



PALACE CAPITAL plc

**The Regional Property
Investment Company**

**Annual Report
& Accounts
2018**



Stock Code: PCA
www.palacecapitalplc.com

Palace Capital is a property investment company that focuses on commercial real estate outside London

Our strategy is to build a diversified portfolio with sector leading income and capital returns, through opportunistic corporate and direct property acquisitions and value added asset management.



Palace Capital completed its move from the AIM to the Main Market in March 2018

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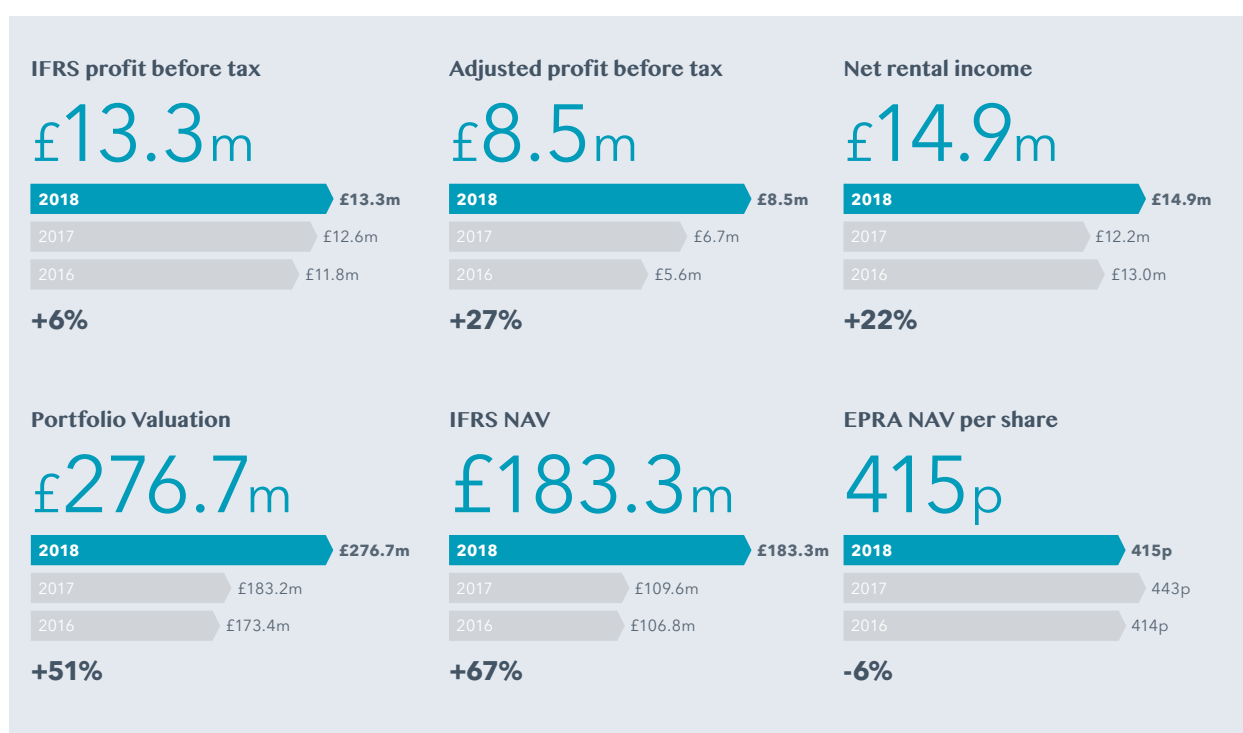


For more information
www.palacecapitalplc.com

HIGHLIGHTS

Results show an IFRS profit before tax of £13.3m and a net asset value of £183.3m

FINANCIAL HIGHLIGHTS



- IFRS profit before tax: increased by 6% to £13.3m (31 March 2017: £12.6m) reflecting a combination of recurring earnings, revaluation gains and profit on disposals.
- Adjusted profit before tax: increased by 27% to £8.5m (31 March 2017: £6.7m).
- Net rental income: increased by 22% to £14.9m (31 March 2017: £12.2m).
- Portfolio valuation at 31 March 2018*: increased by 51% to £276.7m (31 March 2017: £183.2m) reflecting +3.5% like-for-like growth in the existing portfolio and net acquisitions including the £68m transformational acquisition of the RT Warren Portfolio.
- IFRS Net Asset Value: increased by 67% to £183.3m (31 March 2017: £109.6m) reflecting £70m equity raised in the year.
- EPRA NAV per share: decreased by 6% to 415p at 31 March 2018 (31 March 2017: 443p) due to the one-off dilution from the £70m equity raise at 340p. From a proforma base of 389p post fundraise, EPRA NAV per share subsequently increased by 7% at 31 March 2018.
- Basic EPS: decreased marginally to 35.9p (31 March 2017: 36.6p).
- Adjusted EPS: decreased marginally to 21.2p (31 March 2017: 22.2p).
- Final dividend: 4.75p proposed, making a total for the year of 19.0p, a 3% increase (31 March 2017: 18.5p) and 1.1x covered by adjusted earnings.

* Includes investment properties and assets held for sale.

The Group financial statements are prepared in accordance with IFRS. Alternative performance measures are not specified under IFRS but are widely used by the property sector as they highlight the underlying recurring performance of the Group's property rental business and are based on EPRA Best Practice Recommendations (BPR) reporting framework. Further details and reconciliations between EPRA measures, company adjusted measures and IFRS equivalents can be found in notes 8 and 9 in the financial statements.

OPERATIONAL HIGHLIGHTS

Acquisition of RT Warren Portfolio – October 2017



EQUITY RAISED

£70.0m

EQUITY PLACING

- Successful £70.0m equity raise to fund RT Warren acquisition in October 2017.

RENT ROLL

£3.7m p.a.

- 20.6m new shares issued at 340p.
- £68m consideration.

WAULT *

4.5 years

* Weighted average unexpired lease term to break

- 21 commercial and 65 residential properties acquired.

Acquisition of St James Gate – August 2017



- Freehold multi let office building of 82,500 sq ft and 16,500 sq ft of retail space.

- City centre location, close to the railway station.

CORPORATE ACQUISITION

£20.0m

RENT ROLL

£1.8m p.a.

WAULT

4.3 years

Main Market move completed in March 2018



- There was strong support from investors to commence the move to the Main Market following the placing in October 2017.
- The management team successfully completed the transition within six months of the placing.
- Palace will join the FTSE Small Cap Index and FTSE All Share Index on 18 June 2018.

AT A GLANCE

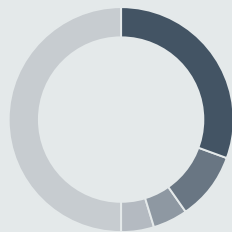
Regional focus outside London with a diversified portfolio providing enhanced returns

Commercial Portfolio Overview

Palace Capital aims to maximise shareholder value through enhancing income returns, reducing void costs and increasing capital value through strategic refurbishment and development. The majority of properties are held for the long-term, providing sustainable rental income supporting our progressive dividend policy.

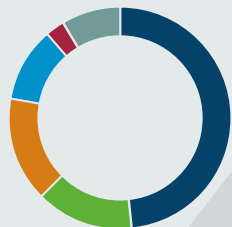
Geography

- North East (30.6%)
- North West (9.8%)
- Midlands (4.9%)
- South West (4.9%)
- South East (49.8%)



Sectors

- Office (48.5%)
- Industrial (13.2%)
- Leisure (15.2%)
- Retail (10.9%)
- Retail Warehouse (4.1%)
- Residential (8.1%)



Residential Portfolio Overview

Palace Capital also owns a residential portfolio available for sale consisting of 60 houses in Greater London.



OFFICE

Number of properties

32



INDUSTRIAL

Number of properties

13



LEISURE

Number of properties

2



RETAIL

Number of properties

11



RETAIL WAREHOUSE

Number of properties

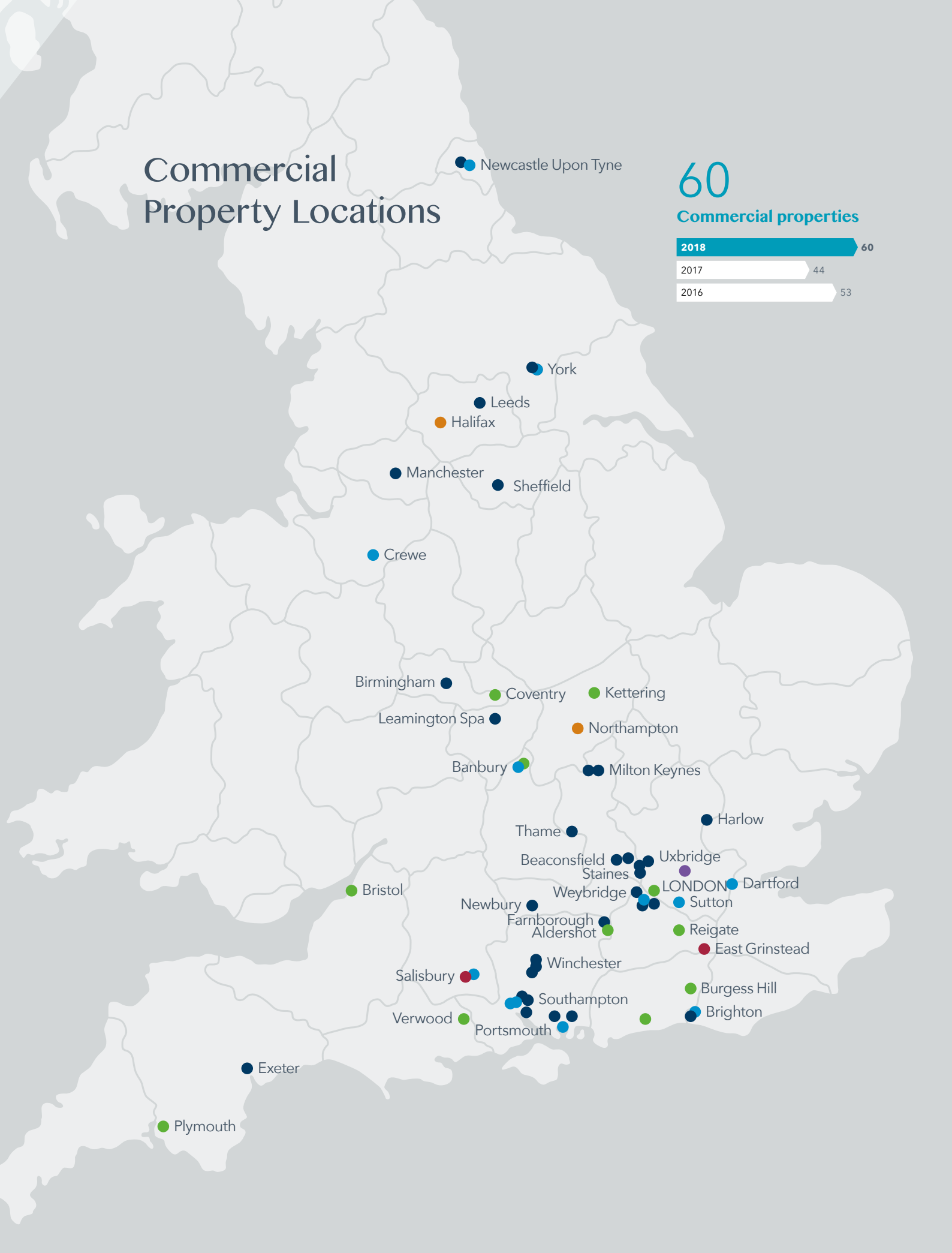
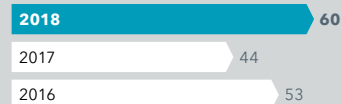
2



Commercial Property Locations

60

Commercial properties



OUR STORY SO FAR

Over the past five years Palace Capital has established an enviable record of building a quality regional portfolio now valued at over £276m

JULY
2010

Management took Board control of the Company valued at £0.1m with a vision to invest in the regional property market.

OCTOBER
2013

Sequel portfolio consisting of 24 properties across office, industrial and retail sectors acquired for £39.25m.

Equity raised

£23.5m
at 200p

AUGUST
2014

Property Investment Holdings portfolio acquired for £32m consisting of 17 commercial properties across office, industrial and retail sectors.

Equity raised

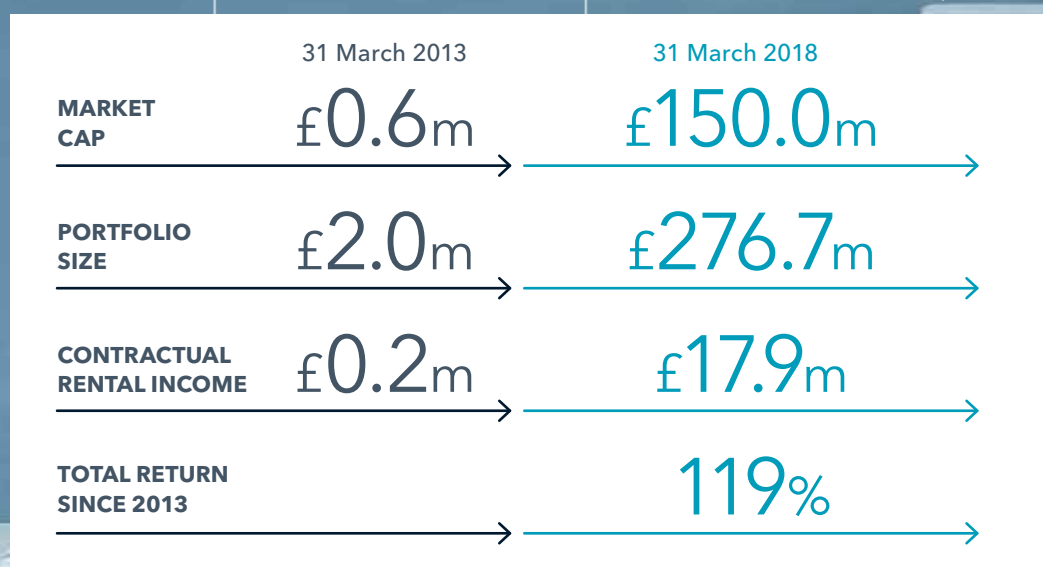
£20m
at 310p

JUNE
2015

Sol Central in Northampton acquired for £20.7m.

Equity raised

£20m
at 360p



2015/
2017

Six individual property acquisitions at values ranging between £4m and £24m focused in the office and leisure sectors. Locations included Halifax, Leeds, Manchester, Milton Keynes, Sutton and Newcastle.

OCTOBER
2017

Acquisition of the RT Warren Portfolio costing £68m and consisting of 21 commercial and 65 residential properties.

Equity raised

£70m
at 340p

MARCH
2018

Completed move from the AIM to a Premium Listing on the Main Market of the London Stock Exchange.



INVESTMENT CASE

A track record of out-performing the UK real estate sector

What makes us different?

The right sectors in the right locations at the right price

Our £276.7 million property portfolio is invested in areas of the UK that offer good prospects for income and value growth. The team specialises in 'off-market' corporate acquisitions which are tax efficient and have minimal purchase costs to absorb. We remain disciplined in our asset selection, leveraging our strong and extensive property relationships.

Diversified outside London

The portfolio has grown significantly over the last five years. It is diversified by location, sector and tenants, with a strong focus on the office, industrial and leisure sectors.

Demand for office and industrial space outside London remains high and, with limited supply, this is creating good demand/supply dynamics and prospects for rental growth. The yield differential between London and the regions remains positive with limited development creating upward pressure on rents in growth locations.

Entrepreneurial & opportunistic approach

We are entrepreneurial and opportunistic in our approach to stock selection. We are not restricted to one sector and evaluate each opportunity on its own merits which limits our exposure to market fluctuations.

Active asset management securing growing income

Palace Capital operates a total return model and income is a key component of this, particularly as real estate has already benefitted from significant capital returns from market yield compression. We apply innovative asset management strategies in order to unlock potential and grow sustainable cash returns.

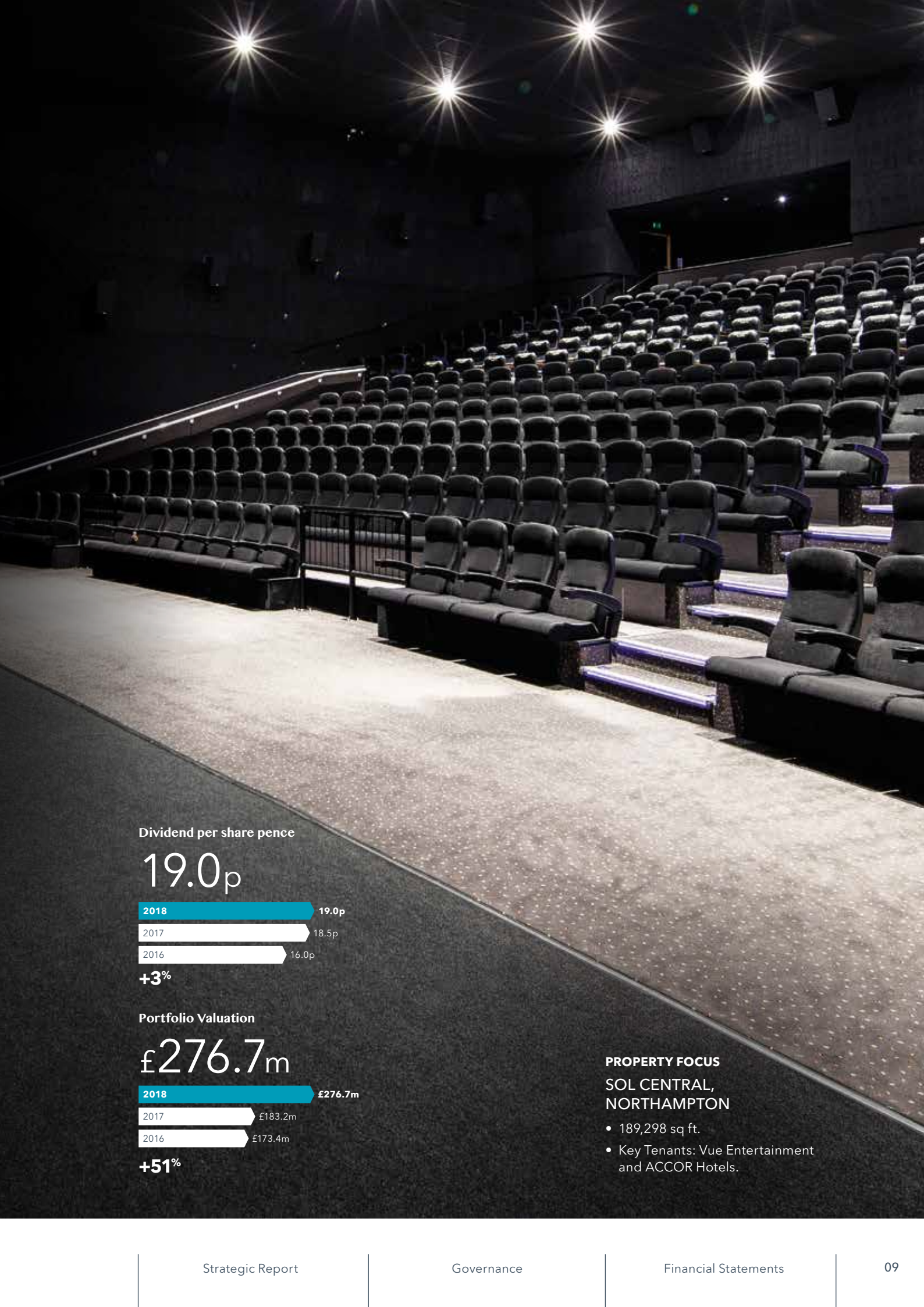
Value growth

Our focus is on growing, strengthening and lengthening our income and creating assets that are well positioned for the future. Property refurbishments, developments and planning permissions are achieved to reposition assets to maximise value.

We have established a core portfolio of sustainable income producing assets which has enabled us to reward investors with a progressive dividend. Furthermore, we also have the flexibility to re-invest surplus cash to refurbish, reposition and recycle property to grow the underlying capital values of the existing portfolio.

Experienced and aligned management team

The management team has strong relationships across the UK regions and extensive property and financial backgrounds. Management has a strong alignment of interest with shareholders through its c5% shareholding in Palace Capital and Performance Share Plan.



Dividend per share pence

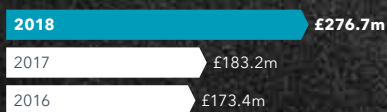
19.0p



+3%

Portfolio Valuation

£276.7m



+51%

PROPERTY FOCUS
SOL CENTRAL,
NORTHAMPTON

- 189,298 sq ft.
- Key Tenants: Vue Entertainment and ACCOR Hotels.

MARKET OVERVIEW

Regional economic and business fundamentals provide an attractive foundation for commercial property investment

The Palace Capital portfolio is located in many of the major towns and cities of the UK outside Central London, where rents are rising and demand remains robust

Characteristics of the regional commercial real estate market

- **Regional economic growth**
- **Consistent low unemployment**
- **Limited new build office space**
- **Rising rents**
- **Less exposed to financial services than Central London**
- **Reduction in office stock due to Permitted Development Rules (PDR)**

No. of properties (excluding residential)

60

Portfolio Valuation

£276.7m

Current Occupancy

90%

Favourable economic backdrop

The Directors believe that a significant opportunity exists in the UK commercial property sector outside London owing to an increasing shortage of both office and industrial properties in many regional towns and cities. Although conditions vary between different towns and cities, the shortage of new office development outside Greater London and in other major cities in the past 5 years coupled with the conversion of offices to residential properties under Permitted Development Rules (PDR) has reduced supply at a time when occupiers are increasingly reluctant to pay the relatively high rentals in London.

Following the turmoil in financial markets in 2007, the property sector suffered from a collapse in confidence amongst investors, uncertainty amongst tenants and an unwillingness by clearing banks to lend. Between June 2007 and June 2009 there was a fall of 44.2 per cent. in the IPD All Property Index according to IPD (now part of MSCI Inc.) from a peak to the low point in the market. There was a subsequent return of confidence aided by the availability of cheap finance to the banking system through Quantitative Easing although lending to property companies remained constrained.

From the latter part of 2013, property yields began to reduce as investors sought property investment in order to enhance income due to the low gilt returns

and deposit rates available while Bank of England interest rates were maintained at 0.5 per cent. This recovery was particularly marked in Central London but the improved confidence spread to the other major regional cities such as Manchester, Leeds and Birmingham between 2014 and 2016. This also increased investment values in major cities and university towns up to the date of the referendum on the UK's continued EU membership held on 23 June 2016 (the 'Referendum'). Palace Capital had acquired the majority of its portfolio between 2013 and 2016, prior to the acquisition of RT Warren (Investments) Limited during the current period.

The Referendum led to an initial loss of confidence and a number of large insurance company property funds stopped redemptions although this was largely reversed by the first quarter of 2017. The general election on 8 June 2017 led to further uncertainty but GDP growth, whilst slower, has continued and employment continues to rise as reflected in the unemployment rate of 4.2 per cent. in March 2018. The impact of the Referendum on Sterling's exchange rate to the Dollar and Euro, leading to falls of up to 15 per cent, improved the UK manufacturers and exporters competitive position which has led to further confidence in the occupational market.

The property market outside of London is also affected by structural changes and macro economic factors:

The negligible returns from cash deposits has made the margins of rental income over gilts and cash returns attractive



PROPERTY FOCUS STAPLE HS | WINCHESTER

- Purchased as part of RT Warren Portfolio.
- 15,050 sq ft multi-let to Capsticks Solicitors and Crealogix.
- The office building is let until October 2029 with a tenant break in October 2024 at an average of £16.75 psf.
- Excellent rental growth prospects at the rent review due in October 2019.

Structural Changes

Permitted Development Rules (PDR)

The implementation of PDR legislation in May 2013 has facilitated the conversion of a number of offices in regional towns and cities to residential use which has resulted in a reduction of office space for rental. This has created a letting environment which the Directors believe has the potential for significant growth in rents. Southampton, Winchester, Brighton, Sutton and Beaconsfield are locations where this improved letting environment is evident.

