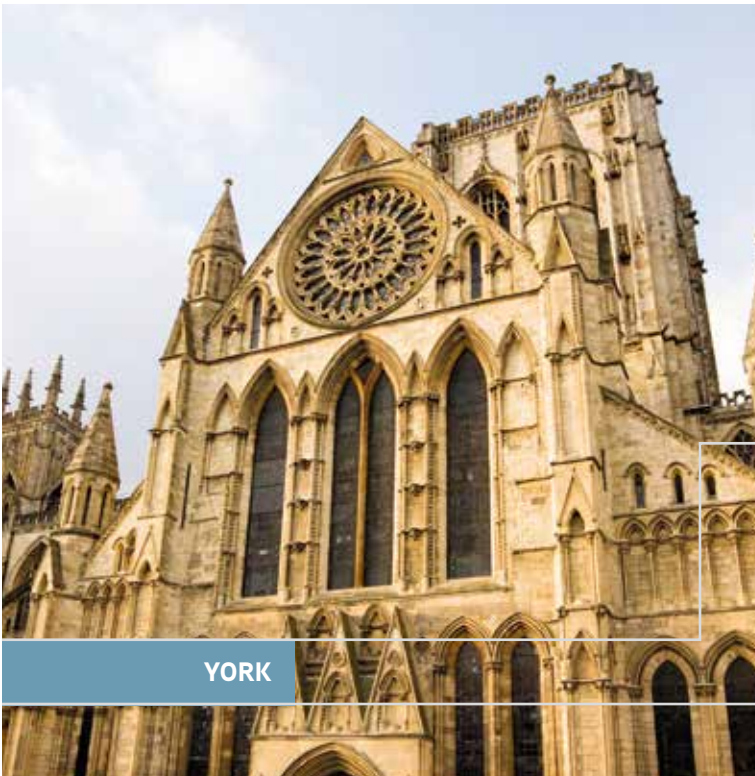




PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

Annual Report & Accounts 2019



YORK



NEWCASTLE



LIVERPOOL



BRIGHTON

PALACE CAPITAL ARE EXPERTS IN REGIONAL PROPERTY INVESTMENT, UNLOCKING VALUE TO DELIVER ATTRACTIVE TOTAL RETURNS



PALACE CAPITAL plc

Our strategy is to build a regional, sustainable property portfolio that delivers sector-leading total returns through our pro-active and hands-on approach to property investment and development.

➤ View our Strategy on **pages 18–19**



➤ For more information see www.palacecapitalplc.com



OVERVIEW

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"We focus our strategy on growing both income and capital value."

View our Chief Executive's Review on **pages 24–26**



"We take a hands-on approach by regularly inspecting our buildings and working closely with our tenants."

View our Property Review on **pages 28–33**



"We continue to reward our shareholders with attractive total returns."

View our Financial Review on **pages 36–39**

What we do

We acquire regional properties and unlock value to create sustainable assets through our pro-active hands-on management approach to property investment.

ACQUIRE

We identify and buy strategically located real estate outside London that fits our strict investment criteria.

REFURBISH

We seek to revitalise assets, creating refurbished space meeting occupational demand.

REDEVELOP

We secure planning permission (and financing) to unlock value, creating excellent modern commercial space.

REINVEST

Once we have achieved our objectives, we recycle capital into new opportunities through disposal.

View our business model on **pages 18–19**

HIGHLIGHTS

**RESULTS SHOW A
PROFIT BEFORE
TAX OF £6.4M
AND A NET
ASSET VALUE
OF £180.3M**



2 St James Gate, Newcastle upon Tyne

For more information on our strategy
see our KPIs on **pages 22–23**

FINANCIAL HIGHLIGHTS

Total Property Return

7.1%

2019	7.1%
2018	10.2%
2017	N/A

IFRS profit before tax

£6.4m

2019	£6.4m
2018	£13.3m
2017	£12.6m

Adjusted profit before tax

£8.9m

2019	£8.9m
2018	£8.5m
2017	£6.7m

See note 6 on **page 94**

Net rental income

£16.4m

2019	£16.4m
2018	£14.9m
2017	£12.2m

IFRS NAV

£180.3m

2019	£180.3m
2018	£183.3m
2017	£109.6m

EPRA NAV per share

407p

2019	407p
2018	415p
2017	443p

See note 7 on **page 95**

For definitions for all KPIs and other terms,
see glossary on **pages 127–128**

➤ OPERATIONAL HIGHLIGHTS



🏠 Significant acquisition

Palace Capital acquired One Derby Square, Liverpool for £14.0m in December 2018. This is a centrally located office and retail property, virtually fully-let, producing £1.0m rental income p.a. with further rental growth opportunities.

➤ For more information see **pages 8–9**



🏠 Hudson Quarter (HQ), York development commenced with funding secured

Palace Capital commenced the development of Hudson Quarter, York in February 2019 having secured a £26.5m development facility with Barclays Bank plc. This is a two year project to develop 127 residential apartments, 35,000 sq ft of (much needed) grade A office space, 5,000 sq ft of commercial space and car parking in this vibrant location.



🏠 Residential portfolio sale

The majority of the residential assets acquired in October 2017 as part of the RT Warren portfolio have been sold for £18.2m, releasing surplus capital for re-investment.

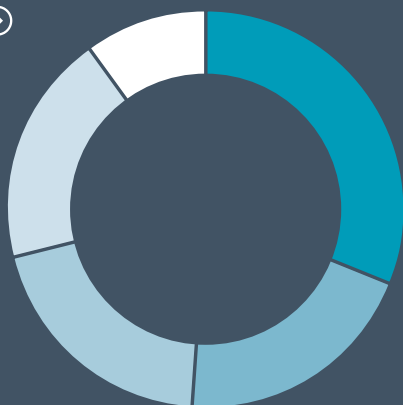
➤ For more information see **pages 14–15**

AT A GLANCE

WE ACQUIRE STRATEGICALLY LOCATED PROPERTIES AND REVITALISE THEM TO CREATE SUSTAINABLE ASSETS

Commercial properties

59



Geography

- South East (31.3%)
- Midlands (19.9%)
- North East (19.9%)
- North West (19.0%)
- South West (9.9%)



For more information on our business model see **pages 18–19**



CORE SECTORS

33

Offices

10

Industrial

9

Retail

2

Leisure

2

Retail warehouse

1

Development

In addition to the above, we own two car parks.



For more information see **pages 34–35**



PORTFOLIO MIX

We acquire assets across a range of risk/return strategies from core-plus to value-add, through to opportunistic developments.

1. The core of our diversified portfolio has medium / long leases, high occupancy and a strong income profile. These assets generate the majority of the cash-on-cash returns that support the dividend policy.
2. Assets that fit within our value-added strategy have shorter leases and typically require investment such as refurbishment in order to reposition the assets to meet occupational demand. They are subsequently re-let at higher rents with longer leases.
3. We have an opportunistic potential pipeline of assets which are well-positioned for medium-term development. Typically, assets are located in city centres, close to transport hubs where the capital values support the development viability.



For more information see **pages 34–35**

Our diversified, regional portfolio:

BY SECTOR AND LOCATION



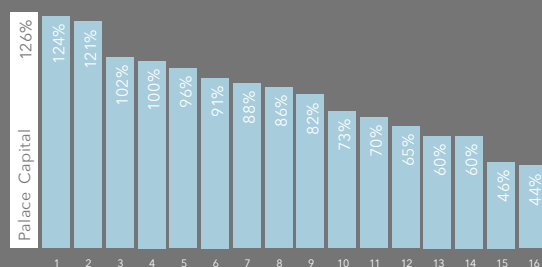
INVESTMENT CASE

A TRACK RECORD OF OUT-PERFORMING THE UK REAL ESTATE SECTOR

WHAT MAKES US DIFFERENT?

We have a carefully selected portfolio, across the UK, diversified by location, sector and tenant in order to limit risk and capitalise on rental growth dynamics. We see particular value in university towns and cities with good infrastructure such as major road arteries and fast rail links because urbanisation and population growth drive demand for commercial space.

Total Accounting Return vs Peer Group – five year track record



Portfolio Valuation

£286.3m

2019	£286.3m
2018	£276.7m
2017	£183.2m

- For more information see note 9 on **page 97–101**
- For more information see glossary on **page 127–128**

+ ACQUIRE



REFURBISH



REDEVELOP



REINVEST



- Four of our investment areas will be explored more over the following pages.

1

ENTREPRENEURIAL AND 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 with a view to limiting exposure to sector specific fluctuations. Our team is experienced in corporate acquisitions, consolidating operations and delivering both earnings and net asset value synergies.

2

PRO-ACTIVE REAL ESTATE STRATEGIES

Palace Capital operates a total return model and income is a key component of this. We apply pro-active asset management strategies to unlock sustainable cash returns by growing rents and improving occupancy.

3

QUALITY OVER QUANTITY

The management team are regional experts with exceptional market penetration through their relationships and extensive property and financial backgrounds. Management is well aligned with shareholders and is not rewarded on an assets under management (AUM) fund model, meaning that quality is preferred over quantity.

4

REGIONAL PORTFOLIO OUTSIDE LONDON

The portfolio has grown significantly in a relatively short time. It is diversified by location, sector and tenants, with a strong focus on the office and industrial sectors.

Demand for office and industrial space outside London remains strong. The limited supply of office space (partly due to the loss of offices to residential from Permitted Development Rights) is creating advantageous supply-demand dynamics and prospects for rental growth in certain locations. We consider there is implicit rental growth in the regions.

5

DEVELOPMENT PIPELINE

Within our investment portfolio we have identified potential development opportunities which, providing they are viable, we will look to unlock over the medium term to deliver real estate to meet occupational demand.

Typically, assets are located in city centres close to transport hubs where the capital values support the development viability.

6

SUSTAINABLE VALUE CREATION

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

We have established a core portfolio of sustainable income-producing assets which has enabled us to reward investors with an attractive dividend. Furthermore, we also have the flexibility to re-invest surplus capital to refurbish, reposition and recycle property as part of our total return strategy.

+ ACQUIRE

One Derby Square, Liverpool

This imposing property is situated in the heart of Liverpool and has extensive frontages onto Lord Street, Castle Street and Derby Square.

It has a total net floor area of 70,000 sq ft comprising seven retail and leisure units on the ground floor and 47,500 sq ft of offices.

+
£14.0m
ACQUIRED DEC 2018



ONE DERBY SQUARE, LIVERPOOL



£1.0m
ANNUAL NET RENT



96%
OCCUPANCY



We are very disciplined when it comes to stock selection, prioritising quality over quantity."

STOCK SELECTION

Our strategy focuses on central locations in thriving university towns and cities in the regions, particularly where permitted development and a lack of speculative development has reduced office stock. In Liverpool, 1.15m sq ft of office space has been taken out of the market since 2014.

One Derby Square was acquired for £14.0m in December 2018.

The Net Initial Yield was 6.75%.

This asset's net income is £1.0m p.a. and it is 96% occupied.

Tenants include: Pret a Manger, Tesco, Medcash, Reed Specialist Recruitment, Brook Street (UK) and Exchange Chambers.

[View our Strategy on pages 18–19](#)



REFURBISH

Lendal and Museum St, York

Acquired as part of the RT Warren portfolio in October 2017.

Office space became vacant in June 2018 and had not been refurbished since the 1980's.

A significant capital expenditure project ensued to overhaul the mechanical and electrical services to create fully refurbished Grade A offices of 5,653 sq ft.



MUSEUM ST, YORK



Palace Capital is focussed on creating space to meet the demands of the 21st century occupier and this has certainly been achieved in this instance."

CREATING SUSTAINABLE SPACES THAT MEET OCCUPATIONAL DEMAND

On acquisition, office rents were at £11 per sq ft.

The refurbished space is currently being marketed by local agents quoting £25 per sq ft and is attracting strong interest from local companies.

The refurbishment demonstrates clear value creation.



View our Strategy on **pages 18–19**



REDEVELOP

Hudson Quarter, York

In February 2019, construction of a prestigious, mixed-use scheme in the heart of York commenced on site. A £26.5m debt facility has been agreed with Barclays Bank to part-finance the scheme, with the remainder funded from the Group's cash reserves.

Demolition was completed in December 2018 and construction is in progress with practical completion scheduled for early 2021.



FEB 2019

Funding secured and development commenced

SEP 2013

Acquired as part of the Sequel portfolio

2014-2016

Completed short term lettings to limit shortfalls during planning process

BREEAM rating

Excellent

WiredScore

Platinum



HUDSON QUARTER, YORK

FEB 2016

Consent secured under Permitted Development Rights legislation for change of use from office to residential

AUG 2017

Major planning consent secured for new build development

DEC 2018

Demolition completed



2021

Completion
scheduled



As of October 2018



This is a prestigious development in the heart of the city and we feel privileged to be contributing to the future of York."

MEETING THE BURGEONING DEMAND IN YORK

We are delighted to breathe new life into Hudson Quarter, only one minute's walk from York railway station and within the historic walls of the city.

Caddick Construction Ltd commenced construction of the £33.6m works in February 2019.

The development scheme will comprise 127 residential apartments, 35,000 sq ft of offices and 5,000 sq ft of additional commercial space plus car parking.

Practical completion is expected in Q1 2021.



