



 PALACE CAPITAL plc

Annual Report and Accounts 2016



PALACE CAPITAL plc

MORE THAN JUST BRICKS AND MORTAR

Palace Capital is an exciting property investment company that focuses on real estate outside London.

Our strategy is to build a diversified portfolio with attractive income and capital returns, through opportunistic corporate and direct property acquisitions and intelligent asset management initiatives.



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AN OVERVIEW

EPRA EARNINGS £m

+64%



DIVIDEND pence per share

+23%



FY15

FY16

FY15

FY16

EPRA Earnings £m

+64%

Dividend pence per share

+23%

FY15

4.7

FY15

13.0

FY16

7.7

FY16

16.0

EPRA NAV pence per share

+5%*



PORTFOLIO VALUATION £m

+69%



FY15

FY16

FY15

FY16

EPRA NAV pence per share

+5%

Portfolio Valuation £m

+69%

FY15

396

FY15

103.0

FY16

414

FY16

174.5

EPRA NAV £m

+33%



EPRA EPS pence per share

+13%



FY15

FY16

FY15

FY16

EPRA NAV £m

+33%

EPRA EPS pence per share

+13%

FY15

80.1

FY15

27.7

FY16

106.9

FY16

31.3

European Public Real Estate Association (EPRA) which provides industry best practice recommendations for performance measures

*This would have been 10% but for the dilutive effect of £20m equity raise in June 2015 and final dividend of 7p paid July 2015

HIGHLIGHTS OF THE YEAR

CORPORATE HIGHLIGHTS

£174.5m

PORTFOLIO VALUATION UP 69%

- Portfolio valuation at 31 March 2016 increased by 69% to £174.5 million (31 March 2015 £103.0 million)
- EPRA NAV per share increased by 5% to 414p at 31 March 2016 (31 March 2015 396p) includes the absorption of equity raised at 360p
- Profit before tax of £11.8 million (31 March 2015 £14.0 million)
- EPRA earnings increased by 64% to £7.7 million (31 March 2015 £4.7 million)
- EPRA EPS increased by 13% to 31.3p (31 March 2015 27.7p)
- Final dividend of 9p proposed, making a total for the year of 16p which is a 23% increase (31 March 2015 13p)

OPERATIONAL HIGHLIGHTS

£66.0m

TOTAL OF FIVE ACQUISITIONS

- Broad Street Plaza, Halifax for £24.18 million
- Sol Central, Northampton for £20.7 million
- 249 Midsummer Boulevard, Milton Keynes for £7.225 million
- Bank House King Street, Leeds for £10.0 million
- 46-54 High Street, Sutton for £3.95 million

THREE SALES, TOTALLING £2.0 MILLION, ALL WELL ABOVE BOOK VALUE

- Unit 1, Clayton Manor, Burgess Hill for £1.25 million
- 54 Albert Road North, Reigate for £0.45 million
- Unit F, 61 Albert Road North, Reigate for £0.31 million

ASSET MANAGEMENT HIGHLIGHTS

139

APARTMENTS APPROVED BY CITY OF YORK COUNCIL

- Secured the surrender of a lease held by Gala Casinos at Sol Central, Northampton for £3.8 million plus £0.2 million rates refund
- Strip out of the Gala space in anticipation of agreeing new leases with prospective tenants completed
- Work nearing completion on office-to-residential conversion of 14 apartments at The Copperfields, Dartford, Kent
- Rent roll up 52% to £13.5 million per annum (31 March 2015 £8.9 million)
- Weighted average unexpired lease term 6.3 years (31 March 2015 4.5 years)

FINANCIAL HIGHLIGHTS

£20.0m

EQUITY RAISED AT 360P IN JUNE 2015

- £80.0 million new debt facilities secured across the portfolio including a £30.0 million revolving credit facility on a 5 year term
- Loan to value net of cash 37% (31 March 2015 23%)
- Weighted average cost of debt 3.1% (31 March 2015 3.9%)
- Weighted average debt maturity 3.9 years (31 March 2015 2.8 years)



CHIEF EXECUTIVE'S STATEMENT

I am delighted with the progress we are making. Palace Capital is an exciting company with strategic assets in growth locations and we continue to identify off-market opportunities at sensible prices which will enable us to grow the Company and the NAV.

Neil Sinclair FRICS

CHIEF EXECUTIVE REVIEW

We are delighted to report the Company's results for the year ended 31 March 2016, which show that we made a profit before tax of £11.8m. Net Asset Value per share increased by 5% from 396p to 414p and this includes the absorption of the dilutive impact of our £20m share placing last June at 360p per share.

The carrying value of the Company's portfolio is now at £174.5m compared to £103.0m 12 months prior largely reflecting acquisitions of £66m during the year.

Our contracted rent roll is now £13.5m per annum with a net income of £11.8m per annum allowing for head rents, service charge shortfall and empty rates. The latter would have been considerably lower but for the fact that one of our significant assets at Hudson House, York, the 103,000 sq ft office building adjoining the Railway Station, cannot be let on reasonable leases as it is pending refurbishment/redevelopment.

Our bank borrowings are at £71.9m representing a net LTV of 37% meaning we remain conservatively geared.

We have adopted a progressive dividend policy allowing our shareholders to benefit as the company prospers. We paid an interim dividend of 7.0 pence per share on 30 December 2015 and as we stated on 10 May 2016 we intend to pay a final dividend of 9.0 pence per share on 29 July 2016 to those shareholders on the register as at 8 July 2016.

We are making sure and steady progress. We have strict criteria on any potential acquisition so we are cautious but very opportunistic and only focus on those where we can achieve the desired return. We are constantly travelling around the country meeting owners and agents and this has helped us to source and conclude off-market acquisitions.

Our focus has been to acquire properties outside London. We made the small £1.8m acquisition of Hockenhull Estates in 2011 comprising nine Cheshire based income producing properties but then made the significant £39.25m corporate acquisition of the Quintain subsidiary known as the Signal Portfolio in October 2013 comprising 24

properties and the £32m corporate acquisition of Property Investment Holdings Ltd in August 2014 comprising 17 properties.

We were investing in the regional market at a time when there were very few players with no talk of a Northern Powerhouse or Regional Devolution. We have seen very considerable growth from these two major acquisitions. The remaining properties in the Signal Portfolio have recently been valued at £71.0m and it is worth bearing in mind that £3.9m of sales have already taken place. In addition the remaining properties in the PIH portfolio have been valued at £36.5m with £2.0m of sales having been completed from this portfolio. The Board considers there are still considerable asset management opportunities on these two portfolios and we envisage continuing growth from them.

Our enlarged network has allowed us to make five opportunistic acquisitions totalling £66.0m in the last financial year three of which were off market. These were:

- Bank House, King Street, Leeds – £10.0m
- Sol Central, Northampton – £20.7m
- 46-54 High Street, Sutton – £3.95m
- 249 Midsummer Boulevard, Milton Keynes – £7.225m
- Broad Street Plaza, Halifax – £24.18m

Further details of these acquisitions are contained in our Property Report. As with the rest of our portfolio, we will apply our own style of active management to all of these acquisitions, however, in our Portfolio Update announced on 10 May 2016 we made particular reference to Broad Street Plaza, Halifax. We have now received credit approval from a major insurance company to replace the existing short-term facility with a new loan of £15.2m for a term of ten years at a fixed interest rate of 3.5% including margin. Not only does this provide us with a current return on our equity of 14.5% but this rises to 16% in 2017 when the fixed rent increases take place. In addition, we have also been advised that we can claim full capital allowances as these have not been claimed to date so we have every

£20.0m

EQUITY RAISED

+5%

414p

EPRA NAV PER SHARE

+23%

16p

TOTAL FY16 DIVIDENDS



LEISURE

A large, illuminated, three-dimensional sign spelling 'VUE' in a bold, sans-serif font. The sign is mounted on the facade of a modern building with a grid-like pattern of windows and balconies. The building is viewed from a low angle, looking up. The sign is brightly lit, contrasting with the darker background of the building and sky.

VUE

BROAD STREET PLAZA
HALIFAX

ACQUIRED MARCH 2016



opportunity of an exceptional return from this property. We are cash managers as well as property asset managers and Broad Street Plaza is a particular example.

Broad Street Plaza is also within half a mile of one of the country's most successful but largely unknown urban regeneration schemes. Dean Clough in Halifax is a former mill which was once a carpet factory and which closed in 1983. It is now flourishing after tens of millions of pounds of investment with over 1,000,000 sq ft of offices, restaurants, galleries and retail and is virtually fully occupied. This is very complementary to Broad Street Plaza.

We are really excited about Hudson House, York, situated within a minute's walk from the Railway Station. City of York Council are one of only three councils in the country to recently announce a major initiative to see surplus railway land developed into thriving office, retail and residential schemes. This will be known as York Central and can only benefit our 103,000 sq ft office building where we are planning a major office and residential scheme. Our view is that public transport and in particular railway hubs such as York will play an increasing part for an office and residential development to be successful. We are exceptionally well placed at Hudson House as York is a growing business, educational and tourist destination.

We are delighted to have appointed Stephen Silvester as Group Finance Director and Matthew Simpson as Finance

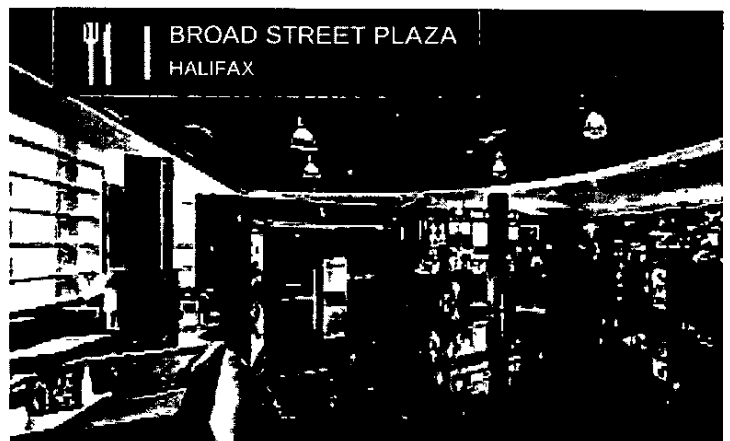
Manager during the year. We are also pleased to report that our Property Director, Richard Starr, will be joining us as a full-time Executive Director on Monday 4 July 2016. They have made a significant contribution to the growth of Palace Capital. With Andrew Thomas joining us on 13 June 2016 as Investment Manager, we will have a formidable acquisition, asset management and financial team.

We are looking at a number of significant opportunities at the moment as we strive to grow the Company and joining the Official List of the London Stock Exchange remains our objective. Our acquisition strategy remains cautious but opportunistic. We are very grateful for the support shown by our shareholders and we believe we have the management team to achieve our goals. We look to the future with continued confidence.

The Strategic Report has been approved by the board and signed on its behalf by



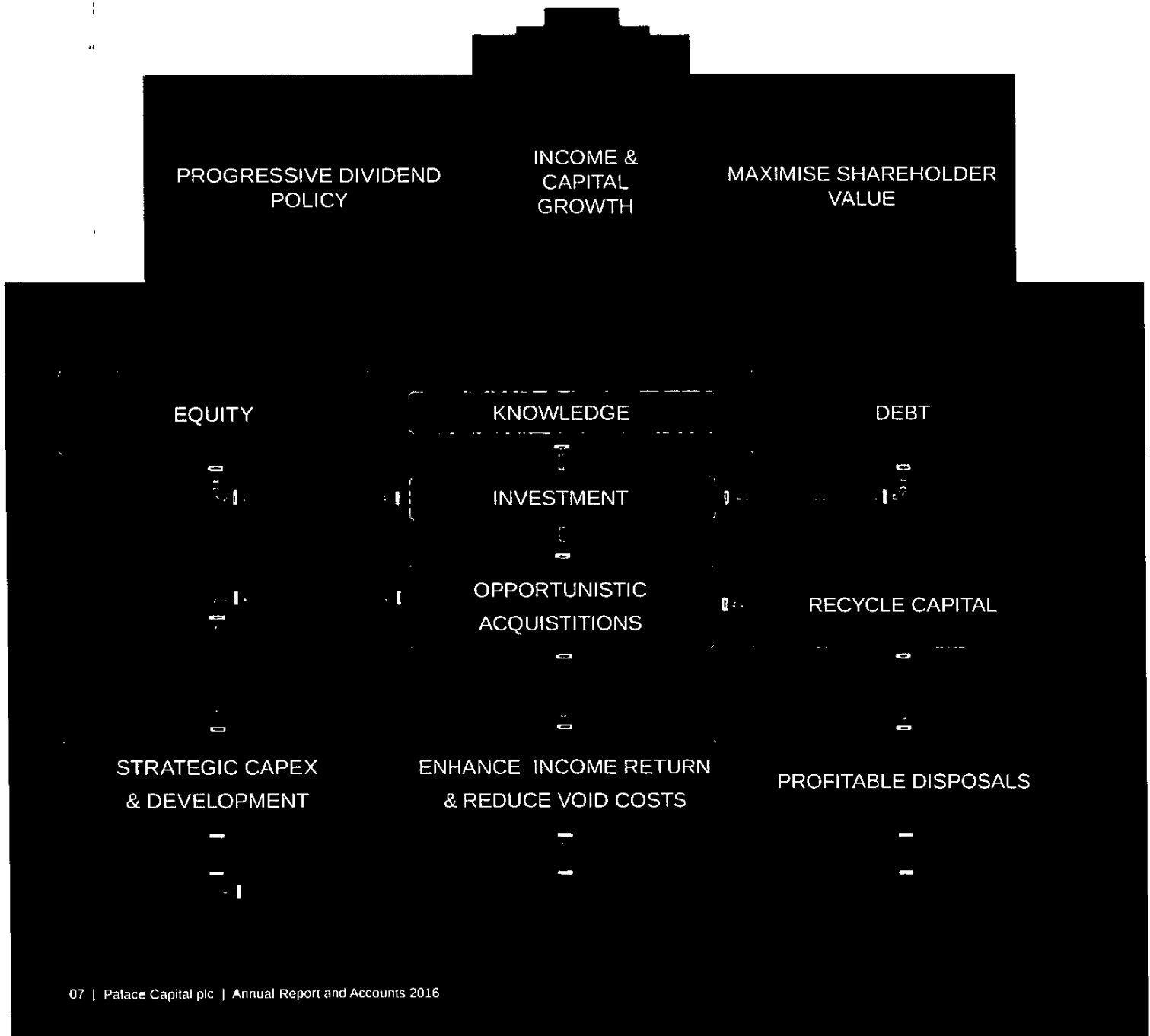
Neil Sinclair FRICS
Chief Executive
3 June 2016



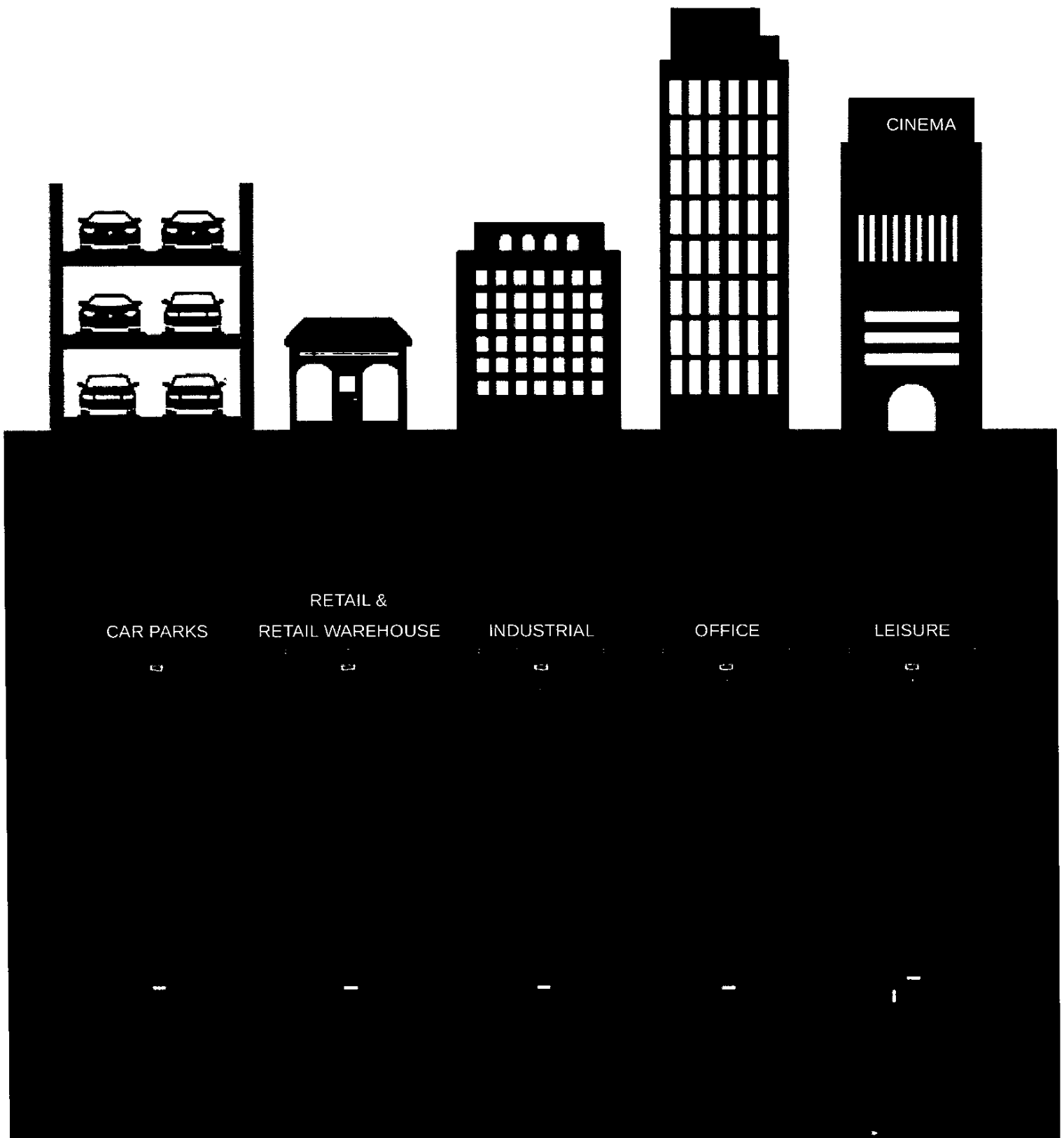
OUR BUSINESS MODEL

Our strategy is to build a diversified property portfolio, let to good tenants in good locations, providing our investors with attractive income and capital returns whilst mitigating sector-specific risk.

- We enhance income returns and reduce void costs through active asset management.
- We look to generate capital returns through refurbishment and development initiatives.
- We recycle capital through profitable disposals and release equity for further investment.