Lack of new office building in regional centres

The amount of new build offices in city and town centres has been relatively low in the past 30 years due in part to the move to business parks outside city centres and the relative expense of new building projects. With government departments being encouraged to move to the regions this has led to greater demand for central city office space. The announcement in September 2017

that HMRC is due to take a 25 year lease on 378,000 sq ft in Leeds from 2020 and a similar announcement that HMRC has taken a lease on 10 floors of India Buildings in central Liverpool are evidence of this trend which the Directors consider will have a positive impact on rental levels.

Macro Economic Factors

The impact of Quantitative Easing has been to reduce the returns from the UK Government bond issues (gilts) to historically low levels. This, together with the negligible returns from cash deposits, has made the margins of rental income over gilts and cash returns attractive. In addition the cost of borrowing to acquire property is relatively low further supporting the attractiveness of property as an income generating investment.

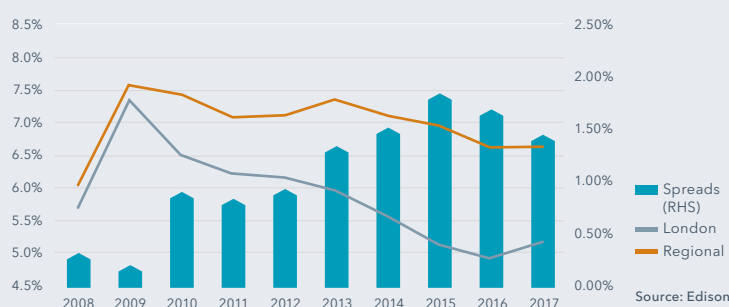
UK Economic outlook

Despite the uncertainty created by the Referendum vote to leave the EU and the minority government elected in the June 2017 general election, the UK economy has continued to expand. This, together with low levels of unemployment, which has been more consistent across the regions than in the past, has assisted the growth in occupational demand for the year driving up rents for good quality commercial space.

Summary

The Directors continued focus on commercial property outside London is well supported by the fundamentals. Significant opportunities exist in the regions and we are well positioned to take advantage of future growth.

Regional vs London equivalent yields



BUSINESS MODEL & STRATEGY

Focused on maximising shareholder returns

The Company has a reputation for being entrepreneurial and opportunistic. Palace Capital acquires properties where it can enhance the long-term income and capital value through asset management and strategic capital development in locations outside London

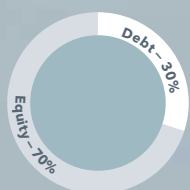
We provide attractive income returns through our progressive dividend policy as well as exposure to capital growth through our value add Business Model.

INPUTS

Palace Capital Asset Management Expertise

Supported by:

- Shareholder Equity.
- Debt Finance.



WHAT WE DO



HOW WE CREATE VALUE: Our Strategy

Strategy

KPI

OPPORTUNISTIC ACQUISITIONS

Improve portfolio mix across UK regions by sector to limit single tenant exposure

Deliver sustainable growth in Adjusted profit before tax



ACTIVE ASSET MANAGEMENT

Reduce voids and increase rents in order to grow recurring net income

Year on year net rental growth



WORKING WITH OUR TENANTS

Maintain strong occupancy and provide fit for purpose commercial space

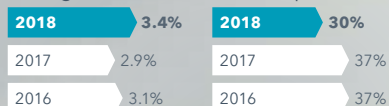
Vacancy rate



CONSERVATIVE DEBT STRATEGY

Capital structure balanced between debt and equity to enhance returns

Average cost of debt and Group LTV %



STRATEGIC CAPEX & DEVELOPMENT

To enhance the long-term value of our portfolio via refurbishment & redevelopment

EPRA NAV per share movement



2017/18 Performance

Recurring earnings from core operational activities has grown by 27% over the last 12 months to £8.5m.

Year on year movement of net rental income on properties owned through the period increased by 3.3%.

EPRA vacancy rate =10% against target <10%.

Weighted average cost of debt across the Group was 3.4% at 31 March 2018. Loan to value of Group debt was reduced from 37% to 30% so we remain conservatively geared.

EPRA NAV per share decreased 6.3% due to the dilution impact of equity raised in October 2017. From a proforma base of 389p following the equity raise, EPRA NAV per share increased 7% in the year.

2018/2019 Ambition

Deliver and sustain recurring earnings and dividend progression

Deliver like for like income growth ahead of inflation plus 1%

Maintain high occupancy across the investment portfolio, targeting >90%

Maintain low weighted average cost of debt <3.5% and loan to value <40%

One year portfolio valuation outperformance against IPD index

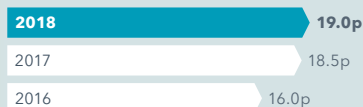
OUTCOMES

INCOME & CAPITAL GROWTH

• Progressive dividend policy

Dividend per share pence

19.0p

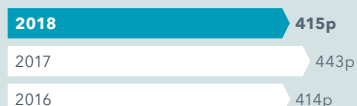


+3%

• Maximise shareholder value

EPRA NAV per share

415p



-6.3%

Investing for income and capital growth





STRATEGIC REPORT

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PROPERTY FOCUS

BOULTON HOUSE, MANCHESTER

- 75,000 sq ft multi-let office building.
- 18,000 sq ft vacant space & ground floor reception refurbished.
- Since purchase, new letting of 6,500 sq ft at £17.25 psf and 2,120 sq ft at £18.95 psf.

CHIEF EXECUTIVE'S REVIEW

The results show an IFRS profit before tax of £13.3m and a net asset value of £183.3m

IFRS Profit Before Tax

£13.3m

Portfolio Value

£276.7m

Net Asset Value

£183.3m

I am delighted to report the Company's results for the year ended 31 March 2018 which shows an IFRS profit before tax of £13.3m and a net asset value of £183.3m.

In our Portfolio & Trading update announced on 24 April 2018, I stated that these were exciting times for our Company. Our very selective stock selection, together with taking advantage of opportunistic, mainly corporate purchases, means that we have assembled a high-quality property portfolio. The growth in income from these is already being experienced in our independent valuations. Additionally, several of our properties in city centres have significant development and refurbishment potential.

We continue to focus our strategy on growing both income and capital value. We have had a terrific year and as a result of this we are proposing a final dividend of 4.75p per share, payable on 31 July 2018 to those shareholders on the register as at 5 July 2018 which, if approved, takes total dividends for the year to 19p.

It is important to us that we maintain our progressive dividend policy which we first set out in our Re-Admission Document in October 2013 which stated that we would pay a dividend of 12p for the year ended 31 March 2015.

Our EPRA Net Asset Value (NAV) per share for the year ended 31 March 2017 was 443p but this was diluted to 389p by the £70m fundraise last October which enabled us to acquire RT Warren (Investments) Ltd (Warren) which had a portfolio of 21 commercial buildings and 65 residential properties. We deliberated on this very carefully, and concluded this was the best portfolio we had seen in over two years. It is already proving to be an excellent acquisition as we are identifying plenty of opportunities to apply our brand of active asset management and grow income.

Our EPRA Net Asset Value per share at 31 March 2018 is 415p so we are already making significant progress. We believe that the acquisition of the Warren portfolio will be both earnings and NAV enhancing. We have no regrets regarding the short-term dilution as we consider it will be hugely beneficial in the medium-term. Our first significant acquisition was the Signal portfolio acquired in October 2013 when on Re-Admission our reported NAV was 218p. We have made tremendous progress notwithstanding the short-term dilution.

Following the acquisition of the Warren portfolio and the St James Complex in Newcastle, the carrying value of the Company's portfolio is now at £276.7m (including assets held for sale) compared to £183.2m the twelve months previous. This takes into account the relevant acquisitions and the disposals we have made during the financial year.

Our contracted rent roll as at 31 March 2018 was £17.9m per annum with a net income of £16.8m per annum after allowing for head rents, service charge shortfall and empty rates. We expect this to increase during the year as we use our available cash and the cash resulting from further property sales.

It is our policy that we keep gearing at a conservative level. Our bank borrowings are £82.4m net of cash, representing a net loan to value (LTV) of 30% (31 March 2017: £67.5m and 37% respectively).

The highlight of the year is that we joined the Main Market of the London Stock Exchange at the end of March 2018 and will enter the FTSE Small Cap Index and FTSE All Share Index on 18 June 2018. We believe this will increase the liquidity and make our stock more attractive to investors.

We are making excellent progress on our existing portfolio. This is due not only to investing in the right towns and cities such as

Neil Sinclair FRICS
Chief Executive



Manchester, Newcastle, Leeds, York, Southampton, Brighton, Winchester, Salisbury, Northampton and Milton Keynes but also in the right places in those cities and towns. An update on our portfolio is contained in the Property Review.

However, I do need to refer to our proposed development currently known as Hudson House, Toft Green, York. I did originally mention that we were considering a joint venture partner for the development but it became increasingly clear that it would be much more in our interest to carry out the scheme ourselves. We have planning permission to erect 127 apartments, 34,000 sq ft of offices, 5,000 sq ft of other commercial plus car parking on this 2-acre site close to York railway station. We have a first-class professional team including a highly experienced project manager and with York being voted by The Sunday Times as the Best Place to Live 2018 and as we expect a strong demand for the properties, we are excited at the prospects here. We are in the early stages of discussions with lenders to finance the construction costs having regard to the fact that the property is not charged and currently valued at £16.0m. Demolition is ongoing, and this will lead to a saving of £0.75m per annum in empty rates and running costs.

We also believe that it is in our interests to develop or refurbish our properties ourselves once we secure satisfactory planning permission. We are working closely with our advisers to achieve this objective and we will announce our progress on these as and when the situation arises. A case in point is Solaris House, Milton Keynes, a 14,500 sq ft office building which became vacant in 2016. We took the decision to carry out the refurbishment as we believed we could let it at a rent well in excess of the rent being paid on the two adjoining office buildings comprising 38,000 sq ft, let to Rockwell Automation which we own, and where a rent review is



PROPERTY FOCUS HUDSON HOUSE | YORK

- Planning consent achieved for 127 apartments, 34,000 sq ft offices, 5,000 sq ft of commercial and car parking.
- Demolition commenced in February 2018, expected to be completed in September 2018.
- Demand for residential & Grade A office space is strong.
- York voted by the Sunday Times as the Best Place to Live 2018.
- Plans are to commence construction in January 2019.

due in December of this year. We announced the letting to Monier Redland last April at a headline rental of £240,000 per annum which is £16.55 per sq ft and £6.00 per sq ft more than is being paid by Rockwell. This is a further example of our active asset management which is being applied right across the board, such as at Sandringham House, Harlow, where we announced a significant letting last month.

Both transactions took place after the year end, so they are not reflected in the year end property valuations.

Recycling our capital is a priority, particularly those properties that have no prospect for growth, are empty or are not core to our business. The latter is the case in respect of the houses that were acquired as part of the Warren Portfolio. Agents have been instructed to sell 60 houses and once achieved we will reinvest the funds in suitable commercial opportunities. We had planned to sell the portfolio by June 2018 and discussions are ongoing with a particular party but as we had already sold three properties at above book value we are also examining selling packages of properties over a longer period. The properties are not charged so we are under no pressure.

Government policy continues to encourage investment in the regions. At the moment buying opportunities are somewhat limited as the prices that we are being asked to pay are generally too high to provide a satisfactory return for shareholders.

In my experience, part of the discipline is to know when to walk away but I am confident that with our network of contacts, particularly in the regions, we will achieve our objective of securing off-market opportunities on terms acceptable to us.

Although we are based in London, my colleagues and I regularly travel up and down the country not only to review our existing portfolio or potential new acquisitions but also to meet regional wealth managers and brokers as well as to make presentations to potential retail investors. We have done the latter for nearly three years as we make every effort to create interest in our story. We value all our shareholders both large and small.

I am very grateful for the support of our shareholders. With a management team that is second to none, I am very confident about our prospects. We have opportunistically assembled a very high-quality portfolio and it is my job to make sure that the investment community are aware of the quality of the portfolio and the potential for growth in both income and NAV.

The Strategic Report includes the Chief Executive's Review, Property Review, Financial Review and Risk Management, and has been approved by the Board and signed on its behalf by:

Neil Sinclair
Chief Executive

PROPERTY REVIEW

We have continued to grow our portfolio with £88m of acquisitions

**No. of properties
(excluding residential)**

60

Tenants

303

WAULT

5.3 years

We have continued to grow our portfolio with £88m of acquisitions which included the significant corporate acquisitions of the Warren portfolio and St James Gate in Newcastle. These purchases reflect our strategy of acquiring assets in locations which we consider have sustainable rental growth prospects.

Generally, we buy properties with potential for improvement either through refurbishment or development. During the financial year, we completed three office refurbishment projects in Milton Keynes, Leeds and Manchester and we are embarking on a very exciting mixed-use development in York.

We have our portfolio independently valued every six months and as at 31 March 2018 we owned property valued at £276.7 million, a like for like increase of 3.5% over the year and a revaluation gain of £5.7m for the year.

The portfolio still has many investments which we consider have yet to achieve their potential, mainly as they are let and income producing. We regularly highlight our recurring income which is reflected by a Weighted Average Unexpired Lease Term (WAULT) of 5.3 years to break. This enables us to prepare a strategy for each asset well in advance and adapt as situations evolve.

STATISTICS

60 commercial properties (2017: 44) comprising 1.8m sq ft (2017: 1.6m) – this excludes the residential properties from the Warren portfolio.

303 commercial tenants (2017: 165) providing a contractual rent roll of £17.9m p. a. (2017: £12.7m p.a.)

MARKET COMMENTARY

Media reporting on UK economics point unreservedly towards uncertainty. However, how one views the year ahead will be dependent upon whether you are a 'glass half full' or a 'glass half empty' person. The latter view is supported by negative views on Brexit and sluggish GDP growth which puts a squeeze on consumer incomes. The former positive approach, and one which the Board hold, is that the UK has a robust labour market, is seeing rapid growth in technology and rising export demand for manufacturers which outweighs the glass half empty protagonists. Regeneration and reinvention through public and private investment is delivering results, with new spaces being created. New investment is forthcoming for UK wide infrastructure projects.

ACQUISITIONS

The Warren portfolio, valued at £71.8m, completed in October 2017 and has all the hallmarks of

Richard Starr MRICS

Executive Director –
Head of Property



“Our tenants are our business so we regularly inspect our buildings to engage directly with them to understand their occupational requirements and adapt our investment strategies accordingly.”

being a portfolio of properties with long-term rental and capital growth opportunities. As highlighted in our Portfolio & Trading Update announced in April 2018, this was the best portfolio we had seen for over two years.

As referred to in the market commentary, we see significant rental growth in locations where Permitted Development has reduced available commercial space. As rental values grow, this is likely to encourage speculative development but we are well placed to benefit in the meantime. This is evident at Regency House in Winchester and Lendal/Museum Street in York. The upper parts of both properties are vacant and in need of significant refurbishment to be let. The immediate solution would be to convert to residential (Winchester already has planning permission). However, we would have to sell the flats losing potential income, and we can achieve better returns with less capital expenditure if we maintain the commercial use. This is because rental values have grown through a lack of supply.

Since purchase, we have let London Court, a vacant office building in Southampton city centre, for ten years at a headline rent of £150,000 per annum and renewed leases in Beaconsfield, Verwood and Banbury.

We consider ourselves strategically opportunistic. Post the year end, in Fareham, we have bought an office building and large car park adjacent to Admiral House (which we own) as we concluded that the combined ownerships are worth more than the sum of the parts.

The Warren portfolio included 65 residential properties, predominantly houses, in Hayes. All apart from two are let and income producing. However, this is not our speciality sector or our core business so we consider the

returns for shareholders will be significantly increased if invested in the commercial sector. We have instructed agents to sell these holdings, apart from two which sit alongside a commercial holding. Three others were sold at 14% above book value in February 2018.

St James Gate, Newcastle –

In August 2017, we acquired for £20m, 100% of the share capital of a company owning a significant freehold site minutes from Newcastle railway station and in an improving location.

Comprising 82,500 sq ft of offices and 16,500 sq ft of retail space, this fully let property produces £1.76 million per annum. We have extended the lease to Serco until June 2019 and are finalising plans to improve the ground floor reception and external landscaping. This will increase its attraction as a destination compared to new developments in the city so we either retain our existing tenants or attract others if necessary.

SECTOR FOCUS

Offices

The property market in 2017 exudes a positive tone. ‘Occupier demand for office space defied wavering confidence, with take-up reaching a 15 year high supported by headcount growth, business restructuring and new market entrants’ (Knight Frank 2018 Regional Office Review). With almost half our portfolio in the office sector, the changing demands of occupiers is a key driver to our performance. The economic uncertainty has forced many tenants to actively consider and commit to locations that present a property and operational cost advantage. Therefore, we actively seek to refurbish vacant space to compete with the best quality space available but at rents which are slightly discounted.



PROPERTY FOCUS **LONDON COURT |** **SOUTHAMPTON**

- Six weeks after the Warren acquisition, this self contained office building of 11,684 sq ft was let to Tett Communications at a headline rent of £150,000 per annum for 10 years with a five-year break option.
- The dilapidations settlement from the former tenant of £230,000 meant no refurbishment was required as the new tenant only pays half rent for 18 months following three months rent free.
- Further rental growth is expected in this city centre location.



Continues on page 22

PROPERTY REVIEW CONTINUED

SECTOR FOCUS



OFFICE



48.5% of our portfolio is in this sector and accounts for £8.0m p.a. in rent from 110 tenants in 32 buildings.

Number of properties

32

Value

£134.2m

Area

722,977 sq ft

Top properties

Boulton House Manchester	£14.3m
Bank House Leeds	£10.9m
St James Gate Newcastle	£20.0m

Investment summary

We focus on city centre locations, close to public transport connections. These locations are generally in areas we consider to have long-term rental growth.



INDUSTRIAL



13.2% of our portfolio is in this sector and accounts for £2.3m p.a. in rent from 44 tenants in 13 buildings.

Number of properties

13

Value

£36.4m

Area

427,789 sq ft

Top properties

Point Four Industrial Est. Bristol	£7.1m
Black Moor Road Verwood	£6.9m
Courtauld House Coventry	£4.6m

Investment summary

We have a mix of multi let and single let properties which saw good rental growth last year. This should continue as many properties have further rent reviews and lease expires this year.



LEISURE



15.2% of our portfolio is in this sector and accounts for £3.40m p.a. in rent from 22 tenants in 2 buildings.

Number of properties

2

Value

£42.1m

Area

247,472 sq ft

Top properties

Broad Street Plaza Halifax	£23.2m
Sol Central Northampton	£18.9m

Investment summary

Although a number of operators have struggled in the last couple of years, our tenants in both schemes continue to trade well. We are focused on letting the vacant space with new agents instructed and marketing initiatives being put in place.



RETAIL



11.0% of our portfolio is in this sector and accounts for £2.4m p.a. in rent from 64 tenants in 11 buildings.

Number of properties

11

Value

£30.3m

Area

147,940 sq ft

Top properties

Lendal / Museum Street York	£4.5m
Aldi Gosport	£4.7m
Winchester Street Salisbury	£2.5m

Investment summary

Our units are in good locations with a mix of local and national brands. We are working with our tenants very closely to ensure that they can trade as well as possible.



RETAIL WAREHOUSE



4.1% of our portfolio is in this sector and accounts for £6.8m p.a. in rent from 3 tenants in 2 buildings.

Number of properties

2

Value

£11.4m

Area

59,478 sq ft

Top properties

A&B Bridge Park East Grinstead	£8.1m
Harnham Business Park Salisbury	£3.3m

Investment summary

This sector continues to perform well being located in South East we expect to see continued rental growth in the medium-term.



RESIDENTIAL



8.1% of our portfolio is in this sector and accounts for £0.8m p.a. in rent from 60 tenants in 62 buildings.

Number of properties

62

Value

£22.3m

Area

39,655 sq ft

Investment summary

The portfolio is not a core holding; this includes 60 properties held for sale and two further investment properties.

PROPERTY REVIEW CONTINUED

During the year, ten properties were sold for £9.0m, releasing funds from low growth assets

The vibrancy, cohesion and relative affordability of regional cities is increasingly appealing to young professionals. Different lifestyle choices are creating a supply of regional talent that occupiers are recognising. The delivery of brand new office space has remained relatively subdued, exacerbating the shortages of modern office stock in many of the largest cities and leading to stronger prospects for rental growth. As supply tightens, we are seeing regional companies broadening their areas of search which is likely to increase the level of competition between regional centres. Economic conditions mean cost sensitivity may be a priority but occupiers increasingly accept that low cost, low quality real estate options are actually a false economy as they create expensive staff churn.

48.5% of our portfolio is in this sector and accounts for £8.0m p.a. in rent from 110 tenants in 32 buildings. The key assets are:

Bank House, Leeds – This multi-let office property, acquired in April 2015 for £10m is extremely well located, moments from the railway station. Comprising 88,000 sq ft, it is let to The Bank of England until July 2023 and Walker Morris until December 2019. We have completed the refurbishment of the vacant 1st floor and are marketing at a 30% discount to current Grade A rental levels with interest coming from companies seeking flexible terms. As at 31 March 2018 the independent valuation was £10.9m, a 2.1% increase over the year.

Boulton House, Manchester – A multi let office building within close proximity to Manchester Piccadilly Station and the proposed HS2 interchange was purchased for £10.45m in August 2016. It comprises 75,300 sq ft and at the time of purchase the average rent in the building was £12.50 per sq ft. We have refurbished the vacant space as well as the ground floor reception area at a cost of £800,000.

During the year 6,400 sq ft has been let at a rental value of £17.50 per sq ft. Following the year end, a further 2,120 sq ft has also been let at £18.95 per sq ft and negotiations continue with existing tenants who have forthcoming lease renewals. As at 31 March 2018 this property was independently valued at £14.3m, an increase of 18% over the year.

249 Midsummer Boulevard, Milton Keynes – A multi let office building within walking distance of the railway station. Purchased in February 2016 for £7.2m, the property comprises 46,000 sq ft let to DHL, Crawfords and others. The average rental at the time of purchase was £12 per sq ft. The leases on the 2nd floor have expired and since the tenants' vacated we have taken the opportunity to refurbish this space and upgrade the ground floor reception area and common parts at a cost of £450,000. Milton Keynes remains one of the fastest growing cities in the UK which is reflected by steady rental growth and our quoting rental is now at £18.50 per sq ft. The valuation as at 31 March 2018 was £8.0m, an increase of 7.74% over the year.

Solaris House, Kiln Farm, Milton Keynes – Having obtained vacant possession of this property in March 2016, dilapidations were settled and re-invested in a refurbishment to the same specification of the adjacent office buildings that we own & let to Rockwell Automation. Following the end of the financial year, we have announced a letting of the entire 14,500 sq ft to Monier Redland at a headline rent of £16.50 per sq ft. We expect a significant increase at the forthcoming rent review of the Rockwell properties in December 2018.

Leisure / Retail

Consumer spending has slowed and reflects the tough times for retailers and leisure operators. New developments are being proposed and are attracting new leisure concepts and integrating retail to provide an 'experience'. Uncertainty

around EU citizens' rights to remain post March 2019 poses challenges to the hospitality sector.

15% of our portfolio is in this sector which accounts for £3.4m per annum in rent from 22 tenants in two buildings. The key assets are:

Sol Central, Northampton – In May 2015, we acquired the company owning a prominent city centre leisure scheme for £20.7m. 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. The scheme requires investment to adapt to the changing demands of customers to attract new tenants and we have recently appointed new letting and managing agents. The occupational market has been widely reported as being slow so before we commit significant funds, new tenants need to be signed up. However, in the meantime repairs to the external lighting and roof costing in the region of £1.0m have completed utilising the surrender premium of £4.0m from Gala. We have instructed a specialist to run the car park which has improved the availability of spaces and increased income. As at 31 March 2018 the independent valuation was £18.88m, an increase of 1.34% over the year.

Broad Street Plaza, Halifax – This significant leisure scheme was acquired through a corporate purchase in March 2016 for £24.18m. We increased returns during the financial year as 40% of the leases benefited from rent reviews. Unfortunately, two tenants entered administration during the year which has reduced the end of year valuation by 4.6%. We have appointed new letting agents to market the vacant space and are pleased that our remaining tenants trade well which together with the opening of the Piece Hall helped to attract over one million visitors to Halifax since its opening in August 2017.