View our Strategy on **pages 18–19**



REINVEST

We are constantly assessing an individual asset's performance against its business plan and will sell assets in order to recycle capital and reinvest for further growth.

RT WARREN RESIDENTIAL PORTFOLIO DISPOSAL

The majority of this non-core portfolio of low yielding residential assets have been sold, releasing funds for reinvestment.



RT WARREN RESIDENTIAL PORTFOLIO



Selling the residential assets enables us to reinvest the proceeds into assets that fit our acquisition criteria."

NON-CORE ASSETS SOLD

65 non-core residential properties acquired as part of the RT Warren portfolio in October 2017.

Three properties sold in January 2018.

Two properties retained for strategic reasons.

Contracts exchanged for the sale of 50 properties for £18.2m. 26 completed by 31 March 2019 and the remaining 24 completed by 1 May 2019.

98% of book value achieved to date.

Five assets have been sold since year end.

Five remaining properties being marketed with expected sales imminently.



View our Strategy on **pages 18–19**



STRATEGIC REPORT

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40	Risk Management

We take a pro-active and sustainable approach to property investment as we acquire, refurbish, redevelop and reinvest in assets to create value for our shareholders.



HUDSON QUARTER, YORK, CGI

OUR BUSINESS MODEL AND STRATEGY

WE REVITALISE REGIONAL PROPERTY TO CREATE SUSTAINABLE AND DESIRABLE REAL ESTATE

OUR COMPETITIVE ADVANTAGES:



OUR PEOPLE

- Extensive property and financial experience.
- Over 100 years of combined real estate expertise.
- Regional expertise.
- Entrepreneurial and pro-active approach to property investment.

OUR PORTFOLIO

- Majority of portfolio is core plus generating strong cash-on-cash returns.
- Value-added and opportunistic assets with future growth potential.
- Potential development pipeline within existing portfolio.
- Lower risk focus in markets showing supply-demand imbalance and rental growth.

OUR APPROACH

- Disciplined acquisition strategy.
- We anticipate rental growth in university towns and cities close to proposed infrastructure projects.
- A small team means limited bureaucracy so we react quickly to events.
- Sector agnostic, opportunity led.

OUR FUNDING

- Balanced capital structure with conservative level of debt.
- Core portfolio creates surplus cash generation which in turn supports dividends.
- Sustainable cash returns.
- Debt maturity matched to portfolio lease lengths.
- Strong relationships with main UK clearing banks.

THE VALUE WE CREATE:

FOR OUR INVESTORS

- We have a total return strategy.
- Ambition to outperform our sector as measured against MSCI benchmark.

Total Property Return

7.1%

FOR OUR TENANTS

- We create space for modern occupational requirements.
- We aim to ensure our refurbishments and redevelopments are environmentally efficient.

Space let in the year

235,000 sq ft

FOR OUR COMMUNITIES

- Sustainably built developments
- Meeting regional demand.
- Working with local authorities.
- Helping regenerate city centres through developing desirable real estate.

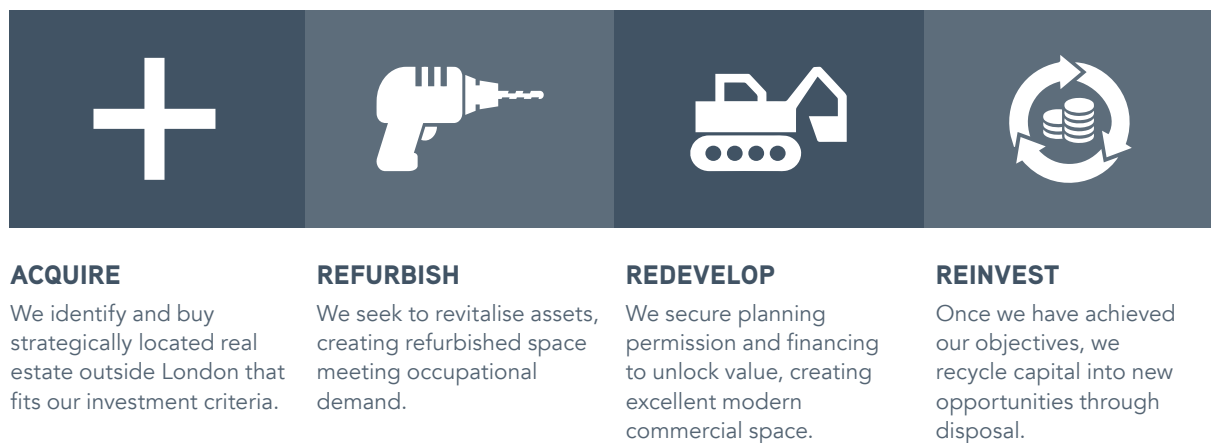
No. of commercial leases across portfolio

234

We prioritise creating value:

- | | | | |
|--|--|--|--|
| 1
DISCIPLINED STOCK SELECTION | 2
PRO-ACTIVE REAL ESTATE STRATEGIES | 3
MAINTAIN CONSERVATIVE CAPITAL STRUCTURE | 4
GROW DEVELOPMENT PIPELINE |
|--|--|--|--|

WHAT WE DO:



HUDSON QUARTER YORK DEVELOPMENT

We have a standard of excellence in everything we do, as demonstrated by our mixed use development in Hudson Quarter, York.



BREEAM rating

Excellent



WiredScore

Platinum

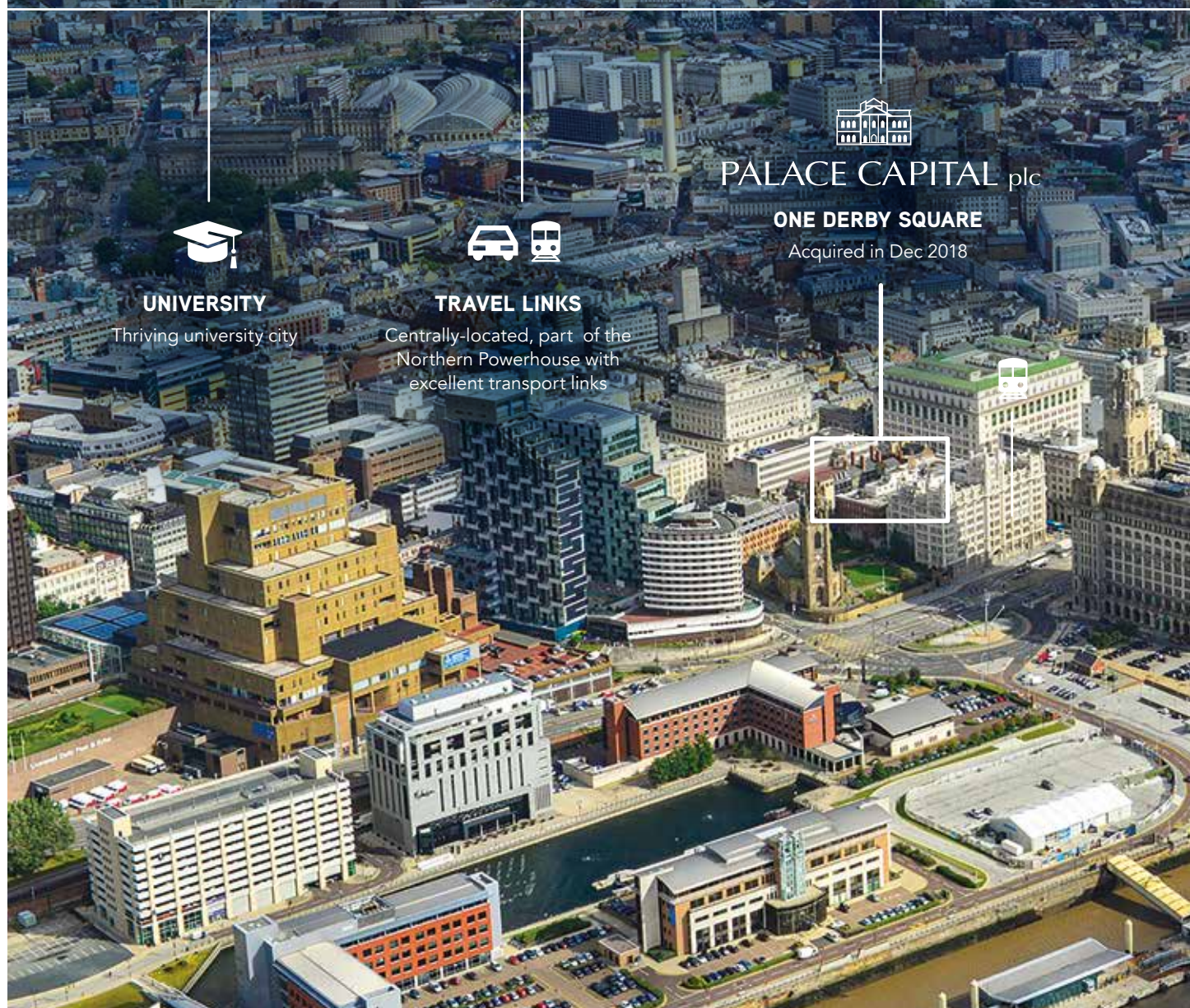


WHAT MAKES PALACE CAPITAL DIFFERENT?

We have been focussed on regional property investment outside London for almost a decade. Regional city centre offices have outperformed London for the past three years and we expect this to continue.

We see particular value in university towns and cities close to local and national infrastructure, as urbanisation and population growth drive demand.

We have constructed a carefully selected portfolio, frequently through corporate acquisitions, taking advantage of the unique supply-demand imbalance.



UNIVERSITY

Thriving university city



TRAVEL LINKS

Centrally-located, part of the Northern Powerhouse with excellent transport links



PALACE CAPITAL plc

ONE DERBY SQUARE

Acquired in Dec 2018



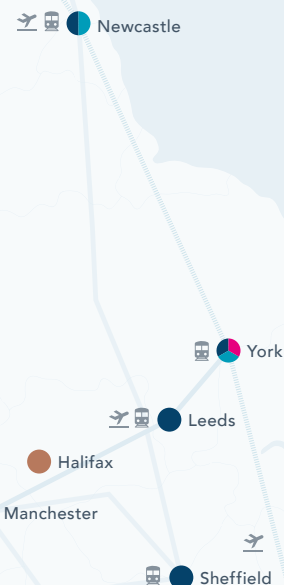
REGIONAL CITY CENTRES

Regional city where permitted development and a lack of speculative development has reduced office stock

OFFICE SECTOR

Strong exposure to regional office sector capitalising on rising rents

PALACE PROPERTIES WITHIN THE NORTHERN POWERHOUSE



WE FOCUS ON THE REGIONS

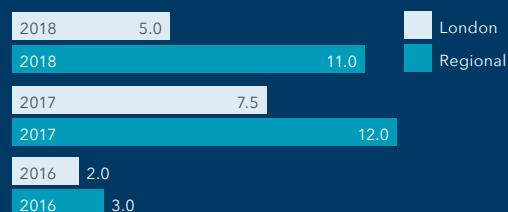
In recent years we have built up our exposure to the 'Northern Powerhouse' region as we expect HS2 and other national infrastructure projects to support future growth in values.

As an example:

One Derby Square, Liverpool was the most recent acquisition in December 2018 and fits within the strict acquisition criteria:

- City centre offices.
- Occupational demand exceeds the supply.
- Low average passing rents £12.00 per sq ft which is 20% below ERV.
- Strong, city centre location.

London vs. regional UK office (% p.a. total returns)



Regional office returns have exceeded those generated by London every year since 2016.

CULTURE

Liverpool is experiencing a considerable renaissance

CITY OF LIVERPOOL

OUR KPIS

WE MEASURE OUR PERFORMANCE USING KPIS LINKED TO OUR STRATEGIC PRIORITIES

We invest across sectors outside London, based on fundamental demand/supply macro-economics supported by structural trends. We focus on properties where we can enhance the long-term income and capital value through pro-active management and strategic capital developments to create desirable real estate that meets demand. We employ a conservative financing strategy with debt aligned to our property strategy.

KPIS RATIONALE

Some of the KPIs are also used in assessing the management team as set out in the remuneration report (Definition of terms can be found in the glossary on pages 127–128).



Where possible, we link our performance to EPRA best practice recommendations, recognised 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, are appropriate to use alongside certain EPRA measures and others that are relevant to our business.

1

DISCIPLINED STOCK SELECTION

Progress during the year

Highly selective criteria limited acquisitions to One Derby Square, Liverpool for £14.0m in December 2018.

Objectives for the year ahead

To find earnings and acquisition opportunities reflecting our focus on regional offices in university cities outside London.

TOTAL PROPERTY RETURN (TPR)

Total Property Return (TPR) is the total income and capital return as measured by MSCI.

7.1%

2019	7.1%
2018	10.2%

Deliver superior, benchmark beating total property returns.

2019/20 ambition

To outperform the MSCI UK Quarterly Index Benchmark.

TOTAL ACCOUNTING RETURN (TAR)

Total Accounting Return (TAR) is the total net asset value (NAV) growth plus dividend per share.

2.6%

2019	2.6%
2018	-2.0%

Consistently deliver TAR above peer group.

2019/20 ambition

Deliver superior underlying shareholder value as measured by TAR.