In less than 3 years, Palace Capital
has built a portfolio valued at £174.5m
with only £63.5m equity raised





THIS YEAR'S JOURNEY



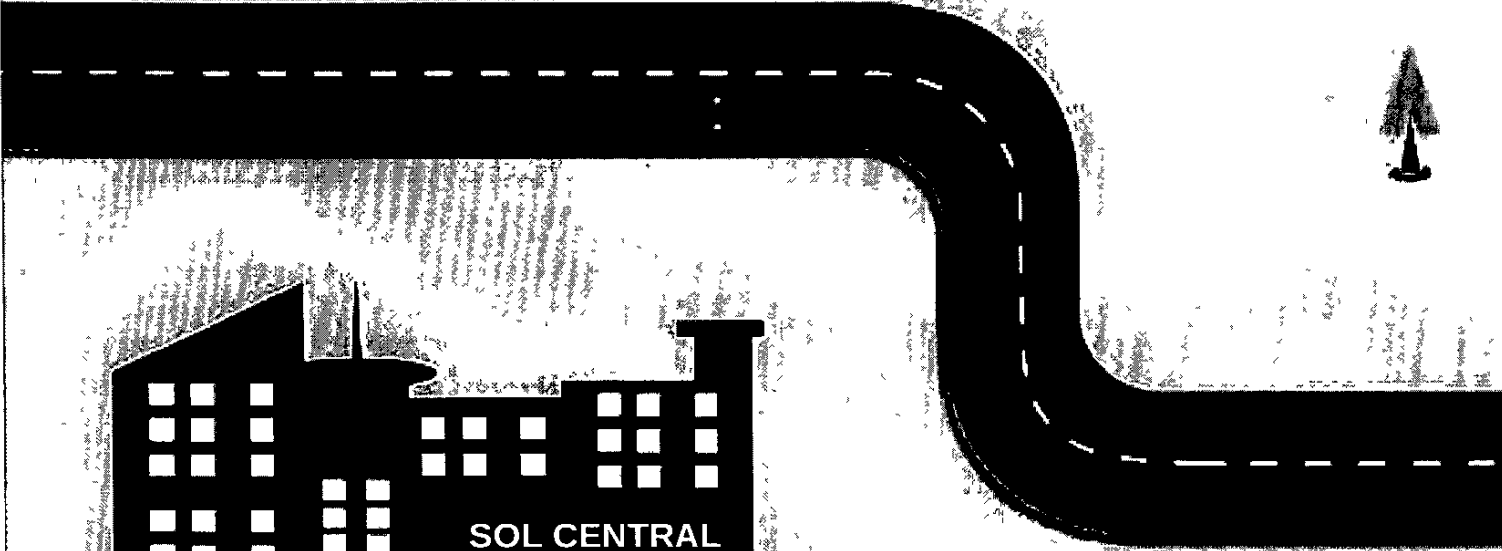
**BANK HOUSE
LEEDS**

APRIL 2015
£10.0 million



**46-54
HIGH STREET
SUTTON**

AUGUST 2015
£3.95 million

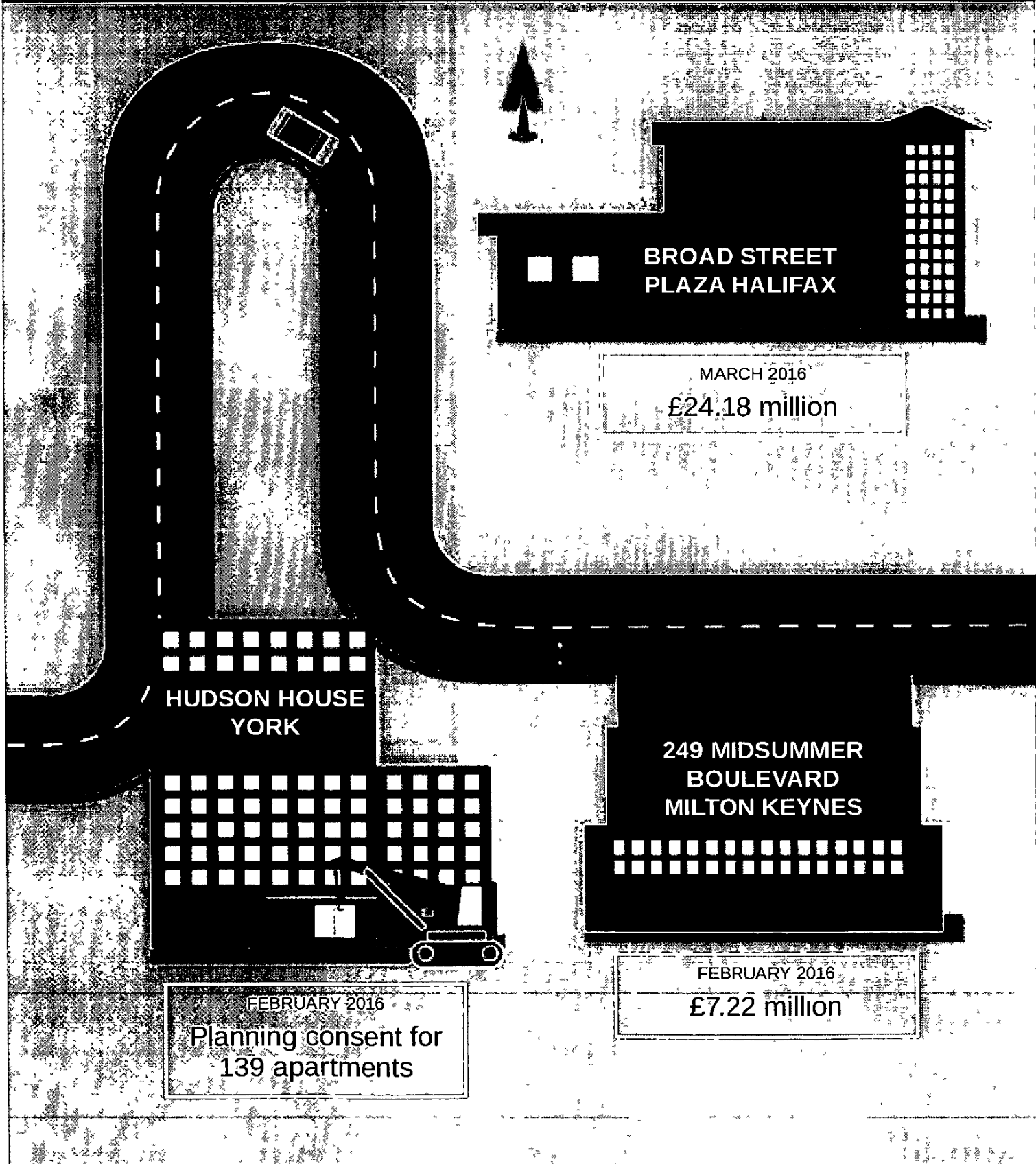


**SOL CENTRAL
NORTHAMPTON**

JUNE 2015
£20.7 million



The company acquired 5 properties at a total cost of £66.0 million during the year and ends the year with a portfolio of 54 properties in key strategic cities in the UK with greater reliability and visibility of rental streams, along with planning consents for future developments.





PROPERTY DIRECTOR'S STATEMENT

We undertake active management initiatives on all our properties to maximise returns. Regular inspections enable us to adapt to economic changes as well as what is required locally.

Richard Starr MRICS

PROPERTY REVIEW

This year we have continued to build our property portfolio through five acquisitions totalling £66.0 million. At the same time we have sold some of our smaller holdings above book value. We now have a property portfolio valued at £174.5 million which is a meteoric rise since the significant purchase in October 2013 of the Signal portfolio.

KEY STATISTICS

- 54 properties comprising 1.85 million sq ft of space
- Over 140 tenants providing a contractual rent roll of £13.5 million per annum at 31 March 2016 (2015: £8.9 million)
- 34 new lettings and lease renewals completed during the year representing 10% of the total floor area
- Diversity of sectors within the portfolio including offices, industrial and retail, which is complemented by our new acquisitions in the leisure sector
- WAULT increased to 6.3 years (2015: 4.5 years) - a reflection of our active asset management initiatives

ACQUISITIONS

These are referred to in the Chief Executive's Review and are set out in more detail below.

Bank House, Leeds

In April 2015 we completed the purchase of Bank House, Leeds for £10 million reflecting a net initial yield of 8.6%. A Grade II listed city centre office property, built in 1970, comprising 88,000 sq ft around a large central atrium. The property is home to The Bank of England, who have occupied it since it was built, as well as Walker Morris who are the largest independent firm of solicitors in Leeds.

Since the purchase we have extended the Bank of England lease until July 2023 with a minimum increase in the annual rent from £115,000 per annum to £232,000 per annum at the March 2020 rent review. The first floor, as anticipated, became vacant recently and we are in the process of starting a refurbishment programme following the settlement of dilapidations. When completed, this will

provide a single floor plate of 17,000 sq ft which will be one of the largest second-hand office floors available.

We will be seeking to attract occupiers looking for a discount to the prime rents.

Sol Central, Northampton

In May 2015, we acquired the holding company of a prominent city centre leisure scheme, Sol Central in Northampton for £20.7m reflecting a net initial yield of 8.86%. Comprising a 10-screen cinema, casino, 151 room hotel, gym and 375 space car park, this 200,000 sq ft development has not been trading at its optimum level for a number of years. Significantly, the scheme lacks restaurants.

We intend to transform the scheme to create a dominant city centre offering to take advantage of the number of Council led initiatives within the city centre. A specialist architect and technical team have been instructed to ensure our vision can be achieved. To facilitate this we have taken a surrender of the lease to Gala Casino, who vacated in 2011 in return for £4 million to account for loss of rent, dilapidations and a rates rebate in August 2015.

46-54 High Street, Sutton

In August 2015, we completed the purchase of 46 – 54 High Street Sutton for £3.95 million reflecting a net initial yield of 8%. Comprising three retail units and 15,000 sq ft of offices, the building is held on a lease with 120 years unexpired from The London Borough of Sutton, with ground rent of 12.5% of rents receivable. Located moments from the railway station, the offices are let to Sutton Housing Partnership at £13.50 per sq ft which we consider modest and offers excellent rental growth potential in December 2017 when the next rent review is due. One of the retail units was recently let to Foxtons on a new 15 year lease.

Since the start of 2016 we have acquired two further investments, taking advantage of the new £30 million Revolving Credit Facility with NatWest Bank and the capital created from our historic ownership.

+69%

£174.5m

PORTFOLIO VALUE

£66.0m

5 ACQUISITIONS IN THE YEAR

+52%

£13.5m

ANNUAL RENT ROLL

PROPERTY REVIEW

249 Midsummer Boulevard, Milton Keynes

In February we completed the purchase of 249 Midsummer Boulevard, Milton Keynes for £7 225m reflecting a net initial yield of 7.25%. The property comprises 49,000 sq ft and is multi let to seven tenants including DHL & Crawford's. The majority of tenants are paying an average of £12 per sq ft which is a discount to a recently let suite at £13.50 per sq ft. Milton Keynes is one of the fastest growing towns in the UK and so we consider there is excellent potential for these rents to continue to rise in line with those being currently achieved. The building is situated on a large site and has the potential for significant development in the medium term.

Broad Street Plaza, Halifax

Our final purchase of the financial year was completed in March. A significant leisure scheme known as Broad Street Plaza, Halifax was acquired for £24.18m providing a net initial yield of 7.25%. Significantly 40% of the leases benefit from minimum uplifts which will increase this yield to over 8% by August 2017. The scheme provides an excellent WAULT of 14 years to break. Whilst the scheme is trading well, we consider that this could be improved and we are undertaking various marketing initiatives to ensure the scheme reaches its full potential.

We set out below the highlights of our existing holdings

HOCKENHULL PORTFOLIO

This was the initial portfolio acquired in 2011. Comprising nine individual properties, the portfolio remains fundamentally unchanged during the year although we have renewed two leases.

SIGNAL PORTFOLIO

The significant portfolio purchase in October 2013 has performed exceptionally well. We regularly visit the properties and meet our tenants which gives us immediate knowledge of occupational requirements so that we can ensure maximum occupation where possible.

In 2013 the Government introduced Legislation known as Permitted Development Rights (PDR) which grants permission in certain circumstances to allow the conversion of office space to residential use. We have taken advantage of this in Dartford and York. There is continual demand for residential properties in good locations which is being supported by institutional investors who now consider the private rented sector a sustainable investment. It is our opinion that there is long-term rental growth in this sector and will be looking to retain these units.

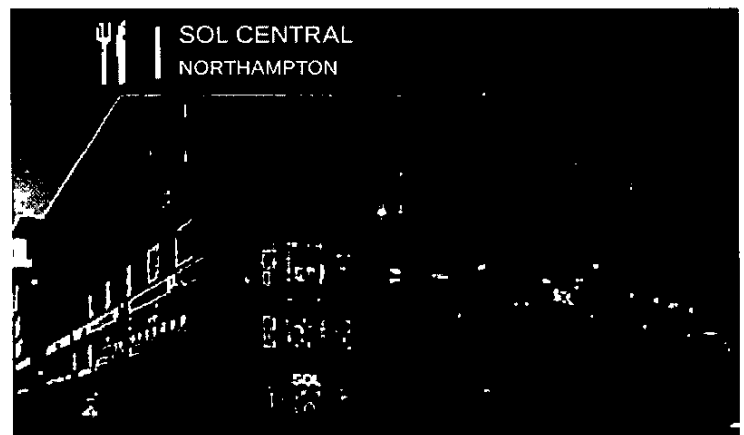
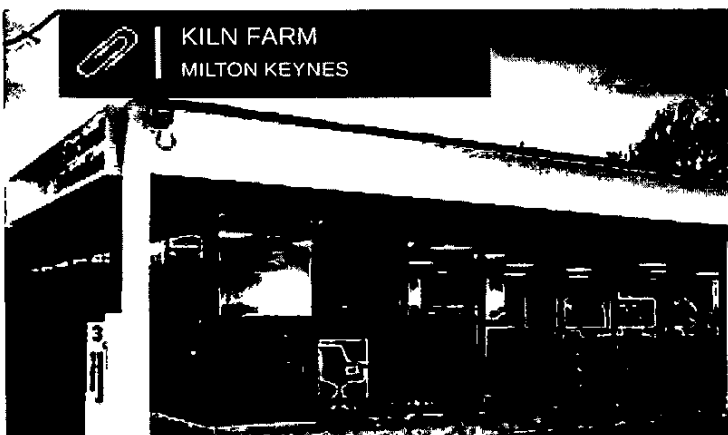
Hudson House, York

We have worked with our technical team to take this property into its next phase. The property comprises a 1960's 103,000 sq ft office building directly opposite York Railway Station. Transport links are excellent with a direct fast service to London and Edinburgh.

In September 2014 an application was made to convert the property into 82 residential units as well as create 37,000 sq ft of grade A office. A resolution to grant consent was approved in April 2016, subject to a section 106 agreement, as stated in our Portfolio Update in May 2016. An alternative consent had also been granted to convert the building into 139 residential units through PDR in February of this year. We are currently evaluating all our options to maximise value and will update our shareholders in due course.

Copperfields, Dartford

This is a mixed-use retail and office property in a commuter town, South East of London. Situated directly opposite the Priory Shopping Centre and within walking distance of the train station, the scheme provides nine retail units below vacant offices. PDR was granted for the conversion of the offices to 14 residential units in October 2015. The conversion is due to complete in August 2016 and our intention is to rent them.



Once completed we will have transformed a tertiary shopping scheme into a vibrant mixed use investment

Point Four Industrial Estate, Avonmouth

This 10 unit scheme is fully let to seven different tenants. Significantly we have completed the letting of a vacant unit to an existing tenant, who also extended their current leases so they are all co-terminus after 10 years. Refurbishment works were carried out to ensure the unit was let in an improved condition. In addition, minimum uplifts at the rent review in year 5 were agreed based on 2% per annum compound. We have negotiated to remove break clauses and settled rent reviews on other units at marginally higher than the passing rents.

Cater Road, Bristol

Following extensive negotiations, the lease with Computershare was surrendered and a new lease for 15 years to Wincanton Holdings Ltd was completed. The tenant has an option to determine after 10 years whilst the rent is subject to a minimum increase at rent review after five years, based on a minimum of 2.5% per annum compound.

Marsh Barton Trading Estate, Exeter

Following the year end the tenant company appointed Administrators. The Administrator is seeking to grant a licence to a newly formed company for 12 months, providing continuity of income. We are undertaking a strategic review to assess the long-term prospects for this well positioned site, as there is potential for a significant redevelopment.

Kiln Farm, Milton Keynes

The tenant at unit 2 has exercised their option to determine the lease from March 2016. We are progressing the dilapidation negotiations on this 14,500 sq ft office building and will evaluate all the options before deciding the best way forward.

Allen House, Stockport

Following the surrender of the lease in September 2015, we have been seeking to sell this 68,000 sq ft property. Demand has been limited but there are reasonably regular inspections so we are hopeful for an early sale.

Victoria Road, Stoke On Trent

The lease expired in September 2015 and a schedule of dilapidations with the outgoing tenant was settled at £250,000. We are seeking a buyer for this 45,000 sq ft building as the costs of refurbishment are not in the best interests of the Company.

Argent Court, Tolworth

This property has performed extremely well. Having purchased the property for £750,000 in October 2013, separate parts were sold in November and December 2013 for £1,070,000. We are now proposing to sell the remainder due to imminent lease expiries and strong demand from owner-occupiers.

PIH PORTFOLIO

Ovest House, Brighton

This is excellently located, equidistant between the Railway Station and the sea, within the city centre. We have undertaken a refurbishment of the 4th floor and reception area following a successful dilapidations settlement with the previous tenant. This attracted Quarto Publishing Plc to the property who have agreed to occupy all the offices being let at a 40% increase in rent. We have negotiated surrenders of the other leases to facilitate this and the remaining floors to a similar specification.

Clayton Industrial Estate, Burgess Hill

We completed the letting to Polar Audio following a minor refurbishment using the dilapidation settlement from the former tenant. A new lease for 10 years incorporating an option to determine at year 5 was completed in August 2015. The tenant has an option to purchase at £1,450,000 no later than 28 July 2016.

Albert Road North, Reigate

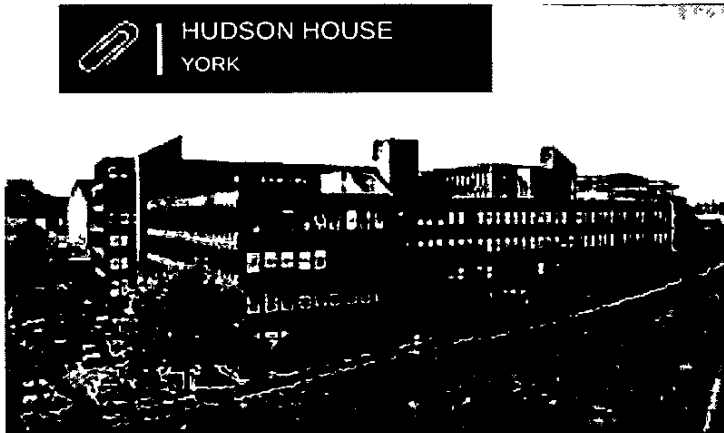
We have sold No. 54 in April 2015 for £445,000 and Unit F at No. 61 in January 2016 for £310,000, both of which were in excess of book value.