PROPERTY FOCUS MIDSUMMER BOULEVARD | MILTON KEYNES

- March 2016 purchase for £7,279.
- City centre offices.
- 50,000 sq ft.
- £0.5m annual income.
- We have recently completed the refurbishment of the ground floor reception and vacant 2nd floor offices.
- Rental values have grown from when we purchased in March 2016 from £12.50 per sq ft to over £18 per sq ft today.

Industrial

The star industry performer in terms of overall returns during 2017 and currently the investment of choice over other sectors. The loss of land to alternate uses compounded with the need for space to support the functions of a city remains high, which is likely to lead to multi storey logistic development.

13.2% of our portfolio is in this sector which accounts for £2.3m per annum in rent from 44 tenants in 13 buildings. The key assets are:

Point 4 Industrial Estate, Bristol – this multi-let estate comprises 81,000 sq ft in 10 units all of which are now let. Two lettings were completed as well as a lease renewal which have set a new rental tone in excess of £6 per sq ft. This is an increase of 20% during the financial year. The recent valuation of £7.05 million was an increase of 8.46% on the year.

Black Moor Road, Verwood –

Purchased as part of the Warren portfolio in October 2017, the multi let estate totals 65,000 sq ft. Two units have become vacant since purchase and require significant refurbishment. Post the year end, a lease has been renewed at a 20% increase to the passing rent and there are three further units due for rent reviews, or lease renewals, this year. The valuation of £6.86 million reflects an increase of 12.46% since its purchase in October 2017.

TECHNOLOGY

Online sales will continue to grow and increase its share in the UK to c 19% at the end of 2018 (CBRE Real Estate Market Outlook 2018). The shift from physical to online will have profound implications for how retailers use physical space to showcase their brand. As this evolves, it is harder to assess rental levels of high street retail units. In August 2017, the Government announced 'truck platooning' to provide relief to drivers from necessary rules regarding driver hours, so expect to see the 'last mile' delivery become less strategic as vehicle technology moves towards automation.

SALES

We continue to recycle our capital where we consider that our holdings have reached their potential or they are not core assets. During the year, ten properties were sold for £9.0m, releasing funds from low growth assets. The key sale was the former Polestar building adjoining the Marsh Barton Industrial Estate in Exeter. Our tenant entered administration and the building required considerable capital expenditure. We had already considered that the letting in May 2016 was unlikely to be a long-term solution so we had commissioned various reports on the site's long-term viability. Following this process and by the time it became vacant, we had decided that the capital expenditure required was not in shareholders' interest and a sale process commenced. Travis Perkins plc acquired the site for their

own occupation for £3.28 million in December 2017, a 10% premium to September 2017 valuation.

MANAGING AGENTS

We are delighted to have appointed Savills in January 2018 to manage a significant number of our assets as part of our rationalisation. They have replaced four different companies which will increase the level of service we can give to our tenants.

ENVIRONMENTAL

As a landlord of second hand commercial property, our active asset management approach means that we are constantly assessing our portfolio and earmarking assets for refurbishment and renewal, utilising the latest technology and environmentally efficient products to equip our properties for 21st Century occupation.

MINIMUM ENERGY EFFICIENCY STANDARDS (MEES)

As of April 2018, it is 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 achieve the minimum standards or face civil penalties.

We have undertaken a full review of our portfolio and are delighted to say that a few minor works are required at this stage to comply with the proposed new guidelines. We have a specialist consultant advising us to ensure that none of our holdings are affected.

Richard Starr MRICS

Executive Director –
Head of Property

FINANCIAL REVIEW

Our full year dividend is up 2.7% to 19 pence per share

EPRA NAV per share

415p

Adjusted PBT

£8.5m

Dividend per share

19.0p

Stephen Silvester ACA

Finance Director



FINANCIAL HIGHLIGHTS

	▲ / ▼	2018	2017	2016
INCOME GROWTH				
IFRS profit before tax	▲	£13.3m	£12.6m	£11.8m
Adjusted profit before tax	▲	£8.5m	£6.7m	£5.6m
EPRA earnings (excluding one-off surrender premiums)	▲	£6.5m	£5.4m	£4.5m
Basic EPS	▼	35.9p	36.6p	43.9p
EPRA EPS	▼	18.7p	21.2p	31.3p
Adjusted EPS	▼	21.2p	22.2p	18.9p
Dividend per share	▲	19.0p	18.5p	16.0p
Dividend cover	▼	1.1x	1.2x	1.2x
CAPITAL GROWTH				
Portfolio like for like value	▲	+3.5%	+4.5%	+8.0%
Net Asset Value	▲	£183.3m	£109.6m	£106.8m
Basic NAV per share	▼	400p	436p	414p
EPRA NAV per share	▼	415p	443p	414p
Accounting return	▼	-2%	11.4%	8.1%
Total shareholder return	▼	-1.4%	7.4%	-2.3%
DEBT FINANCE				
Debt balance	▲	£101.4m	£78.7m	£72.7m
Average cost of debt	▲	3.4%	2.9%	3.1%
Average debt maturity	▲	4.7yrs	4.6 yrs	3.9 yrs
Net Loan to Value Ratio	▼	30%	37%	37%
NAV gearing	▼	43%	61%	61%

“The year ended 31 March 2018 was a transformational year for the Group which included our largest equity raise to date of £70m.”

KEY PERFORMANCE MEASURES

The Group's financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ('APMs'), being financial measures which are not specified under IFRS, are also used by Management to assess the Group's performance included in the Highlights for the year and throughout this document. These include a number of European Public Real Estate Association ('EPRA') measures, prepared in accordance with the EPRA Best Practice Recommendations (BPR) reporting framework, and company adjusted measures. Further details are given in notes 8 and 9 of the financial statements. We report a number of these measures (detailed in the glossary of terms) because Management considers them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

OVERVIEW AND HEADLINE RESULTS

This review summarises the financial performance for the year and provides a number of key metrics illustrating that the Company continues to deliver on its objective to drive income and capital growth and generate attractive, sector-leading returns for our investors.

The year ended 31 March 2018 was a transformational year for the Group which included our largest equity raise to date of £70.0m in October 2017 and this supported the largest acquisition to date – the Warren portfolio valued at £71.8m. As a result, the shareholder base has increased to 45.8m shares. However, as the shares were issued at 340 pence per share, this had a one-off dilutionary impact on EPS and NAV per share which are covered below.

The year ended with a much-anticipated move from the AIM to a Premium Listing on the Main Market of the London Stock Exchange which will attract a larger range of investors to support the continuing growth of the business. The associated one-off costs have been included in the income statement for the current year.

This year we delivered an IFRS profit before tax of £13.3m, which reflects a basic earning per share of 35.9p. EPRA earnings is the industry measure of underlying profit stripping out revaluation gains, profits on disposals and one-off costs. EPRA earnings for the year ended 31 March 2018 increased by 20.3% to £6.5m compared to £5.4m last year.

Management also report an adjusted profit before tax in order to track recurring earnings and to form a basis for the progressive dividend. This totalled £8.5m for the year ended 31 March 2018 (2017: £6.7m), up 27%, however, as a result of the increased shareholder base adjusted earnings per share reduced to 21.2p from 22.2p. The Board announced in October 2017 that it would be moving to a quarterly dividend policy in 2018 and the Q3 quarterly payment was made to investors in April 2018. The proposed final dividend of 4.75p will be payable in July 2018 which ensures a total dividend for the year of 19.0p (up 2.7%), covered by adjusted earnings 1.1x.

On the capital side, net asset value has grown to £183.3m up 67% from the previous year-end of £109.6m and this translates into EPRA net asset value per share of 415p, down 6% from 443p having regard to the dilution. This 28p decrease, together with the total dividends of 19p paid during the year, overall represents a -2% total accounting return.



PROPERTY FOCUS BROAD STREETPLAZA | HALIFAX

- Purchased March 2016 for £24.2m.
- City centre leisure scheme.
- £1.7m annual income.
- We have instructed new letting agents to market the vacant space.



FINANCIAL REVIEW CONTINUED

The average debt maturity is 4.7 years, providing support to the business in the medium-term

Net rental income

£16.7m

Basic EPS

35.9p

Loan to value

30%

Average cost of debt

3.4%

RECURRING EARNINGS

Rental income totalled £16.7m in the year ended 31 March 2018 (2017: £14.3m) driven by the improving portfolio, with fully annualised income from the acquisitions in the prior year and also benefiting from the acquisition of the Warren portfolio and the office and retail buildings in Newcastle during the year. Net rental income similarly was up to £14.9m (2017: £12.2m) and this included £0.6m of non-recoverable costs in the current year from properties held for development which should reduce as projects progress.

Administrative expenses increased to £4.2m (2017: £2.9m). This included £0.7m one-off exceptional costs incurred as a result of moving from the AIM to the Main Market. The team, including the Board, totalled fourteen at the balance sheet date, up from eleven the prior year.

Finance costs increased to £3.4m from £3.0m as a result of increasing the debt book to support the larger asset base and £0.1m termination costs as a result of refinancing during the year. Despite increasing the base costs of the business, adjusted profit before tax grew 27% to £8.5m from £6.7m reflecting the increasing profitability of the business as a result of both scale and income-enhancing acquisitions.

Looking forward, the business is now capable of scalability, with the team and systems in place to support significant growth in the portfolio. The Group has a gross rent roll of £17.9m p.a. as at 31 March 2018 and this is set to increase further once surplus funds are deployed.

VALUATION GAINS & PROFITS ON DISPOSAL

The movement in the values of our investment properties can make a significant impact on profit before tax, and is determined by independent valuers' assessment of what a willing purchaser would pay for the property on the basis of an arms' length transaction. We have been extremely pleased with how our properties have performed as a result of our regional strategy. This year £5.7m of gains were achieved, with property values on a like for like basis up 3.5%.

In addition, we have continued to recycle capital out of vacant properties with limited growth prospects into income generating properties core to the business strategy. Ten properties were sold in the year for a total consideration of £9.0m, resulting in profits on disposal of £0.3m. The combination of revaluation gains and profits on disposal have a significant impact on the underlying value of the business, reflecting 13p uplift in net asset value per share. One of the key advantages of the Company's relatively small size compared to its peer group is its ability to 'shift the dial' and grow the underlying value of the business on a per share basis.

The combination of careful stock selection, buying at the right price and the impact of our asset management and capex initiatives, particularly at our strategic properties such as Hudson House, York, where we have commenced demolition as a result of obtaining planning consent to redevelop the property, are having a significant income and capital impact on the business.

Debt

	Fixed £m	Floating £m	Undrawn £m	Total Drawn £m	Years to maturity £m
Barclays	35.8	4.2	(4.2)	35.8	4.8
NatWest	0	30.4	(10)	20.4	2.9
Santander	20	6.8	0	26.8	4.3
Lloyds	0	3.8	0	3.8	1.1
Scottish Widows	14.6	0	0	14.6	8.3
	70.4	45.2	(14.2)	101.4	4.7

Net loan to value ratio

30%



Average cost of debt

3.4%

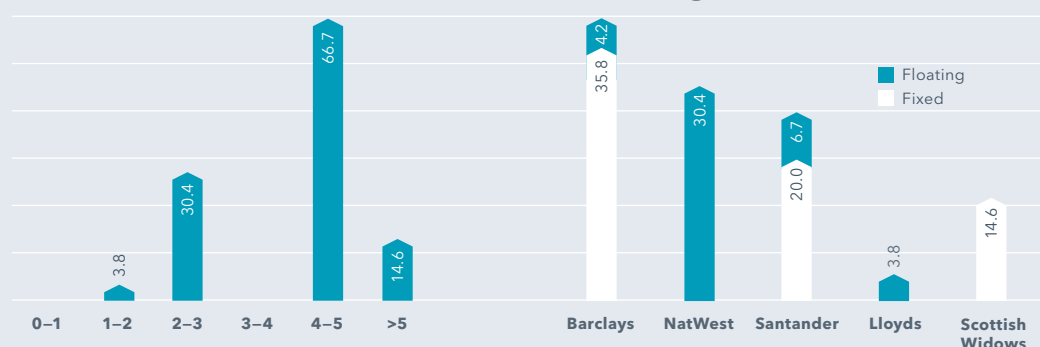


NAV gearing

43%

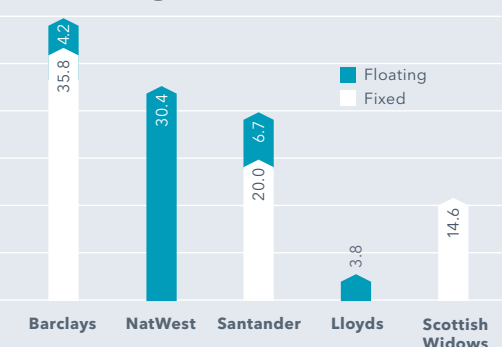


Debt maturity



The average debt maturity is 4.7 years, providing support to the business in the medium-term.

Fixed/Floating



70% of the debt drawn at year end was fixed, reducing the Group's exposure to movement in future interest rates.

FINANCIAL REVIEW CONTINUED

We are well positioned to continue to grow the business on the basis of both income and capital growth, rewarding our shareholders with sector leading returns



PROPERTY FOCUS

HUDSON HOUSE | YORK

- Demolition commenced in February 2018; expected to be completed September 2018.
- £0.8m vacant costs eliminated.
- Plans to commence construction in January 2019:
 - 127 apartments
 - 34,000 sq ft office space
 - 5,000 sq ft commercial space



Office space

5,000sq ft

Commercial space

34,000sq ft

EPS

Basic earnings per share (EPS) was 35.9p compared to 36.6p last year. We also report on EPRA earnings per share, which removes unrealised capital profits and one-off items such as profits on disposal and costs on acquisition. This reduced to 18.7p from 21.2p last year. Finally, we also report an adjusted earnings per share to provide a basis for dividend cover and this was 21.2p for the year down marginally from 22.2p.

DIVIDENDS

The Board is recommending a final quarterly dividend of 4.75p per share to be paid on 31 July 2018 to shareholders registered at the close of business on 5 July 2018. Taken with the total interim dividends of 14.25p, our full year dividend will be up 2.7% to 19.0p. The Company is very well placed to provide our shareholders with an increased dividend payment due to the growth in the portfolio and the core assets producing sustainable, 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 2018, our net assets were £183.3m, equating to basic net asset per share of 400p a decrease of 36p since 31 March 2017. The increase in our net assets was driven largely by the £70.0m equity raise and the increased value of our investment properties, profits on disposal of investment properties and surplus profits 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 and deferred tax which we believe better reflects the underlying net assets attributable to shareholders. Our EPRA NAV was 415p at 31 March 2018, down from 443p at 31 March 2017, however up 7% from 389p pro-forma post the fundraise.

DEBT FINANCING

During the year our debt profile improved as we refinanced two facilities and repaid one other. In August 2017, we refinanced the £15.6m Santander facility to incorporate a charge over the St James' Gate, Newcastle acquisition and extended the facility to £27.0m for a further five years at a margin of 2.5% over three month LIBOR.

The Barclays facility of £14.5m inherited as part of the Warren acquisition in October 2017 was subsequently refinanced in January 2018 along with the remaining £12.7m Nationwide facility and replaced with a new £40.0m 5 year facility with Barclays at a margin of 1.95% over three month LIBOR.

As is the normal course of business for a property company, the Group evaluates its debt position and exposure to interest rate rises on an ongoing basis. Earlier this year there was a growing belief in the market that the Bank of England could raise interest rates later this year. The Board took the decision to enter into hedging facilities with both Barclays and Santander in order to lock-in fixed rates across the majority of its debt. As a result, the average cost of debt has increased in the short-term to 3.4% and the fixed position of the Group's total debt facilities totals 70% of drawn facilities as at 31 March 2018.

The Group debt facilities total £115.5m, with £101.4m drawn at the year-end. Our lenders include the majority of the UK clearing banks and the Group's all in average cost of debt is 3.4%. The average debt maturity is 4.7 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 an 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 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. NAV gearing at 31 March 2018 was 43% and the net LTV ratio was 30% at 31 March 2018 down from 37% at the last financial year-end. The Group remains conservatively geared and at year-end had £19.0m of cash and £14.2m of unutilised facilities available, along with over £40.0m of properties uncharged.

TAXATION

The Group has a tax charge of £0.8m for the year ended 31 March 2018. This includes a corporation tax charge of £1.1m to reflect the tax payable on profit in the year and a deferred tax reduction of £0.3m to reflect capital allowances claimed in excess of depreciation and losses utilised in the year. The effective tax rate for the year for tax payable on IFRS profit remains low at 5.8% due largely to utilisation of brought forward losses, capital allowances and non-realisation of property revaluation gains.

OUTLOOK

From a financial point of view, the Company has had a transformational year, growing the capital base through the £70.0m equity raise in October 2017 and entering into new debt facilities totalling £67.0m. This helped fund the two acquisitions in the year totalling £87.8m and increases the future capacity of the Group to make further acquisitions. These will help generate additional income and capital profits as we continue to pay out an attractive dividend yield in line with our progressive dividend policy and manage our assets in order to maximise total returns for our investors. In addition, we have commenced demolition of Hudson House, York in order to prepare the site for the planned development which will eliminate £0.75m of non-recoverable holding costs per annum.

"We are well positioned to continue to grow the business on the basis of both income and capital growth, rewarding our shareholders with sector-leading returns."



Stephen Silvester ACA
Finance Director

KEY PERFORMANCE INDICATORS (KPIs)

The following KPIs are considered to be the most important for measuring the success of the business

KPI's rationale

Some of the KPI's are also used in assessing the management team as set out in the remuneration report (Definition of terms can be found in the glossary).



We link our performance to EPRA best practice recommendations as industry standard measures

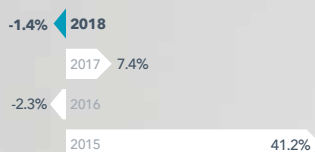
We have a range of key performance indicators that we use to measure the performance and success of the business. We consider that industry standard measures, such as those calculated by MSCI IPD, are appropriate to use alongside certain EPRA measures and others that are relevant to our business.

In this regard, we consider that the EPRA net asset value per share, EPRA earnings per share and vacancy rate are the most appropriate measures to use in assessing our performance.

Total Shareholder Return TSR %

Deliver long-term shareholder returns

-1.4%



Total Shareholder Return ('TSR'), being the share price movement together with the dividend, in the last four years was 30%.

12 month TSR delivered -1.4% due to dilution from equity raise.

2018/19 ambition

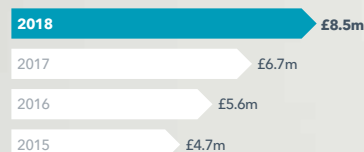
Three year TSR performance to be over 10% p.a.

The growth in TSR is one of the metrics used for the Long Term Incentive Plan (LTIP).

Adjusted earnings before tax

Deliver sustainable growth in Adjusted Profit before tax

£8.5m



Recurring earnings per share from core operational activities have grown by 27% over the last 12 months.

In the past four years, Adjusted profit before tax has grown by 81% from £4.7m to £8.5m.

2018/19 ambition

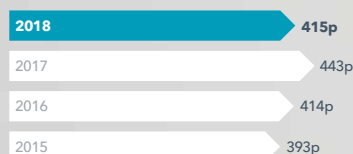
Deliver and sustain recurring earnings and dividend progression.

The performance against budget is one of the metrics used for the annual bonus scheme.

EPRA NAV growth per share

Maximise capital growth

415p



12 months EPRA NAV growth per share delivered a return of -6% although stripping out the 54p dilution to 389p from the equity raise at 340p, EPRA NAV/share increased 6.7%

2018/19 ambition

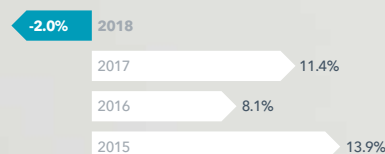
EPRA NAV growth outperformance against peer group.

The EPRA NAV growth is one of the metrics used for the annual bonus and LTIP.

Total Accounting Return %

Maximise long-term total return

-2.0%



Total Accounting Return ('TAR') of EPRA NAV movement together with dividend charge in the year. 12 month TAR delivered a return of -2%, reflecting a 10% increase less 12% dilution from the equity raise.

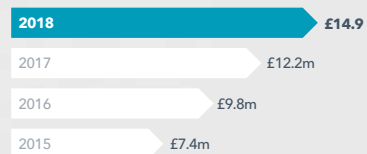
2018/19 ambition

Three year total accounting return to be over 10% p.a.

Rental growth

Drive like for like income growth through management actions

£14.9m



Year on year movement of net rental income increased by 22% and like for like growth of 3.5%.

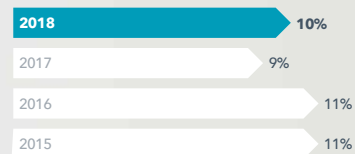
2018/19 ambition

Deliver like for like income growth ahead of inflation plus 1.0%.

EPRA vacancy rate %

Maintain strong occupier contentment

10%



Vacancy rate of investment portfolio of 10% against a target of <10%.

2018/19 ambition

Maintain high occupancy across the investment portfolio, targeting >90% and EPRA vacancy rate of <10%.

Average cost of debt %

Maintain a low weighted average cost of debt & low gearing across the group

3.4%



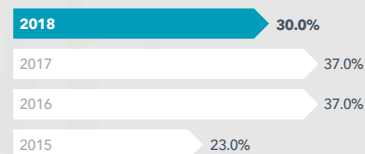
Average cost of debt across the Group was 3.4% at 31 March 2018. Loan to value of Group debt was reduced from 37% to 30% remaining conservatively geared.

2018/19 ambition

Maintain low weighted average cost of debt <3.5% and loan to value <40%.

LTV of Group debt %

30%



RISK MANAGEMENT

The Board continually assesses the key risks to the business to ensure exposure is mitigated and provide greater security to investors on the future income and capital return

RISK	MITIGATION	PROGRESS 2017/18	RATING
Development Over exposure to development could put pressure on cash flow and debt finance.	- Core portfolio generates sustainable cash flows. - Conservative gearing used to take advantage of the gap between property yields and cost of borrowing. - Clear strategy on each property to create and deliver value. - All developments require Board approval based on merits of strategy for assets. - Developments are modelled and financed appropriately to minimise risk and maximise return.	- The Group's Capital Risk Management Policy limits development expenditure to <25% of Gross Asset Value. - Limited capital expenditure during the current year across a range of properties totalling £2.7m. - Planning approval granted at Hudson House, York in August 2017 to build 127 apartments, 5,000 sq ft of commercial space and 34,000 sq ft Grade A offices. Demolition commenced in February 2018. - Hudson House Development planned to commence in 2019 which will include commitment to a full design and build contract.	H
Financing & Cash flow Breach of debt covenants could trigger loan defaults and repayment of facilities putting pressure on surplus cash resources. Bank of England monetary policy may result in interest rate rises and increased cost of borrowing. Financial regulatory changes under Basel III may increase the cost to borrowers.	- 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 utilised to reduce exposure to interest rate volatility.	- The Group's average debt maturity of debt has improved to 4.7 years providing longevity and financial support to maintain the current portfolio. - The Group's net LTV is conservative at 30% and ICR over 4.5 times. 70% of drawn debt at year-end is fixed, limiting the Group's exposure to increases in Bank of England base rate & LIBOR.	H
Tenant Exposure to tenant administration and poor tenant covenants could result in lower income.	- Our strategy to invest across different sectors reduces our exposure to an individual sector or tenant. - We maintain close relationships with our tenants and support them throughout their business cycle. - Management meet with managing agents to review rent collection and arrears on a regular basis. - We actively manage our properties to improve security of income and limit exposure to voids. - Tenant diversification is high with no tenant making up more than 7% of total rental income.	- Total number of leases across portfolio: 303 making up contractual rent roll of £17.9m. - Loss of income from tenant administrations and CVAs in the year totalled £0.1m, which is c1% of portfolio contractual income. - Portfolio weighted average lease length is 5.3 years providing reasonable longevity of income. - Occupancy across the portfolio has decreased slightly to 90% – reassuringly at the Group's target of 90%.	L

RESPONSIBILITIES OF THE RISK COMMITTEE

The Executive Team is responsible for risk management on a day-to-day basis. The current principal risks facing the Company are described in the table below.