2

PRO-ACTIVE REAL ESTATE STRATEGIES**Progress during the year**

37 lease renewals and rent reviews.

Average new rent achieved 14% above estimated rental value (ERV).

Generating additional £3.4m rent p.a.

Objectives for the year ahead

Target occupancy above 90%.

Let vacant space at or above ERV and passing rent.

3

MAINTAIN CONSERVATIVE CAPITAL STRUCTURE**Progress during the year**

Loan to value (LTV) net of cash was 34% at 31 March 2019 (within target LTV range of 30% to 40%).

Objectives for the year ahead

Repay £3.6m short-term debt to Lloyds in May 2019.

Re-finance debt with under two years of maturity at competitive terms.

4

GROW DEVELOPMENT PIPELINE**Progress during the year**

£1.0m spent of £33.6m construction contract on Hudson Quarter, York.

Resolution to grant planning consent achieved at High Street Weybridge.

Objectives for the year ahead

Progress construction project on Hudson Quarter, York development.

Progress planning and viability for other potential development sites.

NET RENTAL INCOME

Year-on-year increase in net rental income across the underlying portfolio.

£16.4m

2019	£16.4m
2018	£14.9m

Drive like for like income growth through asset management actions.

2019/20 ambition

Deliver like-for-like income growth ahead of inflation and ERV.

AVERAGE COST OF DEBT

Average cost of debt drawn to finance investment portfolio.

3.3%

2019	3.3%
2018	3.4%

Maintain low cost of finance to drive returns.

2019/20 ambition

Maintain low average cost of debt less than 3.5% p.a.

EPRA VACANCY RATE %

Vacancy rate of investment portfolio measured against portfolio ERV.

13%

2019	13%
2018	10%

Maintain strong occupier contentment and retention.

2019/20 ambition

Maintain high occupancy across the investment portfolio, targeting an EPRA vacancy rate of less than 10%.

LTV OF GROUP DEBT

Debt drawn less cash held as a fraction of property Portfolio Valuation.

34%

2019	34%
2018	30%

Loan to value net of cash.

2019/20 ambition

Maintain LTV at less than 40%.



CGI IMAGE OF DEVELOPED HUDSON QUARTER SITE, YORK

CHIEF EXECUTIVE'S REVIEW

WE HAVE A CLEAR BUSINESS STRATEGY, AND WE ARE CONFIDENT THAT THIS WILL ENABLE PALACE CAPITAL TO FLOURISH WITHIN THE UK REIT REGIME

Net Rental Income

£16.4m
+10.1%

Portfolio Valuation

£286.3m
+3.5%



NEIL SINCLAIR FRICS
Chief Executive

I am pleased to report the Company's results for the year ended 31 March 2019 which shows an IFRS profit before tax for the year of £6.4m (2018: £13.3m) and a net asset value as at 31 March 2019 of £180.3m (2018: £183.3m). Although profit for the year is down on last year due to the fair value reductions compared to uplifts last year, adjusted profit before tax has increased to £8.9m (2018: £8.4m), reflecting underlying rental growth from the portfolio.

We are an ambitious and exciting real estate Company which only had a market capitalisation of £108,000 in July 2010 and now have a portfolio valued at £286.3m so we have made considerable progress. You may have noted in our Portfolio and Trading Update announced early last month that we have had a busy year achieving a number of our strategic objectives notwithstanding the uncertain political environment.

REIT CONVERSION

One of these objectives was to convert to a Real Estate Investment Trust (REIT) and this is due to take effect on 1 August 2019 pending shareholder approval to amend the Articles of Association at the AGM in July. The Board took extensive professional independent advice and is convinced that REIT conversion supports our Total Return Strategy, harnessing the



core income-producing portfolio for income growth, whilst exploiting value-add and development opportunities for capital growth.

We expect REIT conversion to increase liquidity in our shares through unlocking new pools of capital, improve earnings through elimination of the tax charge on rental profits and increase our net assets through elimination of deferred tax liabilities.

STRATEGY

Our focus is on value creation through our targeted acquisition of regional commercial property in select growth locations and sectors, exploiting the low interest rate environment to leverage the yield differential of core-plus regional assets versus the low return London sectors. Specifically, city centre offices make up 47.3% of our portfolio and our skillset and ability to enhance the income profile through refurbishments and redevelopments is at the heart of our continuing success.

HIGHLIGHTS

There have been a number of highlights in the last financial year including a full year on the Main Market of the London Stock Exchange, as well as becoming part of the FTSE Small Cap Index and the FTSE All Share Index.

When we bought RT Warren (Investments) Ltd in October 2017 for £68m we acquired 21 commercial buildings and alongside these, 65 residential properties which for us were non-core. We sold three very quickly and just before the year end, we exchanged contracts to sell 50 to Barnet Council, with 26 completing in March 2019 and 24 in May 2019. We have achieved 98% of book value so far which is well ahead of the business plan on acquisition. Post the year end, a further five residential have been sold, with the remainder to be sold imminently.

Our flagship project is the development under construction on our two-acre site known as Hudson Quarter, York. We are erecting 127 apartments, 35,000 sq ft of offices and 5,000 sq ft of other commercial space plus car parking which is all due to complete in the early part of 2021. We already announced that we have secured a £26.5m funding facility from Barclays Bank on very competitive terms and that we have placed a building contract with Caddick Construction.

The marketing suite for the apartments is virtually complete and June will see the first batch of apartments launched for sale. York was voted the best place to live in the UK in 2018 and was a regional winner this year. In the Nationwide House Price Index for the first quarter of this year house prices

rose 2% in Yorkshire and Humberside whilst in London they fell 4%, further emphasising the benefits of our targeted regional strategy.

ACQUISITIONS

We have very selective investment criteria and with vendors endeavouring to secure prices that we believe are no longer realistic, we only made one acquisition in the year for £14.0m which was One Derby Square, Liverpool, a virtually fully let retail and office property in a superb location. One Derby Square produces rent in excess of £1.0m per annum. I am proud of the high-quality income producing portfolio we have assembled primarily since 2013 and this bodes well for the years ahead.

As a result of the limited opportunities to acquire properties that meet our strict criteria, we held surplus cash in the year. Management took the decision to acquire a 5% holding in a listed equity investment with a strategy focussed on the regional office sector, consistent with our own.

VALUATIONS

Our independent valuations show an underlying increase from the previous year of 0.5% and this is no mean feat in a year dominated by political uncertainty and negative retail sentiment. Our strategy of focussing on offices in university towns and cities across the UK continues to bear fruit.



Business Model in Action



Hudson Quarter, York

At our Hudson Quarter development in York, demolition has been completed and the contractor is on site. A ground-breaking event took place in April 2019 where the Archbishop of York, John Sentamu, officiated. The scheme will be formally launched on 20 June 2019, when the formal marketing starts. Strong interest has already been received.

We continue to benefit from operating in this buoyant location. This is borne out in the Nationwide House Price Index for Q1-2019 where the annual percentage change in house prices is up 2% for Yorkshire and Humberside but down almost 4% for London.

CHIEF EXECUTIVE'S REVIEW CONTINUED

A number of our office properties are in core city centre locations such as Leeds, Milton Keynes, Leamington Spa and Manchester, and some of these have significant development and refurbishment potential. The Board has made the strategic decision to harness this potential, as we are doing in York, and we will of course update shareholders as and when appropriate.

TOTAL RETURN

We operate on a total return basis so it is important to grow our capital values as well as our income. There is no doubt that major tenants want quality buildings which are preferably new or almost new, therefore achieving satisfactory planning consents on our potential development pipeline will be crucial going forward. We secured planning consent at Hudson Quarter, York through a pro-active, engaged approach with a pragmatic City of York Council harnessing a superb professional team. This will benefit not only the residents and visitors to York but our shareholders as well as value is created.

DIVIDEND POLICY

I have always referred to our progressive dividend policy. This should not necessarily mean that it increases every year but does over time. This year we intend to maintain it and we are proposing a final dividend of 4.75p per share payable on 12 July 2019 to those shareholders on the Register as at 14 June 2019, which if approved takes the total dividends for the year to 19p.

EPRA NAV

Our EPRA Net Asset Value per share at 31 March 2019 is 407p which is 1.9% below that of last year. We have had to take account of the Stamp Duty Land Tax on the Liverpool acquisition as well as the reduction in the share price of our listed investment. These factors, in my view, are short term in nature and will not affect our medium to long-term strategic goals or ambition to outperform our peer group on a total return basis.

PORTFOLIO

Following the acquisition of One Derby Square, Liverpool, the fair value of the Company's portfolio is now at

£286.3m (including trading properties and assets held for sale) compared to £276.7m as at 31 March 2018. This takes into account the relevant acquisitions and disposals we have made during the financial year.

Our contracted rent roll as at 31 March 2019 was £17.7m per annum with a net income of £16.4m after allowing for head rents, service charge shortfall and empty rates. Looking forward, this rent roll may increase during the year if we find the right acquisition opportunities but this year's patient approach will be more rewarding in time.

CONSERVATIVE GEARING

Having personally experienced a number of economic downturns it is crucial to keep our gearing at a conservative level. Our bank borrowings are £96.5m net of cash representing a loan to value (LTV) of 34% (2018: 30%)

ASSET MANAGEMENT

We are making good progress with our asset management initiatives on our strategically well-located holdings in Leeds, Manchester, Liverpool, Newcastle, Southampton, Brighton, Winchester, Leamington Spa, Milton Keynes and Northampton and these are referred to in our Property Review.

REGIONAL FOCUS

Government policy is being directed to encourage investment in the regions, supporting our outlook. Many leading companies have, or are about to, relocate to the regions including Hiscox, Burberry, Channel 4 and Talk Talk. Graduate retention in the regions, particularly in the core cities, is rising providing a pool of talent as London becomes unaffordable to many.

Chancellor Philip Hammond recently told the House of Commons Treasury Select Committee that the next Spending Review expected in the autumn of this year would have a focus on improving regional productivity, with the modern industrial strategy at the heart of the plan. He advised that the review's priority will be to focus on geographical areas which have high potential for productivity growth and projects such as the Northern Powerhouse Rail which can enable this.

This project will connect Hull, Leeds, Manchester, Liverpool, Newcastle and Sheffield. The purpose is to create a single economic geography out of a belt of northern cities and to further create an overall area of economic activity which can rival London. Except for Hull, we have holdings in all of these cities.

DISCIPLINED INVESTMENT STRATEGY

We are focussing on exploiting our own portfolio through active management, but we are also very much in the market for acquisition opportunities that conform with our criteria. However, in my view, prices that might have been attainable 9 to 12 months ago no longer provide sustainable value. Therefore, we are adopting a patient approach as we increase our cash balances, although this does affect short-term profitability. This will enable us to act very quickly when the right opportunity presents itself. In this business a crucial discipline is to know when to walk away as well as striking when the iron is hot. However, we have built up a large network of contacts, particularly in the regions, and I am confident that we will secure the mainly off-market opportunities that have helped us to grow this Company to date.

We travel extensively in the regions to meet investors both large and small as well as regularly reviewing our portfolio and this policy will continue.

Notwithstanding the risks associated with current economic conditions and the Brexit transition in particular, we believe these are exciting times for the Company. We want to build on our track record and regional strategy and continue to deliver efficiencies for shareholders as we grow. We have a clear business strategy, and we are confident that this will enable Palace Capital to flourish within the UK REIT regime.

I am extremely grateful for the support of our shareholders. We have a management and support team together with our Non-Executive Directors which is second to none and I continue to be very confident about our future.



Neil Sinclair
Chief Executive

REIT CONVERSION

Why are we planning to convert to a REIT?

The UK REIT regime was introduced in 2007, and is a tax efficient structure for UK tax resident listed companies investing in real estate. A company within the REIT regime is exempt from UK tax on income or gains arising from its property rental business, subject to meeting certain conditions. Any income or gains arising that are not directly attributable to properties held for investment will continue to be fully chargeable to corporation tax. By becoming a REIT, Palace Capital will benefit from an established tax-exempt regime which should enhance shareholder returns for the majority of shareholders.

What other benefits are there in being a REIT?

1. REITs are a recognised 'vehicle' internationally which helps to attract a wider investor base. There are significant investment pools and fund allocations specifically designated for investment in REITs, and conversion to REIT status can often unlock new sources of funding. By becoming a REIT, Palace expects to benefit from increased liquidity in its shares.
2. On entering the REIT regime, any latent capital gains on rental properties are effectively eliminated. In addition to the obvious tax benefits of exemption from corporation tax on capital gains, this may have the following additional benefits:
 - a. Likely to reduce or potentially eliminate any discount to net asset value caused by latent capital gains.
 - b. REITs often have a competitive advantage on corporate acquisitions, as other non-REIT bidders may have to discount their purchase price for latent capital gains.
 - c. REITs are able to make commercial decisions in a tax-exempt environment, based on the commercial performance of individual assets (without having

regard to which assets would give rise to taxable capital gains on disposal).

3. Any deferred tax liability relating to property rental business assets could be released on a REIT conversion, resulting in a credit to the profit and loss account.
4. The broad intention of the REIT regime is to replicate the tax treatment of a direct investment in property. REIT status therefore effectively removes the traditional 'double-layer' of taxation, where profits are taxed at both the property company and shareholder levels. Instead, tax is generally only payable at the shareholder level, which (depending on the precise facts and circumstances) may give improved after-tax returns for shareholders.