PROPERTY REVIEW



HUDSON HOUSE
YORK



FRASER HOUSE
STAINES



There have been changes in legislation which affect the portfolio and we highlight these below

MINIMUM ENERGY EFFICIENCY STANDARDS (MEES)

As of April 2018, it will be unlawful for commercial and residential landlords of properties with an Energy Performance Certificate (EPC) rating of less than "E" to grant new leases or renew tenant leases (except for some exemptions). Landlords will need to carry out works to improve the energy performance of their buildings to a rating of "E" or above or face civil penalties.

We have instructed a specialist to undertake a full review of our holdings to ensure that none of our holdings are affected.

STAMP DUTY LAND TAX

In March 2016, the Chancellor of the Exchequer introduced reforms to Stamp Duty Land Tax on commercial property which increased the top rate payable from 4% to 5% above £250,000. This has been factored into the latest independent valuations carried out as at 31 March 2016. Despite this impact, our portfolio valuations have continued to grow over the year.

THE FUTURE

We remain committed to our active brand of asset management and are confident there are still plenty of opportunities for us to continue to grow the income to support our progressive dividend policy, whilst we grow capital value through our expenditure and refurbishment programmes.

RICHARD STARR MRICS



MIDSUMMER BOULEVARD
MILTON KEYNES





BANK HOUSE
LEEDS

ACQUIRED APRIL 2015

+69%

£174.5m

Total assets under management

Our property portfolio is diversified by sector and location, providing enhanced returns to our investors whilst mitigating sector specific risk

KEY

-  OFFICE
-  INDUSTRIAL
-  LEISURE
-  RETAIL
-  RETAIL WAREHOUSE



PORTFOLIO OVERVIEW

TOP 10 TENANTS

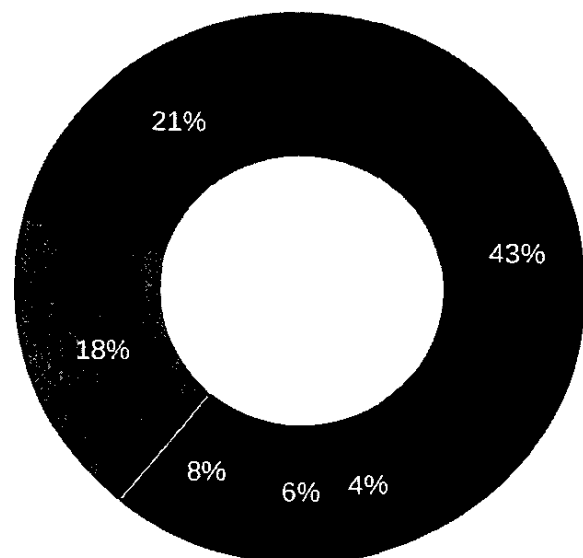
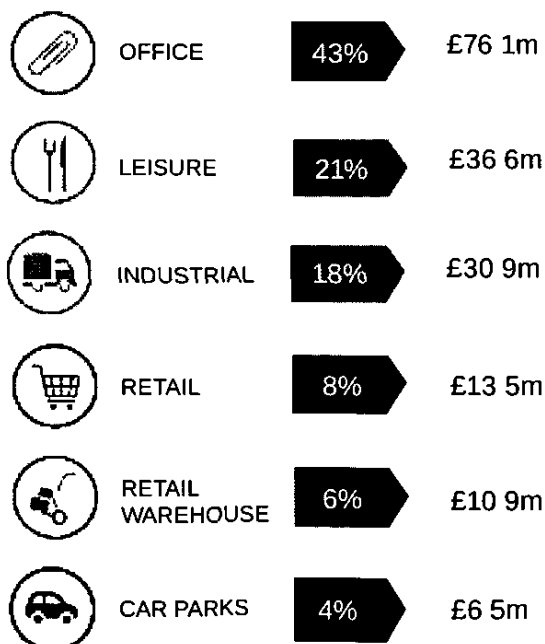
TENANT	INDUSTRY	CONTRACTED RENT £'000	PERCENTAGE OF TOTAL RENT ROLL
vue	Leisure	865	6.3%
Rockwell Automation	Auto	774	5.7%
WALKER WORKS	Legal	573	4.2%
ACCOMMODATION	Hotels	510	3.7%
Vickas	Retail	355	2.6%
brose	Auto	325	2.4%
BRANIFF	Retail	284	2.1%
NHS	Health	262	1.9%
Research & Development	Research & Development	260	1.9%
APCOA	Car Parking	250	1.8%

We are positive about the opportunities to create value through commercial property investment and believe it is the right time in the property cycle to be focused outside London

Our portfolio is focused in key regional UK towns and cities outside of London through opportunistic corporate and direct property acquisitions

At 31 March 2016 our portfolio consisted of 54 properties comprising over 1.85m sq ft of lettable space, balanced sensibly across multiple sectors and locations throughout the UK. Over 160 tenants occupied our properties with a weighted sector split as follows

SECTOR OVERVIEW





FINANCE DIRECTOR'S STATEMENT

We are recommending a final dividend of 9p per share to be paid on 29 July 2016 to shareholders registered at the close of business on 8 July 2016. Taken with the interim dividend of 7p our full year dividend will be up 23% to 16p. The Company is very well placed to provide our shareholders with an increased dividend yield due to the growth in our portfolio and the core assets producing stable, long-term income.

Stephen Silvester ACA

FINANCIAL REVIEW

OVERVIEW AND HEADLINE RESULTS

This year we delivered a profit before tax of £11.8m, which reflects a basic earning per share of 43.9p. EPRA earnings is the industry measure of underlying profit stripping out revaluation gains and one-off acquisition costs. EPRA earnings for the year ended 31 March 2016 increased by 64% to £7.7m compared to £4.7m last year and as a result EPRA earnings per share improved to 31.3p from 27.7p.

The value of our portfolio increased by 69% at the year-end to £174.5m from £103.0m principally as a result of the opportunistic acquisitions made throughout the year and also due to £3.6m of revaluation gains. EPRA net assets per share increased by 10% to 414p taking into account the dilution from the £20 million equity raise and FY15 final dividend paid in July 2015. This 36p increase together with the total dividends of 16p paid in relation to FY16 represents a 14% total business return.

Our capital base grew during the year as a result of the £20.0m capital raising in June 2015 and also £80.0m of new debt facilities raised and this was utilised to fund £66.0m of new acquisitions in the year.

RECURRING EARNINGS

Rental income net of property costs totalled £13.0m in the year ended 31 March 2016 (2015: £7.4m), driven by the new acquisitions and also supported by the significant £3.0m surrender premium received from Gala Casinos at Sol Central, the Northampton leisure scheme acquired in June of last year. Administrative expenses increased to £2.0m from a low base in the prior year of £1.4m due to a strategic decision to increase resources and build a team capable of delivering results across a far larger portfolio. There was also a mid-year review into director remuneration to bring it closer in line with our peer group. Finance costs increased to £2.3m from £1.4m as a result of the increase in debt finance to help fund the acquisitions. Despite increasing the base costs of the business, underlying EPRA earnings grew 64% to £7.7m from £4.7m reflecting the increasing profitability of the business as a result of both scale and reliable stock selection.

Looking forward, the business is now capable of scalability, with the team and systems in place to support a significant growth in the portfolio. 249 Midsummer Boulevard, Milton Keynes and Broad Street Plaza, Halifax were acquired close to the year-end. Next year the impact of these on recurring earnings will be significant and at the time of writing the Group

has a current gross rent roll of £13.5m per annum up from £8.9m per annum at 31 March 2015 and net of non-recoverable property costs of £11.8m per annum.

VALUATION GAINS & PROFITS ON DISPOSAL

The movement in the values of our investment properties can make a significant impact on our profit before tax, as demonstrated last year when we saw £9.8m uplift on the portfolio. This year £3.6m gains were achieved, however this should be combined with the £3.0m surrender premium received from Gala Casinos due to the direct impact the loss of income has on the Sol Central property valuation in the short-term, results in a £6.6m overall gain.

The portfolio has almost doubled in the past year and therefore the impact of like for like uplift in values is diminished as the initial absorption of purchase costs and stamp duty are taken into account this year. The 1% increase in stamp duty for commercial properties valued over £250,000 to 5% has had a one-off impact on the net valuations performed by the Independent Valuers this year. Despite this, we continue to see the impact of our asset management and capex initiatives particularly at our strategic properties such as Hudson House, York where we received approvals in the year and we have seen a significant uplift in value with this property now valued at £14.9m.

We continue to recycle capital through disposals of individual units and small properties where we can realise profit that reflects good value from our investment and £0.3m profit on disposal was achieved from three disposals during the current year.

EPS

Basic earnings per share (EPS) were 43.9p compared to 82.4p last year, down primarily due to the significant valuation surplus last year. Similarly to the adjustments we make to profit before tax which remove unrealised capital profits and one-off items such as profits on disposal and costs on acquisition we report EPRA earnings per share. This improved to 31.3p from 27.7p due to the significant one-off impact of the Gala surrender premium. Finally, we also report an adjusted earnings per share to provide a basis for dividend cover which excludes the impact of the surrender premium and this was 18.9p for the year.

+64%

£7.7m

EPRA EARNINGS

+33%

£106.9m

EPRA NAV

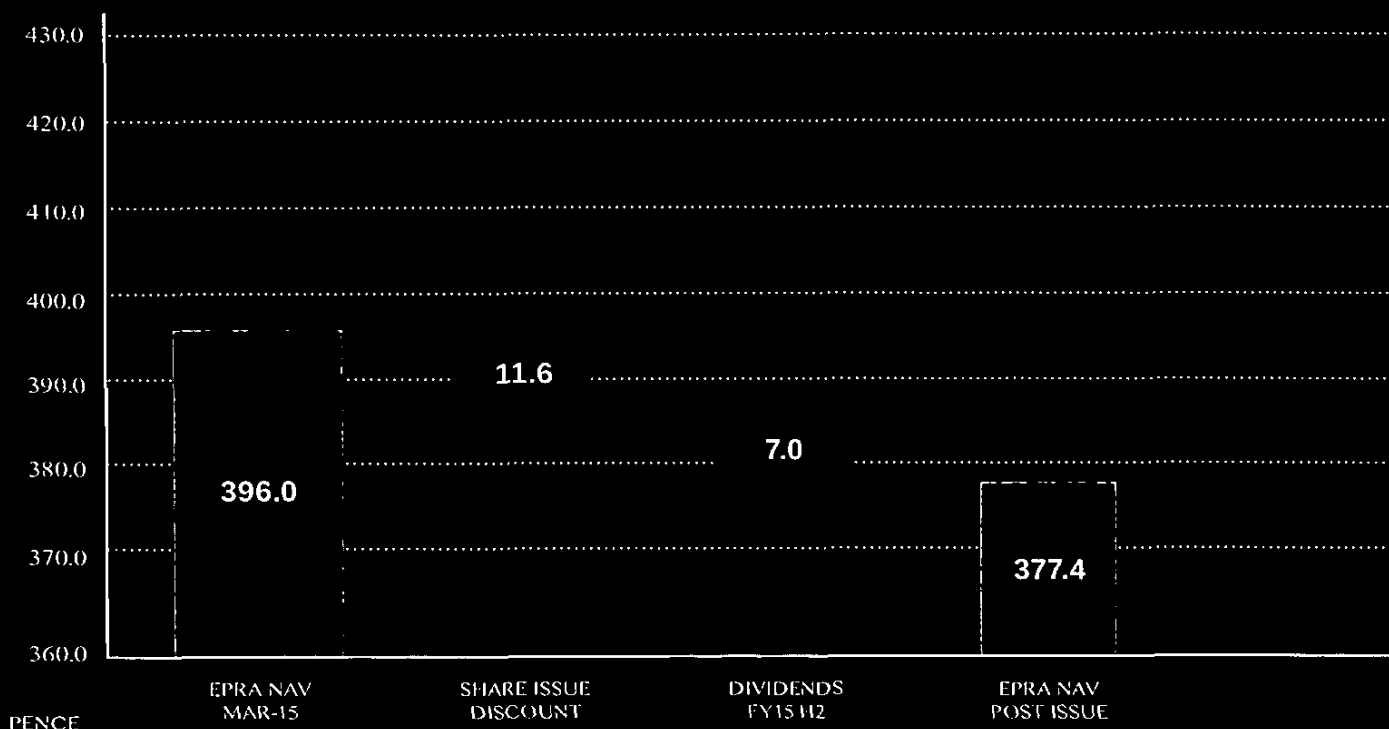
£20.0m

EQUITY RAISED

£80.0m

NEW DEBT FACILITIES

FINANCIAL REVIEW



DIVIDENDS

We are recommending a final dividend of 9p per share to be paid on 29 July 2016 to shareholders registered at the close of business on 8 July 2016. Taken with the interim dividend of 7p our full year dividend will be up 23% to 16p. The Company is very well placed to provide our shareholders with an increased dividend yield due to the growth in our portfolio and the core assets producing stable, long-term income. However, we continue to reinvest surplus funds into our strategic assets to provide investors with a two-pronged return through both income and capital growth.

NET ASSETS

At 31 March 2016 our net assets per share were 414p an increase of 18p since 31 March 2015. The increase in our net assets was driven by the increase in value of our investment properties, profits on disposal of investment properties and surplus profits remaining after dividends paid. We calculate an EPRA NAV consistent with standard practice in the property industry to adjust for any dilution of outstanding share options and fair value adjustments of financial

instruments which we believe better reflects the underlying net assets attributable to shareholders. Our EPRA NAV was 414p at 31 March 2016 up from 396p at 31 March 2015. In fact, the growth was greater when the dilution of the £20.0m equity raise at 360p in June 2015 is taken into account along with the final dividend of 7p relating to FY15 resulting in an overall increase of 10% from 377p.

DEBT FINANCING

During the year our debt profile transformed. We entered into £80.0m of new debt facilities across the Group. The existing facility secured on the Signal portfolio was refinanced with a new five year £20.0m facility at a lower margin of 2.45% and due to the uplift in value since acquisition we were able to release six properties which became uncharged.

We also replaced the existing £16.0m NatWest facility on the PIH portfolio with a new combined £30.0m revolving credit facility secured across the existing portfolio and a number of new acquisitions. Lloyds and Santander also provided new facilities on the

Bank House, Leeds and Sol Central, Northampton acquisitions made during the year and finally we took over the £15.2m Barclays facility secured on the Broad Street Plaza, Halifax property acquired in March 2016.

The Group debt profile is now spread across the majority of the UK clearing banks at an average margin of 2.5% over 3 month libor. We continue to take the decision not to put hedging in place as a result of the historically low interest rates and therefore enjoy an all in average cost of debt of 3.1% currently one of the lowest in the sector. The average debt maturity is 3.9 years which gives us security over income streams net of interest costs for a number of years before the need to refinance.

NET DEBT AND GEARING

Each debt facility is secured at a SPV level and we assess the gearing mainly through interest cover ratios (ICR) and loan to value ratios (LTV). In normal market conditions we gear our assets at a SPV level within a range of 40-60% LTV. At a group level we measure both the debt to net asset value ratio (NAV gearing) and loan to value net of cash.

MOVEMENTS IN EPRA NAV PER ORDINARY SHARE

	15.9	7.0	3.6	
31.3				414.0

EPRA
EARNINGS

REVALUATION
GAINS

DIVIDENDS
FY16 HI

PURCHASE
COSTS

EPRA NAV
MAR-16

NAV gearing at 31 March 2016 was 61% up from 31% last year and the net LTV ratio was 37% at 31 March 2016 up from 23% last year. The Group remains conservatively geared and at year-end had £8.0m of unutilised facilities available along with £18.0m of properties uncharged.

TAXATION

The Group has a tax charge of £0.95m for the year ended 31 March 2016. This includes a corporation tax charge of £0.71m to reflect the tax payable on taxable profit in the year, and an adjustment of £0.22m to reduce the deferred tax asset as a result of the utilisation of tax losses in the year. The effective tax rate for the year for tax payable remains low at 13% due to utilisation of brought forward losses and capital allowances.

LENDER	DEBT DRAWN £	MARGIN	DEBT MATURITY
NATWEST	£22.0m	2.50%	4.9 years
NATIONWIDE	£20.0m	2.45%	4.6 years
BARCLAYS	£15.2m	2.75%	1.5 years
SANTANDER	£10.0m	2.25%	4.2 years
LLOYDS	£4.3m	2.10%	3.1 years
CLOSE	£1.2m	4.00%	1.5 years
TOTAL	£72.7m	2.50%	

RISKS & HOW WE MANAGE THEM

RISK 1

INVESTMENT

Poor investment decisions would result in lower income and capital returns.

MITIGATION RISK MANAGEMENT

Initial yield of 7-10% to take advantage of the gap between yield and cost of borrowing of circa 3.5%.

Clear strategy on each property to create and deliver value.

All acquisitions require Board approval based on merits of investment and strategy for assets.

Limit exposure to SDLT on acquisitions by acquiring SPV's where possible.

PROGRESS 2015-2016

Market conditions continue to improve across the UK with strong demand for regional assets contributing to an uplift in valuations of our portfolio. Five acquisitions made in the year for £66m increasing rent roll to £13.5m per annum.

RISK 2

TENANT

Exposure to tenant administration and poor tenant covenants could result in lower income.

MITIGATION RISK MANAGEMENT

Our strategy to invest across different sectors limits our exposure to one particular sector or tenant.

We maintain close relationships with our tenants and work with them on payment plans if they require.

Management monitor arrears on a regular basis and meets with managing agents to agree on any tenant actions.

We apply a leasing strategy to increase weighted average lease length to secure future income stream and limit exposure to voids.

Tenant diversification is high with no tenant making up more than 7% of total rental income.

PROGRESS 2015-2016

Portfolio weighted average lease length has improved to 6.3 years from 4.5 years. Vacancy across the portfolio has remained consistent at 10-11% during the year. A large proportion of that void is due to the pending development plans at Hudson House, York.

RISK 3

FINANCING AND CASH FLOW

Breach of debt covenants could trigger loan defaults and repayment of facilities putting pressure on surplus cash resources. Economic recovery and change in the Bank of England monetary policy may result in interest rate rises and increased cost of borrowing. Financial regulatory changes under Basel III may require banks to increase their capital base increasing the cost to borrowers.

MITIGATION RISK MANAGEMENT

The Group actively engages in close relationships with its key lenders, ensuring transparency when it comes to monitoring the properties secured by debt.

Assets are purchased that generate surplus cash and significant headroom on ICR & LTV Loan Covenants.

Gearing is maintained at a conservative level and hedging minimal in the current interest rate market to ensure we benefit from historically low finance costs.

PROGRESS 2015-2016

The Group's average maturity of debt has improved to 3.9 years from 2.8 years.