Risk rating key

- High
- Medium
- Low

Risk impact key

- Ⓜ High
- Ⓛ Low

RISK	MITIGATION	PROGRESS 2017/18	RATING
Economical and Political Uncertainty from Brexit and world events could impact 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.	- Monitoring of economic and property industry research by executive team and review at Board Meetings. - Use of consultants and experts when considering planning and development work. - Review tenant profile and sector diversification. - Member of various Bodies including British Property Federation (BPF) in order to monitor the impact of all relevant current issues.	- Russian politics continue to destabilise the region, along with the risk of a U.S. trade war with its trade partners. Despite this, they appear to have little impact on the day to day activities of our tenants and their businesses. - Progress towards an orderly Brexit is reducing the risk of a cliff-edge for the UK economy and improving forecast conditions for the UK economy. - Government support for regional development initiatives bodes well for the markets in which we operate.	H
Accounting, tax, legal and regulatory Non-compliance as a result of changes to accounting standards, regulatory requirements for a public real estate company and incorrect application of new tax rules.	- Key advisors including Auditors, Solicitors and Brokers are engaged on key regulatory, accounting and tax issues. - Engagement with BPF on regulatory changes that impact the real estate industry.	- This being the first year for the Group on the Main Market means a greater level of scrutiny required by the Board covering corporate governance and requirements for reporting to the Financial Reporting Council (FRC). - Business forecasts and strategy allows for changes to corporation tax rates and interest deductibility rules. - Legislation has now been passed and the rules took effect from 1 April 2017 for corporate interest restriction. - Due to the Group interest payable in the year totalling above the de minimis it has elected for public infrastructure exemption.	L
Operational Business disruption. Without adequate systems and controls, our exposure to operational risk and business disruption is increased.	- Insurance cover for loss of rent up to three 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 authorisations.	- Board review of Financial Position and Prospects Procedures carried out in February 2018 as part of move to the Main Market ensuring plans in place to deal with disruption risk. - Recruitment in the year brings the number of team members up to fourteen at year end and provides cover across the team reducing exposure should any of the key personnel be unavailable. - Key man insurance cover in place for Executive Directors. - Energy Performance Certificate (EPC) assessments carried out on all assets at acquisition to ensure all assets are in required condition for letting within the new EPC rules.	L

Committed to excellence in Corporate Governance





GOVERNANCE

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PROPERTY FOCUS

SOLARIS HOUSE, MILTON KEYNES

- Office located in Milton Keynes.
- Total area of 14,488 sq ft.

BOARD OF DIRECTORS

The Board consists of six Directors of whom three are Executive and three Non-Executive

NEIL SINCLAIR FRICS

Chief Executive

Date of appointment

Joined the Group in 2010

Expertise

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, 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.

Overall responsibility for implementing the Group's strategy and day to day operations.

External Appointments

Variety the Children's Charity

NC

"We continue to find excellent opportunities to acquire commercial properties in the regions where we can apply our brand of asset management to grow income and build value"



STEPHEN SILVESTER ACA

Finance Director

Date of appointment

Joined the Group in 2015

Expertise

Stephen Silvester, a Chartered Accountant, joined Palace Capital in 2015 and brings over 10 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 REIT plc. He was involved in debt restructuring, numerous property portfolio acquisitions across the UK, capital raising and securing credit facilities from major institutions.

Overall responsibility for the implementation of the Group's financial strategy and all aspects of accounting and taxation.

External Appointments

None

"Scaling up the business and ensuring we deliver on our financial goals are at the very top of my agenda"



RICHARD STARR MRICS

Executive Director

Date of appointment

Joined the Group in 2013

Expertise

Richard has extensive experience of sourcing and managing commercial investments throughout the UK. After qualifying as a Chartered Surveyor in 2000, he gained his experience working as a fundamental team member of four Central London property firms including the corporate real estate division of what is now CBRE Global Investors. In 2011 he established his own boutique property consultancy, successfully negotiating sales and acquisitions on behalf of a wide variety of institutional and private clients before joining the board of Palace Capital in October 2013.

Overall responsibility for the asset management and operational strategy for the Group's properties.

External Appointments

Acorn2Oak Property Advisors Limited

"We maintain regular contact with our tenants and can adapt our asset management initiatives quickly"



- AC Audit Committee member
- RC Remuneration Committee member
- NC Nomination Committee member
- Chairman of that Committee

STANLEY DAVIS

Non-Executive Chairman

Date of appointment

Joined the Group in 2010

Expertise

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 several 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.

External Appointments

Chairman of Stanley Davis Group Limited
University Jewish Chaplaincy

AC RC NC

“Palace Capital is without a doubt one of the most exciting businesses I have put my name to in the last 20 years”



ANTHONY DOVE

Independent Non-Executive Director

Date of appointment

Joined the Group in 2011

Expertise

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, Anthony undertook several property renovations in Budapest for investment purposes and was a trustee of the Gynaecology Cancer Research Fund from 2002 to 2009.

External Appointments

None

AC RC NC

“With my City background and professional view on both corporate law and strategic matters, I believe we can move the business forward with the experience and depth the team has”



KIM TAYLOR-SMITH

Independent Non-Executive Director

Date of appointment

Joined the Group in 2014

Expertise

Kim, a Chartered Accountant, brings to Palace Capital over 30 years' experience as a company director for a range of businesses. He has a 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 Kim 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.

External Appointments

Deputy Leader Kensington & Chelsea Borough Council
Bowlhead Properties (Bushfield) Limited
Bowlhead Properties (Peterborough) Limited
The Chelsea Centre Ltd

AC RC NC

“We focus on UK towns with sustainable tenant demand and a supply and demand imbalance as they offer more attractive returns”



CORPORATE GOVERNANCE

Chairman's Letter

I am delighted to be writing to you following the Company's admission to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market

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. The Company has complied with the UK Corporate Governance Code except to the extent as shown below.

Matter not Compliant	Explanation	Proposal for change
Nominations Committee Membership – There are four members of the Committee, of which two are not independent. The Committee is also chaired by the Non-Executive Chairman who is not considered to be independent in view of his shareholding. (B.2.1)	The Company has only two independent Non-Executive Directors and it was considered important that the Committee should have more than just two members.	It is intended that a further Non-Executive Director be appointed during the forthcoming financial year who will become a member of the Committee.
Audit and Remuneration Committee Membership – The Chairman of the Company, Stanley Davis, who is a member of the Audit and Remuneration Committee was not considered independent on appointment. (C.3.1 and D.2.1)	There are only two other Non-Executive Directors and it was considered important that the Committee should have more than just two members.	It is intended that a further Non-Executive Director be appointed during the forthcoming financial year who will become a member of the Committee.

The UK Corporate Governance Code may be found on the website of the Financial Reporting Council, www.frc.org.uk

We have a well-balanced Board with a good range of skills. With our move to the Main Market we will be taking the opportunity to consider the number of Non-Executive directors and it is our intention to appoint a further non-executive Director during the financial year. Succession planning will also be a key area of focus to support the Company's long-term plans.

A performance review of the Directors has been undertaken recently and the findings were extremely positive. The Chief Executive reviewed the performance of the other Executive Directors and the Chairman reviewed the performance of the Chief Executive. A review of each Committee was undertaken by its members. The Board and its Committees continue to work well together with the right balance of skills and expertise.



A handwritten signature in blue ink, appearing to read 'Stanley Davis'.

Stanley Davis
Chairman

8 June 2018

Leadership

Board and Committee Structure

The Board

Chairman	Stanley Davis
Comprises	3 Executive and 3 Non-Executive Directors (including the Chairman)
Role	Responsible to the shareholders for the long-term strategy, control and leadership of the Group

Board Committees

Audit Committee (3 members)

Chairman
Kim Taylor-Smith
Comprises additionally
1 Non-Executive Director and the Chairman of the Company
Role

Financial reporting
Monitors risk management and internal control
Monitors external auditors

 Audit Committee Report on pages 43 to 44

Remuneration Committee (3 members)

Chairman
Anthony Dove
Comprises additionally
1 Non-Executive Director and the Chairman of the Company
Role

Remuneration policy
Sets Directors remuneration packages and incentives
Approves bonus and LTIP targets and awards

 Remuneration Committee Report on pages 45-49

Nomination Committee (4 members)

Chairman
Stanley Davis
Comprises additionally
2 Non-Executive Directors and the Chief Executive Officer
Role

Recommends Board appointments
Succession planning and Board composition
Skills and diversity of Board members
Performance evaluation

 Nomination Committee Report on page 42

The framework reflects the composition of the Board as at 31 March 2018.

CORPORATE GOVERNANCE CONTINUED

Leadership continued

THE BOARD

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 Board has reviewed the roles of Anthony Dove and Kim Taylor-Smith and concluded that they are both independent and free from any relationship that could affect the exercise of their independent judgement. It is felt that their knowledge and understanding are fundamental to the Board's deliberations. No individual or group of individuals dominates the Board's decision-making.

Anthony Dove is the Senior Independent Director.

The profiles of the Board members appear on pages 36 to 37 of this report. These indicate the high level and range of business experience which enables the Group to be managed effectively. The Directors' interests in the shares of the Company are set out on page 56.

The Board met seven times during the financial year for meetings with fixed dates and a further six meetings were convened to deal with matters requiring approvals. 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.

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 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. He is also responsible for dealing with investor and public relations and external communications.

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 meets to consider the Company's accounting policies and in particular with the Company's auditors to review the financial statements.

Nominations Committee

The Nominations 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.

Remuneration Committee

The Committee meets when necessary to review the remuneration of the Executive Directors. It is also responsible for determining the fees of the Chairman with the Chairman not participating in the process.

The terms of reference of the Board Committees may be found on the Company's website, www.palacecapitalplc.com

Effectiveness

COMMITMENT

Board Attendance

During the year there were seven Board Meetings on fixed dates and six ad hoc meetings. Attendances of each board member was as follows:

Stanley Davis	12
Neil Sinclair	13
Stephen Silvester	13
Richard Starr	13
Anthony Dove	13
Kim Taylor-Smith	13

INDUCTION AND TRAINING

The induction process for new directors is led by the Senior Independent Director assisted by the Company Secretary and consists of the following:

- Meetings with Executive and Non-Executive Directors
- Meetings and introductions to senior employees
- Provision of detailed induction pack
- Attendance at Committee Meetings, initially as an observer

ELECTION AND RE-ELECTION OF DIRECTORS

Any Director appointed during the year 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. At the forthcoming Annual General Meeting, a resolution will be proposed to amend the Articles of Association of the Company. The new Articles provide that any Directors appointed by the Board since the last Annual General Meeting or who were not appointed or re-appointed at one of the two preceding Annual General Meetings must retire and may offer themselves for re-appointment.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is ultimately responsible for establishing and maintaining the Group's framework of risk management and internal control and for determining the nature and extent of the principle risks it is willing to take to achieve its strategic objectives. The Board has carried out a robust assessment of the principal risks facing the Group and these are described in the Risk Management section on pages 32 to 33. The Board has delegated the responsibility of reviewing the effectiveness of the risk management processes and internal control environment and compliance with the Combined Code to the Audit Committee.

A key part of the risk management process is the identification and assessment of risks which is the responsibility of the Executive Directors, assisted by senior management. Short reporting lines and operating from one office ensures the Executive Directors have close involvement in day to day matters allowing early identification of risks and development of mitigation strategies.

The Audit Committee monitors and reviews the effectiveness of the Group's internal controls. The key elements of the Group's internal control framework are as follows:

- A defined schedule of matters reserved for the Board's attention.
- A documented appraisal and approval process for all significant capital expenditure.
- A comprehensive and robust system of financial budgeting, forecasting and reporting.
- Short-term cash flow forecasting that is considered fortnightly.
- A sound financial and property management system.
- An organisational structure with clearly defined roles, responsibilities and limits of

authority that facilitates effective and efficient decision making.

- Close involvement of the Executive Directors in day to day operations including regular meetings with senior management on all operational aspects of the business.
- The maintenance of a risk register.
- A formal whistle blowing policy.

The requirement for a dedicated internal audit function was considered during the year and was not felt to be necessary or appropriate given the size and structure of the Group, the close day to day involvement of the Executive Directors and the internal control procedures in place.

RELATIONS WITH SHAREHOLDERS

The Board considers regular contact with our shareholders to be an important aspect of corporate governance. Investor Relations is the responsibility of the Chief Executive.

During the year, the Chief Executive and the executive directors held a considerable number of meetings with current and potential investors. Meetings involved either group or individual presentations and tours of the property portfolio.

ANNUAL GENERAL MEETING

Shareholders are encouraged to attend and participate in the Annual General Meeting of the Company. The whole Board attends and is available to answer shareholder questions.

The Senior Independent Director, Anthony Dove, is available for shareholders to contact if other channels of communication with the Company are not available. During the course of the year, Anthony had a number of exchanges with shareholders.

CORPORATE GOVERNANCE CONTINUED

Nominations Committee Report

I am pleased to present the Committee's Report for the year. It has been a quiet year in terms of meetings but I have a number of matters scheduled for the forthcoming year.

Since I was appointed Chairman of the Company in 2010 the Board has evolved. Neil Sinclair and I were the first two directors of the Company following the acquisition of 29.9% of an AIM listed company and Richard Starr joined the Board as an Executive Director in 2013, with Stephen Silvester completing the Executive Team in 2015. Anthony Dove, the Senior Independent Director, joined the Board in 2011 and Kim Taylor-Smith joined the Board in 2014 as a further non-executive Director. Following our move to the Main Market of the London Stock Exchange we will be looking for a further non-executive Director and I have referred to the proposed recruitment below.

COMMITTEE MEMBERSHIP

The Nominations Committee members throughout the year were Stanley Davis (Chairman), Neil Sinclair, Anthony Dove and Kim Taylor-Smith.

MEETINGS AND ATTENDANCE

During the year, the Nominations Committee met once and all the members of the Committee were in attendance.

COMMITTEE RESPONSIBILITIES

The primary role of the Committee is to consider Board composition and orderly succession for both Executive and Non-Executive Directors.

SUCCESSION PLANNING AND DEVELOPMENT

A key priority of the Committee is the consideration of succession planning and talent development to support the Company's long-term plans. In reviewing succession planning for both Executive and Non-Executive Directors, the Committee considers the leadership needs and skill sets required and the balance of the Board. This will be a continuing process and we will seek to recruit a further non-Executive Director this financial year which will be the main focus of the Committee. Anthony Dove will have been a Non-Executive Director for nine years when his current term comes to an end in 2020 and we shall again seek to refresh the Board with a new Non-Executive Director.

DIVERSITY

The Board recognises the importance of diversity at every level of recruitment. All appointments are made on merit.

TENURE OF DIRECTORS (AT 31 MARCH 2018)

	Years
Stanley Davis	7
Neil Sinclair	7
Stephen Silvester	2
Richard Starr	5
Anthony Dove	7
Kim Taylor-Smith	4



Stanley Davis
Chairman
Nominations Committee

8 June 2018

Audit Committee Report

I am pleased to present the Committee's report for the year.

The Committee is an important element of the Group's governance structure and provides a key oversight and assurance role.

The responsibilities of the Audit Committee are set out below.

COMMITTEE MEMBERSHIP

The Audit Committee members throughout the year were Kim Taylor-Smith (Chairman), Stanley Davis and Anthony Dove.

MEETINGS AND ATTENDANCE

During the year, the Audit Committee met three times. Attendance by members of the Committee was as follows:

Kim Taylor-Smith	3
Stanley Davis	3
Anthony Dove	3

Stephen Silvester, the Finance Director, additionally attended all meetings.

The committee is satisfied that Kim Taylor-Smith, a chartered accountant, brings recent and relevant financial experience as required by the UK Corporate Governance Code having held the position of Finance Director of a number of Stock Exchange listed companies. The Committee considers that all members have the necessary expertise required in the sector in which the Company operates. Biographies of the Committee members can be found on pages 36 to 37.

COMMITTEE RESPONSIBILITIES

The key responsibilities of the Audit Committee are as follows:

- Review the work of the external auditor and valuer and any significant financial judgements made by management.
- Approve the annual and half yearly financial statements before proposing them to the Board for approval.
- Ensuring that the Annual Report is fair, balanced and understandable.
- Consider the appointment of the external auditor, their reports to the Committee and their independence.
- Review of internal controls, risk management systems, going concern and viability.

GOING CONCERN

The Committee reviewed whether it was appropriate to adopt the going concern basis in the preparation of the financial statements. In considering this the Committee reviewed the three year forecasts, availability of bank facilities and the headroom under the financial covenants in our debt arrangements. Following the review the Committee recommended to the Board that it was appropriate to adopt a going concern basis.

VIABILITY STATEMENT

The Committee reviewed the Viability Statement and the period for which the Board should assess the prospects of the Group. Following the review the Committee concluded that a three-year period was appropriate.

FINANCIAL STATEMENTS

The Executive Directors confirmed to the Committee that they were not aware of any material misstatements in the Annual Report.

The Committee is satisfied that the financial statements in respect of both the amounts reported and the disclosure have been thoroughly considered.

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018: FAIR, BALANCED AND UNDERSTANDABLE

The Committee reported to the Board that it considered that the Annual Report was fair in that it included all relevant transactions and balances.

It was considered to be balanced on the basis that it is consistent throughout with a mix of statutory and alternative performance measures.

Understandable because it has been written in straight forward language without unnecessary repetition with appropriate use of diagrams and charts. The contents pages aid navigation and cross references have been added where needed.

The Committee reached these conclusions having regard to the systems and controls framework and following detailed reviews by the Finance Director and Financial Controller.

CORPORATE GOVERNANCE CONTINUED

Audit Committee Report continued

SIGNIFICANT JUDGEMENTS

The valuation opinion on the Group's properties by independent external valuers is one of the most critical components of the annual and half year financial results.

This valuation, together with determining whether to account for a property acquisition as a business combination or as an acquisition of an investment property and a review of the quantum of share-based payments were significant judgements during the year.

The Board considered the valuation at its meeting to approve the financial statements and two members of the Audit Committee met with the valuers.

In determining whether to account for a property acquisition in a special purpose vehicle in a business combination or as an acquisition of an investment property, management make a professional judgement on the application of the Business Combinations accounting standard.

Share based payments are estimated by external valuers through the use of option valuation models. Judgement is exercised in assessing the number of options that will vest.

The recognition of deferred tax balances involves the use of management judgement. Due to the size of the Group's property portfolio and the level of capital allowance claims made in the tax calculations for deferred tax liabilities, it is considered to be relatively complex.

EXTERNAL AUDITOR

The Committee has assessed the performance, independence, objectivity and fees of the external auditor, BDO LLP. In making its assessment the Committee

considered the qualifications, expertise and resources of the audit partner and team as well as the quality and timeliness of the delivery of the audit.

BDO LLP were first appointed as external auditor in respect of the year ended 31 March 2015. UK regulation requires the rotation of the lead audit partner every five years and Richard Levy has been the lead partner since the year ended 31 March 2016. Prior to the Company's move to the Main Market the Company has awarded a number of non-audit assignments to BDO LLP, such as corporate and tax advisory and is conscious of the need to ensure their independence and objectivity is not compromised. The Committee determined that the award of non-audit assignments to BDO LLP did not compromise their independence on the basis that different teams worked on the separate engagements. The Committee continues to believe that in some circumstances, the external auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work. For this reason, we have continued to appoint BDO as reporting accountants on the following matters:

Corporate Finance Services:
£240,000

Tax Services: £64,000

Audit Related Assurance: £8,000

These services were provided in respect of the Warren acquisition and the move to the Main Market.

The Committee will keep under review the provider of audit and non-audit assignments and future non-audit services will be authorised on the basis that they are permissible under regulations relating to a Public Interest Entity.

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.

INTERNAL AUDIT

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

AUDIT FEES

Fees payable to the Group's auditors for audit and non-audit services are set out in note 5 on page 83.

Total fees related to non-audit services represented 71% of the total fees for audit services (2017 19%).

WHISTLEBLOWING PROCEDURES

The Audit Committee reviews arrangements whereby employees may in confidence raise concerns which are detailed in the Company's Employee Handbook.



Kim Taylor-Smith
Chairman
Audit Committee

8 June 2018

Remuneration Report

I am pleased to present the Committee's Report for the year during which the Company reported another strong set of results. The Company has continued its policy of actively managing its assets which were also substantially increased during the year. The main decisions made by the Committee during the year were as follows:

2018 SALARY REVIEW

During the year the Company achieved considerable progress with its strategic objectives. It completed the major acquisition of R. T. Warren (Investments) Limited which was accompanied by a successful placing and Open Offer. It obtained an enhanced planning consent for Hudson House in York. It refinanced a substantial part of its debt and importantly moved from the AIM market of The London Stock Exchange to a premium listing on the Main Market. Against this background it was considered appropriate to have a major review of the remuneration of the Executives. New service contracts have been entered in to and an average of 19.9% salary increases were awarded to the Executives.

2018 ANNUAL BONUS

Financial and operational targets are set each year for the annual bonus scheme. The outcome of performance against targets was 95% of the maximum potential target. The 2018 bonus targets are disclosed in full on page 53.

LTIP VESTING

LTIP awards which were made in 2014 vested on 30 June 2017. The targets for these awards were 50% based on Total Shareholder Return and 50% based on Net Asset Growth. As a result of the performance during the 3 year period 16.6% of the LTIPs granted vested.

2017 LTIP GRANT

On 1 November 2017, grants of 169,956 shares were made to the three Executive Directors based on 100% of their basic salaries with a three year performance period ending on 31 October 2020. The performance criteria remain unchanged with 50% based on Total Shareholder Return and 50% based on net asset growth as compared with that of a group of comparable companies.

REVIEW OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS FEES

Fees for the Chairman and Non-Executive Directors are reviewed every two years and were reviewed with effect from 1 January 2018.

In view of the move to the Main Market, the time commitment of the Non-Executives and comparison with listed companies of a similar size, fee levels were increased by an average of 52% on the recommendation of the Company's Remuneration advisor.

REMUNERATION POLICY

The Company was admitted to the Main List of the London Stock Exchange on 28 March 2018 and as a new company on the Main List it has proposed a Remuneration Policy in order to be completely transparent and this policy is set on pages 46 to 49 of this report and this will be implemented in respect of the year ending 31 March 2019.



Anthony Dove
Chairman
Remuneration Committee

8 June 2018

CORPORATE GOVERNANCE CONTINUED

Remuneration Report continued

RECRUITMENT REMUNERATION ARRANGEMENTS

The Company's principle is that the remuneration of any new recruit to the Board will be assessed in line with the same principles as for the Executive Directors, as set out in the Remuneration Policy.

The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate experience needed for a particular role.

In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any performance measures associated with an award.

Where an existing employee is promoted to the Board, the policy would apply from the date of appointment to the Board and there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, the existing remuneration package would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the Remuneration Committee report for the relevant financial year.

New Non-Executive Directors will be appointed through letters of appointment and fees set at a competitive market level and in line with the other existing Non-Executive Director. Letters of appointment are normally for an initial term of three years.