What changes will there be to dividends?

We will continue to pay dividends on a quarterly basis, on the same dates: at the end of April, July, October and December each year. As a REIT, each dividend will potentially comprise two parts – a normal dividend and a Property Income Distribution (PID). The PID is paid from the net income profits of the REIT's tax-exempt rental business and there is a requirement to distribute at least 90% of this income on an annual basis. Subject to some exceptions (including ISAs, UK pension schemes and UK resident companies), PIDs are subject to withholding tax at the basic rate of income tax, currently 20%. The balance of any dividend will be paid as normal, and there is no withholding tax on this element.

What are the conditions of being a REIT?

There are a number of conditions which a REIT must meet in order to be eligible for and to remain in the regime including the following:

1. REITs are required to distribute 90% of their tax-exempt rental profits (calculated on a tax basis).

2. Balance of business profits condition: The Group's profits relating to its property rental business (on an IFRS accounting basis, excluding capital gains, revaluations, changes in the fair value of hedging derivative contracts and exceptional items) should be at least 75% of the aggregate profits of the Group (i.e. the sum of the profits of the property rental business and the profits of the residual business of the Group).
3. Balance of business assets condition: At the beginning of each accounting period the value of the Group's gross assets (on an IFRS accounting basis applying fair value accounting where there is a choice) relating to the property rental business plus cash and the value of any shares in other REITs should be at least 75% of the total value of gross assets held by the Group.

These will be set out in more detail in the Notice to the Annual General Meeting (AGM).

Countdown to REIT conversion 2019

- 1 Resolutions to change the Articles will be voted on as part of AGM **12 July 2019**
- 2 Join REIT regime **1st August 2019**
- 3 **July 2019 & October 2019** dividends will still be non-PIDs
- 4 **December 2019** will be first quarter dividends to include PIDs (property income distribution under REIT regime)

PROPERTY REVIEW

**WE REGULARLY
INSPECT OUR
BUILDINGS
AND ENGAGE
DIRECTLY WITH
OUR TENANTS TO
UNDERSTAND THEIR
REQUIREMENTS,
ADAPTING OUR
ASSET MANAGEMENT
STRATEGIES
ACCORDINGLY**

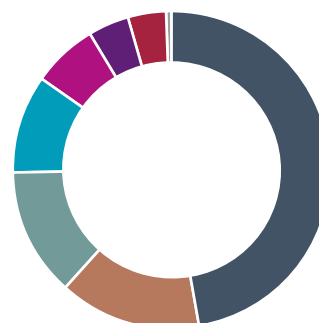


RICHARD STARR MRICS
Executive Director



We continued to focus on finding value from our existing portfolio this year. Many of the assets in the R.T. Warren portfolio acquired in October 2017 complemented our existing holdings and we have begun to extract value. Buying in the last 12 months has been competitive with private equity institutions and local authorities covering 71% of the market (ACRE Real Estate Q1 2019 snapshot). Our stringent acquisition strategy and being prepared to 'walk away' if the price required doesn't provide us with the opportunity to generate market leading Total Property Returns meant we

Sectors



- Office: 47.3% (2018: 43.0%)
- Leisure: 14.5% (2018: 15.2%)
- Industrial: 13.1% (2018: 13.0%)
- Retail: 10.0% (2018: 10.5%)
- Development: 6.5% (2018: 5.8%)
- Residential: 4.3% (2018: 8.1%)
- Retail Warehouse: 4.0% (2018: 4.1%)
- Car Parking: 0.3% (2018: 0.3%)

Source: Cushman & Wakefield
2019 valuation



Business Model in Action



Sol, Northampton

Acquired in 2015, Sol, Northampton is a 200,000 sq ft leisure development located five minutes' walk from Northampton railway station. Completed in 2002, current occupiers include Vue Entertainment, which has a 10 screen cinema at the scheme, Accor Hotels, Fitness for Less and Soo Yoga.

We have undertaken a number of enhancements tailored to the scheme and in February 2019 we entered into a new 15 year lease for 12,800 sq ft with Soo Yoga Group which will open a holistic yoga studio and wellness facility that will include a vegan café. Soo Yoga signed at a headline rent of £85,000 p.a. with RPI-linked uplifts and a minimum rent at first review to £100,000 p.a. There continues to be encouraging interest in the remaining vacant space which gives us confidence for the future of the asset.

selected only to purchase One Derby Square, Liverpool.

Most major cities have experienced rental growth for new or refurbished offices in the last couple of years, so buying a property where the passing rents are 20% below current market levels is an achievement.

We have our portfolio independently valued every six months and as at 31 March 2019, Cushman & Wakefield reported the value at £274.6 million of commercial property, a like-for-like increase of 0.5% over the year.

We have maintained our WAULT (4.5 years to break) enabling us to prepare a strategy for each asset in advance and adapt as situations evolve.

We have focussed on the office sector for the last couple of years which has outperformed the retail sector as the high street goes through a revolutionary change. With 47.3% of our portfolio predominantly in university city centres, we have

seen rental growth and completed lettings or lease renewals in Brighton, Manchester, Milton Keynes, Harlow, Exeter, Farnborough and Newcastle.

The industrial market continues to be the sector of choice for investors as demand from national multiples drives investment and limited supply generates rental growth. Our highest rental increase was in Coventry where a new five year lease saw an uplift of 32.8%. Our tenant, a German car parts manufacturer, is evidence that leaving the EU is potentially not all doom and gloom. At our industrial estate in Verwood, following a refurbishment, we completed a new letting at a rent 22.3% higher than at the time of purchase.

Following the recent letting to Soo Yoga at Sol, Northampton, we have started a new branding and marketing campaign to promote the scheme. In September, the opening of the £330 million university campus which is within walking distance, could be the catalyst to attracting further tenants.

We have commenced the development of our signature scheme, Hudson Quarter, formerly known as Hudson House, in York. The first new mixed residential and office development within the historic city walls in ten years is the culmination of four years determination to obtain the best consent possible. We have appointed locally based advisors who ensure the design of the apartments and office buildings are of the highest quality.

We have already had interest in the speculative 35,000 sq ft office building, with practical completion not until early 2021. We will look to update shareholders as this progresses.

The Company completed the sale of four commercial properties during the year. Additionally, the majority of the residential properties in the R.T. Warren portfolio acquired in the prior year were sold pre and post year end. Refer to page 15 for further details.

We have resolution to grant planning consent for the development of Bridge House, High Street, Weybridge, and are looking at how we can maximise values in a number of our other significant assets.

We made a conscious decision to avoid buying retail investments a few years ago due to the concern that rental levels wouldn't be sustainable. As the high street adapts to the changing habits of shoppers, we have limited exposure to the Company Voluntary Arrangements (CVA) process, which has resulted in only two tenancies ending prior to their expiry date.

There are a number of value-accretive opportunities in our portfolio, including in Leamington Spa, Milton Keynes, Leeds and Manchester. We have noticed the amount of residential development through Permitted Development Rights fall as the returns from commercial-led refurbishment increases.



PROPERTY REVIEW CONTINUED

STATISTICS

- We own 59 commercial properties (2018: 60 commercial properties).
- Properties comprising 1.7m sq ft (2018: 1.8m sq ft).
- Tenants providing a contractual rent roll of £17.7 million per annum (2018: £18.0 million per annum).

ACQUISITIONS

Despite the Brexit headwinds, the investment market remained more resilient than had been predicted. UK real estate is still very much on the radar for domestic and foreign investors. Colliers reported that investment volumes in 2018 'broke through the £60bn mark for the fourth time in the past five years' even though transaction activity was slightly below 2017. The beginning of 2019 continued this trend and vendors' expectations are mainly higher than the levels buyers are prepared to pay, which we expect to continue until there is a more certain political climate.

Our acquisition strategy of only buying when investments can generate the returns we seek has resulted in us often 'walking away' from competitive bidding scenarios. However, we did

acquire One Derby Square, Liverpool, a mixed-use property in December 2018 for £14.0 million. This reflects a net initial yield of 6.75%. The property is 96% occupied with a WAULT of four years to break or expiry. The tenants include Tesco, Pret a Manger, Medicash and Exchange Chambers who contribute 49.7% of the income. We anticipate being able to improve returns by increasing the rental tone of the offices from their current low base of £12 per sq ft.

SECTOR FOCUS

Offices

Even though political uncertainty has dominated the headlines, activity levels in the UK city office market proved resilient. Knight Frank reported the number of occupier deals completed was 'up 8% year-on-year, meaning overall take-up was almost a fifth above the long-term trend'. The biggest shift to this sector is institutional acceptance that flexible leases shouldn't be discounted from a valuation perspective. It all comes back to the 'property fundamentals' of location and quality of product. The former is essential to our

acquisition strategy and the latter provided by the refurbishment work we undertake. We focus on city centre locations and Knight Frank reported that in 2018, occupier migration into cities from business parks served to underpin demand for office space and this inward shift accounted for 20% of take-up in 2018.

With almost half our portfolio invested in this sector we have strived to ensure that we can deliver the quality of office space required. We have completed 13 lettings and lease renewals covering 87,000 sq ft per annum totalling £1.4 million. The significant lettings have been in Milton Keynes, Newcastle and Harlow.

Our EPRA occupancy as at 31 March 2019 is 87% which is something we are looking to increase in the coming year.

We are looking at further refurbishment works at Boulton House, Manchester and 249 Midsummer Boulevard, Milton Keynes. The vacant office space in both locations has been refurbished and we are now concentrating on the upgrade of the common areas.

Business Model in Action



Sandringham House, Harlow

Sandringham House was part of the Signal Portfolio acquired from Quintain plc in 2013 and comprises an office building of 32,750 sq ft. In May 2018 we let 28,500 sq ft of office space to Exela Technologies, part of a Group quoted on NASDAQ.

Exela previously leased 17,500 sq ft on terms which were due to expire in June 2018 and took an additional 11,000 sq ft on a new lease for a term of five years at a headline rental of £355,363 p.a.

Exela will pay a rent of £177,681 p.a. until 14 December 2019 in lieu of a rent-free period. This represents an uplift in rental from £9.14 per sq ft to a headline rental of £12.50 per sq ft.

Our primary focus has been to engage with our tenants via our pro-active asset management strategy to maintain and grow our income.



Two key aspects that office occupiers are focussed on and require are connectivity and flexibility. We have instructed WiredScore to assess the former in our major office buildings. In Leeds, Manchester and Newcastle they are all rated Gold or better. We have committed to a Platinum rating at our Hudson Quarter development and in 249 Midsummer Boulevard, Milton Keynes the rating is Certified. There is a continuing trend away from long leases towards flexible leases, as they become more acceptable as an institutional investment. We are comfortable with this approach as it provides the opportunity to increase rents in line with the market on a more regular basis.

Our office holdings represent 47.3% of the total value of the portfolio.

The largest letting was to Exela Technologies Limited, for 28,500 sq ft, who expanded within Sandringham House, Harlow to take 87% of the building on a new five year lease. The annual rent of £355,363 (£12.50 per sq ft) was more than double their prior commitment as they expanded to take an additional 30% more space. An incentive equating to nine months' rent free was provided as half rent for 18 months.

The letting of Solaris House, Kiln Farm, Milton Keynes in April 2018 was also very positive as we had completed a significant refurbishment of the building during which time rental values increased. Crucially, the terms of the letting and the refurbishment matched the adjoining properties we own, let to Rockwell Automation, where we are negotiating the rent review from December 2018. The building comprises 14,500 sq ft and was let for 10 years without break at a headline rent equating to £16.50 per sq ft. The tenant was granted the equivalent of 20 months' rent free as half rent for 40 months, which was less than the average lease incentive for comparable lettings.

At St James Gate in Newcastle Upon Tyne, we renewed the lease to Serco for 12 months which was the length of their contract. Since the end of the financial year we have completed a new lease for five years with a tenant option to determine after two years at a rental of £245,916 per annum, reflecting an increase of 10.8%. We are currently refurbishing the vacant third floor of 11,187 sq ft and the ground floor reception area. This work is to ensure that the building remains

attractive to current occupiers and will attract new ones in the future.

The remaining lettings were in Manchester, Exeter, Beaconsfield, Gerrards Cross, Farnborough and Brighton.

Retail

Our retail holdings represent 10.0% of the total value of the portfolio which we consider conservative enough to limit our exposure to the challenges facing this sector. Our largest exposure is Aldi in Gosport at £291,000 per annum representing 13.9% of our retail rents.

The demise of the high street is a common and continuing theme within the media. However, the difficulty surrounding the sector is akin more to the change in how consumers shop, which is only part of the issue. Since 2015, the number of retail businesses entering into administration has increased by 30% according to figures from the Centre for Retail Research. There is an overwhelming acceptance within the property industry that business rates are at punitive levels. This is compounded by business owners of multiple stores historically expanding quickly by increasing debt to achieve short-term high returns, as well as not adapting to changing consumer habits. Department stores are now paying the price for carrying out sale and leasebacks in the last cycle, committing themselves to increasing rents over long periods of time.