The Group has reduced its average cost of debt to 3.1% from 3.9%. There is plenty of headroom on all debt covenants currently.

RISK 4 ECONOMIC AND POLITICAL

Overall economic health of the UK affects our tenants and the profitability of their businesses. Decisions made by Government and Local Councils can have a significant impact on our ability to extract value from our properties.

MITIGATION RISK MANAGEMENT

Use of consultants and experts when considering planning and development work.
Review tenant profile and sector diversification.

Member of British Property Federation (BPF) keeps us up to date on the impact of all relevant economic and political issues in the real estate industry.

PROGRESS 2015-2016

We have acquired two leisure schemes during the year which has improved our tenant expiry profile and credit ratings of our tenants providing greater security on our recurring income.

Government support for regional development has strengthened the regional property investment market.

RISK 5 ACCOUNTING, TAX, LEGAL AND REGULATORY

Non-compliance as a result of changes to accounting standards, regulatory requirements on a public real estate company and new tax rules.

MITIGATION RISK MANAGEMENT

Close involvement of Auditors, Solicitors and NOMAD on key regulatory, accounting and tax issues.

Engagement with BPF on regulatory changes to impact the real estate industry.

PROGRESS 2015-2016

FRS102 new accounting standard applied to Company Accounts transition overseen by Auditors. Business Forecasts and Strategy allowing for new corporation tax rates over the next three years and other rules such as BEPS.

RISK 6 OPERATIONAL

Business disruption. Without adequate system and controls, our exposure to operational risk and business disruption is increased.

MITIGATION RISK MANAGEMENT

Insurance cover for loss of rent up to 3 years.

Tight-knit team with systems in place to ensure Executive Team have shared responsibility across all major decisions.

General policy of retaining incumbent Managing Agents on new property acquisitions to avoid awkward transitions and potential loss of income.

Segregation of duties applied to payments processing and bank authorisation.

PROGRESS 2015-2016

Five new acquisitions in the year all retained incumbent Managing Agents.

Business Strategy Review by Board during the year to ensure plans in place to deal with key disruption risks.



CHAIRMAN'S STATEMENT

My role as Chairman is to oversee the Board and ensure we succeed as we implement our business strategy through our commitment to excellence in corporate governance.

Stanley Davis



STATEMENT OF CORPORATE GOVERNANCE

There is a commitment to high standards of corporate governance throughout the Group. The Board is accountable to the Group's shareholders for good governance. This report, together with the Directors' Remuneration Report on page 32 explains how the Directors seek to apply the requirements of good corporate governance to procedures within the Group.

DIRECTORS

During the year, the Board consisted of a Non-Executive Chairman, Chief Executive, Group Finance Director, Executive Director – Head of Property and two further Non-Executive Directors. The Chairman, Stanley Davis, has a significant shareholding detailed in the Directors' Report starting on page 29.

The Board has reviewed the roles of Anthony Dove and Kim Taylor-Smith and concluded that each is independent in character and free from any relationship that could affect exercise of their independent judgement. It is felt that their knowledge and understanding are fundamental to the Board's deliberations.

Anthony Dove is the Senior Independent Director.

No individual or group of individuals dominates the Board's decision-making.

The Non-Executive Directors' interests in the shares of the company are set out on page 30 and they receive a fixed fee for their services.

Profiles of the Board members appear on page 28 of this report. These indicate the high level and range of business experience which enables the Group to be managed effectively.

The Board meets at least nine times a year and more frequently where business needs require. The Board has a schedule of matters reserved for its decision which includes material capital commitments, business acquisitions and disposals and Board appointments. Directors are given appropriate information for each Board meeting, including reports on the current financial and trading position.

Any Director appointed is required to retire and seek election by shareholders at the next Annual General Meeting following their appointment. Additionally, one-third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire are those in office longest since their previous re-election.

CHAIRMAN AND CHIEF EXECUTIVE

There is a clear division of responsibilities between the roles of the Chairman and of the Chief Executive.

The role of the Chairman is to conduct Board meetings and to ensure that all the Directors are properly briefed in order to take a full and constructive part in Board discussions. He is responsible for evaluating the performance of the Board and of the Executive Management and of the other Non-Executive Directors and has active involvement in all key strategic decisions taken by the Group.

The role of the Chief Executive is to oversee the day-to-day running of the Group's business including the development of business strategies and processes to enable the Group to meet shareholder requirements. The role involves leading the executive team and evaluating the performance of the Executive Management. Together with the Group Finance Director, he is also responsible for dealing with investor and public relations, external communications and corporate.

STATEMENT OF CORPORATE GOVERNANCE

BOARD EVALUATION

A formal evaluation of the performance and effectiveness of the Board, its Committees and individual Directors was carried out during the year

BOARD COMMITTEES

The Board has delegated authority to the following committees and there are written terms of reference for each committee outlining its authority and duties

AUDIT COMMITTEE

The Audit Committee members throughout the year were Kim Taylor-Smith (Chairman), a Chartered Accountant, Stanley Davis and Anthony Dove. Stephen Silvester, the Finance Director additionally attended all meetings. The committee meets when appropriate to consider the company's accounting policies and in particular with the company's auditors to review the financial statements

REMUNERATION COMMITTEE

Details of the composition of the Remuneration Committee and its activities during the year are given in the Director's Remuneration Report on page 32

NOMINATIONS COMMITTEE

The Nominations Committee members throughout the year were Stanley Davis (Chairman), Neil Sinclair, Anthony Dove and Kim Taylor-Smith. The committee meets when appropriate to consider appointments to the Board of both Executive and Non-Executive Directors. Where necessary, external search consultants are used to ensure that a wide range of candidates is considered

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing their effectiveness. The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. The Directors are satisfied that the current controls are effective with regard to the size of the Group. Any internal control system can only provide reasonable, but not absolute assurance against material misstatement or loss

Given the size of the Group, in the opinion of the Board, there is currently no need for an internal audit function



Stanley Davis
Chairman

BOARD OF DIRECTORS



NEIL SINCLAIR

CHIEF EXECUTIVE

Neil has over 50 years' experience in the property sector. He was a founder of Sinclair Goldsmith Chartered Surveyors which was admitted to the Official List in 1987 and subsequently merged with Conrad Ritblat in 1993, when he became Executive Deputy Chairman. Neil was appointed Non-Executive Chairman of Baker Lorenz, surveyors in 1999 and which was sold to Hercules Property Services plc in 2001. He was appointed a Non-Executive Director of Tops Estates plc, a fully listed company, in 2003 and remained so until it was sold to Land Securities plc in 2005.



RICHARD STARR

EXECUTIVE DIRECTOR

Richard obtained a degree in Surveying and Valuation Development before qualifying as a Chartered Surveyor and becoming a member of the RICS in 2000. He has worked as a senior team member of three established central London firms of commercial property surveying firms as well as the Corporate Real Estate division of what is now part of CBRE Global Investors. He set up his own property consultancy in 2011. He has extensive experience of sourcing commercial investments throughout the UK.



STEPHEN SILVESTER

FINANCE DIRECTOR

Stephen Silvester, a Chartered Accountant, joined Palace Capital in 2015 and brings over ten years' experience as a finance professional, with a background across a range of markets, including real estate. Prior to joining Palace Capital he served for three years as Group Financial Controller at NewRiver Retail Ltd, the REIT that specialises in the UK Retail Sector. He was involved in debt restructuring, numerous property portfolio acquisitions across the UK, capital raising and securing credit facilities from major institutions.



STANLEY DAVIS

NON-EXECUTIVE CHAIRMAN

Stanley is a successful serial entrepreneur who has been involved in the City of London since 1977. His founding company was company registration agents Stanley Davis Company Services Limited which he sold in 1988. In 1990 he became Chief Executive of a small share registration company which became known as IRG plc and acquired a number of businesses including Barclays Bank Registrars and was sold for a substantial sum to The Capita Group plc. He is Chairman of Stanley Davis Group Limited specialising in company formations, property and company searches.



ANTHONY DOVE

NON-EXECUTIVE DIRECTOR

Anthony has over 30 years experience in the corporate sector. He was a partner at the international law firm Simmons & Simmons from 1977 until 1999. In 1998 he joined the board of Tops Estates plc, a fully listed company, and remained so until 2005 when the company was acquired by Land Securities plc. From 2004 to 2013 as a Managing Director of Locate Continental Properties Kft a private Hungarian company, he undertook a number of property renovations in Budapest for investment purposes and was a trustee of the Gynaecology Cancer Research Fund from 2002 to 2009.



KIM TAYLOR-SMITH

NON-EXECUTIVE DIRECTOR

Kim, a Chartered Accountant, brings to Palace Capital over thirty years' experience as a company director for a range of businesses, with a particular background in property management, investment and development. He was Finance Director and latterly Chief Executive of Birkby plc, a manager of serviced workspace (IMEX) and indoor markets (Inshops), between 1983 and 1999 and continued as Chief Executive of the enlarged Group after the agreed takeover by Mentmore plc, at that time Europe's leading records management and self storage company where he remained until 2001.

DIRECTORS' REPORT

The Directors present their Annual Report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2016

STRATEGIC REPORT

The principal activity of the Group is property investment predominately in key regional towns and cities within the UK. A review of the Group's business strategy, operations, future prospects and key performance indicators are included in the Strategic Report

RESULTS AND DIVIDENDS

The results for the year are set out in the Financial Reports

The Directors paid an interim dividend of 7p (2015 6p) per ordinary share on 30 December 2015 and the directors recommend the payment of a final dividend in respect of the year ending 31 March 2016 of 9p (2015 7p) per ordinary share to be paid on 29 July 2016 to shareholders on the register at 8 July 2016

POST BALANCE SHEET EVENTS

There have been no post balance sheet events that would require disclosure or adjustment to these financial statements

SHARE CAPITAL

The present capital structure of the Company is set out in note 21 to the group financial statements

PURCHASE OF OWN SHARES BY THE COMPANY

At a General Meeting of the Company held on 24 March 2016, authority was granted to the Directors to purchase, in the market, the Company's own shares, up to the limit of 10% of the issued share capital. The authority was expressed to run until the conclusion of the next Annual General Meeting of the Company. No purchases pursuant to this authority have been made during the year. Renewal of this authority will be proposed at the forthcoming Annual General Meeting

DIRECTORS

The following directors have held office during the year

Stanley Davis
Neil Sinclair
Stephen Silvester (Appointed 1 July 2015)
Richard Starr
Anthony Dove
Kim Taylor-Smith

The biographies of directors serving at 31 March 2016 are set out on page 28

In accordance with the Articles of Association, Mr Stanley Davis and Mr Anthony Dove retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election

CONFLICT OF INTEREST

Under the articles of association of the company and in accordance with the provisions of the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. However, the directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only directors who have no interest in the matter being considered will be able to take the relevant decision, and the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial year ended 31 March 2016, the directors have authorised no such conflicts or potential conflicts

DIRECTORS' INTEREST IN SHARES

Directors' interests in the shares of the Company, including family interests, were as follows -

	Ordinary shares of 10p each	Ordinary shares of 10p each	Outstanding Ordinary share options of 10p each	Outstanding Ordinary share options of 10p each
	31 03 16	31 03 15	31 03 16	31 03 15
Stanley Davis	1,565,287	1,565,287	8,668	8,668
Neil Sinclair	173,767	173,767	321,106	256,242
Stephen Silvester	2,148	–	26,351	–
Richard Starr	82,258	82,258	137,676	119,433
Anthony Dove	78,000	75,258	–	–
Kim Taylor-Smith	–	–	–	–

There have been no changes in the Directors' shareholdings since the year end

SUBSTANTIAL SHAREHOLDINGS

As at 2 June 2016, being the latest practicable date before the issue of these financial statements, the company had been notified of the following shareholdings which constitute 3% or more of the total issued shares of the company

	Ordinary 10p shares No.	Shareholding %
Polar Capital European Forager Fund Ltd	3,803,000	14.75
Schroders PLC	3,625,592	14.06
Henderson Global Investors	2,555,000	9.91
Quantum Partners LP	2,553,355	9.90
Stanley Davis	1,565,287	6.07
Unicorn Asset Management Limited	1,299,240	5.04
Hargreave Hale Ltd	1,293,870	5.02
AXA Investment Managers SA	1,242,006	4.82
Slater Investments Ltd	846,500	3.28

CREDITOR PAYMENT POLICY

It is the Company's policy to settle the terms and conditions of payment with suppliers when agreeing each transaction. The Group's average number of creditor days as at 31 March 2016 was 30 (2015- 30 days)

AUDITORS

The auditor, BDO LLP, has indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the Annual General Meeting

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with FRS102 and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit and loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standard FRS 102 has been followed, subject to any material departure disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

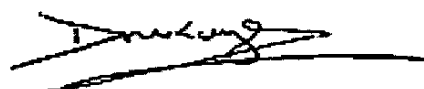
- a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the company,
- b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces, and
- c) the Annual Report and financial statements, taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when the Directors' Report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the Group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Group's auditors in connection with preparing their report and to establish that the Group's auditors are aware of the information

On behalf of the Board



David Kaye
Company Secretary
3 June 2016

DIRECTORS' REMUNERATION

This report was prepared by the Remuneration Committee (The Committee) and approved by the Board for the financial year ending 31 March 2016

The Remuneration Committee members throughout the year were Anthony Dove (Chairman), Stanley Davis and Kim Taylor-Smith. The Committee meets when necessary to review the remuneration of the Executive Directors. It is also responsible for determining the fees of the Chairman. The Group Finance Director generally attends meetings of the Committee but takes no part in deliberations relating to his own position. The views of the Chief Executive are sought in respect of the other Executive Directors.

The Executive Directors abstain from any discussion or voting at full Board Meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package.

The Remuneration Committee's overall approach is focused on ensuring the Group's remuneration policy is aligned with shareholders' interests while also enabling the Group to attract, retain and motivate high quality executive management.

In making remuneration decisions, the Committee considers the Group's overall performance against its long-term objectives. For the year to 31 March 2016, the Group has delivered a positive performance as set out in the Strategic Report.

In setting the remuneration policy for the Executive Directors, the Committee takes into account the following:

- The need to attract, retain and motivate Executive Directors and senior management,
- Periodic external comparisons to examine current market trends and practices and equivalent roles in similar companies.

The key elements of the remuneration package for Executive Directors are as follows:

BASE SALARY

Base salary for each Executive Director is reviewed annually by the Committee, taking account of the Director's performance, experience and responsibilities. The Committee has regard to salary levels paid by UK listed companies of a similar size and nature. This approach ensures that the appropriate benchmark data is used. When determining Executive Directors' base salaries, the Committee also considers wider economic factors and the performance of the Group as a whole.

ANNUAL BONUS

The Committee's general policy is that Executive Directors should receive a bonus in relation to the achievement of stretching performance targets which reflect how well the Group has performed against budget. The Committee wishes to retain the flexibility to set bonus targets which reward outperformance against predetermined performance objectives and which reflect the needs of the business.

LONG-TERM INCENTIVES

The Group operates a Long Term Incentive Plan (the "Plan"). The purpose of the Plan is to motivate key individuals and to reward them for exceptional performance. Under the Plan each participant is allocated a number of shares. The vesting of shares under the Plan is subject to the achievement of performance targets.

PENSION PROVISION

Pension provision is provided by company contributions into a defined contribution scheme.

BENEFITS

The Group operates a policy whereby Executive Directors are provided with a cash alternative for health insurance and company cars as well as life assurance.

SERVICE CONTRACTS

The Committee's policy on service contracts for Executive Directors is that they should provide for termination of employment by either side giving either 6 months' or 12 months' notice.

DIRECTORS' REMUNERATION

Name	Contract date	Notice period
Neil Sinclair	8 September 2011	12 months
Stephen Silvester	2 April 2015	6 months
Richard Starr	24 September 2013	12 months

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Non-Executive Directors are engaged for fixed terms. These appointments are subject to the retirement by rotation provisions in the company's Articles of Association.

The effective dates of the letters of appointment for the current Non-Executive Directors are as follows:

Name	Effective date of letter of appointment	Date term due to expire
S Davis	26 July 2013	25 July 2016
A Dove	8 September 2014	7 September 2017
K Taylor-Smith	6 October 2014	5 October 2017

ANNUAL REPORT ON REMUNERATION

The following sections show how the policy described above was applied in 2015/2016.

SALARY

Salaries for Executive Directors at 31 March 2016 were as follows:

• Neil Sinclair	Chief Executive	£240,000
• Stephen Silvester	Group Finance Director	£130,000
• Richard Starr	Group Property Director	£90,000

The Chief Executive's salary was raised by £75,000 with effect from 1 April 2015 and by a further £15,000 with effect from 1 December 2015.

The Group Finance Director's salary was raised by £10,000 with effect from 1 December 2015. The Group Finance Director has agreed to salary sacrifice 10% of his salary to pay into his pension in addition to a 5% contribution by the company.

The Group Property Director's salary was raised by £15,000 with effect from 1 April 2015 and by a further £5,000 with effect from 1 December 2015.

On 25 May 2016 Richard Starr signed a variation to his service agreement following his agreement to become a full time executive with effect from 4 July 2016. His salary will be increased to £180,000 on 4 July 2016.

NON-EXECUTIVE DIRECTORS

The remuneration of the Non-Executive Directors is set by the Executive Directors. The policy of the Board is that the remuneration of the Non-Executive Directors should be consistent with the levels of remuneration paid by companies of a similar size. Non-Executive Directors receive an annual fee. They do not receive any performance related remuneration or pension contributions. Current fee levels are as follows:

Name	Role	Committee Chairman Role	Fee to 31 March 2016
S Davis	Chairman	Nomination	£30,000
A Dove	Senior Independent Director	Remuneration	£25,000
K Taylor-Smith	Non-Executive Director	Audit	£25,000

The Chairman and Non-Executive Directors do not have contracts of service but their terms are set out in letters of appointment.

PALACE CAPITAL NO. 1 SHARE OPTION SCHEME

Executives have in the past, been able to participate in the Share Option Scheme. This scheme is designed to encourage the matching of interests between management and shareholders. No awards under the scheme were made to Directors during the year. The Chairman and Chief Executive continue to participate by virtue of an award made in 2011, which may be exercised until 2021. Further details are provided in note 20 of the Group financial statements.

LONG TERM INCENTIVE PLANS (LTIP 2014 AND LTIP 2015)

Executives have been able to participate in the Group's LTIP. These schemes are designed to encourage the matching of interests between management and shareholders. An award of 120,268 shares was made on 8 December 2015. Further details are provided in note 22 of the Group financial statements.