REMUNERATION POLICY

The following is the Group's policy on director's remuneration:

EXECUTIVE DIRECTORS

ELEMENT	LINK WITH STRATEGY	OPERATION	MAXIMUM POTENTIAL VALUE	PERFORMANCE MEASURES AND PERFORMANCE PERIODS
Salary	Fixed amount at a level appropriate to the skills and experience needed to fulfil the role.	Salaries are reviewed annually with effect from 1 January each year. Any increases are made having regard to inflation and the need to retain and motivate. A review of the salaries in the Company's peer group in conjunction with the Group's remuneration advisors may be undertaken to ensure comparable salaries are being paid. The Remuneration Committee seeks to ensure that salaries are set at levels that are reasonable with an emphasis on total remuneration being achieved from performance-based rewards.	The Committee does not specify a maximum salary or maximum salary increase.	None

ELEMENT	LINK WITH STRATEGY	OPERATION	MAXIMUM POTENTIAL VALUE	PERFORMANCE MEASURES AND PERFORMANCE PERIODS
Annual bonus	To incentivise performance which is measured against targets set at the beginning of the financial year. By paying part of the bonus in shares aligns the interests of the directors with those of shareholders.	Performance targets are set by the Remuneration Committee at the beginning of each financial year. At the end of the financial year the Committee reviews performance against the targets and also takes in to account the overall financial performance and future prospects. The bonus is paid as to 65% in cash and 35% by way of an option over shares. The ability to exercise the option is deferred for a year and there is a period of a further year during which the options may be exercised. The Committee has discretion for 100% to be paid in cash. Malus and clawback provisions apply to all elements of the bonus.	100% of salary.	Performance is assessed against targets which may vary each year. For 2018/19 the performance targets are a 40% profit target and a 60% portfolio valuation measured as compared with an index specifically appropriate for the Company.
LTIP	To incentivise and reward performance over the long-term, aligning directors' interests with those of shareholders.	Awards are proposed to be granted in the form of nil cost options. At the end of the three year performance period a review is undertaken and a comparison made with the performance targets which will determine the percentage of the award that will vest. Malus and clawback provisions apply to LTIPs.	Maximum value of 100% of salary.	The awards are subject to performance targets measured over a 3 year period. These performance measures are aligned to the key objectives of the Company and the creation of shareholder value.
Pension	As part of their overall package Executive Directors, below retirement age, are provided with retirement benefits.	Contributions at the rate of 5% of salary paid in to a pension scheme.	5% of salary for the Executive Directors below retirement age.	None
Other Benefits	As part of their overall package executive directors are provided with additional benefits as part of their comprehensive remuneration package.	• Travel or car allowance • Private medical cover • Life assurance • Critical illness cover	The travel allowances are fixed in the Executive Directors service contracts. Private medical cover is at a level which the Committee determines is fair and reasonable. Life assurance is fixed at £1.5m for the Executive Directors below retirement age. The critical health insurance benefit for the two Executive Directors below retirement age provides £500,000 in the event policy cover terms are met.	None

CORPORATE GOVERNANCE CONTINUED

Remuneration Report continued

REMUNERATION POLICY CONTINUED

Dividend equivalents for share-based awards	Malus and clawback
Awards granted under the Deferred Bonus Plan incorporate the right to receive in cash the sum of all dividends which would have been paid between the date of grant and the date of the delivery of shares in respect of which an option has been exercised.	Where an option has been granted based on any incorrect information including, without limitation, a material misstatement in any published results of the Group, the number of shares subject to the option shall be reduced or eliminated. In the event that an option has already been exercised the Remuneration Committee may decide that the recipient should make a repayment of some or all of the benefit received. Malus and clawback also applies to the cash element of the bonus and in the circumstances described above a repayment of some or all of the cash may be required.

NON-EXECUTIVE DIRECTORS AND CHAIRMAN

ELEMENT	LINK WITH STRATEGY	OPERATION	MAXIMUM POTENTIAL VALUE	PERFORMANCE MEASURES AND PERFORMANCE PERIODS
Fees	To provide competitive fees to attract the right Non-Executives.	Fees are normally reviewed every two years following the advice of the Company's remuneration advisors. Additional fees are payable for the chairing of Board Committees.	No maximum specified.	Not applicable.

DIFFERENCE BETWEEN POLICY FOR DIRECTORS AND EMPLOYEES

Remuneration throughout the Group is considered when setting remuneration policy. Benefits for employees are similar to those provided to the Executive Directors. Individual salaries, awards of bonuses and LTIPs will vary according to the employees' level of responsibility.

APPROACH TO OTHER REMUNERATION PAYMENTS ON TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL

COMPONENT	GOOD LEAVER	BAD LEAVER	CHANGE OF CONTROL
Annual Bonus	May be eligible, at the discretion of the Remuneration Committee to receive an award based on the achievement of the performance targets. If the Director has not been employed throughout the year a reduced pro-rata amount may be paid in specific circumstances or at the discretion of the Remuneration Committee.	Award forfeited.	At the discretion of the Remuneration Committee.
Deferred Share Bonus Plan	Awards vest on the normal vesting date unless the Remuneration Committee determines the award should vest following cessation of employment.	If a participant is dismissed for cause an option shall lapse immediately.	Award vests at date of change of control.
LTIP	Unvested awards will lapse. In the event that a participant dies before an award has vested the award will vest immediately. The number of shares in respect of which the award vests shall be determined by the Remuneration Committee. In certain other defined circumstances the award will vest.	Unvested awards lapse.	Award vests immediately taking in to account the extent to which the performance conditions have been met since the Grant Date.

EXTERNAL APPOINTMENTS

Executive and Non-Executive Directors are permitted to accept external appointments with the prior approval of the Board, where there is no adverse impact on their role with the Group. Any fees arising from such roles may be retained by the Director.

Potential remuneration for directors

The table below illustrates the remuneration opportunity provided to each Executive Director in line with the Remuneration Policy.

Three scenarios have been illustrated for each Executive Director:



The illustrations do not take in to account share price appreciation or dividends.

The minimum reflects salary, pension and benefits which are based on the remuneration as at 1 April 2018.

The on-target includes the remuneration above plus bonus payout of 75% of salary and LTIP threshold vesting at 25% of maximum award.

The maximum reflects fixed remuneration, plus full payout of all incentives. It assumes a maximum bonus of 100% of salary and 100% vesting of annual LTIP award.

SHAREHOLDING REQUIREMENTS

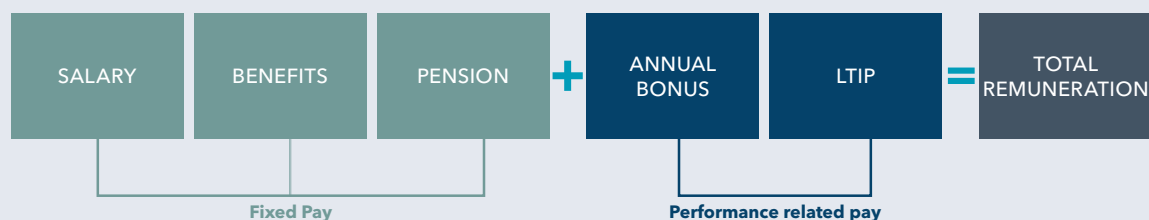
There are no fixed shareholding requirements but Executive Directors are encouraged to build up a shareholding.

Loss of office payment

	Date of Appointment	Date of Contract	Notice Period	Termination Arrangements
N.Sinclair	30.07.2010	15.02.2018	One year's notice	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.
R.Starr	21.10.2013	20.02.2018	One year's notice	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.
S.Silvester	1.07.2015	15.02.2018	One year's notice	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.

CORPORATE GOVERNANCE CONTINUED

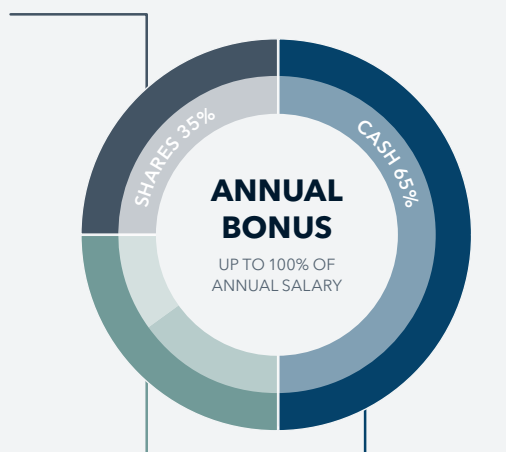
Remuneration at a Glance



Performance related pay framework (2018 Awards)

25%

EPRA NAV PER SHARE GROWTH COMPARED WITH GROUP OF COMPARABLE COMPANIES



25%

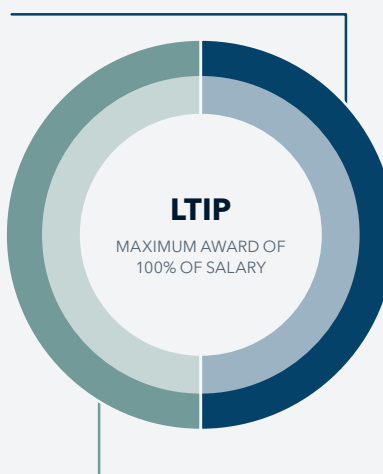
ACHIEVEMENT OF LETTING AND DEVELOPMENT TARGETS

50%

BUDGET TARGET

50%

EPRA NAV PER SHARE GROWTH COMPARED WITH GROUP OF COMPARABLE COMPANIES



50%

TOTAL SHAREHOLDER RETURN (TSR)

Adjusted
PBT

£8.5m
+27%

Dividend
per share

19.0p
+3.0%

EPRA NAV
per share growth

415p
+7%
From base of 389p
post fundraise.

TSR

-1.4%

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 stretched performance targets which reflect how well the Group has performed against set criteria in line with the Company Strategy. 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 and typically over a three-year period.

PENSION PROVISION

The Company makes pension contributions into a defined contribution scheme on behalf of Directors at a rate of 5% of basic salary.

BENEFITS

The Group operates a policy whereby Executive Directors are provided with health insurance, life assurance and critical health cover. Cash alternatives to company cars or payment of certain travel costs are also provided.

CORPORATE GOVERNANCE CONTINUED

Annual Remuneration Report

This report was prepared by the Remuneration Committee and approved by the Board for the financial year to 31 March 2018.

COMMITTEE MEMBERSHIP

The Remuneration Committee members throughout the year were Anthony Dove (Chairman), Stanley Davis and Kim Taylor-Smith.

MEETINGS AND ATTENDANCE

During the year, the Remuneration Committee met six times and all the members were in attendance.

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 2018, 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 considers 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.

ADVISERS TO THE REMUNERATION COMMITTEE

The Company has been advised by MM&K in respect of its LTIP Plans and by H2 Glenfern in respect of its general remuneration policy. Neither of these two companies have any other connection with the Company.

SERVICE CONTRACTS

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

The following are the original contract dates.

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

Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms.

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

Name	Date of letter for current appointment	Date term due to expire
S Davis	1 July 2016	30 June 2019
A Dove	16 November 2017	22 August 2020
K Taylor-Smith	15 November 2017	5 October 2020

Annual Report on Remuneration

The following sections show how the policy described above was applied in the year ended 31 March 2018.

Salary

Salaries for Executive Directors at 31 March 2018 were as follows:

Neil Sinclair	Chief Executive	£285,000
Stephen Silvester	Group Finance Director	£180,000
Richard Starr	Executive Director	£215,000

The Chief Executive's salary was increased by £38,000 with effect from 1 January 2018.

The Group Finance Director's salary was increased by £35,000 with effect from 1 January 2018.

The Group Property Director's salary was increased by £35,000 with effect from 1 January 2018.

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:

Stanley Davis	Non-Executive Chairman	£55,000
Anthony Dove	Senior Non-Executive Director	£45,000
Kim Taylor-Smith	Non-Executive Director	£45,000

The above figures include £5,000 paid to each of the non-executive directors for chairing a committee of the Board.

The fee for the Chairman was increased by £20,000 on 1 January 2018. The fees for Mr Dove and Mr Taylor-Smith were increased by £15,000 on 1 January 2018.

Bonus

The Group's remuneration policy for the year ended 31 March 2018 caps bonus payments to the Executive Directors at 100% of salary. In determining the bonuses, the Executive Directors are measured against specific criteria. Bonuses are awarded at levels of 20/60/80/100% of the maximum depending on whether performance achieves threshold, target, stretch and super stretch of the relevant criterion.

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded are 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 2018, 35% has been deferred in accordance with the terms of the Plan.

Annual Bonus Targets for year ended 31 March 2018

Measure	Weighting	Target
Achievement of Budget	50%	£6.6m achieves 20% and £7.8m 100%
Increase in EPRA NAV per share	25%	Increase in EPRA NAV per share from a proforma base of 389p
Achievement of specific letting and development targets	25%	The Committee considers that the disclosure of specific targets could have an adverse impact on its ability to negotiate transactions

CORPORATE GOVERNANCE CONTINUED

Annual Remuneration Report continued

Annual Bonus Outcomes for year ended 31 March 2018

Measure	Weighting	Target Achievement	Percentage Awarded
Achievement of Budget	50%	The profit for the year exceeded the budget to achieve 100% of this category	50%
Increase in EPRA NAV*	25%	The Company's position as compared with its peer group was 4th achieving 80% of this category	20%
Achievement of specific letting and development targets	25%	The Committee considered that the specific letting and development targets had been achieved	25%

*The EPRA NAV base was adjusted to 389p following the acquisition of RT Warren (Investments) Limited

Long-Term Incentive Plans (LTIP 2014, LTIP 2015, LTIP 2016 and LTIP 2017)

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. 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 is as follows:

	At 1 April 2017	Granted	Vested and Exercised	Lapsed	As at 31 March 2018	Share price at date of award	Grant date	Vesting date
Neil Sinclair	238,866		39,811	199,055	–	£2.00	24.07.2014	30.06.2017
	64,864		–	–	64,864	£3.70	08.12.2015	08.12.2018
	75,949		–	–	75,949	£3.16	04.07.2016	04.07.2019
		72,754	–	–	72,754	£3.39	01.11.2017	01.11.2020
Stephen Silvester	26,351		–	–	26,351	£3.70	08.12.2015	08.12.2018
	30,854		–	–	30,854	£3.16	04.07.2016	04.07.2019
		42,710	–	–	42,710	£3.39	01.11.2017	01.11.2020
Richard Starr	119,433		19,906	99,527	–	£2.00	24.07.2014	30.06.2017
	18,243		–	–	18,243	£3.70	08.12.2015	08.12.2018
	42,722		–	–	42,722	£3.16	04.07.2016	04.07.2019
		54,492			54,492	£3.39	01.11.2017	01.11.2020
Totals	617,282	169,956	59,717	298,582	428,939			

LTIP Performance Criteria

The level of benefit will be dependent on meeting certain defined criteria and with the following allocations:

LTIP 2014

50% based on Total Shareholder Return and 50% based on Earnings per Share.

LTIP 2015

50% based on Total Shareholder Return and 50% based on Net Asset Growth.

LTIP 2016

50% based on Total Shareholder Return and 50% based on Net Asset Growth as compared with that of a group of comparable companies.

The performance conditions for the LTIP 2015 and LTIP 2016 awards were adjusted to take account of the allotment by the Company on 9 October 2017 of 20,588,236 Ordinary Shares at a price of £3.40 per share in connection with the acquisition of R. T. Warren (Investments) Limited ('RTW shares')

The principle of the adjustment is that the performance conditions which currently apply to the 2015 and 2016 LTIP awards should be applied to returns on the RTW shares (based on the issue price of £3.40) on the same basis as the performance conditions currently applied to the original shares in issue, with TSR and NAV returns applicable to the original shares and the RTW shares being weighted to reflect the number of RTW shares in issue and the time period during which returns are generated.

LTIP 2017

50% based on Total Shareholder Return and 50% based on net asset growth as compared with that of a group of comparable companies.

The maximum award under the LTIPs is 100% of salary.

Deferred Bonus Plan

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded may be deferred for a year and options over shares to the value of the deferred bonus amount allocated. The Executive Directors will have a further year from the vesting date to exercise their options.

In respect of the year ended 31 March 2017 35% of the bonuses due to the Executive Directors were deferred the details of which are as follows:

Executive Director	Bonus amount in shares	No. of shares over which options granted	Award Date	Vesting Date	Latest Exercise Date
Neil Sinclair	£54,749	15,553	25/09/17	25/09/18	25/09/19
Stephen Silvester	£32,140	9,130	25/09/17	25/09/18	25/09/19
Richard Starr	£41,006	11,649	25/09/17	25/09/18	25/09/19
Total	£127,895	36,332			

In respect of the year ended 31 March 2018 35% of the bonuses allocated to the Executive Directors amounting to £226,100, as detailed below will be the subject of the grant of further options which will be determined following the shares in the Company becoming ex-dividend on 5 July 2018.

Relative importance of spend on pay

The table below shows the expenditure and percentage change in employee remuneration as compared with dividends paid to shareholders:

	2018	2017	% change
Employee costs	£2,200,000	£1,412,812	55.7%
Dividends	£6,744,014	£4,617,014	46%

Summary of Directors' Total Remuneration (audited)

Executive Directors	Salary 2018	Bonus 2018 Cash	Bonus 2018 shares	LTIP share sales	Pension 2018	Taxable benefits 2018	Total 2018
Neil Sinclair	£256,500	£175,988	£94,762	£141,329	–	£14,800	£683,379
Stephen Silvester	£142,875	£111,150	£59,850	–	£17,334	£8,655	£339,864
Richard Starr	£182,875	£132,762	£71,488	£70,666	£20,578	£8,322	£486,691
Total	£582,250	£419,900	£226,100	£211,995	£37,912	£31,777	£1,509,934

CORPORATE GOVERNANCE CONTINUED

Annual Remuneration Report continued

Summary of Directors' Total Remuneration (audited) continued

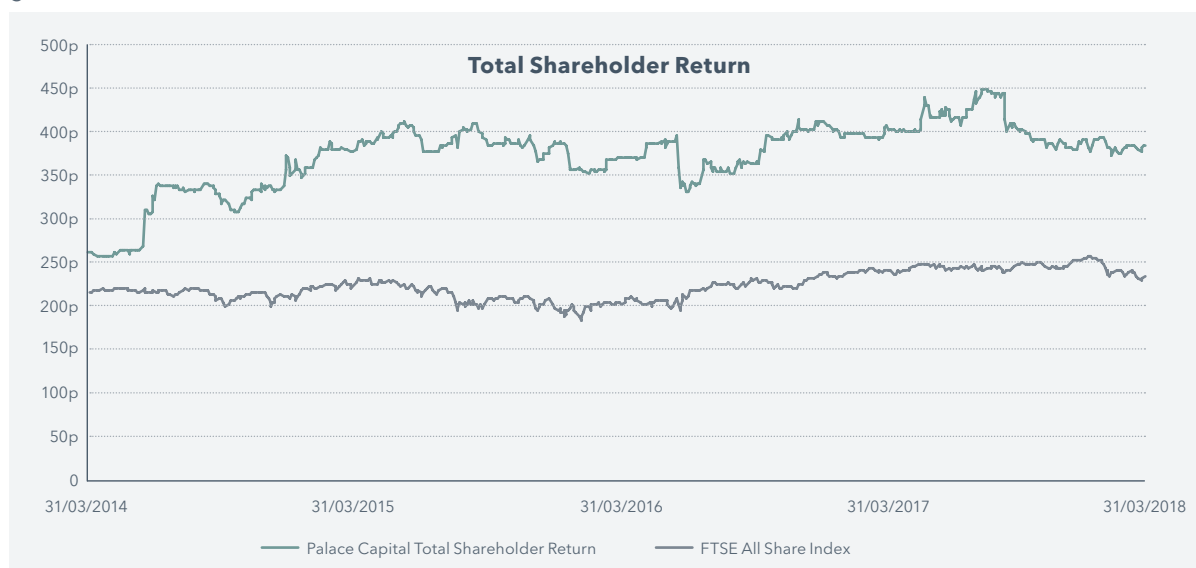
Executive Directors	Salary 2017	Bonus 2017 Cash	Bonus 2017 Shares	Pension 2017	Taxable benefits 2017	Total 2017
Neil Sinclair	£241,750	£101,676	£54,749	–	£14,800	£412,975
Stephen Silvester	£120,375	£59,689	£32,140	£21,908	£8,360	£242,472
Richard Starr	£151,938	£76,154	£41,006	£14,565	£6,110	£289,773
Total	£514,063	£237,519	£127,895	£36,473	£29,270	£945,220

Mr Silvester and Mr Starr participate in a salary sacrifice scheme reducing their salaries and increasing their pensions. Mr Silvester and Mr Starr are the only two Directors who participate in the provision of money purchase pension schemes provided by the Company.

Non-Executive Directors	Fees 2018	Fees 2017
Stanley Davis	£40,000	£31,250
Anthony Dove	£33,750	£26,250
Kim Taylor-Smith	£33,750	£26,250

Review of Past Performance

The following graph shows the Group's Total Shareholder Return (TSR) for the period to 31 March 2018 as compared with the FTSE All Share Index. The Committee has chosen the FTSE All Share Index as it has recently entered this index and it will provide a baseline for future years. Total Shareholder Return measures share price growth with dividends deemed to be reinvested on the ex-dividend date.



Directors' interests in shares

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

	Ordinary shares of 10p each 31 March 2018	Ordinary shares of 10p each 31 March 2017	Outstanding Ordinary share options of 10p each 31 March 2018	Outstanding Ordinary share options of 10p each 31 March 2017
Stanley Davis	1,665,287	1,565,287	–	–
Neil Sinclair	212,761	173,767	229,120	379,679
Stephen Silvester	2,148	2,148	109,045	57,205
Richard Starr	131,575	82,258	127,106	180,398
Anthony Dove	91,000	80,000	–	–
Kim Taylor-Smith	10,000	–	–	–

Payments to past Directors

There were no payments to past Directors in the year ended 31 March 2018.

Payments for loss of office

There were no payments for loss of office in the year ended 31 March 2018.

Percentage change in Chief Executives remuneration

The percentage change in the Chief Executives remuneration from the previous year compared with the average change in remuneration for all other employees is as follows:

	Salary	Taxable Benefit	Annual Bonus
Chief Executive	6.1%	0.0%	73.1%
Other employees (excluding Chief Executive)	10.6%	6.7%	16.1%

Chief Executives remuneration

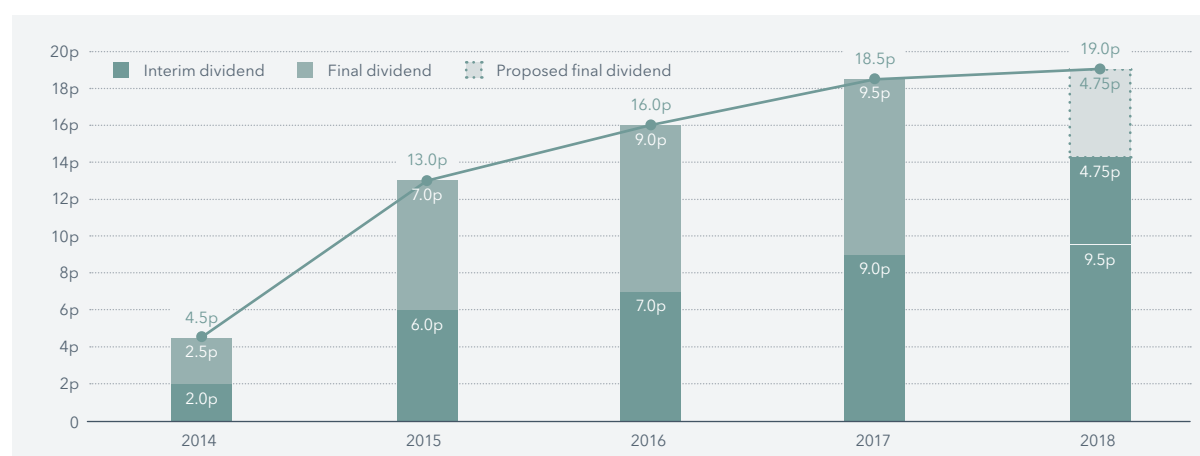
Year to 31 March	Total Remuneration £000	Annual Bonus (as a % of the maximum payout)	LTIP vesting (as a % of the maximum possible)
2018	683,379	95	16.66
2017	412,975	63	—
2016	362,629	**	—
2015	262,007	**	—
2014*	125,647	**	—

* Fourteen month period ended 31 March 2014

** No policy for annual bonuses in place

Progressive Dividend Policy

Palace Capital has a progressive dividend policy. Historically, we rewarded shareholders with an interim dividend in December and final dividend in July. Since joining the main market, Palace Capital has moved to quarterly dividend payments due in April, July, October and December.



CORPORATE GOVERNANCE CONTINUED

Director's Report

The Directors present their Annual Report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2018.

STATUTORY INFORMATION CONTAINED ELSEWHERE IN THE ANNUAL REPORT

Information required to be part of this Directors' Report can be found elsewhere in the Annual Report and is incorporated into this report by reference, as indicated in the relevant section.