Landlords have been handed the short straw with many retailers returning stores that aren't performing to owners by entering a CVA. New ventures are more likely to start new businesses online, which is not helping to address the large number of vacancies in the high street. However, there is an equilibrium as we have observed that in many regional cities, high street shopping also has a social advantage, so we expect this sector to continue to evolve over the coming years.



OFFICE

PROPERTY REVIEW CONTINUED

Retail continued

During the year we completed six new lettings totalling 21,376 sq ft totalling £431,500 per annum. The significant part of this was the new lease to Aldi in Gosport where we held a small area of land with planning consent for a 'drive thru' unit to be developed. Aldi required additional car parking so a new lease incorporating this land was agreed. The rent subsequently increased from £247,000 per annum to £291,000 per annum, an increase of 17.8%, which was the equivalent rent achievable from the additional land. The lease term was extended from 12 years to 20 years retaining the existing rent review provisions of minimum increases in line with inflation, capped at 2.75% and collared at 1.0% per annum compounded.

The other lettings were in Brighton, Dartford, York and Banbury.

Industrial

This was again the sector of choice for institutional investment across the UK last year. This has been driven principally by the requirements from retailers to have large regional distribution centres with excellent transport links and the 'last mile' requirement so customers can have products delivered as quickly as possible. It is inevitable that this expansion must slow down as the operators reach saturation point at a future point in time.

Our industrial holdings represent 13.1% of the total value of the portfolio. Whilst this is a sector we would invest further in, the opportunity to buy assets which provide an attractive initial return is difficult as it is common for inherent rental growth to be priced in.

During the year we agreed five new lettings across 25,000 sq ft totalling £189,000 per annum. These lettings were predominately at Black Moor Road, Verwood which was purchased as part of the R.T. Warren portfolio in October 2017. The average rent at that time was £5.25 per sq ft and, following a refurbishment of some vacant space, the new rent equates to £7.00 per sq ft which is more than 10% higher than anticipated at the time of purchase.

We have also completed the refurbishment of Unit 8B at Point 4 Industrial Estate, Avonmouth. This followed a tenant going into administration in June 2018. Agents have been appointed and we are looking to agree terms with a new tenant before the end of the current financial year.

Post the year end, at Courtauld House, Foleshill Enterprise Park, Coventry, Brose completed a five year lease renewal at a rent of £431,500 per annum. This equates to £5.55 per sq ft, an uplift of 32.8% to the passing rent. Getting commitment from a German supplier to the automotive industry from Germany is a positive sign that companies from the EU will continue to work in the UK post Brexit.

We also settled a rent review at Plot 24, Blackwater Way Aldershot where the rent increased from £181,475 per annum to £210,000 per annum, equating to 15.7% and slightly ahead of ERV.

Leisure

The leisure market has been in a state of flux for the last couple of years. Several tenants have struggled to survive whilst many don't exist anymore as many brands have suffered from similar issues highlighted in the Retail commentary. The letting of vacant space has been challenging but we consider that the market has now turned. There are new concepts from operators seeking to provide an 'experience' for customers. We know that the branding and marketing campaigns at both Northampton and Halifax are having a positive impact on bringing customers to the schemes.

Our holdings represent 14.5% of the total value of the portfolio.

At Sol, Northampton, we let 12,800 sq ft to Soo Yoga who signed a 15 year lease at an initial rental of £85,000 per annum, with a minimum increase after five years to £100,000 per annum. The scheme is now undergoing a branding and marketing change and we are in discussions to let a significant remainder of the vacant space. The remaining tenants are trading well which is evidenced by Ibis Hotels



who has made a turnover payment of £107,000 in addition to their £510,000 rent.

We have been working to attract tenants to the vacant space at Broad Street Plaza, Halifax. Post the year end we completed the letting to Whitecross Dental Care on a 15 year lease for 7,000 sq ft which was a former Chinese Buffet. The rent of £111,625 per annum represents an uplift of 20.7% on rents previously received. We are confident that interest in the remaining vacant units will increase with this letting and when the College opens opposite our asset in September 2019.

Development

We placed the contract for the development of Hudson Quarter, York. Since 2013, we have worked on obtaining planning consent for 127 apartments, 35,000 sq ft of grade A offices and 5,000 sq ft of other commercial space and car parking. This will be the first significant office development within the historic city wall for over a decade. We are excited about the development which will formally launch in June 2019. We expect to sell many of the apartments prior to practical completion in February 2021. The initial interest

Business Model in Action



One Derby Square, Liverpool

We acquired the freehold interest of One Derby Square in Liverpool for £14.0 million in December 2018, producing a net income of £1.0 million p.a. reflecting a 6.75% net initial yield. It is 96% occupied by tenants with excellent covenants including: Pret a Manger, Tesco, Mediacash, Reed Specialist Recruitment, Brook Street (UK) and Exchange Chambers.

This imposing property is situated in the heart of Liverpool with extensive frontages onto Lord Street and Castle Street, as well as Derby Square. It has a total net floor area of 70,000 sq ft comprising seven retail and leisure units on the ground floor and 47,500 sq ft of offices across four upper floors.

While most of the property has been recently refurbished, significant opportunities remain for pro-active asset management and the Company will be working to a tailored plan to increase the property's income and capital value in the years ahead.

This earnings-enhancing acquisition aligns with our strategy focused on city centre locations in thriving university towns and regional cities, particularly where permitted development and a lack of speculative development has reduced the office stock. In Liverpool 1.15 million sq ft of office space has been taken out of the market since 2014.

from prospective tenants for the new offices is encouraging and we are targeting an unprecedented rental tone for York. Further information can be found at www.hudsonquartermarket.com. A loan of £26.5 million has been agreed on competitive terms to part fund the development.

In March 2019, after 15 months of consultation and planning meetings, a resolution to grant planning consent was secured for Bridge House, High Street, Weybridge. The new development is for 28 apartments and 4,000 sq ft of retail. The residential scheme is targeting the affordable level of the local market as most of the units are one bedroom apartments. We are looking to complete the Section 106 agreement and will finalise costs during the year.

Disposals

We completed four commercial sales over the period raising a total of £2.1 million. The key factor being that all the properties were either vacant or due to become vacant. Post the year end, we completed the sale of Rathbone and Old House for £1.5 million.

When we acquired the R.T. Warren portfolio, we announced that we would sell the residential element.

Of the 65 properties, all of which were income producing, three were sold last year and two are being retained for strategic purposes. The significant sale was for 50 houses to Barnet Council for £18.2 million. Contracts were exchanged in February 2019 with 26 completed before the year end and 24 completed post the year end on 1 May 2019. Post the year end a further five properties were sold, with the remaining five due to be sold imminently.

Minimum Energy Efficiency Standards (MEES)

From 1 April 2018 in England and Wales it was illegal to renew or grant new tenancies at properties that have F or G Energy Performance Certificate (EPC) ratings. The scope of these regulations is due to increase from 2023 to include existing leases. We identified this risk a number of years ago and have action plans in place to ensure our buildings are compliant.

Outlook

Our view on the market has not fundamentally changed since last year, with strong occupational demand in the regional office markets continuing and rental growth following suit. Continuing uncertainty around Brexit will only lead to further

procrastination to decision making among the business community.


Industrial investment, development and occupation will probably continue to be the leading performer, whilst the retail and leisure sector may have further tenant failures as the sector finds its own solutions to increased competition from online and rising occupational costs and changing shopping habits.

During the forthcoming year we are focussed on letting the vacant space as a priority. This will increase our cashflow and reduce our holding costs. However, we are also mindful of the opportunities to carry out significant refurbishment or development where appropriate. This may mean that strategically, we don't actively seek to let all the vacant space which could enable us to maximise shareholder returns in the medium to long term.

We believe that we remain well placed to grow income and add further value to the portfolio.

Richard Starr, MRICS
Executive Director

CORE SECTOR FOCUS



Leamington Spa

OFFICE

Overview

47.3% of our portfolio is in this sector and accounts for £8.9m p.a. in rent from 102 tenants in 33 buildings.

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.

Highlights

Properties	33
Value	£135.5m
Area	794,726 sq ft

Top Holdings by valuation at 31 March 2019

St James Gate, Newcastle
Boulton House, Manchester
One Derby Square, Liverpool



Verwood

INDUSTRIAL

Overview

13.1% of our portfolio is in this sector and accounts for £2.3m p.a. in rent from 29 tenants in 10 buildings.

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 to come.

Highlights

Properties	10
Value	£37.4m
Area	409,593 sq ft

Top Holdings by valuation at 31 March 2019

Point Four Industrial Est., Bristol
Black Moor Road, Verwood
Courtauld House, Coventry



Northampton

LEISURE

Overview

14.5% of our portfolio is in this sector and accounts for £3.5m p.a. in rent from 17 tenants in two buildings.

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 put in place.

Highlights

Properties	2
Value	£41.4m
Area	247,470 sq ft

Top Holdings by valuation at 31 March 2019

Broad Street Plaza, Halifax
Sol, Northampton



York

RETAIL

Overview

10.0% of our portfolio is in this sector and accounts for £2.1m p.a. in rent from 43 tenants in nine buildings.

Highlights

Properties	9
Value	£28.7m
Area	137,512 sq ft

Investment summary

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

Top Holdings by valuation at 31 March 2019

Aldi, Gosport
Copperfields Centre, Dartford
Lendal / Museum Street, York



East Grinstead

RETAIL WAREHOUSE

Overview

4.0% of our portfolio is in this sector and accounts for £0.8m p.a. in rent from three tenants in two buildings.

Highlights

Properties	2
Value	£11.5m
Area	59,478 sq ft

Investment summary

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

Top Holdings by valuation at 31 March 2019

A&B Bridge Park, East Grinstead
Harnham Business Park, Salisbury



Uxbridge

RESIDENTIAL

Overview

4.3% of our portfolio is in this sector and accounts for £0.4m p.a. in rent from 35 tenants in 36 buildings.

Highlights

Properties	36
Value	£12.3m
Area	22,622 sq ft

Investment summary

The portfolio is not a core holding and this includes 34 properties held for sale.

FINANCIAL REVIEW

**WE ARE WELL
POSITIONED TO
CONTINUE TO GROW
THE BUSINESS,
REWARDING OUR
SHAREHOLDERS WITH
BENCHMARK-BEATING
TOTAL RETURNS**



STEPHEN SILVESTER FCA
Finance Director

OVERVIEW AND HEADLINE RESULTS

The Company continues to deliver on its objective to drive income and capital growth and outperform the MSCI industry benchmark on a Total Return basis.

The performance of the Group in the year ended 31 March 2019 was financially robust, maintaining our conservative capital structure with an LTV of 34% (2018: 30%), whilst generating strong income and capital performance against a politically uncertain backdrop. We delivered an adjusted profit before tax of £8.9 million (note 6, page 94) for the year and maintained a dividend yield over 6.5% based on 31 March 2019 share price, as a result of total dividends for the year of 19p, 0.9 times covered.

The balance sheet value remains significantly above share price, illustrated by an EPRA NAV per share of 407p (2018: 415p). This performance was driven by our outstanding regional portfolio that achieved a Total Property Return of 7.1% for the year against the MSCI IPD index comparable of 4.6%. We added to the core-plus element of the portfolio with One Derby Square, Liverpool in December 2018 for £14.0 million, acquired at 6.75% NIY and generating £1.0 million net rental income p.a. Our approach to recycling capital out of lower-performing assets and sectors continued as we agreed to sell 50 of the houses acquired as part of the R.T. Warren portfolio to Barnet Council for £18.2 million, with 26 completing before the year end and 24 completing on 1 May 2019, releasing surplus funds back into working capital.

This year we delivered an IFRS profit before tax of £6.4 million (2018: £13.3 million), which reflects a basic earnings per share of 11.3p (2018: 35.9p), down on last year due to £0.6 million loss on disposal and £0.3 million downward revaluation of the residential assets held for sale in the year, compared to almost £6.0 million upward revaluation of the investment portfolio in the prior year.

EPRA earnings is the industry measure of underlying profit excluding revaluation gains, profits on disposals and one-off costs. EPRA

FINANCIAL HIGHLIGHTS

	Change	2019	2018	2017
INCOME GROWTH				
IFRS profit before tax	✓	£6.4m	£13.3m	£12.6m
Adjusted profit before tax	^	£8.9m	£8.5m	£6.7m
EPRA earnings	^	£7.6m	£6.5m	£5.4m
Basic EPS	✓	11.3p	35.9p	36.6p
EPRA EPS	✓	16.6p	18.7p	21.2p
Adjusted EPS	✓	17.3p	21.2p	22.2p
Dividend per share	–	19.0p	19.0p	18.5p
Dividend cover	✓	0.9x	1.1x	1.2x
CAPITAL GROWTH				
Portfolio like for like value		+0.5%	+3.5%	+4.5%
Net Asset Value	✓	£180.3m	£183.3m	£109.6m
Basic NAV per share	✓	393p	400p	436p
EPRA NAV per share	✓	407p	415p	443p
Total accounting return	^	2.6%	-2.0%	11.4%
Total shareholder return	✓	-6.0%	-1.4%	7.4%
DEBT FINANCE				
Debt balance	^	£119.4m	£101.4m	£78.7m
Average cost of debt	✓	3.3%	3.4%	2.9%
Average debt maturity	✓	3.6yrs	4.7yrs	4.6yrs
Loan to Value Ratio	^	34%	30%	37%
NAV gearing	^	52%	43%	61%

earnings for the year ended 31 March 2019 increased by 16.2% to £7.6 million compared to £6.5 million last year reflecting the increased earnings from the growing portfolio.