A break down of the Directors' interests in the awards under the Long Term incentive plans are as follows:

Name	Date of Grant	LTIP 2014	LTIP 2015
Neil Sinclair	24 July 2014	238,866	–
	8 December 2015	–	64,864
Stephen Silvester	8 December 2015	–	26,351
Richard Starr	24 July 2014	119,433	–
	8 December 2015	–	18,243

The maximum performance share awards under the LTIP schemes are as follows:

- Neil Sinclair 100% of salary
- Stephen Silvester 75% of salary
- Richard Starr 75% of salary

BONUS

The Group's remuneration policy caps bonus payments to the Executive Directors as follows -

Name	Role	Annual Bonus	
		On target	Maximum
Neil Sinclair	Chief Executive	45%	75%
Stephen Silvester	Finance Director	30%	50%
Richard Starr	Executive Director – Head of Property	30%	50%

In determining the bonuses, the Executive Directors are measured against specific criteria.

In respect of the year ended 31 March 2016 the following bonuses have been awarded but are currently unpaid:

- Neil Sinclair – Chief Executive £54,000
- Stephen Silvester – Group Finance Director £32,500
- Richard Starr – Group Property Director £20,250

DIRECTORS' REMUNERATION

On 24 February 2016 the Board of the Company approved the introduction of the Palace Capital Deferred Bonus Plan. In accordance with the terms of the Plan up to 35% of any bonuses awarded may be deferred for a year and shares to the value of the deferred bonus amount allocated. The Executives will have a further year from the vesting date to exercise their options. In respect of the year ended 31 March 2016 the Deferred Bonus Plan has not been operated.

SUMMARY OF DIRECTORS' TOTAL REMUNERATION

Executive Directors	Salary 2016	Bonus 2016	Pension 2016	Taxable benefits 2016	LTIP 2016	Total 2016
Neil Sinclair	£230,000	£54,000	–	£14,800	£63,829	£362,629
Stephen Silvester	£84,000	£32,500	£12,788	£7,916	£7,427	£144,631
Richard Starr	£86,667	£20,250	–	–	£28,013	£134,930

Executive Directors	Salary 2015	Bonus 2015	Pension 2015	Taxable benefits 2015	LTIP 2015	Total 2015
Neil Sinclair	£129,167	£50,000	–	£14,800	£68,040	£262,007
Stephen Silvester	–	–	–	–	–	–
Richard Starr	£60,833	£15,000	–	–	£32,645	£108,478

Non Executive Directors	Fees 2016	LTIP 2016	Total 2016	Fees 2015	LTIP 2015	Total 2015
S Davis	£30,000	–	£30,000	£30,000	£1,375	£31,375
A Dove	£25,000	–	£25,000	£25,000	–	£25,000
K Taylor-Smith	£25,000	–	£25,000	£12,500	–	£12,500

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of Palace Capital plc for the year ended 31 March 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position and Parent Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Richard Levy (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London, UK

3 June 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Rental and other income	1	14,593	8,637
Non recoverable property costs	5b	(1,624)	(1,200)
Net rental income		12,969	7,437
Administrative expenses	5c	(2,048)	(1,439)
Operating profit before gains and losses on property assets and cost of acquisitions		10,921	5,998
Gains on revaluation of investment property portfolios		3,620	9,769
Profit on disposal of investment properties		290	178
Cost of acquisitions		(815)	(639)
Operating profit		14,016	15,306
Finance income	3	34	18
Finance expense	4	(2,298)	(1,416)
Profit before taxation		11,752	13,908
Taxation	7	(953)	107
Profit after taxation for the year attributable to owners of the parent		10,799	14,015
Other comprehensive income for the year		-	-
Total comprehensive income for the year		10,799	14,015
Attributable to the equity owners of the parent		10,799	14,015
EARNINGS PER ORDINARY SHARE			
Basic	8	43 9p	82 4p
Diluted		43 9p	82 0p

All activities derive from continuing operations of the Group. The Notes form an integral part of these financial statements.

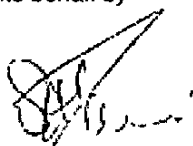
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

Company Registration Number 05332938

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	11	-	6
Investment properties	13	174,542	102,988
Property, plant and equipment	14	37	52
Deferred tax	7	334	500
Trade and other receivables	15	825	924
		175,738	104,470
Current assets			
Trade and other receivables	15	3,327	3,375
Cash at bank and in hand	16	8,576	12,278
		11,903	15,653
Total assets		187,641	120,123
Current liabilities			
Trade and other payables	17	(6,815)	(3,087)
Borrowings	18	(2,233)	(400)
Creditors amounts falling due within one year		(9,048)	(3,487)
Net current assets		2,855	12,166
Non-current liabilities			
Borrowings	18	(69,711)	(35,406)
Obligations under finance leases	20	(2,067)	(1,214)
Net assets		106,815	80,016
Equity			
Called up share capital	21	2,862	2,307
Share premium account		59,408	40,852
Merger reserve		3,503	3,503
Capital redemption reserve		65	65
Retained earnings		40,977	33,289
Equity – attributable to the owners of the parent		106,815	80,016
Basic NAV per ordinary share	9	414p	396p
Diluted NAV per ordinary share		414p	396p

These financial statements were approved by the Board of Directors and authorised for issue on 3 June 2016 and are signed on its behalf by



Stanley Davis, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital redemption reserve £'000	Convertible loan notes equity £'000	Retained earnings £'000	Total equity £'000
At 31 March 2014	1,529	21,856	–	65	28	20,898	44,376
Total comprehensive income for the year	–	–	–	–	–	14,015	14,015
Issue of ordinary share capital net of expenses	778	18,996	3,503	–	–	–	23,277
Share based payments	–	–	–	–	–	114	114
Dividends	–	–	–	–	–	(1,766)	(1,766)
Transfer on repayment of loan	–	–	–	–	(28)	28	–
At 31 March 2015	2,307	40,852	3,503	65	–	33,289	80,016
Total comprehensive income for the year	–	–	–	–	–	10,799	10,799
Issue of ordinary share capital net of expenses	555	18,556	–	–	–	–	19,111
Share based payments	–	–	–	–	–	110	110
Dividends	–	–	–	–	–	(3,221)	(3,221)
At 31 March 2016	2,862	59,408	3,503	65	–	40,977	106,815

For the purpose of preparing the consolidated financial statement of the Group, the share capital represents the nominal value of the issued share capital of Palace Capital plc

Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue amounting to £888,383 (2015 £795,684)

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006

The convertible loan note equity reserve represents the difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component at the date of issue

The capital redemption reserve represents the nominal value of preference shares capital redeemed

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Operating activities			
Net cash generated in operations	2	12,287	4,388
Interest received		34	18
Interest and other finance charges paid		(3,455)	(1,611)
Corporation tax paid in respect of operating activities		(158)	(14)
Net cash flows from operating activities		8,708	2,781
Investing activities			
Purchase of investment property		(21,689)	(305)
Payments to acquire subsidiary undertakings	12	(29,095)	–
Capital expenditure on refurbishment of investment property	13	(1,182)	(2,508)
Deposit paid on purchase of investment property		–	(1,000)
Proceeds from disposal of investment property		1,957	952
Purchases of property, plant and equipment	14	(3)	(61)
Net cash flow (used in)/from investing activities		(50,012)	(2,922)
Financing activities			
Other loans repaid		–	(300)
Bank loans repaid		(17,010)	(28,800)
Proceeds from new bank loans		38,282	18,500
Issue of new share capital		19,114	19,664
Dividends paid	10	(3,221)	(1,766)
Capital element of finance lease rental payments		(2)	(2)
Net cash flow from financing activities		37,163	7,296
Net increase in cash and cash equivalents		(4,141)	7,155
Cash and cash equivalents at beginning of the year		12,278	5,123
Cash acquired		439	–
Cash and cash equivalents at the end of the year		8,576	12,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

BASIS OF ACCOUNTING

The consolidated financial statements of the Group comprise the results of Palace Capital Plc ("the Company") and its subsidiary undertakings

The Company is quoted on the AIM market of the London Stock Exchange and is domiciled and registered in England and Wales and incorporated under the Companies Act 1985. The address of its registered office is 41 Chalton Street, London, NW1 1JD

The nature of the Company's operations and its principal activities are set out in the Strategic Report

BASIS OF PREPARATION

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. These financial statements are for the year ended 31 March 2016 and are presented in pounds sterling ("GBP")

The principal accounting policies adopted are set out below

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk

The Group has reasonable financial resources together with long term contracts with a wide range of tenants. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully

After making enquiries, and in accordance with the FRC's Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

NEW STANDARDS ADOPTED DURING THE YEAR

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 March 2016 year end and had no material impact on the financial statements

IAS 19 Amendments Defined Benefit Plans Employee Contributions

Annual Improvements to IFRSs 2010–2012 Cycle

Annual Improvements to IFRSs 2011–2013 Cycle

IFRIC 21 Levies Interpretation (Effective 17 June 2014)

Standards Issued But Not Yet Effective

At the date of authorisation of these financial statements the following Standards and Interpretations, some of which have not been endorsed by the EU, which have not been applied in these financial statements but were in issue but not yet effective

International accounting standards (IAS/IFRSs)

Endorsed by the EU

IAS27 Amendments Equity Method in Separate Financial Statements (Effective 1 January 2016)

IAS1 Amendments Presentation of Financial Statements - Disclosure initiative (Effective 1 January 2016)

Annual Improvements to IFRSs 2012–2014 Cycle (Effective 1 January 2016)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

IAS 16 and IAS 38 Amendments Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)

IFRS 11 Amendments Accounting for Acquisitions of Interests in Joint Operations (Effective 1 January 2016)

Not yet endorsed by the EU

IFRS 14 Regulatory Deferral Accounts (Effective 1 January 2016)

IFRS10 and IAS28 Amendments Sale or contribution of assets between an investor and its associate or joint venture (deferred indefinitely)

IFRS10, IFRS 12 and IAS 28 Amendments Investments Entities Applying the Consolidation Exemption (Effective 1 January 2016)

IAS12 Amendments Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)

IAS7 Amendments Disclosure Initiative (Effective 1 January 2017)

FRS15 Revenue from Contracts with Customers (Effective 1 January 2018)

IAS9 Financial Instruments (Effective 1 January 2018)

IFRS16 Leases (Effective 1 January 2019)

The Directors have not yet carried out an assessment of the impact on the financial statements of the Group

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Palace Capital plc and its subsidiaries as at the year end date

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls an entity when the Group is exposed to, or has variable returns from, its involvement with the entity and has the ability to affect those returns through its power over the entity. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group. Intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the Consolidated Financial Statements.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are deconsolidated on the date that control ceases.

Business combinations are accounted for under the acquisition method. Any excess of the consideration paid for the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

If the consideration is less than the fair value of the assets and liabilities acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Where the directors take the view that an acquisition of a subsidiary has similar attributes to that of an asset purchase rather than the purchase of a business, the value of the asset is treated as an addition to investment properties rather than as a business combination.

Revenue

Revenue is derived from property income and represents the value of accrued charges under operating leases for rental of the Group's investment properties. Revenue is measured at fair value of the consideration received. All income is derived in the United Kingdom.

Rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. Contingent rent reviews are recognised when such reviews have been agreed with tenants. Lease incentives and guaranteed rent review amounts are recognised as an integral part of the net consideration for use of the property and amortised on a straight-line basis over the term of lease.

Other income comprises surrender premium, insurance commission, property management fees and miscellaneous income and is accounted for on an accruals basis.

OPERATING PROFIT

Operating profit is stated before interest and tax.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provision of the instrument.

CONTRIBUTIONS TO PENSION SCHEMES

Defined Contribution Pension Scheme

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

INVESTMENT PROPERTIES

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs and thereafter are stated at fair value, which reflects market conditions at the balance sheet date. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the year in which they arise.

Investment properties are stated at fair value as determined by the Directors. The fair value of the Group's property portfolio is based upon external valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with International Valuation Standards. The fair value of each of the properties has been assessed by the directors. In determining the fair value of investment properties, the directors make use of historical and current market data as well as existing lease agreements.

Additions and disposals of investment properties are recognised in the accounts when contracts are completed.

OBLIGATIONS UNDER FINANCE LEASES

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Investment properties classified as held under finance leases are subsequently carried at their fair value.

OPERATING LEASES

Amounts payable under operating leases are charged directly to the Statement of Comprehensive Income on a straight line basis over the period of the lease. The aggregate costs of operating lease incentives provided by the Group are recognised as a reduction in rental income on a straight line basis over the lease term.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Fixtures, fittings and equipment 25% - 33% straight line

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

TRADE PAYABLES

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

EQUITY INSTRUMENTS

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of direct issue costs.

CURRENT TAXATION

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The government announced in the Summer 2015 budget the reduction in the corporation tax rate from the current 20% main rate in the tax year 2016 to 19% with effect from 1st April 2017 and to 17% from 1st April 2020.

DIVIDENDS TO EQUITY HOLDERS OF THE PARENT

Interim ordinary dividends are recognised when paid and final ordinary dividends are recognised as a liability in the period in which they are approved by the shareholders.

SHARE BASED PAYMENT

The Group has applied the requirements of IFRS 2 Share based payment to share options. The fair value of the share options are determined at the grant date and are expensed on a straight line basis over the vesting period.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that ultimately the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair values of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

EVENTS AFTER THE BALANCE SHEET DATE

Post year-end events that provide additional information about a company's position at the balance sheet date and are adjusting events are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Investment properties

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Statement of Financial Position. The investment property portfolio is carried at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in the accounting policies and note 13.

The Group has valued the investment properties at fair value. To the extent that any future valuation affects the fair value of the investment properties, this will impact on the Group's results in the period in which this determination is made.

Deferred tax

In determining the quantum of deferred tax assets to be recognised, judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity in assessing the recoverability of assets recognised.

Business combinations

In determining whether to account for a property acquisition in a special purpose vehicle as a business combination or as an acquisition of an investment property, management make an assessment based on the application of the IFRS 3 Business Combinations standard. Management make a professional judgement on the inputs, processes and outputs of the property prior to acquisition and whether these elements represent an acquisition of a fully functioning business or whether these are limited and represent solely an asset purchase.

Share based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models – which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life – and is expensed over the vesting period. Some of the inputs used are not market observable and are based on estimates derived from available data. The models utilised are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense. Judgement is also exercised in assessing the number of options subject to non market vesting conditions that will vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

1. SEGMENTAL REPORTING

For the purpose of IFRS 8, the chief operating decision maker ("CODM") takes the form of the three executive Directors (the Group's Executive Committee). The Group's Executive Committee are of the opinion that the business of the Group is as follows:

The principal activity of the Group was to invest in commercial real estate in the UK.

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is its Group's Executive Committee).

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. Additionally, information is provided to the Group's Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment properties located throughout England, predominantly regional investments outside London and comprises a diverse portfolio of commercial buildings. The Directors consider that these properties have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. In the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required by IFRS 8.

Revenue - type	2016 £'000	2015 £'000
Rents received from investment properties	11,375	8,181
Management fees & other income	46	456
Surrender premium	3,172	–
Total Revenue	14,593	8,637

No single tenant accounts for more than 10% of the Group's total rents received from investment properties.

The surrender premium resulted from the surrender of a lease by Gala (part of the Gala Coral Group) who held a lease until March 2028 on 28,000 sq ft at Sol Central, Northampton at a rental payable of £312,852 per annum. Gala paid to Palace Capital a cash sum of £3 million plus a proportion of a rates refund due to them to be relieved of any further liability for rent, service charge and rates.

2 RECONCILIATION OF OPERATING PROFIT

Reconciliation of operating profit to cash utilised in operations

	2016 £'000	2015 £'000
Profit before taxation	11,752	13,908
Finance income	(34)	(18)
Finance costs	2,298	1,416
Gains on revaluation of investment property portfolio	(3,620)	(9,769)
Profit on disposal of investment properties	(290)	(178)
Goodwill write off	6	–
Depreciation	18	10
Share based payments	110	114
Increase in receivables	(399)	(281)
Increase/(decrease) in payables	2,446	(814)
Net cash generated in operations	12,287	4,388

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £'000	2015 £'000
Bank interest received	34	18
	34	18

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Interest on bank loans	1,652	1,117
Loan arrangement fees	502	167
Interest on other loans	–	12
Interest on finance leases	144	120
	2,298	1,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

5 PROFIT FOR THE PERIOD

a) The Group's profit for the period is stated after charging the following

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets	18	10
Auditor's remuneration		
Fees payable to the auditor for the audit of the Group's annual accounts	42	28
Fees payable to the auditor for the audit of the subsidiary annual accounts	15	10
Fees payable to the auditor and its related entities for other services		
Corporate advisory services	98	50
Audit related assurance services	17	–
Tax services	13	–
	185	88

Amounts payable to BDO LLP in respect of audit and non-audit services are disclosed in the table above

b) The Group's property costs comprise the following

	2016 £'000	2015 £'000
Void property costs	1,511	614
Repairs and maintenance expenses	90	404
Legal and consultancy	23	45
Service charge expenses	–	137
	1,624	1,200

c) The Group's administrative expenses comprise the following

	2016 £'000	2015 £'000
Staff costs	803	508
Legal & professional fees	269	177
PR and marketing costs	201	113
Other overheads	135	82
Accounting and audit fees	133	86
Property management fees	122	163
Share based payments	110	114
Stock exchange costs	88	91
Consultancy and recruitment fees	84	8
Rent, rates and other office costs	79	87
Depreciation	18	10
Amortisation of goodwill	6	–
	2,048	1,439

6 EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows

	2016 £'000	2015 £'000
Non-Executive Directors' fees	80	68
Wages and salaries	640	368
Pensions	14	24
Social security costs	69	48
Share based payments	110	114
	913	622

The average number of employees of the company during the period was

	2016 £'000	2015 £'000
Directors and management	7	6
Administration	2	–
	9	6

Key management are the Group's directors. Remuneration in respect of key management was as follows

	2016 £'000	2015 £'000
Short-term employee benefits		
Emoluments for qualifying services	610	342
Social security costs	76	41
Pension	13	–
Share based payments	99	102
	798	485

The amounts set out above include remuneration in respect of the highest paid director as follows

	2016 £'000	2015 £'000
Short-term employee benefits		
Emoluments for qualifying services	299	194
Share based payments	64	68
	363	262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

7. TAXATION

	2016 £'000	2015 £'000
Current income tax charge	726	20
Tax underprovided in prior year	6	–
Deferred tax	221	(127)
Tax charge/(credit)	953	(107)

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	11,752	13,908
Based on profit for the period	2,350	2,921
Tax at 20.0% (2015: 21%)		
Effect of		
Expenses not deductible for tax purposes	163	134
Capital losses and indexation used in the period	(1,416)	(2,090)
Capital allowances in excess of depreciation	(77)	(253)
Other adjustments	47	40
Deferred tax not previously recognised	(76)	(127)
Utilisation of losses brought forward	297	–
Tax under provided in prior years	6	–
Trading losses used in the period	(341)	(732)
Tax charge/(credit) for the period	953	(107)

Deferred taxes at 31 March relates to the following

	2016 £'000	2015 £'000
Deferred tax assets		
Losses available to carry forward	334	500
Deferred tax asset	334	500

	2016 £'000	2015 £'000
Deferred tax asset – brought forward	500	100
Deferred tax (charge)/credit for the period	(221)	127
Deferred tax recognised on acquisition	55	273
Deferred tax asset – carried forward	334	500

At 31 March 2016, the Group had tax losses of £1,681,228 (2015 £3,110,762) available to carry forward to future periods. A deferred tax asset of £334,000 (2015 £500,000) has been recognised as it is expected to be utilised in the foreseeable future.