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 on pages 16 to 33.

RESULTS AND DIVIDENDS

The results for the year are set out in the financial reports.

The Company paid an interim dividend of 9.5p (2017: 9p) per ordinary share on 29 December 2017, a further interim dividend of 4.75p on 13 April 2018 and the Directors recommend the payment of a final dividend in respect of the year ending 31 March 2018 of 4.75p (2017: 9.5p) per ordinary share to be paid on 31 July 2018 to the shareholders on the register on 6 July 2018.

SHARE CAPITAL

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

DIRECTORS

The Company's rules governing the appointment and replacement of directors are contained in its Articles of Association. Changes to the Articles of Association are only permitted in accordance with legislation and must be approved by a special resolution of shareholders. A special resolution will be put to shareholders at the Annual General Meeting to adopt new Articles of Association.

Details of the directors of the Company who served during the year ended 31 March 2018 and up to the date of the financial statements, are set out on pages 36 to 37 and their interests in the ordinary share capital of the Company and details of options granted under the Group's share schemes are set out in the Annual Remuneration Report on pages 52 to 57.

No member of the Board had a material interest in any contract of significance with the Company, or any of its subsidiaries, at any time during the year.

In accordance with the Articles of Association, Neil Sinclair and Stephen Silvester retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Details of their service contract terms are set out in the Annual Remuneration Report on pages 52 to 57.

GOING CONCERN

The directors confirm they have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for at least 12 months from the date of approval of these financial statements.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group and future viability over a three-year period, being longer than the 12 months required by the 'Going Concern' provision. The Board conducted this review taking account of the Group's long-term strategy, principal risks and risk appetite, current position, asset performance and future plans.

Assessment of Review Period

The viability review was conducted over a three-year period of assessment, which the Board considered appropriate for the following reasons:

- The Group's working capital model, detailed budgets and cashflows consist of a rolling three-year forecast
- It reflects the short cycle nature of the Group's developments and asset management initiatives
- Office refurbishments completed to date have taken less than 12 months and the major redevelopment planned at Hudson House in York is due to take 22 months from commencement to practical completion
- The Group's weighted average debt maturity at 31 March 2018 was 4.7 years

Three years is considered to be the optimum balance between long-term property investment and the inability to accurately forecast ahead given the cyclical nature of property investment.

Assessment of Prospects

The Group's working capital model consists of a base case scenario which only includes deals under offer and also a reasonable case which factors in acquisition and disposal assumptions.

The working capital model includes budgeted profit and cash flows and also considers capital commitments, dividend cover, loan to value, earnings per share and net asset value per share metrics. These are updated at least quarterly against actual performance.

The Executive Committee provides regular strategic input to the financial forecasts covering investment, divestment and development plans, capital allocation and hedging. Executive Directors and senior managers receive regular presentations from external advisors on the macroeconomic outlook which assist with the development of strategy and forecasts. Forecasts are updated at least quarterly, reviewed against actual performance and reported to the Board.

Assessment of viability

A sensitivity analysis was carried out as part of the Prospectus in February 2018 in preparation for moving to the Main Market, which involved flexing a number of key assumptions to consider the impact of changes to the Group's principal risks affecting the viability of the business, being:

- Changes to macro-economic conditions impacting rental income levels and property values.
- Availability of funds for capex and investment.
- Changes to interest rates.

The debt covenants were stress tested to validate resilience to property valuation and rental income decline, as well as increases in future LIBOR and swap rates. It assessed the limits at which key financial covenants and ratios would be breached. The Property values would need to fall by approximately 30% on average to breach the loan to value covenant thresholds under the existing debt facilities. The interest cover across the Group was also sufficient that net income would need to fall by half or interest costs double to breach a 250% interest cover ratio.

The Directors have also taken into account the strong financial position at 31 March 2018, significant cash and available facilities, low LTV, uncharged properties and the Group's ability to raise new finance.

Conclusion

Based on the results of their review, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

PURCHASE OF OWN SHARES BY THE COMPANY

At the Annual General Meeting of the Company held on 11 July 2017, 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 share purchases were made pursuant to this authority during the year. Renewal of this authority will be proposed at the forthcoming Annual General Meeting.

CORPORATE GOVERNANCE CONTINUED

Director's Report continued

SUBSTANTIAL SHAREHOLDINGS

As at 8 June 2018, 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 %
AXA Investment Managers	3,542,633	7.73
Miton Group plc	3,397,806	7.41
JO Hambro	3,356,810	7.32
Stanley Davis	1,665,287	3.63

DIRECTORS' INDEMNITIES AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company's agreement to indemnify each director against any liability incurred in the course of their office to the extent permitted by law remains in force. The Group maintains Directors' and Officers' Liability Insurance.

FINANCIAL RISK MANAGEMENT

The Group is exposed to market risk (including interest rate risk and real estate market 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 in note 26 and the Risk Management sections of the Governance Report.

AUTHORISATION OF CONFLICTS 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 2018, the Directors have authorised no such conflicts or potential conflicts.

OUR APPROACH TO CORPORATE RESPONSIBILITY

At Palace Capital, we believe in conducting our business activities ethically and responsibly. With over £276 million invested in commercial property across the UK, our shareholders depend on us to protect their assets in a safe, secure and responsible manner.

Our approach to Corporate Responsibility (CR) seeks to respect and uphold the human rights of individuals in all areas of our operations, whilst delivering high standards of compliance with national and international standards, employment practices and environmental performance.

We also believe in making a positive difference to the communities in which we live and serve. In 2017–18 our charitable donations reached over £21,500. A large benefactor of our philanthropic activity was Variety, a children's charity focusing on improving the lives of sick, disabled or disadvantaged young people.

BOARD GENDER DIVERSITY

The Board has not adopted a formal policy on diversity given its relative size. This matter will be kept under review as is deemed appropriate by the Board. However, in line with the Companies Act 2006, Palace Capital is required to disclose the composition of Board gender for the financial year ending 31 March 2018, which was as follows:

Board Diversity

	Male	Female	Total
Board of Directors	6	0	6
Senior Managers	3	0	3
Other employees	3	2	5
Employees (Total)	12	2	14

ENVIRONMENTAL MATTERS

As a landlord of second hand commercial property, our active asset management approach means that we are constantly assessing our portfolio and earmarking assets for refurbishment and renewal, utilising the latest technology and environmentally efficient products to equip our properties for 21st century occupation in order to meet minimum energy efficiency standards.

GREENHOUSE GAS EMISSIONS

In line with the Companies Act 2006, Palace Capital is required to measure, monitor and report its greenhouse gas (GHG) emissions. Our GHG calculation and reporting process follows the Greenhouse Gas Protocol ('operational approach') and the DEFRA Environmental Reporting Guidelines (2013). The boundary for reporting includes emissions from sources under our control, grouped under: Scope 1 (direct) GHG emissions from owned assets; and Scope 2 (indirect) GHG emissions from supplied electricity to leased office space. Emissions from sources such as company vehicles, production processes and combustion sources are minimal and therefore not deemed to be material. As a result, these emissions are not included in reported totals. This is the first year that Palace Capital has been required to disclose CO₂ emissions. Going forward, the Group will report year-over-year comparison figures for CO₂.

GHG emissions¹

	2018
Emissions type (kg of CO₂ equivalents)	
SCOPE 1 (DIRECT) ⁴	N/A
SCOPE 2 (INDIRECT) ¹	1,211
Total	1,211
CARBON INTENSITY³ (KG OF CO₂ PER M² AREA)	
SCOPE 1	N/A
SCOPE 2	0.68
Total	0.68

- 1) Emissions from properties leased to customers are not included with the above figures as they are out of scope from the GHG protocol's operational approach.
- 2) Indirect (scope 2) GHG emissions from supplied electricity are based on actual and estimated energy consumption values.
- 3) Intensity based on a total of 1,777 m² in one leased office.
- 4) The Group does not directly combust fuels or own Company vehicles.

AUDITORS

The auditor, BDO LLP, has indicated their willingness to continue in office. The Board, on the advice of the Audit Committee, recommends their re-appointment at the Annual General Meeting.

2018 ANNUAL GENERAL MEETING

The 2018 AGM will be held on 25 July 2018 at the offices of CMS Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF at 10.00 a.m. The resolutions are set out in the Notice of Meeting, together with explanatory notes.

This report was approved by the Board and signed on its behalf.



David Kaye
Company Secretary

Palace Capital plc
Incorporated, registered and domiciled in England and Wales number 5332938
One George Yard
London EC4V 9DF

8 June 2018

GOVERNANCE

Statement of Director's 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 financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 the profit or loss of the Group 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 European Union, subject to any material departures disclosed and explained in the financial statements;
- for the parent company financial statements, state whether they have been prepared in accordance with UK GAAP, 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 the financial statements comply with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulations.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of 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 ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Director' Responsibilities Statement

We confirm to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by The European Union and Article 4 of the IAS regulation, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principle risks and uncertainties that they face; and
- the Annual Report and Accounts taken as a whole is 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 Company'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 Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of the information.

On behalf of the Board



David Kaye
Company Secretary

8 June 2018

GOVERNANCE

Independent Auditor's Report to the members of Palace Capital plc

OPINION

We have audited the financial statements Palace Capital plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and Notes to the financial statements, including a summary of significant accounting policies. 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 preparing the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 2018 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 Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 32 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 41 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 76 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 58 to 59 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The table below shows the key audit matters that we identified. This is not a complete list of all risks identified for our audit. The approach to these risks remained consistent with the prior year.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of investment property portfolio (Investment Properties accounting policy on page 78 and note 11) The valuation of investment property requires significant judgement and estimates by management and the independent external valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The Group's investment property portfolio includes: - Operational properties: these are existing properties that are currently let. They are valued using the income capitalisation method. - Development assets: these are properties being developed. Such assets have a different risk and investment profile to operational assets. They are valued using the residual method (ie by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and an appropriate developer's margin). - Assets held for sale: these are properties held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. They are measured at the lower of the carrying value immediately prior to being classified as held for sale and fair value less costs to sell. Each valuation requires consideration of the individual nature of the property, its location, its cash flows and comparable market transactions. The valuation of these properties requires the discounting of estimated future cash flows with deductions for costs to complete and an appropriate developer's margin for those under development. Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and net yield applied and estimated costs to complete for assets under development) could result in a material misstatement of the Consolidated Statement of Comprehensive Income or the Consolidated Statement of Financial Position. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations or bonus and LTIP targets.	We obtained an understanding of the approach to the valuation of all properties in the portfolio. We met with the Group's independent external valuer, who valued all of the Group's investment properties except for those classified as held for sale which were valued by the Directors, to understand the assumptions and methodologies used in valuing these properties, the market evidence supporting the valuation assumptions and the valuation movements in the year. We also discussed with the Directors the assumptions, methodology and sources of evidence used in the valuation process for the assets held for sale. We assessed the competency, independence and objectivity of the independent external valuer which included making enquiries regarding interests and relationships that may have created a threat to the valuer's objectivity. We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the inputs used in the valuation of all properties. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics and wider economic and commercial factors. We assessed the valuation of all investment properties against our own expectations and challenged those valuations which fell outside of our range of expectations. We agreed a sample of key observable valuation inputs supplied to and used by the independent external valuer and the Directors to supporting documentation. For properties under development we assessed forecasted project costs and profit margins and compared them to market data.

GOVERNANCE

Independent Auditor's Report to the members of Palace Capital plc continued

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition (Revenue accounting policy on page 77 and note 1) The Group has several property managers and multiple tenants across its property portfolio for the year under review and therefore revenue recognition has a significant impact on the allocation of resource and directing the efforts of the audit team. Rental income is recognised on a straight line basis over the lease term for the Group's operational assets based upon rental agreements that are in place. The most significant accounting estimate concerning revenue recognition is the Directors' assessment of the lease term over which incentives are recognised. There is a risk that revenue is not supported by underlying tenancy agreements or is inappropriately recognised.	We assessed the treatment of all lease incentives (including rent free periods) and confirmed that these incentives are treated in accordance with the accounting standards and underlying leases. We developed detailed expectations for the annual revenue amount based on the tenancy schedules and compared these with revenue recognised in the financial statements. We agreed a sample of the information in the tenancy schedules to the underlying leases and other documentation such as rent review memoranda. This included all new leases, and lease changes, in the year. We tested the deferred income recognised at 31 March 2018 for a sample of units to ensure that income received in advance had been calculated in accordance with the leases and amounts invoiced and /or cash received.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds.

	Financial statement materiality	Specific materiality – EPRA earnings
Materiality	£2,950,000	£325,000
Performance materiality	£2,212,500	£243,750
Reporting threshold	£59,000	£6,500

Materiality

We consider materiality to be the magnitude by which misstatements, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the Group financial statements as a whole to be £2,950,000 (2017: £1,941,000), which was set at 1% of Group total assets (2017: 1%). This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that Group total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for members of the Parent Company in assessing the financial performance of the Group.

We determined that for other account balances, classes of transactions and disclosures not related to investment properties a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We determined that materiality for these areas should be £325,000 (2017: £266,000), which was set at 5% (2017: 5%) of EPRA earnings. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, deferred tax movements relating to revaluation gains and interest rate derivatives.

We determined that the same measure as the Group was appropriate for the Parent Company, and the materiality and specific materiality applied were £1,800,000 and £308,750 respectively.

Performance materiality

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

In determining this in both the current and prior year, we based our assessment on a level of 75% (2017: 75%) of materiality, namely £2,212,500 (2017: £1,456,000). In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. We have used a similar basis for specific materiality impacting EPRA earning, namely £243,750 (2017: £200,000).

We determined that the same measure as the Group was appropriate for the Parent Company, and the performance materiality and specific performance materiality applied were £1,350,000 and £231,563 respectively.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £59,000 (2017: £39,000) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds. We have also agreed to report differences impacting EPRA earnings in excess of £6,500 (2017: £5,320).

We determined that the same measure as the Group was appropriate for the Parent Company and the reporting threshold applied for overall materiality and specific materiality were £36,000 and £6,175 respectively.

An overview of the scope of our audit

We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The Group operates solely in the United Kingdom and operates through one segment, investment property. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions, including undertaking all of the audit work on the key risks of material misstatement.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report, including the Overview, Strategic Report and Governance sections, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

GOVERNANCE

Independent Auditor's Report to the members of Palace Capital plc continued

OTHER INFORMATION CONTINUED

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 62 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 43 to 44 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 38 – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 and the part of the Directors' remuneration report to be audited 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the Audit Committee, we were appointed by the board of Directors on 1 April 2015 to audit the financial statements for the year ended 31 March 2015. In respect of subsequent periods we have been reappointed annually by the members at the Annual General Meeting. The period of total uninterrupted engagement is four financial years, covering the years ending 31 March 2015 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

USE OF OUR REPORT

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Levy
(senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

8 June 2018

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





FINANCIAL STATEMENTS

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PROPERTY FOCUS

BANK HOUSE, LEEDS

- Office located in central Leeds.
- Total area of 88,036 sq ft.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Rental and other income	1	16,733	14,266
Property operating expenses	5b	(1,824)	(2,055)
Net property income		14,909	12,211
Administrative expenses	5c	(4,185)	(2,915)
Operating profit before gains and losses on property assets and cost of acquisitions		10,724	9,296
Profit on disposal of investment properties		274	3,191
Gains on revaluation of investment property portfolios	11	5,738	3,101
Operating profit		16,736	15,588
Finance income	3	10	3
Finance expense	4	(3,442)	(3,014)
Profit before taxation		13,304	12,577
Taxation	7	(773)	(3,191)
Profit after taxation for the year and total comprehensive income attributable to owners of the parent		12,531	9,386
EARNINGS PER ORDINARY SHARE			
Basic	8	35.9p	36.6p
Diluted		35.8p	36.5p

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 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Investment properties	11	253,863	183,916
Property, plant and equipment	12	121	43
		253,984	183,959
Current assets			
Assets held for sale	11	21,708	–
Trade and other receivables	13	5,551	2,511
Cash at bank and in hand	14	19,033	11,181
		46,292	13,692
Total assets		300,276	197,651
Current liabilities			
Trade and other payables	15	(8,834)	(6,161)
Borrowings	17	(2,686)	(2,036)
Creditors: amounts falling due within one year		(11,520)	(8,197)
Net current assets		34,772	5,495
Non-current liabilities			
Borrowings	17	(97,157)	(75,758)
Deferred tax liability	7	(6,531)	(2,187)
Obligations under finance leases	20	(1,588)	(1,950)
Derivative Financial Instruments	16	(181)	–
Net assets		183,299	109,559
Equity			
Called up share capital	21	4,639	2,580
Share premium account		125,036	59,444
Treasury shares		(2,011)	(2,250)
Merger reserve		3,503	3,503
Capital redemption reserve		340	340
Retained earnings		51,792	45,942
Equity – attributable to the owners of the parent		183,299	109,559
Basic NAV per ordinary share	9	400p	436p
Diluted NAV per ordinary share		400p	434p

These financial statements were approved by the Board of Directors and authorised for issue on 8 June 2018 and are signed on its behalf by:



Stephen Silvester
Finance Director



Neil Sinclair
Chief Executive

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

	Notes	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2016		2,862	59,408	–	3,568	40,977	106,815
Total comprehensive income for the year		–	–	–	–	9,386	9,386
Transactions with Equity Holders							
Redemption of shares		–	–	(2,357)	–	–	(2,357)
Gross proceeds of issue from new shares	21	2	36	107	–	–	145
Redemption of deferred shares		(284)	–	–	275	–	(9)
Share-based payments	22	–	–	–	–	237	237
Exercise of share options	21	–	–	–	–	(41)	(41)
Dividends paid	10	–	–	–	–	(4,617)	(4,617)
At 31 March 2017		2,580	59,444	(2,250)	3,843	45,942	109,559
Total comprehensive income for the year		–	–	–	–	12,531	12,531
Transactions with Equity Holders							
Gross proceeds of issue from new shares	21	2,059	67,941	–	–	–	70,000
Costs of issue of new shares	21	–	(2,349)	–	–	–	(2,349)
Share based payments	22	–	–	–	–	174	174
Exercise of share options	21	–	–	239	–	(239)	–
Issue of deferred bonus share options	21	–	–	–	–	128	128
Dividends paid	10	–	–	–	–	(6,744)	(6,744)
At 31 March 2018		4,639	125,036	(2,011)	3,843	51,792	183,299

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.

Treasury shares represents the consideration paid for shares bought back from the market.

Other reserves comprise the merger reserve and the capital redemption reserve.

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 capital redemption reserve represents the nominal value of cancelled preference share capital redeemed.

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Operating activities			
Net cash generated in operations	2	9,899	10,294
Interest received		10	–
Interest and other finance charges paid		(2,714)	(2,516)
Corporation tax paid in respect of operating activities		(395)	(1,047)
Net cash flows from operating activities		6,800	6,731
Investing activities			
Purchase of investment property and acquisition costs capitalised	11	(72,808)	(10,950)
Capital expenditure on refurbishment of investment property	11	(2,754)	(4,579)
Proceeds from disposal of investment property		8,765	12,447
Amounts transferred into restricted cash deposits		(805)	(244)
Purchase of property, plant and equipment	12	(123)	(26)
Net cash flow (used in)/from investing activities		(67,725)	(3,352)
Financing activities			
Bank loans repaid		(45,242)	(19,346)
Proceeds from new bank loans		53,393	25,813
Loan issue costs paid		(1,085)	(606)
Proceeds from issue of Ordinary Share capital		70,000	29
Costs from issue of Ordinary Share capital		(2,349)	–
Dividends paid	10	(6,744)	(4,617)
Purchase of treasury shares		–	(2,250)
Payment of share options exercised		–	(41)
Net cash flow from financing activities		67,973	(1,018)
Net increase in cash and cash equivalents		7,048	2,361
Cash and cash equivalents at beginning of the year		10,937	8,576
Cash and cash equivalents at the end of the year	14	17,985	10,937

Notes to the Consolidated Financial Statements

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 Main 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 Lower Ground Floor, One George Yard, London, United Kingdom, EC3V 9DF.

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 2018 and have been prepared on a historical cost basis, except for investment properties and derivatives which have been measured at fair value. The consolidated financial statements are presented in pounds sterling ('GBP') which is also the Company and the Group's functional currency.

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 operation for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

NEW STANDARDS ADOPTED DURING THE YEAR

At the date of authorisation of these financial statements, the following accounting standards had been issued which are not yet applicable to the Group:

- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers.
- IFRS 16 Leases.

Impact assessment of adopting new Accounting Standards and Interpretations

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods. Further details of IFRS 9, 15 (both mandatory for financial years commencing on or after 1 January 2018) and IFRS 16 (mandatory for financial years commencing on or after 1 January 2019) are given below:

- IFRS 9 Financial Instruments (Effective 1 January 2018).
- This standard deals with the classification, measurement and recognition of financial assets and liabilities and replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement.
- The Group do not apply hedge accounting on the financial derivatives held. As such, there is no material impact on the adoption of IFRS 9. Derivative financial instruments continue to qualify for designation as at fair value through the profit and loss under IFRS 9. The Directors will continue to assess and monitor this going forward.
- The Group will need to apply an expected credit loss model when calculating impairment losses on its trade and other receivables. This may result in increased impairment provisions and greater judgement due to the need to factor in forward looking information. It will need to consider the probability of default occurring over the contractual life of its trade receivables and contracts. As the Company has tenants with strong covenants and generally tenant receipts are received in advance or on the due date, the Directors do not consider there to be a material impact on the Group financial statements.

- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018).
- The standard is applicable to management fees and other income but excludes rent receivable, which is within the scope of IFRS 16. The new standard will not have a material impact on the financial statements.
- IFRS 16 Leases (Effective 1 January 2019).

This standard requires lessees to recognise a right-of-use asset and related lease liability representing the obligation to make lease payments. Interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in the statement of comprehensive income. The Directors do not anticipate that the adoption of this will have a material impact on the Group's financial statements as the Group only holds one operating lease, being the head office. The Directors will continue to assess the impact of the new standard going forward.

Additionally, amendments to existing standards have been issued by the IASB, including:

- IAS 7 (amendments) 'Statement of Cash Flows'
- IAS 12 (amendments) 'Recognition of Deferred Tax Assets for Unrealised Losses'

The Directors do not consider that these amendments will materially impact the financial statements.

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 following three elements are present: power to direct the activities of the entity, exposure to variable returns from the entity and the ability of the Company to use its power to affect those variable returns. 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. Intra-group balances and any unrealised gains and losses arising from intra-group 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 de-consolidated 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 an acquired subsidiary does not meet the definition of a business, it is accounted for as an asset acquisition rather than 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 the 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 Statement of Comprehensive Income 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 insurance commission, property management fees and miscellaneous income and is accounted for on an accruals basis.

Notes to the Consolidated Financial Statements continued

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

The Company operates a 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 independent valuers. The fair value of the Group's property portfolio is based upon independent 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. In determining the fair value of investment properties, the independent valuers make use of historical and current market data as well as existing lease agreements.

The Group recognises investment property as an asset when it is probable that the economic benefits that are associated with the investment property will flow to the Group and it can measure the cost of the investment reliably.

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected from disposal.

The Group evaluates all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property. Any costs deemed as repairs and maintenance or any costs associated with the day-to-day running of the property will be recognised in the Statement of Comprehensive Income as they are incurred.

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

Non-current assets and disposal groups are classified as held for sale when:

- They are available for immediate sale;
- Management is committed to a plan to sell;
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- An active programme to locate a buyer has been initiated;
- The asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- A sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- Fair value less estimated costs of disposal.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed during the year are included in the Consolidated Statement of Comprehensive Income up to the date of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the Consolidated Statement of Comprehensive Income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

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 Statement of Comprehensive Income 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

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.

Notes to the Consolidated Financial Statements continued

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 Statement of Comprehensive Income 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.

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 20% main rate in the tax year 2016 to 19% with effect from 1 April 2017 and to 17% from 1 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 PAYMENTS

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 the Group'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.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as interest rate swaps, to manage its exposure to interest rate risk. The differences between interest payable by the Group and interest payable to the Group by the swap counterparties are dealt with on an accruals basis. At each reporting date the instruments are stated at fair value in the Consolidated Statement of Financial Position which is the estimated amount that the Group would receive or pay to terminate the instruments based on the current interest rate yield structure.