We also report an adjusted profit before tax in order to track recurring earnings and to form a basis for calculating dividend cover. This totalled £8.9 million for the year ended 31 March 2019 (2018: £8.5 million), up 5.6%, and adjusted earnings per share reduced to 17.3p from 21.2p as a result of the increased shareholder base whilst not fully deploying available capital in the year. The proposed final dividend of 4.75p will be payable in July 2019 which ensures a total dividend for the year of 19.0p covered by adjusted earnings 0.9 times.

On the capital side, net asset value has fallen to £180.3 million, down 1.6% from the previous year-end of £183.3 million and this translates

into EPRA net asset value per share of 407p, down from 415p. This 8p decrease, together with the total dividends of 19p paid during the year, overall represents a 2.6% total accounting return.

RECURRING EARNINGS

Rental income totalled £18.8 million in the year ended 31 March 2019 (2018: £16.7 million) driven by the improving portfolio. Net rental income similarly increased to £16.4 million (2018: £14.9 million).

Administrative expenses decreased to £4.1 million (2018: £4.2 million). The employee numbers were relatively stable during the year and, including the Board, totalled 16 people at the balance sheet date, compared to 14 in the prior year as a result of one new role within the team created and a new Non-Executive Director who joined in early 2019.

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 the Directors 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) framework, and company adjusted measures. Further details are given in notes 6 and 7 of the financial statements. We report a number of these measures (detailed in the glossary of terms) because the Directors consider them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

Finance costs increased to £3.8 million from £3.3 million as a result of increasing the debt book to support the larger asset base and average cost of debt reduced slightly to 3.3% (2018: 3.4%) as we leveraged our larger, diversified portfolio to improve our lender terms.

Looking forward, the business is capable of scalability, with the team and systems in place to support significant growth of the portfolio. The Group has a gross rent roll of £17.7 million per annum as at 31 March 2019 with a reversion to £21.5 million per annum as well as holding cash funding for further acquisitions and reinvestment in the portfolio to generate further growth.

FINANCIAL REVIEW CONTINUED

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 property values on an underlying basis were up 0.5% in a flat market where MSCI recorded 0.1% capital growth across the UK.

In addition, we have continued to recycle capital out of low-yielding residential assets and vacant properties with limited growth prospects into income-generating properties as part of the core-plus element of the business strategy. 26 residential properties were sold in the year for a total consideration of £9.3 million, generating loss on disposal of £0.5 million, along with four commercial properties for £2.1 million, resulting in profits on disposal of £0.2 million. The combination of revaluation movements and losses on disposal can have a significant impact on the underlying value of the business, reflecting a 2p drop in net asset value per share.

EPS

We report EPRA earnings per share, which removes property revaluation, losses and one-off items such as losses on disposal and costs on

acquisition. This reduced to 16.6p from 18.7p last year. Finally, we also report an adjusted earnings per share to provide a basis for dividend cover and this was 17.3p for the year down from 21.2p.

DIVIDENDS

The Board is recommending a final quarterly dividend of 4.75p per share to be paid 12 July 2019 to shareholders registered at the close of business on 14 June 2019. Taken with the total interim dividends of 14.25p, our full year dividend will total 19.0p which remains over 6.5% yield on the latest share price. It should be noted that the Q1 and Q2 dividends were paid on the basis of the Parent Company balance sheet which was subsequently restated during the year as the result of a technical error. This is detailed in note 10 of the Company Accounts on page 125.

The Company has sufficient distributable reserves to provide our shareholders with a consistent quarterly dividend on the back of the core-plus assets that make up the majority of our portfolio which generates strong cash-on-cash returns. In addition there are value-added assets and also a growing pipeline of opportunistic development assets within our portfolio that we look to apply proactive asset management strategies to generate both income and capital growth.

NET ASSETS

At 31 March 2019, our net assets were £180.3 million, equating to basic net



RETAIL

asset per share of 393p, a decrease of 7p since 31 March 2018. The decrease in our net assets was driven largely by the absorption of acquisition costs and fair value of derivatives despite the increase in underlying portfolio values. 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 totalled 407p at 31 March 2019, down from 415p at 31 March 2018 due to the realisation of tax on disposal of the residential held for sale.

DEBT FINANCING

During the year our debt profile improved as we entered into two new facilities. In February 2019 we agreed a £26.5 million development facility with Barclays Bank plc in order to provide the majority of the funding for our significant development of Hudson Quarter, York. Terms include a margin of 3.25% over LIBOR and a non-utilisation rate of 1.30% for the undrawn element of the facility throughout the term. The facility is available once the remaining equity has been invested in the project and it is expected that the monthly drawdown will commence in the second half of this year.

DEBT

	Fixed £m	Floating £m	Total Drawn £m	Years to maturity
Barclays	35.3	3.8	39.1	3.8
NatWest	–	29.4	29.4	1.9
Santander	19.7	6.6	26.3	3.3
Lloyds	–	10.4	10.4	2.6
Scottish Widows	14.2	–	14.2	7.3
Total	69.2	50.2	119.4	3.6



Business Model in Action



Aldi, Gosport

The asset was originally acquired in October 2017 as part of the £68 million acquisition of R.T. Warren portfolio. Aldi previously leased a 16,500 sq ft supermarket on the site on a lease expiring in August 2030 at a rental of £247,800 per annum. This existing lease has now been surrendered and a new 20 year lease has been agreed with the Company, which also includes a small amount of additional land for car parking, until September 2038 without break at an increased rental of £291,000 per annum.

The rent is reviewed upwards every five years, based on the Retail Price Index with a collar of 1% and a cap of 2.75% which compounds annually.

The new lease terms are reflective of the long term rental and capital growth opportunities securing a 17.4% uplift in rental income which are being captured through active asset management.

We also entered into a new facility with Lloyds Bank plc for £6.845 million secured against the recent acquisition in Liverpool on competitive terms at a margin of 1.95% over three month LIBOR. The Group debt facilities total £119.4 million, fully drawn at the year-end. We continue to monitor swap rates and as at year-end held £69.2 million of fixed or hedged debt which was approximately 59% of overall debt drawn. Our lenders include the majority of the UK clearing banks and the Group's all-in average cost of debt is 3.3%. The average debt maturity on the investment facilities is 3.6 years which gives us security over income streams net of interest costs for a number of years before the need to refinance.

NET DEBT AND GEARING

Each debt facility is secured at a Special Purpose Vehicle (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% to 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 2019 was

52% and the LTV ratio was 34% at 31 March 2019. The Group remains conservatively geared and at year-end had £22.9 million of cash along with over £22.1 million of properties uncharged to lenders.

TAXATION

The Group has a tax charge of £1.3 million for the year ended 31 March 2019. This includes a corporation tax charge of £2.2 million to reflect the tax payable in the year, less a deferred tax credit of £0.9 million.

REIT CONVERSION

The Company's plans to convert to a UK REIT, and the potential benefits, are set out on page 27 of the Report. The Group currently pays UK income tax on its net rental income, after deductions. Its estimated UK tax liability for recurring earnings for this year is £1.0 million. Following REIT conversion we expect this tax liability to be reduced to zero, as the bulk of the Group's activities will fall within the REIT exemption. Conversely, if the Company did not join the REIT regime, we would expect the Group's tax liability to increase as the Group continues to grow.

OUTLOOK

From a financial point of view, the Company has had a solid year and performed well against the politically uncertain backdrop. It remains financially robust with conservative gearing at 34% and £22.9 million of cash in the bank provides capacity for the Group to make further acquisitions and invest in its assets, to grow both the income and capital values. We continue to pay out an attractive dividend yield of over 6.5% on the share price at 31 March 2019, whilst retaining surplus capital to reinvest in our portfolio to drive performance and maximise total returns for our investors. In addition, we have commenced the Hudson Quarter, York development which is forecast to deliver an award-winning, sustainable mixed-use scheme in the heart of York which will have significant benefits for all involved in the heart of the local community.

Stephen Silvester FCA
Finance Director

RISK MANAGEMENT

THE BOARD CONTINUALLY ASSESSES THE KEY RISKS TO THE BUSINESS TO ENSURE EXPOSURE IS MITIGATED

RISK	MITIGATION	PROGRESS 2018/2019	RATING
<p>Development</p> <p>Over exposure to development could put pressure on cash flow and debt finance.</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • The Group's Capital Risk Management Policy limits development expenditure to less than 25% of Gross Asset Value. • Limited capital expenditure during the current year across a range of properties. • The only development the Group has entered into is the £33.6 million construction contract signed for the development of Hudson Quarter, York, which is part funded by a £26.5 million facility with Barclays Bank plc. 	H
<p>Financing and Cash Flow</p> <p>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.</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • The Group's weighted average debt maturity is currently 3.6 years and looking to extend this further providing longevity and financial support to maintain the current portfolio. • The Group's LTV is conservative at 34%. • 59% of drawn debt at year-end is fixed, limiting the Group's exposure to increases in Bank of England base rate & LIBOR. 	H
<p>Accounting, tax, legal and regulatory</p> <p>Non-compliance as a result of changes to accounting standards, regulatory requirements for public real estate company and incorrect application of tax rules.</p>	<ul style="list-style-type: none"> • Key advisors including Auditors, Tax Advisers, Solicitors and Brokers are engaged on key regulatory, accounting and tax issues. • Engagement with British Property Federation (BPF) on regulatory changes that impact the real estate industry. • Engagement with Deloitte on REIT conversion. 	<ul style="list-style-type: none"> • Greater level of scrutiny required by the Board covering corporate governance and requirements for reporting to the FRC following the move to the Main Market. • Business forecasts and strategy allows for changes to corporation tax rates and interest deductibility rules. • Clarity has now been provided following the passing of legislation to take effect from 1 April 2017 for corporate interest restriction. • Board has given sign off for REIT conversion on 1 August 2019. 	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

- H High
- L Low

RISK	MITIGATION	PROGRESS 2018/2019	RATING
Property Exposure to tenant administration and poor tenant covenants could result in lower income, and therefore property values could decrease.	<ul style="list-style-type: none"> 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, and as a result falling property values. Tenant diversification is high with no tenant making up more than 7% of total rental income. 	<ul style="list-style-type: none"> Total number of commercial leases across portfolio: 234 making up contractual rent roll of £17.7m. Loss of income from tenant administrations and CVAs in the year totalled £39,222, which is very small percentage of portfolio contractual income. Portfolio weighted average lease length is 4.5 years providing reasonable longevity of income. Our occupancy for the year ending 31 March 2019 was 87%, with the target occupancy across the portfolio 90% for the year ending 31 March 2020. Property values have increased 0.5% from 2018. 	L
Economical and Political Uncertainty from Brexit and world events could impact our tenants and the profitability of their businesses. Decisions made by councils and local government can have a significant impact on our ability to extract value from our properties.	<ul style="list-style-type: none"> 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 industry bodies including BPF in order to monitor the impact of all relevant current issues. 	<ul style="list-style-type: none"> Concerns remain as to the effect of Brexit on the UK economy. Government support for regional development initiatives bodes well for the markets in which we operate. 	H
Operational Business disruption. Without adequate systems and controls our exposure to operational risk and business disruption is increased.	<ul style="list-style-type: none"> Increase of 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 difficult transitions and potential loss of income. Segregation of duties applied to payments processing and bank authorisations. 	<ul style="list-style-type: none"> Continuing to keep under review the Financial Position and Prospects Procedures Board Memorandum put in place as part of the move to the Main Market ensuring plans in place to deal with disruption risk. Increase in staff numbers to 16 which provides cover reducing exposure should any of the key personnel become unavailable. Key man insurance cover in place for Executive Directors. 	L

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 at Hudson Quarter in York is due to take 23 months from commencement to practical completion.
- The Group's weighted average debt maturity at 31 March 2019 was 3.6 years.
- The Group's WAULT at 31 March 2019 was 4.5 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 and loan to value metrics. Additionally, we look at our 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 in March 2019 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. If the property values fell by approximately 20%, a £4.6m repayment of debt would be required to cure any loan breaches under the existing debt facilities. The interest cover across the Group was also sufficient that net income would need to fall by 37% or interest costs increase by 62% to breach the interest cover ratios.

The Group has signed a design and build construction contract in February 2019 for £33.6m with a contractor in order to complete the redevelopment of Hudson Quarter, York. In order to part finance the development, a new facility with Barclays Bank plc for £26.5m was agreed. The NatWest facility, due to expire in March 2021, is currently being refinanced.

The Directors have also taken into account the strong financial position at 31 March 2019, 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 and Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

OUR APPROACH TO CORPORATE RESPONSIBILITY

At Palace Capital, we believe in conducting our business activities ethically and responsibly. With over £286 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. Our asset managers engage with managing agents and subcontractors for refurbishments, encouraging them to drive best practices and consider environmental measures.