Capital allowances have been claimed on improvements to investment properties amounting to £13,846,721 (2015 £8,676,012). A deferred tax liability amounting to £1,872,057 (2015 £1,735,202) has not been recognised in the financial statements as it is expected that they will not reverse when the properties are disposed of.

A deferred tax liability on the revaluation of investment properties to fair value has not been provided as once the availability of capital losses, indexation allowances and the 1982 valuations for certain properties have been taken into account it is anticipated that no capital gains tax would be payable if the properties were disposed of at their fair value as the potential capital gains after indexation of approximately £9,700,000 are offset by potential losses of £13,500,000. As at 31 March 2016 the Group also had approximately £7,400,000 (2015 £6,900,000) of realised capital losses to carry forward.

8 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share has been calculated on profit after tax attributable to ordinary shareholders for the period (as shown on the Consolidated Statement of Comprehensive Income) and the weighted average number of ordinary shares in issue during the period (see below table).

Diluted earnings per share

Diluted earnings per share has been calculated on profit after tax attributable to ordinary shareholders for the period (as shown on the Consolidated Income Statement) and the diluted weighted average number of ordinary shares in issue during the period (see below table).

	2016 £'000	2015 £'000
Profit after tax attributable to ordinary shareholders for the period	10,799	14,015

	2016 No of shares	2015 No of shares
Weighted average number of shares for basic earnings per share	24,597,258	17,010,762
Dilutive effect of share options	20,730	80,082
Weighted average number of shares for diluted earnings per share	24,617,988	17,090,844

EARNINGS PER ORDINARY SHARE,

Basic	43 9p	82 4p
Diluted	43 9p	82 0p

EPRA and adjusted diluted earnings per share

The European Public Real Estate Association (EPRA) has issued Best Practices Recommendations, the latest update of which was issued in December 2014, which gives guidelines for performance measures.

EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains and losses on disposals, changes in fair value of financial instruments, associated close-out costs and share based-payments and one-off exceptional items. EPRA earnings is calculated on the basis of the basic number of shares in line with IFRS earnings as the dividends to which they give rise accrue to current shareholders and therefore it is more appropriate to use the basic number of shares. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised.

Palace Capital also report on an adjusted earnings measure which is based on recurring earnings after tax and on the basis of the basic number of shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

The EPRA and adjusted earnings per share for the period are calculated based upon the following information

	2016 £'000	2015 £'000
Profit after tax attributable to ordinary shareholders for the period	10,799	14,015
Costs of acquisition	815	639
Gains on revaluation of investment property portfolio	(3,620)	(9,769)
Profit on disposal of investment properties	(290)	(178)
EPRA earnings for the period	7,704	4,707
Surrender premium	(3,172)	-
Share based payment	110	114
Adjusted earnings after tax for the period	4,642	4,821
EPRA AND ADJUSTED EARNINGS PER ORDINARY SHARE,		
EPRA Basic	31 3p	27 7p
EPRA Diluted	31 3p	27 5p
Adjusted EPS Basic	18.9p	28 3p

9. NET ASSETS VALUE PER SHARE

EPRA NAV calculation makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. EPRA NAV is adjusted to take effect of the exercise options, convertibles and other equity interests and excludes the fair value of financial instruments and deferred tax on latent gains. EPRA NNAV measure is to report net asset value including fair values of financial instruments and deferred tax on latent gains.

The diluted net assets and the number of diluted ordinary issued shares at the end of the period assumes that all the outstanding options at the period end are exercised at the option price.

Net asset value is calculated using the following information

	2016 £'000	2015 £'000
Net assets at the end of the period	106,815	80,016
Effect of exercise of share options	109	109
Diluted net assets at end of the period	106,924	80,125
Exclude fair value of financial instruments & exclude deferred tax on latent capital gains	-	-
EPRA NAV	106,924	80,125
Include fair value of financial instruments & include deferred tax on latent capital gains	-	-
EPRA NNAV	106,924	80,125

	2016 £'000	2015 £'000
Number of ordinary issued shares issued at the end of the period	25,781,229	20,225,673
Dilutive effect of share options	20,730	16,308
Number of ordinary issued shares for diluted net assets per share	25,801,959	20,241,981

NET ASSETS PER ORDINARY SHARE

Basic	414p	396p
Diluted	414p	396p
EPRA NAV	414p	396p
EPRA NNNAV	414p	396p

10 DIVIDENDS

	Payment date	Dividend per share	2016 £'000	2015 £'000
2016				
Final dividend proposed	29 July 2016	9 00	-	-
Interim dividend	30 December 2015	7 00	1,805	-
Distribution of current year profit		16 00	1,805	-
2015				
Final dividend	31 July 2015	7 00	1,416	-
Interim dividend	30 December 2014	6 00	-	1,204
Distribution of prior year profit		13 00	1,416	1,204
2014				
Final dividend	31 July 2014	2 50	-	313
Interim dividend	7 May 2014	2 00	-	249
		4 50	-	562
Dividends reported in the Group statement of changes in equity			3,221	1,766

Proposed Dividends

	2016 £'000	2015 £'000
2016 final dividend 9p (2015 7p)	2,320	1,416

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 March 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

11 INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	--
At 1 March 2014 and 31 March 2015	6
Additions	-
At 31 March 2016	6
<hr/>	
	Goodwill £'000
Provision for diminution in value	
At 1 March 2014 and 31 March 2015	-
Provided in the year	6
At 31 March 2016	6
<hr/>	
Carrying value at 31 March 2016	-
Carrying value at 31 March 2015	6

12 BUSINESS COMBINATIONS

Acquisition in year ended 31 March 2016

O&H Northampton Limited

On 17 June 2015 the Group acquired 100% of the share capital of O&H Northampton Limited (O&H) for a consideration of £1. O&H is a property investment company owning Sol Central, a leisure complex in Northampton, which was acquired to expand the Group's property portfolio. Following the acquisition O&H changed its name to Palace Capital (Northampton) Limited.

	Carrying value at acquisition date £'000	Adjustments £'000	Fair value at acquisition date £'000
Investment properties	20,700	-	20,700
Receivables and prepayment	389	-	389
Deferred tax asset	55	-	55
Cash at bank and in hand	228	-	228
Payables and other creditors	(344)	-	(344)
Corporation tax	(128)	-	(128)
Accrued interest	(822)	-	(822)
Other loans	(3,441)	-	(3,441)
Bank loans	(16,637)	-	(16,637)
Net assets	-	-	-
Consideration			20,078
Payments of other loans and bank loans on acquisition			(20,078)
Net consideration			-
Goodwill on acquisition			-

The acquired subsidiary contributed £1,597,000 to the profit before tax of the Group

The deferred tax asset represents tax losses incurred in the period prior to our acquisition. No deferred tax has been recognised on the adjustments to fair value as a result of the historical cost of the investment properties exceeding their fair value.

The fair value of the investment properties at acquisition was based on a valuation performed at the time of the acquisition amounting to £20,700,000 obtained from DTZ Debenham Tie Leung Limited.

Acquisition related costs

The Group incurred acquisition related costs in respect of this transaction amounting to £413,115 related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in administrative expenses in the Group's consolidated income statement.

Gregory Projects (Halifax) Limited

On 11 March 2016 the Group acquired 100% of the share capital of Gregory Projects (Halifax) Limited (GPH) for a consideration of £1. GPH is a property investment company owning Broad Street Plaza, a leisure complex in Halifax, which was acquired to expand the Group's property portfolio. Following the acquisition GPH changed its name to Palace Capital (Halifax) Limited.

	Carrying value at acquisition date £'000	Adjustments £'000	Fair value at acquisition date £'000
Investment properties	–	24,180	24,180
Receivables and prepayment	144	–	144
Work in progress	24,180	(24,180)	–
Cash at bank and in hand	213	–	213
Payables and other creditors	(231)	–	(231)
Accrued interest	(84)	–	(84)
Other loans	(9,017)	–	(9,017)
Bank loans	(15,201)	–	(15,201)
Net assets	–	–	–
Consideration			9,017
Payments of other loans and bank loans on acquisition			(9,017)
Net consideration			–
Goodwill on acquisition			–

The acquired subsidiary contributed a loss of £121,000 to the profit before tax of the Group. The fair value of the investment properties at acquisition was based on the purchase price of the property as a result of the valuers having no clear comparable alternatives. The valuation performed at the year-end amounted to £24,000,000 and was obtained from Knight Frank. The fall in the value of the property in this period related to the increased stamp duty rates introduced by the government in its budget on 16 March 2016.

The fair value adjustment reclassifies the property as an investment property rather than a property held for resale following the change in management of the property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

Acquisition related costs

The Group incurred acquisition related costs of £401,491 related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in administrative expenses in the Group's consolidated income statement.

Effect on Group results of the acquisitions

If both these acquisitions had occurred on 1 April 2015, Group revenue would have been an estimated £16.7m and Group profit before tax would have been an estimated £13.0m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2015.

Dering Properties (Sutton) Limited

The acquisition of Dering Properties (Sutton) Limited was made on 17 August 2015. The directors have taken the view that this acquisition had similar attributes to that of an asset purchase rather than a business combination and therefore the value of the asset at the acquisition date amounting to £3,925,000 has been added to the additions within investment properties together with the costs of the acquisition amounting to £104,684.

Acquisition in year ended 31 March 2015

On 26 August 2014 the Group acquired 100% of the share capital of Property Investment Holdings Limited (PIH) for a consideration of £3,613,828. The consideration was satisfied by issuing 1,103,459 ordinary 10p shares at a fair value price of £3.275. PIH is a property investment company which was acquired to expand the Group's property portfolio.

	Carrying value at acquisition date £'000	Adjustments £'000	Fair value at acquisition date £'000
Investment properties	29,385	2,356	31,741
Tangible fixed assets	-	-	-
Deferred tax asset	-	273	273
Receivables and prepayment	26	279	305
Cash at bank and in hand	-	-	-
Payables and other creditors	(732)	-	(732)
Bank loans and overdraft	(27,973)	-	(27,973)
Deferred tax	(401)	401	-
Net assets	305	3,309	3,614
Consideration			3,614
Goodwill on acquisition			-

The acquired subsidiary contributed £4,102,851 to the profit before tax of the Group. If this acquisition had occurred on 1 April 2014, Group revenue would have been an estimated £9.7m and Group profit before tax would have been an estimated £14.4m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2014.

Deferred tax asset amounting to £273,029 was recognised as a fair value adjustment at the acquisition date being management's estimate, based on budgets and forecasts, of the future utilisation of tax losses of approximately £9m that were available to carry forward following the refinancing of the bank loans of the PIH which took place at acquisition. The deferred tax asset was increased to £500,000 at 31 March 2015 as a result of the restructuring of PIH and the repayment of £10m of intra group loans which has resulted in increasing the anticipated future annual profits of PIH.

No deferred tax has been recognised on the adjustments to fair value as a result of the historical cost of the investment properties exceeding their fair value.

The fair value of the investment properties at acquisition was based on a valuation performed at the time of the acquisition amounting to £32,020,000 obtained from DTZ Debenham Tie Leung Limited less a lease incentive balance which has been included in prepayments amounting to £278,901

A fair value adjustment to prepayments amounting to £278,901 was made to bring the revenue recognition policy of PIH into line with that of the Group so that the rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease

Acquisition related costs

The Group incurred acquisition related costs of £638,668 related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in administrative expenses in the Group's consolidated income statement

13. INVESTMENT PROPERTIES

	Freehold Investment Properties £'000	Leasehold Investment properties £'000	Total £'000
At 1 April 2014	41,620	17,820	59,440
Arising on acquisition of subsidiary undertaking	31,741	–	31,741
Additions – refurbishment	2,497	11	2,508
Additions – new properties	305	–	305
Gains on revaluation of investment property	9,180	589	9,769
Disposals	(775)	–	(775)
At 1 April 2015	84,568	18,420	102,988
Arising on acquisition of subsidiary undertakings	44,880	–	44,880
Additions – refurbishment	1,149	33	1,182
Additions – new properties	18,653	4,886	23,539
Gains on revaluation of investment properties	1,840	1,780	3,620
Disposals	(1,667)	–	(1,667)
At 31 March 2016	149,423	25,119	174,542

Investment properties are stated at fair value as determined by the Directors. The fair value of the Group's property portfolio is based upon external valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with International Financial Reporting Standard 13. The fair value of each of the properties has been assessed by the directors. In determining the fair value of investment properties, the directors make use of historical and current market data as well as existing lease agreements.

As a result of the level of judgement used in arriving at the market valuations, the amounts which may ultimately be realised in respect of any given property may differ from the valuations shown in the statement of financial position.

In addition to the gain on revaluation of investment properties included in the table above, realised gains of £290,525 (2015: £177,698) relating to investment properties disposed of during the year were recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

A reconciliation of the valuations carried out by the external valuers to the carrying values shown in the balance sheet was as follows

	2016 £'000	2015 £'000
Scanlans Consultant Surveyors LLP	2,017	2,260
Cushman & Wakefield LLP	147,174	65,215
DTZ Debenham Tie Leung Limited	-	35,280
Knight Frank	24,000	-
Directors valuation	250	-
Fair value	173,441	102,755
Adjustment in respect of minimum payment under head leases separately included as a liability in the balance sheet	2,076	1,220
Less lease incentive balance included in prepayments	(975)	(987)
Carrying value	174,542	102,988

Investment properties with a carrying value of £151,065,990 (2015 £101,768,108) are subject to a first charge to secure the Group's bank loans amounting to £72,678,233 (2015 £36,205,461)

The valuations of all investment property held by the Group is classified as Level 3 in the IFRS 13 fair value hierarchy as they are based on unobservable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

Valuation process

The valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgment and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

The executive director responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The key assumptions made in the valuation of the Group's investment properties are

- the amount and timing of future income streams,
- anticipated maintenance costs and other landlord's liabilities, and
- an appropriate yield

Valuation technique

The valuations reflect the tenancy data supplied by the Group along with associated revenue costs and capital expenditure. The fair value of the commercial investment portfolio has been derived from capitalising the future estimated net income receipts at capitalisation rates reflected by recent arm's length sales transactions.

31 March 2016	Significant unobservable inputs		
	Cushman & Wakefield	Knight Frank	Scanlans
Value of investment properties	£147,174,000	£24,000,000	£2,017,000
Area (sq ft)	1,710,355	114,274	22,820
Gross Estimated Rental Value	£12,559,734	£1,775,104	£196,910
Net Initial Yield			
Minimum	-6.9%	6.3%	8.3%
Maximum	13.4%	31.0%	10.5%
Weighted average	6.1%	7.0%	9.8%
Reversionary Yield			
Minimum	5.5%	6.9%	8.3%
Maximum	15.8%	6.9%	10.5%
Weighted average	6.7%	6.9%	9.8%
Equivalent Yield			
Minimum	3.2%	6.3%	8.3%
Maximum	12.1%	17.5%	10.5%
Weighted average	8.0%	7.5%	9.8%

Negative Net Initial Yields arise where properties are vacant or partially vacant and void costs exceed rental income.

31 March 2015	Significant unobservable inputs		
	Cushman & Wakefield	DTZ	Scanlans
Value of investment properties	£65,215,000	£35,280,000	£2,260,000
Area (sq ft)	1,095,327	301,392	22,820
Gross Estimated Rental Value	£6,703,332	£2,740,900	£195,653
Net Initial Yield			
Minimum	-6.4%	3.2%	7.5%
Maximum	13.8%	10.8%	10.0%
Weighted average	7.6%	6.5%	8.5%
Reversionary Yield			
Minimum	6.0%	5.9%	7.5%
Maximum	16.3%	9.6%	10.0%
Weighted average	6.4%	7.0%	8.5%
Equivalent Yield			
Minimum	0.9%	6.0%	7.5%
Maximum	13.5%	9.0%	10.0%
Weighted average	9.0%	7.2%	8.5%

Sensitivity of measurement to variations in the significant unobservable inputs

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross Estimated Rental Value	Increase	Decrease
Net Initial Yield	Decrease	Increase
Reversionary Yield	Decrease	Increase
Equivalent Yield	Decrease	Increase

The relationship between the unobservable inputs and their impact on the fair value measurement is not certain. Changes to the tenancies and/or income profile of an investment asset may also impact the fair value outside one or more of the above inter-relationships according to individual circumstances.

14 PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2014	1
Assets acquired	–
Additions	62
At 1 April 2015	63
Assets acquired	–
Additions	3
At 31 March 2016	66
Depreciation	
At 1 April 2014	–
Provided during the year	11
At 1 April 2015	11
Provided during the year	18
At 31 March 2016	29
Net book value at 31 March 2016	37
Net book value at 31 March 2015	52

15. TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Current		
Gross amounts receivable from tenants	2,727	1,938
Less provision for impairment	(243)	(90)
Net amount receivable from tenants	2,484	1,848
Other taxes	68	5
Deposit on purchase of investment property	–	1,000
Other debtors	37	27
Accrued income	150	63
Prepayments	588	432
	3,327	3,375

	2016 £'000	2015 £'000
Non-Current		
Accrued income	825	924
	825	924

Accrued income amounting to £975,000 (2015 £986,892) relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases

Movements in the provision for impairment of trade receivables were as follows

	2016 £'000	2015 £'000
Brought forward	90	89
Arising on acquisition	–	10
Utilised in the period	(11)	(33)
Provisions increased	164	24
	243	90

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows

	2016 £'000	2015 £'000
0-30 days	2,106	1,599
31-60 days	95	(34)
61-90 days	66	52
91 – 120 days	46	204
More than 120 days	171	27
	2,484	1,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

16. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2016 and 31 March 2015 are in sterling and held at floating interest rates

	2016 £'000	2015 £'000
Cash and cash equivalents	8,576	12,278

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value

17 TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Trade payables	638	242
Corporation tax	662	–
Other taxes	1,036	587
Other payables	67	21
Deferred rental income	2,605	1,843
Accruals	1,807	394
	6,815	3,087

18. BORROWINGS

	2016 £'000	2015 £'000
Current		
Bank loans	2,233	400
Non-current liabilities		
Bank loans	69,711	35,406
Total borrowings	71,944	35,806

	2016 £'000	2015 £'000
Non-current liabilities		
Secured Bank loans drawn	70,445	35,806
Unamortised lending costs	(734)	(400)
	69,711	35,406

The maturity profile of the Group's debt was as follows

	2016 £'000	2015 £'000
Within one year	2,233	400
From one to two years	17,068	20,003
From two to five years	53,377	15,803
	72,678	36,206

Facility and arrangement fees

As at 31 March 2016

Secured Borrowings	Margin over LIBOR %	Maturity date	Loan Balance £'000	Unamortised facility fees £'000	Facility drawn £'000
Santander Bank Plc	2.25%	Jun 2020	9,815	(150)	9,965
Lloyds Bank Plc	2.10%	May 2019	4,246	(66)	4,312
National Westminster Bank plc	2.50%	Mar 2021	21,734	(266)	22,000
Nationwide Building Society	2.45%	Nov 2020	19,796	(204)	20,000
Close Brothers Group plc	4.00%	Sep 2017	1,193	(7)	1,200
Barclays Bank plc	2.75%	Jul 2017	15,160	(41)	15,201
			71,944	(734)	72,678

As detailed in note 13 the bank borrowings are secured on investment properties with a carrying value of £151,065,990

The Group has an unused loan facility amounting to £8,000,000 (2015: £nil). Interest is charged on this facility at a rate of 1.25% and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited and Palace Capital (Properties) Limited.