EQUITY

For the purpose of preparing the consolidated financial information 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.

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.

Treasury share reserve represents the consideration paid for shares bought back from the market.

The capital redemption reserve represents the nominal value of cancelled preference share capital redeemed.

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 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 11.

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.

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.

Deferred tax

In determining the quantum of deferred tax balances 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 and the timing of transactions. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity in assessing the recoverability of assets recognised.

Notes to the Consolidated Financial Statements continued

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 is 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 CODM.

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	2018 £'000	2017 £'000
Rents received from investment properties	16,360	13,809
Management fees & other income	373	457
Total Revenue	16,733	14,266

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

2. RECONCILIATION OF OPERATING PROFIT

Reconciliation of operating profit to cash generated in operations

	2018 £'000	2017 £'000
Profit before taxation	13,304	12,577
Finance income	(10)	(3)
Finance costs	3,442	3,014
Gains on revaluation of investment property portfolio	(5,738)	(3,101)
Profit on disposal of investment properties	(274)	(3,191)
Depreciation	45	20
Share based payments	174	237
(Increase)/Decrease in receivables	(3,081)	1,681
Increase/(Decrease) in payables	2,037	(940)
Net cash generated in operations	9,899	10,294

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £'000	2017 £'000
Bank interest received	10	3
	10	3

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £'000	2017 £'000
Interest on bank loans	2,677	2,452
Loan arrangement fees	342	249
Debt termination cost	127	155
Interest on finance leases	115	158
Fair value loss on derivatives	181	–
	3,442	3,014

5. PROFIT FOR THE PERIOD

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

	2018 £'000	2017 £'000
Depreciation of tangible fixed assets:	45	20
Auditor's remuneration:		
Fees payable to the auditor for the audit of the Group's annual accounts	83	50
Fees payable to the auditor for the audit of the subsidiaries annual accounts	21	21
Fees payable to the auditor and its related entities for other services:		
Corporate advisory services	240	–
Audit related assurance services	8	8
Tax services	64	18
	416	97

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

b) The Group's property operating expenses comprise the following:

	2018 £'000	2017 £'000
Void investment and development property costs	1,445	2,055
Legal, lettings and consultancy costs	379	–
	1,824	2,055

The Group had no properties that were vacant throughout the period.

Notes to the Consolidated Financial Statements continued

5. PROFIT FOR THE PERIOD CONTINUED

c) The Group's administrative expenses comprise the following:

	2018 £'000	2017 £'000
Staff costs	2,200	1,413
Costs in respect of move to Main Market	698	–
Rent, rates and other office costs	207	80
Accounting and audit fees	188	141
Share based payments	174	237
Other overheads	162	77
PR and marketing costs	160	197
Consultancy and recruitment fees	145	93
Legal & professional fees	108	393
Stock Exchange costs	93	86
Depreciation	45	20
Property management fees	5	178
	4,185	2,915

d) EPRA cost ratios are calculated as follows:

	2018 £'000	2017 £'000
Gross revenue	16,733	14,266
Administrative expenses	4,185	2,915
Property operating expenses	1,824	2,055
EPRA costs (including property operating expenses)	6,009	4,970
EPRA Cost Ratio (including property operating expenses)	35.9%	34.8%
Less property operating expenses	(1,824)	(2,055)
EPRA costs (excluding property operating expenses)	4,185	2,915
EPRA Cost Ratio (excluding property operating expenses)	25.0%	20.4%
Adjust for:		
Exceptional costs in respect of move to Main Market	(698)	–
Net administrative expenses	3,487	2,915
Company admin cost ratio	20.8%	20.4%

6. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows:

	2018 £'000	2017 £'000
Non-Executive Directors' fees	108	84
Wages and salaries	1,795	1,150
Pensions	67	55
Social security costs	230	124
	2,200	1,413
Share based payments	174	237
	2,374	1,650

The average number of employees of the Group and the Company during the period was:

	2018 Number	2017 Number
Directors	6	6
Senior management and other employees	8	5
	14	11

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

	2018 £'000	2017 £'000
Short-term employee benefits:		
Emoluments for qualifying services	1,369	992
Social security costs	200	132
Pension	38	37
	1,607	1,161
Share-based payments	153	198
	1,760	1,359

Full details of the Directors' individual remuneration can be found in the Corporate Governance section on pages 45 to 57.

7. TAXATION

	2018 £'000	2017 £'000
Current income tax charge	1,062	683
Capital gains charge in period	31	–
Tax under/(over)provided in prior year	10	(13)
Deferred tax	(330)	2,521
Tax charge	773	3,191

Notes to the Consolidated Financial Statements continued

7. TAXATION CONTINUED

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	13,304	12,577
Based on profit for the period: Tax at 19.0% (2017: 20%)	2,528	2,515
Effect of:		
Capital losses and indexation used in the period	(1,142)	(1,260)
Other adjustments	48	52
Capital gains charge in period	31	–
Tax under/(over)provided in prior years	10	(13)
Deferred tax not previously recognised	(702)	1,897
Tax charge for the period	773	3,191

Deferred taxes at 31 March 2018 relates to the following:

	2018 £'000	2017 £'000
Deferred tax (liability)/asset – brought forward	(2,187)	334
Losses used in the year	(13)	(321)
Deferred tax liability on accredited capital allowances	400	(2,142)
Deferred tax on fair value of investment property	(40)	(58)
Deferred tax recognised on acquisition	(4,691)	–
Deferred tax (liability) – carried forward	(6,531)	(2,187)

	2018 £'000	2017 £'000
Accelerated capital allowances	(2,594)	(2,142)
Investment property unrealised valuation gains	(3,937)	(58)
Losses carried forward	–	13
Deferred tax (liability) – carried forward	(6,531)	(2,187)

At 31 March 2018, the Group had tax losses of £Nil (2017: £67,211) available to carry forward to future periods.

Capital allowances have been claimed on improvements to investment properties amounting to £18,697,000 (2017: £12,908,000). A deferred tax liability amounting to £2,594,000 (2017: £2,142,000) has been recognised in the financial statements, although it is expected that the capital allowances will not reverse when the properties are disposed of.

A deferred tax liability on the revaluation of investment properties to fair value has been provided totalling £3,937,000 (2017: £58,000) 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 capital gains tax would be payable if the properties were disposed of at their fair value. As at 31 March 2018 the Group had approximately £6,413,000 (2017: £6,500,000) of realised capital losses to carry forward. There has been no deferred tax asset recognised as it is not probable future taxable profits will be available to utilise these losses.

Finance Act 2015 sets the main rate of UK corporation tax at 20 per cent with effect on 1 April 2015. The enactment of Finance (No. 2) Act 2015 and Finance Act 2016 reduces the main rate of corporation tax to 19 per cent from April 2017 and 17 per cent from April 2020. The deferred tax liability has been calculated on the basis of 17 per cent due to the expectation that all properties are retained through April 2020, with the exception of the assets held for sale which have been calculated on the current corporation tax basis of 19%.

8. EARNINGS PER SHARE

Basic earnings per share

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

	2018 £'000	2017 £'000
Profit after tax attributable to ordinary shareholders for the year	12,531	9,386
	2018 No of shares	2017 No of shares
Weighted average number of shares for basic earnings per share	34,943,855	25,650,141
Dilutive effect of share options	36,322	87,584
Weighted average number of shares for diluted earnings per share	34,980,177	25,737,725
Earnings per ordinary share		
Basic	35.9p	36.6p
Diluted	35.8p	36.5p

Key Performance Measures

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ('APMs'), being financial measures which are not specified under IFRS, are also used by Management to assess the Group's performance. These include a number of European Public Real Estate Association ('EPRA') measures, prepared in accordance with the EPRA Best Practice Recommendations (BPR) reporting framework the latest update of which was issued in November 2016. We report a number of these measures (detailed in the glossary of terms) because Management considers them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

EPRA EPS and EPRA Diluted EPS

EPRA Earnings is a measure of operational performance and represents the net income generated from the operational activities. It is intended to provide an indicator of the underlying income performance generated from the leasing and management of the property portfolio. 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, one-off finance termination costs, share-based payments and other 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. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised.

Adjusted profit before tax and Adjusted EPS

Palace Capital also reports an adjusted earnings measure which is based on recurring earnings before tax and the basic number of shares. This is the basis on which the directors consider dividend cover. This takes EPRA earnings as the starting point and then adds back tax and any other fair value movements or one-off items that were included in EPRA earnings. For Palace Capital this includes share-based payments being a non-cash expense and also one-off surrender premiums received. The corporation tax charge (excluding deferred tax movements, being a non-cash expense) is deducted in order to calculate the adjusted earnings per share.

Notes to the Consolidated Financial Statements continued

8. EARNINGS PER SHARE CONTINUED

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

	2018 £'000	2017 £'000
Profit for the year	12,531	9,386
Adjustments:		
Gains on revaluation of investment property portfolio	(5,738)	(3,101)
Profit on disposal of investment properties	(274)	(3,191)
Debt termination costs	127	155
Fair value loss on derivatives	181	–
Deferred tax relating to EPRA adjustments and capital gain charged	(299)	2,200
EPRA earnings for the year	6,528	5,449
Share based payments	174	237
Costs in respect of move to Main Market	698	–
Adjusted profit after tax for the year	7,400	5,686
Tax excluding deferred tax on EPRA adjustments and capital gain charged	1,071	991
Adjusted profit before tax for the year	8,471	6,677
EPRA AND ADJUSTED EARNINGS PER ORDINARY SHARE;		
EPRA Basic	18.7p	21.2p
EPRA Diluted	18.7p	21.2p
Adjusted EPS	21.2p	22.2p

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 NNNAV 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 that are exercisable at the period end are exercised at the option price.

Net asset value is calculated using the following information:

	2018 £'000	2017 £'000
Net assets at the end of the year	183,299	109,559
Diluted net assets at end of the year	183,299	109,559
Exclude fair value of financial instruments	181	–
Exclude deferred tax on latent capital gains & capital allowances	6,531	2,200
EPRA NAV	190,011	111,759
Include fair value of financial instruments	(181)	–
Include deferred tax on latent capital gains & capital allowances	(6,531)	(2,200)
EPRA NNNAV	183,299	109,559

	2018 No of shares	2017 No of shares
Number of ordinary shares issued at the end of the year (excluding treasury shares)	45,805,280	25,150,692
Dilutive effect of share options	36,322	87,584
Number of ordinary shares issued for diluted and EPRA net assets per share	45,841,602	25,238,276
Net assets per ordinary share		
Basic	400p	436p
Diluted	400p	434p
EPRA NAV	415p	443p
EPRA NNNAV	400p	434p

10. DIVIDENDS

	Payment date	Dividend per share	2018 £'000	2017 £'000
2018				
Final dividend	31 July 2018	4.75	–	–
Interim dividend	13 April 2018	4.75	–	–
Interim dividend	29 December 2017	9.50	4,355	–
Distribution of current year profit		19.00	4,355	–
2017				
Final dividend	28 July 2017	9.50	2,389	–
Interim dividend	30 December 2016	9.00	–	2,309
Distribution of current year profit		18.50	2,389	2,309
2016				
Final dividend	29 July 2016	9.00	–	2,308
Interim dividend	30 December 2015	7.00	–	–
Distribution of prior year profit		16.00	–	2,308
Dividends reported in the Group Statement of Changes in Equity			6,744	4,617

Proposed Dividends

	2018 £'000	2017 £'000
July 2018 final dividend: 4.75p (2017 final dividend: 9.50p)	2,177	2,389
April 2018 interim dividend: 4.75p (2017 final dividend: n/a)	2,177	–
	4,354	2,389

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 2018.

Notes to the Consolidated Financial Statements continued

11. INVESTMENT PROPERTIES

	Freehold Investment properties £'000	Leasehold Investment properties £'000	Total £'000
At 1 April 2016	149,423	25,119	174,542
Additions – refurbishment	4,505	74	4,579
Additions – new properties	10,950	–	10,950
Gains on revaluation of investment properties	3,090	11	3,101
Disposals	(7,740)	(1,516)	(9,256)
At 1 April 2017	160,228	23,688	183,916
Additions – refurbishments	2,681	73	2,754
Additions – new properties	92,014	–	92,014
Transfer to assets held for sale	(21,708)	–	(21,708)
Gains on revaluation of investment properties	4,888	850	5,738
Disposals	(5,361)	(3,490)	(8,851)
At 31 March 2018	232,742	21,121	253,863

The Group made two corporate acquisitions in the year:

SM Newcastle OB Limited

The acquisition of SM Newcastle OB Limited was made on 7 August 2017. The Directors have taken the view that this acquisition had the attributes of an asset purchase rather than a business combination and therefore the value of the asset at the acquisition date amounting to £20.0m has been added to the additions within investment properties, net of rent top-ups of £1.2m, together with the acquisition costs amounting to £371,000.

R.T Warren (Investments) Limited

The acquisition of R.T Warren (Investments) Limited was made on 9 October 2017. The Directors have taken the view that this acquisition had the attributes of an asset purchase rather than a business combination and therefore the value of the asset at the acquisition date amounting to £71.8m has been added to the additions within investment properties together with the acquisition costs amounting to £1.5m.

Investment properties are stated at fair value as determined by independent valuers who make use of historical and current market data as well as existing lease agreements. The fair value of the Group's property portfolio is based upon independent 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 independent valuers.

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 £274,000 (2017: £3,191,000) relating to investment properties disposed of during the year were recognised in profit or loss.

A reconciliation of the valuations carried out by the independent valuers to the carrying values shown in the Statement of Financial Position was as follows:

	2018 £'000	2017 £'000
Cushman & Wakefield LLP	255,024	183,175
Adjustment in respect of minimum payment under head leases	1,600	1,959
Less lease incentive balance included in accrued income	(1,731)	(1,218)
Less rent top-up adjustment	(1,030)	–
Carrying value	253,863	183,916

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 independent 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 independent 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 independent 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.

Notes to the Consolidated Financial Statements continued

11. INVESTMENT PROPERTIES CONTINUED

	Significant unobservable inputs
31 March 2018	Cushman & Wakefield
Value of investment properties	£255,024,000
Area (sq ft)	1,606,656
Gross Estimated Rental Value	£19,887,269
Net Initial Yield	
Minimum	(4.0%)
Maximum	21.5%
Weighted average	6.2%
Reversionary Yield	
Minimum	4.7%
Maximum	15.0%
Weighted average	6.9%
Equivalent Yield	
Minimum	3.5%
Maximum	15.5%
Weighted average	7.2%

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

	Significant unobservable inputs
31 March 2017	Cushman & Wakefield
Value of investment properties	£183,175,000
Area (sq ft)	1,576,206
Gross Estimated Rental Value	£15,892,432
Net Initial Yield	
Minimum	0.9%
Maximum	9.2%
Weighted average	5.9%
Reversionary Yield	
Minimum	5.5%
Maximum	18.7%
Weighted average	6.9%
Equivalent Yield	
Minimum	3.2%
Maximum	11.7%
Weighted average	7.6%

The following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

Valuation techniques: market comparable method

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions in the market.

Unobservable input: estimated rental value

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £34,000 – £1,761,600 per annum).

Rental values are dependent on a number of variables in relation to the Group's property. These include: size, location, tenant, covenant strength and terms of the lease.

Unobservable input: net initial yield

The net initial yield is defined as the initial gross income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase (range: 1.76%–6.76%).

Sensitivities of measurement of significant unobservable inputs

As set out within significant accounting estimates and judgements above, the Group's property portfolio valuation is open to judgements inherently subjective by nature.

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	

	-5% in ERV (£m)	+5% in ERV (£m)	+0.25% in net initial yield (£m)	-0.25% in net initial yield (£m)
(Decrease)/increase in the fair value of investment properties as at 31 March 2018	(8.77)	10.33	(9.73)	10.74
(Decrease)/increase in the fair value of investment properties as at 31 March 2017	(7.64)	7.18	(7.88)	9.32

Assets held for sale

	2018 £'000	2017 £'000
Assets held for sale	21,708	–
	21,708	–

Assets held for sale consist of the residential portfolio acquired in October 2017 as part of the Warren acquisition. The Group announced it was its intention to dispose of the portfolio as soon as terms with a potential buyer could be agreed. In accordance with the Group's accounting policy, these properties are classified as held for sale at 31 March 2018.

The residential portfolio has been valued by the board of directors based on open market information available and discussions with valuation professionals. The valuation has been held in the financial statements at a lower of their carrying value immediately prior to being classified as held for sale and fair value less costs to sell.

Notes to the Consolidated Financial Statements continued

12. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £000
At 1 April 2016	66
Assets acquired	–
Additions	26
At 1 April 2017	92
Additions	123
At 31 March 2018	215
Depreciation	
At 1 April 2016	29
Provided during the year	20
At 1 April 2017	49
Provided during the year	45
At 31 March 2018	94
Net book value at 31 March 2018	121
Net book value at 31 March 2017	43

13. TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Current		
Gross amounts receivable from tenants	2,598	1,090
Less: provision for impairment	(163)	(139)
Net amount receivable from tenants	2,435	951
Other taxes	609	–
Other debtors	114	61
Accrued income	1,731	1,218
Prepayments	662	281
	5,551	2,511

Accrued income amounting to £1,731,000 (2017: £1,218,000) relates to rents recognised in advance of receipt 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:

	2018 £'000	2017 £'000
Brought forward	139	243
Utilised in the period	(71)	(182)
Provisions increased	95	78
	163	139

As at 31 March, the analysis of trade receivables, net of provisions, which were past due but not impaired is as follows:

	2018 £'000	2017 £'000
0–30 days	1,848	630
31–60 days	16	92
61–90 days	26	21
91–120 days	236	78
More than 120 days	309	130
	2,435	951

14. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2018 and 31 March 2017 are in Sterling and held at floating interest rates.

	2018 £'000	2017 £'000
Cash and cash equivalents – unrestricted	17,985	10,937
Restricted cash	1,048	244
	19,033	11,181

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

Restricted cash is cash where there is a legal restriction to specify its type of use. This is typically where the Group has agreed to deposit cash with a lender with regards to top-ups received from vendors on completion funds, to be realized over time consistent with the loss of income on vacant units.

15. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Trade payables	986	570
Corporation tax	1,051	564
Other taxes	1,307	844
Other payables	108	6
Deferred rental income	3,466	2,860
Accruals	1,916	1,317
	8,834	6,161

16. DERIVATIVES

The Group adopts a policy of entering into derivative financial instruments to provide an economic hedge to its interest rate risks and ensure its exposure to interest rate fluctuations is mitigated.

The contract rate is the fixed rate the Group are paying for its interest rate swaps.

The valuation rate is the variable LIBOR & bank base rate the banks are paying for the interest rate swaps.

Details of the interest rate swaps the Group entered can be found in the table below.

The valuations of all derivatives held by the Group is classified as Level 2 in the IFRS 13 fair value hierarchy as they are based on observable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

Further details on interest rate risks are included in note 26.

Notes to the Consolidated Financial Statements continued

16. DERIVATIVES CONTINUED

Bank	Notional principal	Expiry date	Contract rate %	Valuation rate %	2018 Fair value £'000	2017 Fair value £'000
Barclays Bank plc	35,722,900	25/01/2023	1.3420	1.2850	(92)	–
Santander plc	20,000,000	03/08/2022	1.3730	1.2630	(89)	–
	55,722,900				(181)	–

17. BORROWINGS

	2018 £'000	2017 £'000
Current		
Bank loans	2,686	2,036
Non-current liabilities		
Bank loans	97,157	75,758
Total borrowings	99,843	77,794

	2018 £'000	2017 £'000
Non-current liabilities		
Secured Bank loans drawn	98,709	76,694
Unamortised lending costs	(1,552)	(936)
	97,157	75,758

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

	2018 £'000	2017 £'000
Within one year	2,686	2,036
From one to two years	2,686	2,036
From two to five years	83,607	61,806
After five years	12,416	12,852
	101,395	78,730

Facility and arrangement fees

As at 31 March 2018

Secured Borrowings	All in cost	Maturity date	Loan Balance £'000	Unamortised facility fees £'000	Facility drawn £'000
Santander Bank Plc	3.71%	August 2022	26,376	(374)	26,750
Lloyds Bank Plc	2.81%	April 2019	3,789	(23)	3,812
National Westminster Bank plc	3.21%	March 2021	20,113	(276)	20,389
Barclays	2.66%	January 2023	35,169	(679)	35,848
Scottish Widows	2.91%	July 2026	14,396	(200)	14,596
			99,843	(1,552)	101,395

Investment properties with a carrying value of £234,429,000 (2017: £162,320,000) are subject to a first charge to secure the Group's bank loans amounting to £101,395,000 (2017: £78,730,000).

The Group has unused loan facilities amounting to £14,152,000 (2017: £3,582,000). A facility fee is charged on £10,000,000 of these facilities at a rate of 1.25% p.a. and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited and Palace Capital (Properties) Limited as part of the Natwest loan. The £4,152,000 balance of the unused facilities relates to the Barclays loan and has been drawn down since the year end (see post balance sheet event note 25).

The Group constantly monitors its approach to managing interest rate risk. The Group has fixed £70,119,000 (2017: £25,032,000) of its debt in order to provide surety of its interest cost and to mitigate interest rate risk. The remaining debt in place at year end is subject to floating rate in order to take advantage of the historically low interest rate environment.

The Group has a loan with Scottish Widows for £14,596,000 which is fully fixed at a rate of 2.9%.

The Group has a loan with Barclays Bank plc for £35,848,000, of which £35,723,000 is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at 3m LIBOR plus 1.95%.

The Group has a loan with Santander plc for £26,750,000, of which £20,000,000 is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at 3m LIBOR plus 2.5%.

The Group has a loan with Lloyds Bank plc for £3,812,000 which is fully charged at floating rate of 3m LIBOR plus 2.1%.

The Group has a loan with National Westminster Bank plc for £20,389,000 which is fully charged at floating rate of 3m LIBOR plus 2.5%.

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

18. GEARING AND LOAN TO VALUE RATIO

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

	2018 £'000	2017 £'000
EPRA net asset value (note 9)	190,011	111,759
Borrowings	99,843	77,794
Obligations under finance leases	1,588	1,950
Cash and cash equivalents	(19,033)	(11,181)
Net Debt	82,398	68,563
NAV Gearing	43%	61%

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

	2018 £'000	2017 £'000
Fair value of investment properties	253,863	183,175
Assets held for sale	21,708	–
Fair value of property portfolio	275,571	183,175
Borrowings – Bank loans	101,395	78,730
Cash at bank	(19,033)	(11,181)
Net bank borrowings	82,362	67,549
Loan to value ratio	37%	43%
Net Loan to value ratio	30%	37%

Notes to the Consolidated Financial Statements continued

19. RECONCILIATION OF LIABILITIES TO CASH FLOWS FROM FINANCING ACTIVITIES

	Bank borrowings £'000	Total £'000
Balance at the start of the year	77,794	77,794
Cash flows from financing activities:		
Bank borrowings drawn	53,392	53,392
Bank borrowings repaid	(45,242)	(45,242)
Loan arrangement fees paid	(1,085)	(1,085)
Non cash movements:		
Bank loan acquired on purchase of RT Warren	14,515	14,515
Amortisation of loan arrangement fees	342	342
Amortisation of loan arrangement fees on the repayment of loans	127	127
Balance at the end of the year	99,843	99,843

20. LEASES

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

	2018 £'000	2017 £'000
Within one year	16,911	13,204
From one to two years	14,699	10,882
From two to five years	29,612	22,810
From five to 25 years	41,635	41,001
	102,857	87,897

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

	2018 £'000	2017 £'000
Within one year	178	13
From one to two years	178	–
From two to five years	375	–
	731	13

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

	2018			2017
	Minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000	Present value of minimum lease payments £'000
Within one year	96	(94)	2	2
From one to two years	96	(94)	2	2
From two to five years	290	(282)	8	8
From five to 25 years	1,876	(1,818)	58	63
After 25 years	7,943	(6,425)	1,518	1,875
	10,301	(8,713)	1,588	1,950

The net carrying amount of the leasehold properties is shown in note 11.