We also believe in making a positive difference to the communities in which we live and serve. In 2018/19 our charitable donations reached over £13,700. A large benefactor of our philanthropic activity was Variety, the 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 ended 31 March 2019, which was as follows:

Board Diversity

	Male	Female	Total
Board of Directors	6	1	7
Senior Managers	2	0	2
Other employees	4	3	7
Employees (Total)	12	4	16

ENVIRONMENTAL MATTERS

As a landlord of primarily 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 so that our properties are equipped to meet minimum energy efficiency standards.

SUSTAINABILITY FOCUS: HUDSON QUARTER, YORK



Palace Capital acknowledges the importance of our corporate social responsibility in refurbishing and redeveloping real estate that is highly sustainable and suitable to meet the needs of the 21st century occupier.

We are mindful of our wider role as placemakers and we aim to contribute to the long-term prosperity of the communities in which we invest.

Examples of this in the Hudson Quarter development are set out below:

SITE WIDE SUSTAINABILITY MEASURES

- Comprehensive site wide landscape design using native, low maintenance plants which will provide high quality and sustainable outdoor amenity.
- Rain gardens will provide attenuation for sustainable site drainage and reduce the need for irrigation.
- Site is in the city centre of York, with excellent public transport accessibility, including a two minute walk to York mainline railway station and bus stops.
- Low voltage LED external lighting scheme.

RESIDENTIAL SUSTAINABILITY MEASURES

- Robust masonry facades provide for durable and resilient buildings.
- Thermal performance in advance of current building regulations.
- Efficient underfloor heating to all apartments.
- Mechanical heat recovery units to all apartments.
- Energy efficient integrated whitegoods to all apartments.
- Four electric car charging spaces.
- 132 cycle spaces with cycle wash down and maintenance areas to promote sustainable transport use.

OFFICE SUSTAINABILITY MEASURES

- Our target is to be BREEAM rated 'Excellent', with our current score of 78.9% achieving that target.
- We aim to be WiredScore 'Platinum' (the highest rating), with our current score of 91/100 achieving that target.
- Thermal performance in advance of current building regulations.
- Robust masonry facades provide for durable and resilient buildings.
- Variable Refrigerant Flow (VRF) heating/cooling system will provide heat recovery from one area to another – an extremely energy efficient method of transferring unwanted heat to areas that require additional warmth particularly suited to larger open plan offices.
- Low flow washroom fittings and WC's.
- Two electric car charging spaces.
- 54 Cycle spaces with drying room and six showers to promote sustainable transport use.

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

Neil Sinclair
Chief Executive





CORPORATE GOVERNANCE

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Transparency

The Board is committed to maintaining an open dialogue with shareholders and engaging with both existing and potential investors on Company strategy, management, remuneration and governance.

BOARD OF DIRECTORS

THE BOARD CONSISTS OF SEVEN DIRECTORS OF WHOM THREE ARE EXECUTIVE AND FOUR NON-EXECUTIVE

Executive Directors

NEIL SINCLAIR FRICS

Chief Executive

STEPHEN SILVESTER FCA

Finance Director

RICHARD STARR MRICS

Executive Director

Date of appointment

Co-founded 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
- London Active Management
- Roma Capital Group

Committee Membership



Date of appointment

Joined the Group in 2015

Expertise

Stephen is a Chartered Accountant and brings 15 years' experience in Finance including ten working in real estate. He first worked at Menzies before moving to Australia where he was a senior accountant at PKF and Group Financial Controller at St Hilliers Pty. Back in the UK, he served as Group Financial Controller at NewRiver REIT.

Stephen's experience encompasses many areas of property finance including capital raising (debt and equity markets), hedging, securing credit facilities (investment and development finance) as well as listed corporate experience including investor relations, REIT compliance and corporate transactions

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

External Appointments

None

Committee Membership

Date of appointment

Joined the Group in 2013

Expertise

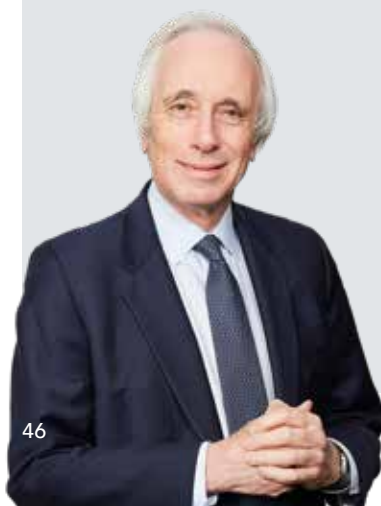
Richard has extensive experience of sourcing and managing commercial investments throughout the UK. After qualifying as a Chartered Surveyor in 2000, he gained his experience working as a fundamental team member of four Central London property firms including the corporate real estate division of what 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, when the Signal portfolio was acquired.

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

External Appointments

– Acorn2Oak Property Advisors Limited

Committee Membership



Committee membership

● Audit and Risk Committee

● Remuneration Committee

● Nomination Committee

● Committee Chairman

Non-Executive Directors**STANLEY DAVIS**

Non-Executive Chairman

ANTHONY DOVEIndependent
Non-Executive Director**KIM TAYLOR-SMITH**Independent
Non-Executive Director**MICKOLA WILSON**Independent
Non-Executive Director**Date of appointment**

Co-founded the Group in 2010

Expertise

Stanley is a successful serial entrepreneur who has been involved in financial services and property businesses 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

Committee Membership**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

Committee Membership**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 Group

Committee Membership**Date of Appointment**

Joined the Group in 2019

Expertise

Mickola is a Chartered Surveyor and has over 30 years' experience in the real estate market, providing consultancy, research and investment management advice to the property fund management industry. She was the CEO of the listed property company, Teesland Plc, and was Non-Executive Chair of Cushman & Wakefield Investors, the investment management arm of Cushman & Wakefield. She currently advises a number of overseas investors on their investment strategy and is responsible for their compliance and regulatory administration.

External Appointments

- Seven Dials Fund Management
- Government Property Agency
- Ambassador for Women in Property

Committee Membership

CHAIRMAN'S GOVERNANCE OVERVIEW

Dear Shareholder:

"On behalf of the Board I am pleased to be writing to you at the end of the Company's first year following 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

It has been another successful year for the Company. As Chairman I am responsible for ensuring that the Board operates effectively and that a high standard of corporate governance is upheld throughout the Group. The Board is accountable to the Group's shareholders for good governance. In my letter last year I referred to a number of areas where the Company was not in full compliance with the Corporate Governance Code. I am pleased to advise you that following the appointment of Mickola Wilson we have moved forward with the issues of non-compliance. I am no longer a member of the Audit and Risk Committee and Mickola Wilson has been appointed Chairman of the Nominations Committee. With the appointment of Mickola we have achieved half the Board, excluding the chair, being independent Non-Executive Directors and are now compliant with the code, except that I am about to commence my tenth year with the Company. In July 2018, the Financial Reporting Council introduced a new corporate governance code to apply to accounting periods beginning on or after 1 January 2019. In advance of the introduction of the new code we have adopted a number of requirements and in particular the recommendation that all Directors should be subject to annual re-election. The code has introduced a number of new requirements and we shall be reviewing the details to ensure full compliance in the future.

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

Board Performance Evaluation

We have a well-balanced Board with a good range of skills. Succession planning will be a key area of focus to support the Company's long-term plans.

A performance review of the Executive Directors has been undertaken on a one-to-one basis with a 360 degree review and we were very satisfied with the results.

The Chief Executive reviewed the performance of the other Executive Directors and I reviewed the performance of the Chief Executive. During the forthcoming year, we are proposing an externally facilitated Board evaluation. 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. I am satisfied that the Non-Executive Directors continue to be effective and remain independent.

REIT Conversion

The proposal to enter the UK REIT regime and the change in the listing status of the Company, and the rationale for these, are set out both within this Report and the shareholder circular issued separately.

At the time of our last Half Year Report, we advised that the UK REIT regime was constantly under review. A key consideration for us has been retaining sufficient working capital for asset management rather than being required to pay out 90% of tax-adjusted rental profits and therefore we needed to wait until the size of the business was sufficient in order to support the working

capital requirements. The second key consideration was the level of tax being incurred. This year we have provided for over £1.0m corporation tax on recurring earnings which reduces earnings per share by over 2 pence and looking ahead, REIT conversion would have the advantage of eliminating this 'double-tax' drag on shareholder returns. From humble beginnings when we took Board control in 2010, we have now held a Premium Listing on the Main Market of the London Stock Exchange for the past year and with strong cashflows supporting our working capital requirements we are now in a position to benefit from REIT conversion.

As part of the Notice of Annual General Meeting, there are a number of resolutions to be voted on that will require approval before REIT conversion. In summary, we wish to enter the REIT regime on 1 August this year. There will be some changes proposed to the Articles of Association of the Company to facilitate the REIT conversion. The Company will continue to be managed in the same way according to the business strategy through our traditional board structure with an executive function. We have set out, separately within this report, a 'Question and Answer' section on the REIT regime. We believe that the conversion represents an important step in the evolution of the Company and recommend the approval of the resolutions by shareholders.

We have continued to maintain a progressive dividend policy throughout the year, in line with our strategy and enabling reinvestment of surplus funds back into the portfolio. In the current year, with the proposed final dividend, we will have paid 19.0p in total dividends which is above the 90% requirement of the REIT regime. Therefore, once we are in the UK REIT regime, we do not expect the dividend policy to change other than in light of prevailing market conditions.



Stanley Davis

Chairman

3 June 2019

Leadership

BOARD AND COMMITTEE STRUCTURE



➤
See more on
page 54

➤
See more on
page 56

➤
See more on
page 52

CORPORATE GOVERNANCE CONTINUED

LEADERSHIP

The Board

During the year, the Board consisted of a Non-Executive Chairman, Chief Executive, Group Finance Director, Executive Director – Head of Property and three further Non-Executive Directors. One of the Non-Executive Directors, Mickola Wilson, was appointed to the Board on 1 February 2019.

The Board has reviewed the roles of Anthony Dove, Kim Taylor-Smith and Mickola Wilson and concluded that they are 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 46 and 47 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 67.

The Board met eight times during the financial year for meetings with fixed dates and a further four 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 and Risk Committee

The Audit and Risk Committee meets to consider the Company's report and accounts and in particular with the Company's auditors to review the financial statements. The Committee also assesses the risk of material misstatement in the financial statements, which is detailed on page 55.

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 are considered.

Remuneration Committee

The Remuneration 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

Attendances of each Board member was as follows:

	Attended meetings	% meetings attended
Stanley Davis	12	100
Neil Sinclair	12	100
Stephen Silvester	12	100
Richard Starr	12	100
Anthony Dove	12	100
Kim Taylor-Smith	12	100
Mickola Wilson	3	100*

* since appointment in 2019

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. Accordingly, Mickola Wilson will retire and offer herself for election to the Board. The Articles of Association of the Company provide that any Directors 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. However, the decision has been taken that all the other Directors will also retire and offer themselves for re-election.

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 principal 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 40 and 41. 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 and Risk Committee. In line with the Company's commitment to managing risk, the Audit Committee has changed its name to the Audit and Risk Committee.

A key part of the risk management process is the identification and assessment of risks threatening the Company's business model, future performance, solvency or liquidity. This 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. A risk review was

undertaken by senior management during the year and the risk register was circulated to the Audit and Risk Committee members.

The Audit and Risk Committee meets to monitor and review 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 recognises the importance of maintaining a strong relationship with the Company's shareholders. During the year ended 31 March 2019 the Board extended its programme of communicating with shareholders.

The Executive Directors are generally all available to speak to shareholders to discuss any issues that they may have.

There has also been an increased focus on investor relations during the year. The Company exhibited at Mello, the UK's premier investors event, twice during the year. 29 Analyst meetings took place including 12 trips to the regions where there was direct investor engagement. Following the announcement of the Company's 2018 results in June there were 24 separate presentations in London, Edinburgh and York and following the announcement of the Company's half year results in November 2018 there were 25 presentations in London. In addition to the presentations following the announcement of our results, there were tours by our investors to the Company's properties at Winchester, Southampton, Newcastle and York. The relationship with the Company investor relations consultants, FTI Consulting, has been considerably extended following the Company's shares being admitted to the Premium Listing on The London Stock Exchange. The Company also appointed an additional broker, Numis Securities Limited, on 18 January 2019 with a view to further enhancing the relationship with shareholders.

Annual General Meeting

Shareholders are encouraged to attend and vote at the Company's General Meetings so that they can discuss governance and strategy with the Board. The full Board usually attends the Annual General Meeting 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 to answer questions that they had.

NOMINATIONS COMMITTEE REPORT

**"I was appointed
Chairman of the
Committee following
my appointment
to the Board on
1 February 2019."**

CHAIRMAN

Mickola Wilson
(appointed 1 February 2019)

Members:

Stanley Davis
Anthony Dove
Kim Taylor-Smith
Neil Sinclair

Meetings Held

2

Average Meeting Attendance

100%

I was appointed Chairman of the Committee following my appointment to the Board on 1 February 2019. The Committee had previously identified the need to appoint a further Independent Non-Executive Director to the Board and its Committees.

The Committee evaluated the skills and experience necessary to complement the existing members of the Board. It was particularly important for the candidate to have strong experience in the real estate sector and a shared view of the aspirations of the current Executive Board. It was made clear that the Company wanted the best candidate for the role and an individual that was able to devote sufficient time to the position.