The Group has chosen not to enter into any hedging to date as a result of the historically low interest rates and constantly monitors this approach to manage interest rate risk.

The Group has been in compliance with all financial covenants of the above facilities applicable throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

19. GEARING AND LOAN TO VALUE RATIO

The calculation of gearing is based on the following calculations of net assets and net debt

	2016 £'000	2015 £'000
Net asset value	106,815	80,016
Borrowings	71,944	35,806
Obligations under finance leases	2,067	1,214
Cash and cash equivalents	(8,576)	(12,278)
Net Debt	65,435	24,742
NAV Gearing	61.3%	30.9%

The calculation of bank loan to property value is calculated as follows

	2016 £'000	2015 £'000
Fair value of Property portfolio	173,441	102,755
Borrowings – Bank loans	72,678	36,205
Cash at bank	(8,576)	(12,278)
Net bank borrowings	64,102	23,927
Loan to value ratio	41.9%	35.2%
Net Loan to value ratio	37.0%	23.3%

20 LEASES

Operating lease receipts in respect of rents on investment properties are receivable as follows

	2016 £'000	2015 £'000
Within one year	12,165	8,269
From one to two years	10,734	6,984
From two to five years	24,987	12,999
From five to 25 years	44,204	12,139
After 25 years	685	693
	92,775	41,084

Operating lease payments in respect of rents on leasehold properties occupied by the Group are payable as follows

	2016 £'000	2015 £'000
Within one year	45	45
From one to two years	12	45
From two to five years	-	12
	57	102

Finance lease obligations in respect of rents payable on leasehold properties were payable as follows

	Minimum lease payments £'000	Interest £'000	2016 Present value of minimum lease payments £'000	2015 Present value of minimum lease payments £'000
Within one year	130	(128)	2	2
From one to two years	130	(128)	2	2
From two to five years	386	(380)	6	6
From five to 25 years	2,515	(2,447)	68	64
After 25 years	10,316	(8,327)	1,989	1,140
	13,477	(11,410)	2,067	1,214

The net carrying amount of the leasehold properties is shown in note 13

The Group has over 200 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise and vary considerably from short term leases of less than 1 year to longer term leases of over 10 years. A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs. All investment properties in the Group's portfolio generated rental income during the both the current and prior periods except for one property, with an investment value of £1.5m, which was vacant throughout the current year but had some rental income in the prior year. The direct operating costs for this property during the year ended 31 March 2016 amounted to £163,000.

21. SHARE CAPITAL

Authorised, issued and fully paid share capital is as follows:	2016 £'000	2015 £'000
25,781,229 Ordinary Shares of 10p each (2015 20,225,673)	2,578	2,023
315,937 Deferred Shares of 90p each (2015 315,937)	284	284
	2,862	2,307

Reconciliation of movement in ordinary share capital	2016 £'000	2015 £'000
At start of year	2,023	1,244
Issued in the year	555	779
At end of year	2,578	2,023

Year ending 31 March 2016

On 17 June 2015 the company issued 5,555,556 ordinary 10p shares at a price of £3.60. Issue costs amounting to £885,383 were incurred and have been deducted from the share premium account.

Year ending 31 March 2015

On 23 June 2014 79,665 warrants were exercised and as a result the company issued 79,665 ordinary 10p shares at a price of £2.00.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

On 26 August 2014 the company issued 6,451,612 ordinary 10p shares at a price of £3.10. Issue costs amounting to £795,684 were incurred and have been deducted from the share premium account.

In addition, on the same day the company issued 1,103,459 ordinary 10p shares in exchange for 100% of the share capital of Property Investment Holdings Limited. The fair value of these shares was £3.275 per share.

On 18 February 2015 150,000 warrants were exercised and as a result the company issued 150,000 ordinary 10p shares at a price of £2.00.

The Deferred Shares have the following rights and restrictions. As regards income the Deferred Shares shall not entitle the holders thereof to receive any dividend or other distribution unless and until the holders of the Ordinary Shares shall have received in aggregate amongst them the sum of £100,000,000 in respect of such dividend or distribution. As regards voting the Deferred Shares shall not entitle the holders thereof to receive notice of or to attend or vote at any General Meeting of the Company. As regards capital on a return of capital on a winding up the holders of Deferred Shares shall only be entitled to receive the amount paid up on such shares after the holders of the Ordinary Shares have received the sum of £1,000,000 for each Ordinary Share held by them and shall have no other right to participate in the assets of the Company.

Share options

Reconciliation of movement in outstanding share options	2016	2015
	No of options	No of options
At start of year	448,754	811,752
Issued in the year	120,268	-
Exercised in the year	-	(229,665)
Lapsed in the year	-	(133,333)
At end of year	569,022	448,754

As at 31 March 2016, the Company had the following outstanding unexpired options

Description of unexpired share options	No of options	2016	No of options	2015
		Weighted average Option price		Weighted average Option price
Senior executive plan (note 22)	549,972	13p	429,704	17p
Warrants issued to Nominated Advisors and Broker	19,050	200p	19,050	200p
Total	569,022	20p	448,754	25p
Exercisable	50,643	216p	19,050	200p
Not exercisable	518,379	0p	429,704	17p

Warrants issued to the Groups Nominated advisors and Broker

No new share options were issued to the Group's Nominated advisor or Broker during the year. The Group's Nominated advisor and Broker received 248,715 options in 2014 in exchange for part of the fee charged by the brokers for the share issue that occurred during that year and the directors considered the fair value of the service to be £50,000. These options were exercisable at a price of £2.00 per share.

No new share options were issued to the Group's Broker and none were exercised during the year (2015 issued none and exercised 229,665). The average share price at the date of exercise was £3.48 per share.

The weighted average remaining contractual life of the options outstanding at 31 March 2016 was 2 years (2015 2).

22 SHARE BASED PAYMENTS

Senior executive plan

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

	Number of options	Exercise price	Date from which exercisable	Expiry date
Outstanding at 31 March 2014 and 2015	429,704	17p		
Issued during the period (LTIP 2015)	120,268	0p	8 Dec 2018	8 Dec 2018
Outstanding at 31 March 2016	549,972	13p		

LTIP 2014

The options are awarded to management on achievements against target on two separate measures over the three financial years ending 31 March 2017. Half the options will be awarded based on the first target and half based on the achievement of the second.

Earnings per share (EPS) growth is based on a proforma profit after tax excluding property revaluations and disposal profits/losses for the financial year. This target will measure the compound growth in EPS over the three year period ending 31 March 2017.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 21 October 2013 to 31 March 2017. The base price being £2.00 per share which was the placing price on that day.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual EPS growth (compounded) over the EPS performance period	Vesting %
<20%	0	<15%	0
Equal to 20%	33.33	Equal to 15%	50
Equal to 25%	66.66	Equal to 30%	100
Equal to 30%	100		

For the TSR measure, the achievement of between 25 per cent and 30 per cent compound growth will result in the number of Ordinary shares vesting to be calculated on a straight line basis between 66.66 per cent and 100 per cent. A similar rule will apply between 20% and 25% and for the EPS condition between 15% and 30%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

LTIP 2015

The options are awarded to management on achievements against target on two separate measures over the three financial years ending 30 September 2018. Half the options will be awarded based on the first target and half based on the achievement of the second.

Net asset value per share (NAV) growth is based on the Company's EPRA NAV value per share as at 30 September 2018 adding back dividends per share paid during the period. This target will measure the compound growth in NAV over the three-year period ending 30 September 2018. The base price being £4.04 per share which was the value at the 30 September 2015.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 1 October 2015 to 30 September 2018. The base price being £3.70 per share which was the market price at the grant date.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual NAV growth (compounded) over the EPS performance period	Vesting %
<8%	0	<8%	0
Equal to 8%	33.33	Equal to 8%	33.33
Equal to 13%	100.00	Equal to 13%	100

For the TSR measure, the achievement of between 8 per cent and 13 per cent compound growth will result in the number of Ordinary shares vesting to be calculated on a straight line basis between 33.33 per cent and 100 per cent. A similar rule will apply for the NAV condition between 8% and 13%.

The fair value of grants was measured at the grant date using a Black-Scholes pricing model, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of the Black-Scholes pricing model are as follows:

Grant date	8.12.15
Exercise price	0p
Term	3 years
Expected volatility	25%
Expected dividend yield	4%
Risk free rate	1%
Expected forfeiture p a	0%

For the portion of the options subject to market conditions (TSR measure), it has been assessed that there was a likelihood of 50% the options vesting.

The fair value of the options granted was £1.65 for the TSR tranche and £3.30 for the NAV tranche.

The expense recognised for employee services received during the period is shown in the following table:

	2016 £'000	2015 £'000
Palace Capital No 1 share option scheme	-	5
LTIP 2014	77	109
LTIP 2015	33	-
Total expense arising from share-based payment transactions	110	114

23 RELATED PARTY TRANSACTIONS

Accounting services amounting to £75,633 (2015 £56,057) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a director

24 CAPITAL COMMITMENTS

The obligation for capital expenditure relating to the construction, development or enhancement of investment properties entered into by the Group at 31 March 2016 amounted to £1,435,985 (2015 £nil)

25 POST BALANCE SHEET EVENT

There have been no post balance sheet events that would require disclosure or adjustment to these financial statements

26 FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

All financial assets are classified as loans and receivables and all financial liabilities are measured at amortised cost.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk and liquidity risk.

The Group's senior management oversee the management of these risks, and the Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

Capital risk management

The Group considers its capital to comprise its share capital, share premium, other reserves and retained earnings which amounted to £106,815,113 at 31 March 2016 (2015 £80,015,514). The Group's capital management objectives are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

Within the subsidiaries of the Group, the business has covenanted to maintain a specified leverage ratio and a net interest expense coverage ratio, all the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed on pages 42 to 46 to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

Foreign currency risk

The Group has minimal exposure to the differing types of foreign currency risk. It has no foreign currency denominated monetary assets or liabilities and does not make sales or purchases from overseas countries.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2016 and 31 March 2015 were

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2016					
Trade and other receivables	2,521	-	-	-	2,521
Cash and cash equivalents	-	8,576	-	-	8,576
Trade and other payables	(2,512)	-	-	-	(2,512)
Bank borrowings	-	-	-	(71,944)	(71,944)
Obligation under finance leases	-	-	(2,067)	-	(2,067)
	9	8,576	(2,067)	(71,944)	(65,426)

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2015					
Trade and other receivables	2,875	-	-	-	2,875
Cash and cash equivalents	-	12,278	-	-	12,278
Trade and other payables	(658)	-	-	-	(658)
Bank borrowings	-	-	-	(35,806)	(35,806)
Obligation under finance leases	-	-	(1,214)	-	(1,214)
	2,217	12,278	(1,214)	(35,806)	(22,525)

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. The cash balances of the Group at the year end were around £8m (2015: £12m). The income statement would be affected by £80,000 (2015: £120,000) by a reasonably possible one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £72,678,000 (2015: £36,205,461) which have interest payable at rates linked to the 3 month Libor interest rates or bank base rates. A 1% increase in the Libor or base rate will have the effect of increasing interest payable by £726,780 (2015: £362,055).

The Group is therefore relatively sensitive to changes in interest rates. The directors regularly review its position with regard to interest rates in order to minimise the Group's risk.

Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group

The Group has its cash held on deposit with four large banks in the United Kingdom. At 31 March 2016 the concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £7,138,979 (2015 £12,075,426). Credit risk on liquid funds is limited because the counterparty is a UK bank with a high credit rating assigned by international credit rating agencies.

Credit risk also results from the possibility of a tenant in the Group's property portfolio defaulting on a lease. The largest lease amounts to 4.2% (2015 7.0%) of the Group's anticipated income. The directors assess a tenant's credit worthiness prior to granting leases and employ professional firms of property management consultants to manage the portfolio to ensure that tenants' debts are collected promptly and the directors in conjunction with the property managers take appropriate actions when payment is not made on time.

The carrying amount of financial assets (excluding cash balances) recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. The carrying amount of these assets at 31 March 2016 was £2,521,000 (2015 £2,874,983). The details of the provision for impairment are shown in note 15.

Liquidity risk management

The Group's policy is to hold cash and obtain loan facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet certain unforeseen obligations and opportunities. The Group holds cash to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a monthly cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans, term loans, loan notes, overdrafts and finance leases.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand £'000	0 – 1 years £'000	1 to 2 years £'000	2 to 5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2016						
Interest bearing loans	–	4,529	19,967	57,234	–	80,730
Finance leases	–	130	130	386	12,831	13,477
Trade and other payables	2,521	–	–	–	–	2,521
	2,521	4,659	20,097	57,620	12,831	96,728
As at 31 March 2015						
Interest bearing loans	–	1,696	20,961	16,974	–	39,631
Finance leases	–	87	87	261	8,023	8,458
Trade and other payables	658	–	–	–	–	658
	658	1,783	21,048	17,235	8,023	48,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

Derivative financial instruments

The Group does not currently use derivative financial instruments as hedging is not considered necessary. Should the Group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems, as approved by the Directors, will be implemented.

In accordance with IAS 39, "Financial instruments recognition and measurement", the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

Fair value measurements

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Financial assets				
Trade and other receivables	2,521	2,875	2,521	2,875
Cash and cash equivalents	8,576	12,278	8,576	12,278
	11,097	15,153	11,097	15,153
Current financial liabilities				
Trade payables	638	242	638	242
Other payables	67	21	67	21
Accruals	1,807	394	1,807	394
Borrowings – bank loans	71,944	35,806	71,944	35,806
Obligations under finance leases	2,067	1,214	2,067	1,214
	76,523	37,677	76,523	37,677

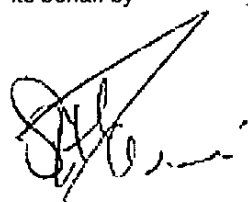
The directors consider that the fair value of the Group's financial instruments are not materially different to their carrying value. This view was formed on the basis that, as indicated in note 18 of the financial statements, the bank loans and the loan notes attracted a variable rate of interest and that the cash deposits, and trade payables and receivables, are short term in nature. Consequently, in accordance with paragraph 29(a) of IFRS 7, no fair value information has been disclosed and the information in paragraph 97 of IFRS 13 is not required.

COMPANY STATEMENT OF FINANCIAL POSITION

As of 31 March 2016

	Note	2016 £'000	2015 £'000
Non current assets			
Property, plant and equipment	4	37	51
Investments	3	39,483	14,770
Loans to subsidiary undertakings	3	35,650	23,014
		75,170	37,835
Current assets			
Trade and other receivables	5	11,402	6,318
Cash at bank and in hand		1,290	5,061
		12,692	11,379
Total assets		87,862	49,214
Current liabilities			
Creditors amounts falling due within one year	6	(858)	(56)
Net current assets		11,834	11,323
Net assets		87,004	49,158
Equity			
Called up share capital	7	2,862	2,307
Share premium account		59,408	40,852
Merger reserve		3,503	3,503
Capital redemption reserve		65	65
Retained earnings		21,166	2,431
Equity – attributable to the owners of the parent		87,004	49,158

The financial statements were approved by the Board of Directors and authorised for issue on 3 June 2016 and are signed on its behalf by



Stanley Davis

Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Capital redemption reserve £'000	Convertible loan notes equity £'000	Retained earnings £'000	Total equity £'000
At 31 March 2014	1,529	21,856	-	65	28	1,652	25,130
Total comprehensive income for the year	-	-	-	-	-	2,403	2,403
Issue of ordinary share capital net of expenses	778	18,996	3,503	-	-	-	23,277
Share based payments	-	-	-	-	-	114	114
Dividends	-	-	-	-	-	(1,766)	(1,766)
Transfer on repayment of loan	-	-	-	-	(28)	28	-
At 31 March 2015	2,307	40,852	3,503	65	-	2,431	49,158
Total comprehensive income for the year	-	-	-	-	-	21,846	21,846
Issue of ordinary share capital net of expenses	555	18,556	-	-	-	-	19,111
Share based payments	-	-	-	-	-	110	110
Dividends	-	-	-	-	-	(3,221)	(3,221)
At 31 March 2016	2,862	59,408	3,503	65	-	21,166	87,004

Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue amounting to £888,383 (2015 £795,684)

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006

The convertible loan note equity reserve represents the difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component at the date of issue

The capital redemption reserve represents the value of preference shares capital redeemed

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2016

ACCOUNTING POLICIES

Palace Capital plc is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Group's operations and its principal activities are set out in the strategic report. The financial statements of the Company have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

These financial statements are the first financial statements prepared under FRS 102 and information on the impact of first-time adoption of FRS 102 is given in note 10.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgement in applying the Company's accounting policies (as detailed below).

DIVIDENDS REVENUE

Revenue is recognised when the Company's right to receive payment is established, which is generally when shareholders approve the dividend.

VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Investments in unlisted company shares, which have been classified as fixed asset investments as the Group intends to hold them on a continuing basis, are held at cost less provision for any impairment.

CURRENT TAXATION

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The government announced in the Summer 2015 budget the reduction in the corporation tax rate from the current 20% main rate in the tax year 2016 to 19% with effect from 1st April 2017 and to 17% from 1st April 2020.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2016

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102

- No cash flow statement has been presented for the parent company,
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole,
- Disclosures in respect of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole, and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole

JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Investments and loans to subsidiary undertakings (see note 3)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings and the carrying value of the loans that the Company has made to them. The nature, facts and circumstance of the investment or loan are taken into account on assessing whether there are any indications of impairment.

1. PROFIT FOR THE FINANCIAL PERIOD

The company has taken advantage of section 408 of the Companies Act 2006 and consequently a profit and loss account for the company alone has not been presented.

The company's profit after tax for the year was £21,845,313 (2015 £2,403,685)

The company's profit for the financial year has been arrived at after charging auditor's remuneration payable to BDO LLP for audit services to the company of £42,500 (2015 £27,500). Fees payable to the auditor for the audit of subsidiary undertakings amounted to £15,000 (2015 £10,000) and for other services amounted to £128,000 (2015 £50,000).