The Group has over 240 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 one 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.

21. SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised, issued and fully paid share capital is as follows:		
46,388,515 Ordinary Shares of 10p each (2017: 25,800,279)	4,639	2,580
	4,639	2,580

	2018 £'000	2017 £'000
Reconciliation of movement in ordinary share capital		
At start of year	2,580	2,578
Issued in the year	2,059	2
At end of year	4,639	2,580

		Price per share pence	Number of ordinary shares issued 000s	Total number of shares 000s
Movement in ordinary authorised share capital				
As at 31 Mar 2016				25,781,229
Exercise of warrants	15 June 2016	200	19,050	–
As at 31 Mar 2017				25,800,229
Equity issue	9 October 2017	340	20,588,236	
As at 31 March 2018				46,388,515

		Price per share pence	Number of ordinary shares issued 000s	Total number of shares 000s
Movement in treasury shares				
Share buy-back by company	17 June 2016	360	91,587	–
Share buy-back by company	20 June 2016	360	58,000	–
Share buy-back by company	10 March 2017	340	531,593	–
Share options issued from Treasury	10 March 2017	340	(31,593)	–
As at 31 March 2017				649,587
Shares exercised under employee LTIP scheme	20 September 2017		(66,352)	
As at 31 March 2018				583,235
Total number of shares excluding the number held in treasury at 31 March 2018				45,805,280

Notes to the Consolidated Financial Statements continued

21. SHARE CAPITAL CONTINUED

Year ended 31 March 2018

On 20 September 2017, 66,352 share options were exercised under the employee LTIP scheme.

On 9 October 2017 the company issued 20,588,236 ordinary 10p shares at a price of £3.40. Issue costs amounting to £2,349,000 were incurred and have been deducted from the share premium account.

Year ended 31 March 2017

On 15 June 2016 the company issued 19,050 ordinary shares of 10p. The issue costs amounting to £36,195 have been deducted from the share premium account.

On 17 June 2016 the company purchased 91,587 ordinary share of 10p each at a price of £3.60. All these purchased shares are to be held as treasury shares.

On 20 June 2016 the company purchased 58,000 ordinary shares of 10p each at a price of £3.60. All these purchased shares are to be held as treasury shares.

On 10 March 2017 the company issued 31,593 ordinary 10p shares from Treasury at a price of £3.40.

On 10 March 2017 the company purchased 531,593 ordinary shares of 10p each at a price of £3.40. All these purchased shares are to be held as treasury shares.

Shares held in Employee Benefit Trust

Authorised, issued and fully paid share capital is as follows:	Number of options 000s
Transferred under scheme of arrangement	100,000
Shares exercised under employee share scheme	(66,352)
	33,648

Share options:

Reconciliation of movement in outstanding share options	2018 No of options	2017 No of options
At start of year	689,660	569,022
Issued in the year	215,456	171,281
Exercised in the year	(66,352)	(50,643)
Lapsed in the year	(338,259)	–
Deferred bonus shares	36,322	–
At end of year	536,827	689,660

As at 31 March 2018, the Company had the following outstanding unexpired options.

	2018		2017	
Description of unexpired share options	No of options	Weighted average option price	No of options	Weighted average option price
Employee benefit plan (note 22)	500,505	0p	689,660	0p
Deferred bonus share scheme	36,322	0p	–	0p
Total	536,827	0p	689,660	0p
Exercisable	–	0p	–	0p
Not exercisable	536,827	0p	689,660	0p

The weighted average remaining contractual life of share options at 31 March 2018 is 1.25 years.

22. SHARE-BASED PAYMENTS

Employee benefit plan

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

	Number of options	Exercise price	Average share price at date of exercise	Grant date	Vesting date
Outstanding at 31 March 2016	549,972	13p	–		
Issued during the year (LTIP 2016)	171,281	0p	–	4 July 2016	4 July 2019
Exercised during year to 31 March 2017	(31,593)	225p	–		
Outstanding at 31 March 2017	689,660	0p	–		
Exercised during the year (LTIP 2014)	(66,352)	0p	337p		
Issued during the year (LTIP 2017)	215,456	0p	–	1 November 2017	1 November 2020
Deferred bonus share options	36,322	0p	–		
Lapsed during year (LTIP 2014)	(331,759)	0p	–		
Lapsed during year (LTIP 2017)	(6,500)	0p	–		
Outstanding at 31 March 2018	536,827	0p	–		

The performance conditions applicable to the LTIPs 2015 and 2016 were adjusted following the acquisition of the R.T Warren portfolio and related placing. Details of the adjustments are set out on page 54.

LTIP 2015

The options are awarded to management on achievements against target on two separate measures over the three-year period ending 7 December 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 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 level being £4.04 per share which was the EPRA NAV per share as at 30 September 2015. The base level was adjusted to £3.89 for the 3rd year calculation.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 8 December 2015 to 7 December 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 TSR performance period	Vesting %
<8%	0	<8%	0
Equal to 8%	33.33	Equal to 8%	33.33
Equal to 13%	100	Equal to 13%	100

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

LTIP 2016

The options are awarded to employees on achievements against targets on two separate measures over the three-year period ending 3 July 2019. 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 31 March 2016. This target will measure the compound growth in NAV over the three-year period ending 31 March 2019, and comparing this with the Net Asset Value Growth of a group of comparable companies. The base NAV per share being £4.14. The base NAV per share was adjusted to £3.89 for the final 2 years of calculations as stated previously.

Notes to the Consolidated Financial Statements continued

22. SHARE-BASED PAYMENTS CONTINUED

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 4 July 2016 to 3 July 2019. The base price being £3.16 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 TSR performance period	Vesting %
<8%	0	At median	20
Equal to 8%	33.33	Between median and upper quartile	20–100
Equal to 13%	100	Upper quartile and above	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 median and upper quartile.

LTIP 2017

The options are awarded to employees on achievements against targets on two separate measures over the three-year period ending 31 October 2020. 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 31 March 2017. This target will measure the compound growth in NAV over the three-year period ending 31 March 2020, and comparing this with the Net Asset Value Growth of a group of comparable companies. The base NAV per share being £3.89.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 1 November 2017 to 31 October 2020. The base price being £3.40 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 TSR performance period	Vesting %
<8%	0	At median	20
Equal to 8%	33.33	Between median and upper quartile	20–100
Equal to 13%	100	Upper quartile and above	100

The fair value of grants was measured at the grant date using a Black-Scholes pricing model for the NAV tranche and using a Monte Carlo pricing model for the TSR tranche, 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 both the Black-Scholes and Monte Carlo pricing models are as follows:

	Monte Carlo TSR Tranche	Black-Scholes NAV Tranche
Grant date	01.11.17	01.11.17
Share price	£3.40	£3.40
Exercise price	0p	0p
Term	3 years	3 years
Expected volatility	16.00%	16.00%
Expected dividend yield	5.59%	5.59%
Risk free rate	0.56%	0.56%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£0.62	£2.87

The expense recognised for employee share-based payment received during the period is shown in the following table:

	2018 £'000	2017 £'000
LTIP 2014	–	108
LTIP 2015	82	82
LTIP 2016	61	47
LTIP 2017	31	–
Total expense arising from share-based payment transactions	174	237

23. RELATED PARTY TRANSACTIONS

Accounting services amounting to £84,951 (2017: £85,863) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a Director.

Charitable donations amounting to £19,953 (2017: £9,811) have been made by the Group to Variety, the Children's Charity, a charity where Neil Sinclair is a Trustee.

Dividend payments made to directors amounted to £372,000 during the year.

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 2018 amounted to £1,595,028 (2017: £78,363).

25. POST BALANCE SHEET EVENT

On 3 April 2018 the undrawn loan balance of £4,152,000 was drawn down, less fees. The balance is treated as a floating rate loan and is charged at 3 month LIBOR plus 1.95%.

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 £183,299,000 at 31 March 2018 (2017: £109,599,000). 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 77 to 81 to these financial statements.

Notes to the Consolidated Financial Statements continued

26. FINANCIAL RISK MANAGEMENT CONTINUED

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2018 and 31 March 2017 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 2018					
Trade and other receivables	2,549	–	–	–	2,549
Cash and cash equivalents	–	19,033	–	–	19,033
Trade and other payables	(3,010)	–	–	–	(3,010)
Interest rate swaps	–	–	(181)	–	(181)
Bank borrowings	–	–	(70,119)	(29,724)	(99,843)
Obligation under finance leases	–	–	(1,588)	–	(1,588)
	(461)	19,033	(71,888)	(29,724)	(83,040)

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2017					
Trade and other receivables	1,012	–	–	–	1,012
Cash and cash equivalents	–	11,181	–	–	11,181
Trade and other payables	(1,894)	–	–	–	(1,894)
Interest rate swaps	–	–	–	–	–
Bank borrowings	–	–	(25,032)	(52,762)	(77,794)
Obligation under finance leases	–	–	(1,950)	–	(1,950)
	(882)	11,181	(26,982)	(52,762)	(69,445)

The Group's interest rate risk arises from borrowings issued at floating interest rates (see note 17). The Group's interest rate risk is reviewed throughout the year at board meetings by the Board. The Group manages its exposure to interest rate risk on borrowings through the use of interest rate derivatives (see note 16). Interest rate swaps are used to mitigate the risk of an increase in interest rates but also to allow the Group to benefit from a fall in interest rates. 70% of the Group's interest rate exposure is fixed and the remainder is held on a floating rate. The Group has employed an external adviser when contracting hedging to advise on the structure of the hedging.

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 £19,033,000 (2017: £11,181,000). The income statement would be affected by £190,000 (2017: £112,000) by a one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £29,724,000 (2017: £53,684,000) which have interest payable at rates linked to the three-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 £297,240 (2017: £536,840).

The Group has interest rate swaps with a nominal value of £55,722,900 (see note 16). If the LIBOR or base rate was to increase above the fixed contract rate then the Group will benefit from a fair value increase of the interest rate swap. If, however, the LIBOR or base rate was to decrease, then the Group would incur a decrease in the fair value of the Interest rate swap.

Change in interest rate	-1% £'000	+1% £'000
(Decrease)/increase in fair value of interest rate swaps	(2,619)	2,149

Upward movements in medium and long-term interest rates, associated with higher interest rate expectations, increase the value of the Group's interest rate swaps that provide protection against such moves. The converse is true for downward movements in the yield curve.

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 2018 the cash balances of the Group at the year end were £19,033,000 (2017: £11,181,000). The concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £11,884,000 (2017: £7,770,000). 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 tenant by contractual income amounts to 5.4% (2017: 6.7%) of the Group's anticipated income. The Directors assess a tenants' 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 2018 was £2,435,000 (2017: £951,000). The details of the provision for impairment are shown in note 13.

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	1–2 years £'000	2–5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2018						
Interest bearing loans	–	5,168	4,780	90,294	13,705	113,947
Finance leases	–	96	96	290	9,819	10,301
Interest rate swaps	–	–	–	181	–	181
Trade and other payables	3,010	–	–	–	–	3,010
	3,010	5,264	4,876	90,765	23,524	127,439
	On demand £'000	0–1 years £'000	1–2 years £'000	2–5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2017						
Interest bearing loans	–	4,190	4,293	65,678	14,325	88,486
Finance leases	–	122	122	366	12,131	12,741
Trade and other payables	1,894	–	–	–	–	1,894
	1,894	4,312	4,415	66,044	26,456	103,121

Company Statement of Financial Position

As at 31 March 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	4	121	27
Investments	3	126,331	42,683
Loans to subsidiary undertakings	3	26,569	38,682
		153,021	81,392
Current assets			
Trade and other receivables	5	22,185	9,928
Cash at bank and in hand		5,363	98
		27,548	10,026
Total assets		180,569	91,418
Current liabilities			
Creditors: amounts falling due within one year	6	(1,772)	(6,594)
Net current assets		25,776	3,432
Net assets		178,797	84,824
Equity			
Called up share capital	7	4,639	2,580
Share premium account		125,036	59,444
Treasury shares		(2,011)	(2,250)
Merger reserve		3,503	3,503
Capital redemption reserve		340	340
Retained earnings		47,290	21,207
Equity – attributable to the owners of the parent		178,797	84,824

The Company's profit after tax for the year was £32,764,000 (2017: £4,462,000).

The financial statements were approved by the Board of Directors and authorised for issue on 8 June 2018 and are signed on its behalf by:



Stephen Silvester
Finance Director



Neil Sinclair
Chief Executive

Company Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Treasury shares £'000	Other Reserves £'000	Retained earnings £'000	Total equity £'000
At 31 March 2016	2,862	59,408	–	3,568	21,166	87,004
Total comprehensive income for the year	–	–	–	–	4,462	4,462
Transactions with Equity Holders						
Redemption shares	–	–	(2,357)	–	–	(2,357)
Issue of ordinary share capital net of expenses	2	36	107	–	–	145
Redemption of deferred share	(284)	–	–	275	–	(9)
Share-based payments	–	–	–	–	196	196
Dividends	–	–	–	–	(4,617)	(4,617)
At 31 March 2017	2,580	59,444	(2,250)	3,843	21,207	84,824
Total comprehensive income for the year	–	–	–	–	32,764	32,764
Transactions with Equity Holders						
Gross proceeds of issue from new shares	2,059	67,941	–	–	–	70,000
Costs of issue of new shares	–	(2,349)	–	–	–	(2,349)
Share based payments	–	–	–	–	174	174
Exercise of share options	–	–	239	–	(239)	–
Issue of deferred bonus share options	–	–	–	–	128	128
Dividends	–	–	–	–	(6,744)	(6,744)
At 31 March 2018	4,639	125,036	(2,011)	3,843	47,290	178,797

Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue.

Treasury shares represents the consideration paid for shares bought back from the market.

Other reserves comprise the merger reserve and the capital redemption reserve.

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

Notes to the Company Financial Statements

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.

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 of the paying company approve the payment of 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.

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 20% main rate in the tax year 2016 to 19% with effect from 1 April 2017 and to 17% from 1 April 2020.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provision of the instrument. The Company has chosen to apply the provisions of IAS 39 in accounting for financial instruments.

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
- do 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 for the financial year has been arrived at after charging auditor's remuneration payable to BDO LLP for audit services to the Company of £83,000 (2017: £50,000). Fees payable to the auditor for the audit of subsidiary undertakings amounted to £21,000 (2017: £21,000) and for other services amounted to £312,000 (2017: £26,000).

2. TAXATION

	2018 £'000	2017 £'000
Current corporation tax charge	(36)	99
Tax charge	(36)	99

Notes to the Company Financial Statements continued

3. INVESTMENTS

Cost:	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
At 1 April 2016	41,013	35,650	76,663
Additions	3,200	3,032	6,232
At 1 April 2017	44,213	38,682	82,895
Acquisitions	62,648	–	62,648
Additions	–	8,887	8,887
Transfer	21,000	(21,000)	–
At 31 March 2018	127,861	26,569	154,430
Provision for impairment:			
At 1 April 2016	1,530	–	1,530
Provided during the year	–	–	–
At 1 April 2017	1,530	–	1,530
Provided during the year	–	–	–
At 31 March 2018	1,530	–	1,530
Net book value at 31 March 2018	126,331	26,569	152,900
Net book value at 31 March 2017	42,683	38,682	81,365

Loans to Subsidiaries

A loan amounting to £3,655,165 remains outstanding at 31 March 2018 (2017: £3,515,165) 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 £3,430,660 remains outstanding at 31 March 2018 (2017: £3,112,000) 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 £14,614,856 remains outstanding at 31 March 2018 (2017: £15,195,335) 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 £1,875,025 remains outstanding at 31 March 2018 (2017: £1,739,025) from Palace Capital (Halifax) 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 £2,992,963 remains outstanding at 31 March 2018 (2017: 2,889,473) from Palace Capital (Manchester) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on December 2020.

Investment in Subsidiaries

Year ended 31 March 2018

On 4 August 2017 the Company acquired 100% of the share capital of SM Newcastle OB Limited for £20.0m. Following the acquisition, the subsidiary changed its name to Palace Capital (Newcastle) Limited. The Company purchased 5,000,000 ordinary £1 shares in Palace Capital (Newcastle) Limited.

On 9 October 2017 the Company acquired the entire share capital of R.T Warren (Investments) Limited for a total consideration of £53.4m.

On 31 March 2018 the Company purchased an additional 21,000,000 ordinary £1 shares at par in Palace Capital (Signal) Limited in order to refinance the subsidiary.

Year ended 31 March 2017

On 19 August 2016 the Company acquired Boulton House, Manchester. Following the acquisition Palace Capital (Milton Keynes) Limited changed its name to Palace Capital (Manchester) Limited. The Company purchased £3,200,000 ordinary £1 share at Palace Capital (Manchester) Limited.

The Company owns 100% of Palace Capital (Properties) Limited which acquired 100% of the shares in Palace Capital (Dartford) Limited.

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 (Manchester) Limited	Ordinary	100	Property Investments
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
Palace Capital (Dartford) Limited	Ordinary	100	Property Management
Palace Capital (Newcastle) Limited	Ordinary	100	Property Investments
R.T. Warren (Investments) Limited	Ordinary	100	Property Investments
Associate Company			
HBP Services Limited*	Ordinary	21.4	Property Management
Clubcourt Limited*	Ordinary	40	Property Management

* held indirectly

** Incorporated in Isle of Man

The registered addresses for the subsidiaries across the Group are consistent based on their country of incorporation and are as follows:

- UK entities: Lower Ground Floor, 1 George Yard, London, EC3V 9DF.
- Isle of Man entity: 68 Athol Street, Douglas, Isle of Man, IM1 1JE.

Notes to the Company Financial Statements continued

4. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2016	65
Additions	11
At 1 April 2017	76
Additions	139
At 31 March 2018	215
Depreciation	
At 1 April 2016	28
Provided during the period	21
At 1 April 2017	49
Provided during the period	45
At 31 March 2018	94
Net book value at 31 March 2018	121
Net book value at 31 March 2017	27

5. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Current		
Amounts owed by subsidiary undertakings	16,734	7,059
Trade debtors	540	42
Corporation tax recoverable	144	9
Other debtors	37	27
Other taxes and social security	150	–
Accrued interest on amounts owed by subsidiary undertakings	4,499	2,753
Prepayments	81	38
	22,185	9,928

A loan amounting to £7,976,000 remains outstanding at 31 March 2018 (2017: £12,232,000) 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 £7,969,000 remains outstanding at 31 March 2018 (2017: £5,449,000 creditor) 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 £33,703,000 remains outstanding at 31 March 2018 (2017: £6,775,000) from Palace Capital (Signal) Limited. No interest is charged on this loan. This loan is repayable on demand. There is a subsequent loan amounting to £32,913,000 remains outstanding at 31 March 2018 (2017: £Nil) to R.T Warren (Investments) Limited. No interest is charged on this loan. This loan is repayable on demand. The net position of the combined loans is £790,000, which is due from Palace Capital (Signal) Limited to Palace Capital plc.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Trade creditors	476	56
Amount owed to subsidiary undertaking	430	6,005
Other taxes	52	59
Accruals and deferred income	814	474
	1,772	6,594

A loan amounting to £165,000 remains outstanding at 31 March 2018 (2017: £285,000 debtor) to Hockenhull Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £265,000 remains outstanding at 31 March 2018 (2017: £Nil) to Palace Capital (Newcastle) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £Nil remains outstanding at 31 March 2018 (2017: £556,000) to Signal Property Investment LLP. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

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:

	2018 £'000	2017 £'000
Within one year	178	13
From one to two years	178	—
From two to five years	375	—
	731	13

9. POST BALANCE SHEET EVENT

There are no post balance sheet events.

Officers and Professional Advisers

DIRECTORS

Stanley Davis	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.

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London
EC2V 7HN

National Westminster Bank PLC

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West Sussex
RH10 1XU

Santander UK PLC

Bootle
Merseyside
L30 4GB

Glossary

Adjusted EPS: Is Adjusted profit before tax less corporation tax charge (excluding deferred tax movements) divided by the average basic number of shares in the period.

Adjusted profit before tax: Is the IFRS profit before taxation excluding investment property revaluations, gains/losses on disposals, acquisition costs, fair value share-based payments and exceptional items.

Assets under Management (AUM): Is a measure of the total market value of all properties owned by the Group.

Balance sheet gearing: Is the balance sheet net debt divided by IFRS net assets.

Dividend cover: Is the Adjusted EPS divided by dividend per share declared in the period.

EPRA: Is the European Public Real Estate Association.

EPRA cost ratio (including direct vacancy costs): Is a proportionally consolidated measure of the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA cost ratio (excluding direct vacancy costs): Is the ratio calculated above, but with direct vacancy costs removed from the net overheads and operating expenses balance.

EPRA diluted EPS: Is EPRA earnings divided by the average diluted number of shares in the period.

EPRA earnings: Is the IFRS profit after taxation excluding investment property revaluations and gains/losses on disposals and changes in fair value of financial derivatives.

EPRA EPS: Is EPRA earnings divided by the average basic number of shares in the period.

EPRA net assets (EPRA NAV): Are the balance sheet net assets excluding the mark to market on effective cash flow hedges and related debt adjustments, deferred taxation on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes.

EPRA NAV per share: Is EPRA NAV divided by the diluted number of shares at the period end.

EPRA NNNAV: Is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

EPRA occupancy rate: Is the ERV of occupied space divided by ERV of the whole portfolio, excluding developments and residential property.

EPRA topped-up net initial yield: Is the current annualised rent, net of costs, topped up for contracted uplifts, where these are not in lieu of rental growth, expressed as a percentage of capital value.

EPRA vacancy rate: Is the ERV of vacant space divided by ERV of the whole portfolio, excluding developments and residential property.

Equivalent yield: Is the net weighted average income return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent received annually in arrears and on values before deducting prospective purchaser's costs.

Estimated rental value (ERV): Is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

IAS/IFRS: Is the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the EU.

Interest cover: Is the number of times net interest payable is covered by underlying profit before net interest payable and taxation.

LIBOR: Is the London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

Like-for-like net rental income: Is the change in net rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, properties with guaranteed rent reviews, asset management determinations and surrender premiums.

Like-for-like valuation: Is the change in the carrying value of properties owned throughout the entire year. This excludes properties acquired during the year and disposed of during the year.

Loan to value (LTV): Is the ratio of principal value of gross debt less cash, short-term deposits and liquid investments to the aggregate value of properties and investments.

Net Loan to Value (LTV): Is the ratio of gross debt less cash, short-term deposits and liquid investments to the aggregate value of properties and investments.

Net asset value (NAV) per share: Is the equity attributable to owners of the Group divided by the number of Ordinary Shares in issue at the period end.

Net equivalent yield (NEY): Is the weighted average income return (after adding notional purchaser's costs) a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent is received annually in arrears.

Net initial yield (NIY): Is the current annualised rent, net of costs, expressed as a percentage of capital value, after adding notional purchaser's costs.

Glossary continued

Net rental income: Is the rental income receivable in the period after payment of net property outgoings. Net rental income will differ from annualised net rents and passing rent due to the effects of income from rent reviews, net property outgoings and accounting adjustments for fixed and minimum contracted rent reviews and lease incentives.

Net reversionary yield (NRY): Is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Passing rent: is the gross rent, less any ground rent payable under head leases.

Tenant (or lease) incentives: Are any incentives offered to occupiers to enter into a lease. Typically the incentive will be an initial rent-free period, or a cash contribution to fit-out or similar costs. Under accounting rules the value of lease incentives given to tenants is amortised through the Income Statement on a straight-line basis to the lease expiry.

Total Accounting Return (TAR): Is the increase or decrease in EPRA NAV per share plus dividends paid, and this can be expressed as a percentage of EPRA NAV per share at the beginning of the period.

Total property return: Is calculated as the change in capital value, less any capex incurred, plus net income, expressed as a percentage of capital employed over the period.

Total Shareholder Return (TSR): Is calculated by the growth in capital from purchasing a share in the Company assuming that the dividends are reinvested each time they are paid.

Weighted average debt maturity: Is measured in years when each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted average interest rate:

Is the loan interest per annum at the period end, divided by total debt in issue at the period end.

Weighted average unexpired lease

term (WAULT): Is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date, as stated.



PALACE CAPITAL plc

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