portfolio		

• On website

† Published documents

www.workspacegroup.co.uk

Designed and produced by Carnegie Orr +44 (0)20 7610 6140.

Photography Andy Stewart.

Printed on Zanders Mega Matt – A paper that is manufactured using 50% recycled de-inked fibre and 50% TCF (totally chlorine free) pulp, and is sourced from sustainable forests. This paper has been awarded the Nordic Swan environmental label for low emissions during production.

Workspace Group PLC

Magenta House
85 Whitechapel Road
London E1 1DU

T 020 7247 7614

F 020 7247 0157

W www.workspacegroup.co.uk