2. TAXATION

	2016 £'000	2015 £'000
Current corporation tax charge	193	–
Deferred tax charge	–	100
Tax charge	193	100

3. INVESTMENTS

Cost:	Investment in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
At 1 April 2014	1,813	20,488	22,301
Acquisitions	3,614	–	3,614
Additions	348	12,526	12,874
Issue of new share capital	10,000	(10,000)	–
At 1 April 2015	15,775	23,014	38,789
Acquisitions	1,822	–	1,822
Additions	916	35,136	36,052
Issue of new share capital	22,500	(22,500)	–
At 31 March 2016	41,013	35,650	76,663
Provision for diminution in value			
At 1 April 2014	1,005	–	1,005
Provided during the year	–	–	–
At 1 April 2015	1,005	–	1,005
Provided during the year	525	–	525
At 31 March 2016	1,530	–	1,530
Net book value at 31 March 2016	39,483	35,650	75,133
Net book value at 31 March 2015	14,770	23,014	37,784

Loans to Subsidiaries

A loan amounting to £2,860,164 remains outstanding at 31 March 2016 (2015 £999,998) from Palace Capital (Leeds) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 8 May 2019.

A loan amounting to £2,950,000 remains outstanding at 31 March 2016 (2015 £nil) from Palace Capital (Northampton) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 14 June 2020.

A loan amounting to £13,539,432 remains outstanding at 31 March 2016 (2015 £nil) from Palace Capital (Developments) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 March 2018.

A loan amounting to £13,808,464 remains outstanding at 31 March 2016 (2015 £nil) from Palace Capital (Properties) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 11 March 2021.

A loan amounting to £2,491,765 remains outstanding at 31 March 2016 (2015 £nil) from Palace Capital (Halifax) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 July 2017.

Investment in Subsidiaries

Year ending 31 March 2016

On 17 June 2015 the Company acquired 100% of the share capital of O&H Northampton Limited for a cash consideration of £1. Following the acquisition the subsidiary changed its name to Palace Capital (Northampton) Limited.

On 17 August 2015 the Company acquired 100% of the share capital of Dering Properties (Sutton) Limited for a cash consideration of £902,619. Following the acquisition the subsidiary changed its name to Palace Capital (Sutton) Limited. On 26 January 2016 the subsidiary changed its name to Palace Capital (Properties) Limited.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2016

On 11 March 2016 the Company acquired 100% of the share capital of Gregory Projects (Halifax) Limited for a cash consideration of £1. Following the acquisition the subsidiary changed its name to Palace Capital (Halifax) Limited. Costs associated with this acquisition amounting to £401,491 were capitalised.

On 31 March 2016 the Company purchased an additional 3,000,000 ordinary £1 shares at par in Palace Capital (Leeds) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 4,000,000 ordinary £1 shares at par in Palace Capital (Northampton) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 4,000,000 ordinary £1 shares at par in Palace Capital (Properties) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 6,500,000 ordinary £1 shares at par in Palace Capital (Halifax) Limited in order to refinance the subsidiary.

On 31 March 2016 the Company purchased an additional 5,000,000 ordinary £1 shares at par in Palace Capital (Developments) Limited in order to refinance the subsidiary.

Year ending 31 March 2015

On 26 August 2014 the Company acquired 100% of the share capital of Property Investment Holdings Limited for a consideration of £3,613,828. The consideration was satisfied by issuing 1,103,459 ordinary 10p shares in the company at a fair value price of £3.275 per share.

On 31 March 2015 the Company purchased an additional 10,000,000 ordinary £1 shares at par in Property Investment Holdings Limited in order to refinance the subsidiary.

The company owns more than 20% of the following undertakings, all of which are incorporated in the United Kingdom unless shown otherwise.

	Class of share held	% shareholding	Principal activity
Subsidiary undertaking			
Palace Capital (Leeds) Limited	Ordinary	100	Property Investments
Palace Capital (Northampton) Limited	Ordinary	100	Property Investments
Palace Capital (Properties) Limited	Ordinary	100	Property Investments
Palace Capital (Developments) Limited	Ordinary	100	Property Investments
Palace Capital (Halifax) Limited	Ordinary	100	Property Investments
Palace Capital (Milton Keynes) Limited	Ordinary	100	Dormant
Hockenhull Estates Limited **	Ordinary	100	Property Investments
Quintain (Signal) Member A Limited	Ordinary	100	Holding
Quintain (Signal) Member B Limited*	Ordinary	100	Holding
Signal Property Investments LLP*	Member	100	Property Investments
Signal Investments LLP*	Member	100	Holding
Property Investment Holdings Limited	Ordinary	100	Property Investments
Meadowcourt Management (Meadowhall) Limited*	Ordinary	50	Property Management
Associate Company HBP Services Limited*	Ordinary	21.4	Property Management

*held indirectly

** Incorporated in Isle of Man

The Company's share of the net assets of HBP Services Limited at 31 December 2014 amount to £362 (2013: £308) and its profit for the year ended 31 December 2014 amounted to £54 (2013: loss £13).

4 PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2014	1
Additions	61
At 1 April 2015	62
Additions	3
At 31 March 2016	65
Depreciation	
At 1 April 2014	–
Provided during the period	11
At 1 April 2015	11
Provided during the period	17
At 31 March 2016	28
Net book value at 31 March 2016	37
Net book value at 31 March 2015	51

5 TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Current		
Amounts owed by subsidiary undertakings	10,377	5,150
Other debtors	28	27
Other taxes and social security	68	–
Accrued interest on amounts owed by subsidiary undertakings	865	1,124
Prepayments	64	17
	11,402	6,318

A loan amounting to £10,754 remains outstanding at 31 March 2016 (2015 2,502,094) from Property Investment Holdings limited. Interest on this loan is charged at a fixed rate of 5% per year and the loan is repayable on demand.

A loan amounting to £4,112,766 remains outstanding at 31 March 2016 (2015 £20,488,377) from Signal Property Investment LLP. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

A loan amounting to £70,000 remains outstanding at 31 March 2016 (2015 £150,000) from Hockenhull Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £6,183,515 remains outstanding at 31 March 2016 (2015 £4,000,000) from Quintain (Signal) Member A Limited. No interest is charged on this loan. This loan is repayable on demand.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2016

6 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£'000	£'000
Trade creditors	437	1
Other taxes	28	14
Corporation tax	193	–
Accruals and deferred income	200	41
	858	56

7. SHARE CAPITAL

The details of the Company's share capital are provided in note 21 of the notes to the consolidated financial statements

8. LEASES

Operating lease payments in respect of rents on leasehold properties occupied by the Company are payable as follows

	2016	2015
	£'000	£'000
Within one year	45	45
From one to two years	12	45
From two to five years	–	12
	57	102

9. POST BALANCE SHEET EVENT

There have been no post balance sheet events that would require disclosure or adjustment to these financial statements

10 FIRST TIME ADOPTION OF FRS 102 IN THE COMPANY FINANCIAL STATEMENTS

	Equity as at 1 April 2014	Profit for the year ended 31 March 2015	Equity as at 31 March 2015
	£'000	£'000	£'000
As stated under former UK GAAP	25,130	2,055	48,810
Transitional adjustment			
Adjustment to reflect the financing nature of intercompany loans	–	348	348
As stated in accordance with FRS 102	25,130	2,403	49,158

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting (Meeting) of the Company will be held at the offices of Hamlins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD at 10 00 a m on 6 July 2016

You will be asked to consider and vote on the resolutions below Resolutions 1 to 6 will be proposed as ordinary resolutions and resolutions 7 to 10 will be proposed as special resolutions

ORDINARY RESOLUTIONS

- 1 To receive the accounts and reports for the financial period ended 31 March 2016
- 2 To re-appoint MR STANLEY DAVIS as non-executive Chairman
- 3 To re-appoint MR ANTHONY DOVE as a non-executive director
- 4 To re-appoint BDO LLP as auditors of the Company and to authorise the directors to fix their remuneration
- 5 To declare a final dividend of 9p per ordinary share in respect of the period ended 31 March 2016 This dividend will be paid on 29 July 2015 to the holders of ordinary shares at close of business on 8 July 2016
- 6 That, in accordance with section 551 Companies Act 2006 (CA 2006), the directors of the Company are generally and unconditionally authorised, and in substitution for any previous authority to allot Relevant Securities (as defined in this resolution) comprising equity securities (as defined in section 560 CA 2006) up to an aggregate nominal amount of £859,374 30, such authority, unless previously revoked or varied by the Company in general meeting, to expire at the close of the Company's next annual general meeting, except that the directors of the Company may allot Relevant Securities pursuant to an offer or agreement made before the expiry of the authority In this notice, Relevant Securities means any shares in the capital of the Company and the grant of any right to subscribe for, or convert any security into, shares in the capital of the Company

AUTHORITY TO ALLOT

Section 551 of the Companies Act 2006 provides that the directors of a company cannot issue new shares in its capital without the approval of the shareholders Accordingly, the purpose of this resolution is to give the directors of the Company authority to issue new shares in the capital of the Company up to a maximum nominal amount of £859,374 30 (representing approximately one third of the issued ordinary share capital of the Company as at the date of this notice) This resolution will allow the directors of the Company flexibility to act in the best interests of the Company and its shareholders by issuing new shares in appropriate circumstances

SPECIAL RESOLUTIONS

- 7 That, subject to and conditional on the passing of resolution 6, the Board be authorised to allot equity securities (as defined in the Companies Act 2006) for cash under the

authority given by that resolution and/or to sell ordinary shares of 10 pence each in the capital of the Company (Ordinary Shares) held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be limited

- 7 1 to allotments for rights issues and other pre-emptive issues in favour of ordinary shareholders where their holdings are proportionate, as nearly as possible to the respective number of shares held, or deemed to be held by them, but subject to any exclusions or arrangements the directors think necessary or expedient for dealing with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory, and
- 7 2 to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 7 1 of this resolution above) up to a nominal value of £128,906 14 such authority to expire at the end of the next annual general meeting of the Company but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired

DISAPPLICATION OF PRE-EMPTION RIGHTS

If shares are to be allotted by the Company, Section 561 of the Companies Act 2006 requires that except to the extent dis-applied by shareholders, those shares be offered first to existing shareholders in proportion to their shareholdings However it may sometimes be in the interests of the Company for the directors to have greater flexibility

The Directors have elected to follow the approach recommended as good practice by the Pre-Emption Group in proposing resolutions to disapply pre-emption rights, which consists of two resolutions as follows

Resolution 7 – to disapply pre-emption rights on up to five per cent of the issued share capital, and

Resolution 8 – to disapply pre-emption rights for an additional five per cent for transactions which the Board determines to be an acquisition or other specified capital investment Acquisition and specified capital investments are defined by the Statement of Principles as one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the listed company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return Items that are regarded as operating expenditure rather than capital expenditure will not typically be regarded as falling within the term "specified

NOTICE OF ANNUAL GENERAL MEETING

capital investment” This greater freedom to execute non-pre-emptive issues of equity securities in connection with an acquisition or specified capital investment is intended to allow companies the opportunity to finance expansion opportunities as and when they arise

The Company is seeking to follow this recommended approach by proposing these resolutions in the prescribed form When an additional five per cent disapplication authority is used, the Company will disclose in the relevant placing announcement the circumstances that have led to its use and detail the consultation process undertaken by the Company

8 That, subject to and conditional on the passing of resolution 6, the Board be authorised in addition to any authority granted under resolution 7 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell Ordinary Shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be

8.1 limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £128,906 14, and

8.2 used only for the purposes of financing (or refinancing, if the authority is to be used within 6 months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, such authority to expire at the end of the next annual general meeting but prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired

9 THAT the Company be, and it is hereby, generally and unconditionally authorised for the purpose of sections 693 and 701 of the Companies Act 2006 (Act) to make one or more market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares upon such terms and in such manner as the Directors of the Company shall determine, provided that

- a The maximum aggregate number of Ordinary Shares authorised to be purchased is 2,578,122 (representing approximately 10 per cent of the Company's total issued ordinary share capital),
- b The minimum price which may be paid for each such Ordinary share is 10 pence (exclusive of expenses),
- c The maximum price (exclusive of expenses) which may be paid for each such Ordinary Share is an amount equal to the higher of

- i An amount equal to 105 per cent of the average of the closing middle market price for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to the day the purchase is made, and

- ii the price stipulated by Article 5(1) of Commission Regulation (EC) No 2273/2003 (the Buy-back and Stabilisation Regulation),

d unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or, if earlier, the expiry of a period of 15 months from the date of the passing of this resolution, and

e the Company may make a contract to purchase Ordinary Shares under this authority prior to its expiry which will or may be executed wholly or partly after such expiry and may make a purchase of Ordinary Shares in pursuance of any such contract

10 That subject to confirmation of the court, the issued share capital of the Company be reduced by £284,344 20 by cancelling and extinguishing all 315,938 issued Deferred Shares of £0 90 each in the Company each of which is fully paid up and the amount by which the share capital is so reduced be credited to the capital redemption reserve of the Company

The resolution seeks approval to carry out a reduction of the Company's share capital by way of cancellation of the Deferred Shares

The Company's issued share capital includes 315,938 Deferred Shares The nominal value of the Deferred Shares is part of the capital of the Company and therefore not distributable

The Deferred Shares were created as a result of the reorganisation of the Company's share capital on 18 October 2013 when each issued ordinary share of £0 01 was consolidated and converted into one new Ordinary Share of £0 10 and one Deferred Share of £0 90 The Deferred Shares carry no voting or dividend rights and only very limited rights to participate in the capital of the Company upon a winding-up These rights are such as to make the Deferred Shares virtually worthless in the hands of the holder However, in the Company's books the capital paid up on the Deferred Shares represents £284,244 20, being the aggregate nominal value of all the Deferred Shares Cancelling the Deferred Shares with the prior approval of Shareholders by way of a special resolution and the subsequent approval of the Court will remove them from the Company's balance sheet and permit an amount of £284,244 20 to be released to the Special Reserve, which may then be used to reduce or eliminate losses (if

any) arising on the profit and loss account, and will also be retained for the protection of the Company's creditors that are in existence as at the date of the Capital Reduction

Article 8 of the Articles set out the rights of the Deferred Shares and gives the Company authority (subject to the Act) to cancel any Deferred Share without making payment to the holder. In accordance with Article 8.1.5 of the Articles, the cancellation of the Deferred Shares pursuant to a reduction of capital for no consideration will not constitute a variation of the rights attaching to the Deferred Shares. Consequently, the Capital Reduction can be approved without the approval of the holders of the Deferred Shares. Additionally, Article 8.1.4 provides that the Company can appoint a person to execute a transfer on behalf of the holders of the Deferred Shares and such transfer has been completed by the Company.

CAPITAL REDUCTION – PROCEDURE

If resolution 10 is duly passed, it is the intention of the Company thereafter to apply to the Court for confirmation of the Capital Reduction. The Capital Reduction will then take effect when an order of the Court confirming the Capital Reduction and a statement of capital approved by the Court has been registered with the Registrar of Companies. The actual date of the Court hearing to confirm the Capital Reduction will be advertised in a national newspaper, as directed by the Court, at least 7 days prior to the second of these Court hearings.

In order to approve the Capital Reduction, the Court will need to be satisfied that the interests of the creditors of the Company as at the date the Capital Reduction takes effect will not be prejudiced.

The Directors reserve the right (where necessary by application to the Court) to abandon, discontinue or adjourn any application to the Court for confirmation of the Capital Reduction if the Directors believe that the terms required to obtain confirmation are unsatisfactory to the Company or if, as the result of a material unforeseen event, the Directors consider that to continue with the Capital Reduction would be inappropriate or inadvisable.

The explanatory notes in italics do not form part of the resolution to which they respectively refer.

BY ORDER OF THE BOARD

David M Kaye
Company Secretary
Date 3 June 2016

Registered office.
41 Chalton Street,
London,
NW1 1JD

NOTICE OF ANNUAL GENERAL MEETING

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

Entitlement to attend and vote

- 1 Only those members registered on the Company's register of members at
 - 10 00 a m on 4 July 2016, or,
 - if this Meeting is adjourned, at 48 hours (excluding any part of a day that is not a working day) prior to the adjourned Meeting, shall be entitled to attend and vote at the Meeting

Attending in person

- 2 If you wish to attend the Meeting in person, please arrive at the offices of Hamblins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD (the nearest underground station is Oxford Circus) at 09 30 a m on 6 July 2016 (commencement of registration), the Meeting will commence at 10 00 am Please bring this notice with you Representatives of corporate shareholders will have to produce evidence of their proper appointment when attending the Meeting Please contact the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, if you require further guidance on this

Appointment of proxies

- 3 If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form
- 4 If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section Please read the section "Nominated persons" below
- 5 A proxy does not need to be a member of the Company but must attend the Meeting to represent you Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them
- 6 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares You may not appoint more than one proxy to exercise rights attached to any one share To appoint more than one proxy,

please contact the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

- 7 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting

Appointment of proxy using hard copy proxy form

- 8 The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote

To appoint a proxy using the proxy form, the form must be

- completed and signed,
- sent or delivered to Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, and
- received by Capita Asset Services no later than 10 00 am on 4 July 2016

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form

Appointment of proxies through CREST

- 9 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>) CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual The message must be transmitted so as to be received by the issuer's agent (IDRA10) by 10 00 am on 4 July 2016 For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by

the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

- 10 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

- 11 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions, any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

- 12 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Asset Services no later than 10.00 am on 4 July 2016.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

- 13 A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

OFFICERS AND PROFESSIONAL ADVISORS

Directors

Stanley Davis	Non-executive Chairman
Neil Sinclair	Chief Executive
Stephen Silvester	Finance Director
Richard Starr	Executive Director
Anthony Dove	Non-executive Director
Kim Taylor-Smith	Non-executive Director

Secretary

David Kaye F C I S

Registered Office

41 Chalton Street
London
NW1 1JD

Registered Number 05332938
(England and Wales)

Business Address

Malta House, 36-38 Piccadilly
London
W1J 0DP

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Nominated Adviser and Broker

Allenby Capital Limited
3 St Helen's Place
London
EC3A 6AB

Joint Broker

Arden Partners plc
125 Old Broad Street
London
EC2N 1AR

Solicitors

Hamlins LLP
Roxburghe House
273-287 Regent Street
London
W1B 2AD

Nabarro LLP
1 South Quay
Victoria Quays
Sheffield
S2 5SY

Walker Morris LLP
Kings Court
12 King Street
Leeds
LS1 2HL

Bankers

National Westminster Bank Plc
16 The Boulevard
Crawley
West Sussex
RH10 1XU

Lloyds Bank plc
Ground Floor
10 Gresham Street
London
EC2V 7AE

Barclays Bank PLC
69 Albion Street
Leeds
LS1 5AA

Natnwide Building Society

Kings Park Road
Moulton Park
Northampton
NN3 6NW

Santander UK plc
One Dover Street
London
W1S 4LA

Close Brothers Limited
10 Crown Place
London
EC2A 4FT



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