The Committee appointed recruitment consultants, Warren Partners, which has no other connections with the Company, to undertake the task of finding the right candidate. The Committee were delighted with the level of interest and the quality of the candidates put forward. A series of interviews were arranged with Committee members and the Board and I was delighted to be chosen to join the Board.

Following my appointment, I went through the Company's induction programme led by Anthony Dove and David Kaye.

COMMITTEE MEMBERSHIP

The Nominations Committee members throughout the year were Stanley Davis (Chairman until February 2019), Neil Sinclair, Anthony Dove and Kim Taylor-Smith. I was appointed a member on 1 February 2019.

MEETINGS AND ATTENDANCE

Prior to my appointment the Nominations Committee met twice 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 Directors, Non-Executive Directors and Senior Management.

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 in particular, the Committee considers the leadership needs and skill sets required and the balance of the Board. Anthony Dove will have been a Non-Executive Director for nine years when his current term comes to an end in 2020 and he has declared that he will not be seeking a further term. We shall be seeking to refresh the Board at the appropriate time with a new Non-Executive Director.

CHAIRMAN OF THE BOARD

Stanley Davis was appointed to the Board in 2010 when he and Neil Sinclair acquired Board control of the Company which at the time was quoted on the AIM market. In view of his shareholding in the company, he was not considered to be independent at that time.

Stanley's shareholding is now 3.63% and, although he is still not considered to be independent, his value in continuing to provide the Company with strategic direction is invaluable. The Company wishes to retain his services notwithstanding that during the course of the year he will have been with the Company for nine years.

DIVERSITY

The Board recognises the importance of diversity at every level of recruitment. All appointments are made on merit. During the course of the year, several new appointments of the Company have been made, including my own, and this has improved the diversity. Further details may be found in the Strategic Report on page 43.

TENURE OF DIRECTORS (AT 31 MARCH 2019)

	Years
Stanley Davis	8
Neil Sinclair	8
Stephen Silvester	3
Richard Starr	6
Anthony Dove	8
Kim Taylor-Smith	5
Mickola Wilson	–

Mickola Wilson

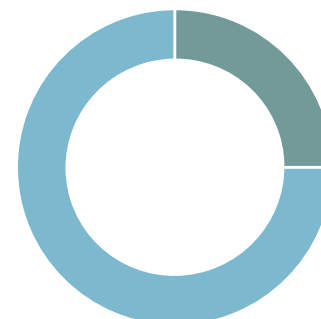
Mickola Wilson

Chairman

Nominations Committee

3 June 2019

Diversity



- Female (4)
- Male (12)

Tenure of Directors



- Stanley Davis (8)
- Neil Sinclair (8)
- Stephen Silvester (3)
- Richard Starr (6)
- Anthony Dove (8)
- Kim Taylor-Smith (5)

AUDIT AND RISK 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."

CHAIRMAN

Kim Taylor-Smith

Members:

Anthony Dove
Stanley Davis (resigned 1 February 2019)
Mickola Wilson (appointed 1 February 2019)

Meetings Held

5

Average Meeting Attendance

88%



COMMITTEE MEMBERSHIP

Kim Taylor-Smith (Chairman) and Anthony Dove were members of the Audit and Risk Committee throughout the year. Stanley Davis was a member of the Committee until 1 February 2019 when he was replaced by Mickola Wilson.

MEETINGS AND ATTENDANCE

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

	Attended meetings	% meetings attended
Kim Taylor-Smith	4	80
Stanley Davis	5	100
Anthony Dove	5	100
Mickola Wilson	0	0

Stephen Silvester, the Finance Director, attended all meetings. Three meetings were additionally attended by representatives of the Company's external auditors, BDO LLP.

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 46 and 47.

COMMITTEE RESPONSIBILITIES

The key responsibilities of the Audit and Risk Committee are as follows:

- Review the work of the external auditor and the independent property valuer and any significant financial judgements and estimates 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. The key risks to the Group have been analysed on pages 40 and 41.

The performance of the Committee was considered as part of a wider effectiveness review by the Board. The review was positive and we believe that the Committee continues to operate effectively.

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 12 month forecasts, availability of bank facilities and the headroom under the financial covenants in our debt arrangements. The NatWest facility, due to expire March 2021, is currently being refinanced. With this knowledge, and 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. Further details are provided on page 42.

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.

The Committee has assessed the impact of new accounting standards adopted during the year, detailed on pages 82 and 83, and concluded that there is no material impact on the financial statements.

During the year, the Committee reviewed the circumstances in respect of the unlawful dividend payment which led to the convening of a General Meeting to approve the entering into Deeds of Release. The Committee have made recommendations to put in place procedures to ensure that this will not be repeated. Further details may be found in the prior year adjustment note on page 125.

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2019: 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.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

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, deferred tax balances and a review of the quantum of share-based payments were significant judgements during the year.

The Board considered the property valuation at its meeting to approve the financial statements and a member of the Audit and Risk Committee met with the valuers.

Share option values are estimated by external valuers through the use of option valuation models. Judgement is exercised in assessing the number of options that will vest in order to calculate the share based payment charge.

The recognition of deferred tax balances involves the use of management judgement, through forecast of future taxable profits and assumptions on growth rates in assessing the recoverability of assets recognised. 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. The Committee members met with representatives of the auditor twice during the year for audit planning meetings and this provided the opportunity to make their assessment. The Committee compared the fees being paid with peer group companies. 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.

The Committee is conscious of the need to ensure that the independence and objectivity of BDO LLP is not compromised. In the year ended 31 March 2019 and the prior year BDO advised in respect of the following matters:

Corporate Finance Services:
£Nil (2018: £240,000)

Tax Services:
£3,000 (2018: £64,000)

Audit Related Assurance:
£10,000 (2018: £8,000)

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. BDO LLP will not be eligible to provide these services. During the year the Company appointed Grant Thornton as a provider of Tax Services.

AUDIT FEES

Fees payable to the Group's auditors for audit and non-audit services are set out in note 3 on page 90.

Total fees related to non-audit services represented 8% of the total fees for audit services (2018: 71%).

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. The Board met to review the effectiveness of the controls by considering what the effect of any breaches would be and concluded that the controls were adequate. During the year, the budgeting process was improved and the sign-off levels for invoicing were adjusted. 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.

WHISTLEBLOWING PROCEDURES

The Audit and Risk Committee reviews arrangements whereby employees may in confidence raise concerns which are detailed in the Company's Employee Handbook. During the year no concerns were raised.



Kim Taylor-Smith
Chairman

Audit and Risk Committee

3 June 2019

REMUNERATION REPORT

**"I am pleased to present
the Committee's Report
for the year."**

CHAIRMAN

Anthony Dove

Members:

Stanley Davis

Kim Taylor-Smith

Mickola Wilson (appointed 1 February 2019)

Meetings Held

5

Average Meeting Attendance

94%



The Company reported another strong set of results. The Company has continued its policy of actively managing its assets which were also increased by the acquisition of One Derby Square, Liverpool. The majority of the residential assets acquired within the R.T. Warren portfolio were either sold or contracted to be sold and a number of major refurbishments were undertaken during the year. The main decisions made by the Committee during the year were as follows:

2019 SALARY REVIEW

The review date for the salaries of the Executive Directors was changed from 1 January to 1 April so that salaries are now aligned with the Company's financial year. Salary increases of 3.4% were approved effective from 1 April 2019 for Neil Sinclair and Richard Starr. This increase is in line with the RPI change for the 15 month period since the last review. This is below the average salary increase awarded to employees. Stephen Silvester received an increase of 16.7% which included the RPI increase referred to above and a further 13.3% to bring his salary in line with salaries being paid by peer group companies.

The Committee is mindful of recent developments in the market and UK Corporate Governance Code regarding the alignment of executive pension contributions with those across the Company. I am able to advise that the contributions made to the pension schemes for the Executives is in line with the pension contributions received by all our other employees.

2019 ANNUAL BONUS

Financial and operational targets are set each year for the annual bonus scheme. The outcome of performance against targets was 40% of the maximum potential target. The 2019 bonus targets are disclosed in full on page 63.

LTIP VESTING

LTIP awards which were made in 2015 vested on 8 December 2018. 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 three year period 32.75% of the LTIPs granted vested.

2018 LTIP GRANT

On 13 July 2018, 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 13 July 2021. Following the vesting the Executives may not dispose of the vested shares for a further two year period. The performance criteria remain unchanged in respect of 50%, which is based on Total Shareholder Return. The further 50% is based on the growth in value of the Company's property portfolio as compared with an MSCI IPD index.

REVIEW OF THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS FEES

The fees for the Non-Executive Directors were reviewed last year and therefore no review took place during the current year. Following Stanley Davis relinquishing the chair of the Nomination Committee his fees were reduced by £5,000. Mickola Wilson was appointed a Director on 1 February 2019 and the fee, agreed in line with the other Non-Executive Directors, was £40,000 plus an additional £5,000 for chairing the Nominations Committee.

REMUNERATION POLICY

The new UK Corporate Governance Code will be applicable to the Company from 1 April 2019. The Committee will review how practice and investor expectations evolve during 2019 with respect to the requirement that shares may need to be held following personnel leaving employment.

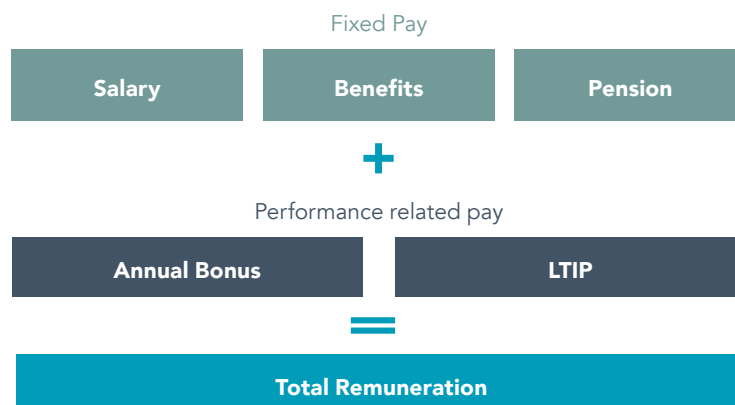


Anthony Dove
Chairman

Remuneration Committee

3 June 2019

REMUNERATION AT A GLANCE

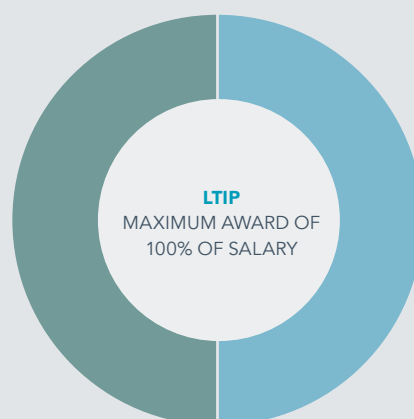


Performance related pay framework (2018/2019 Awards)



60% Total Property Return (TPR)

40% Achievement Of Budget



50% Total Shareholder Return (TSR)

50% Total Property Return (TPR)

REMUNERATION REPORT CONTINUED

OUR REMUNERATION POLICY

In this section we provide a summary of the key elements of the Remuneration Policy for Executive Directors that was approved by shareholders at the 2018 AGM held on 25 July 2018. Full details of the Remuneration Policy may be found on pages 46-48 of the 2018 Annual Report and Accounts.

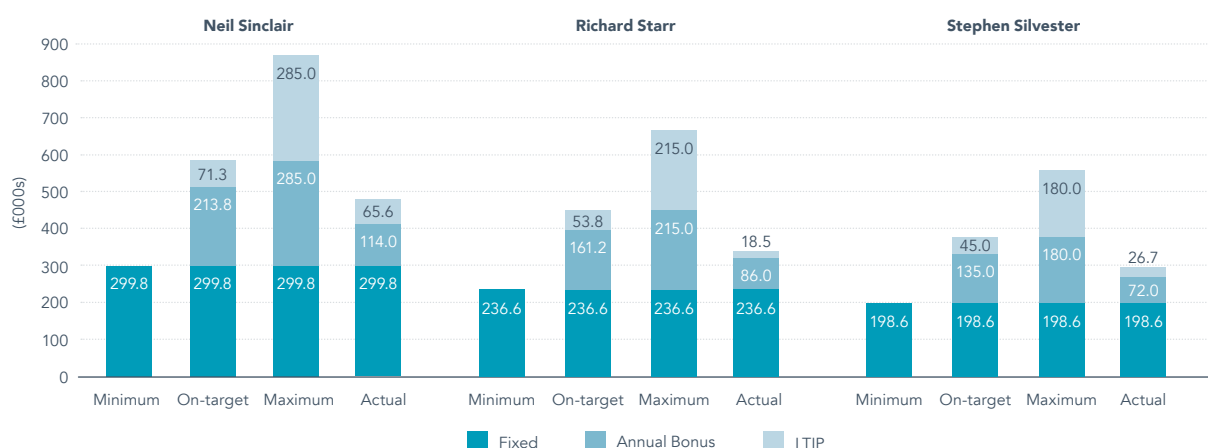
Element	Operation	Maximum Potential Value	Operation in the Year Ended 31 March 2019
Salary	Salaries are reviewed annually with effect from 1 April each year. Salary levels take account of the following: Role, performance and experience Business performance Salary levels at similar companies Salary increases across the Group	There is no prescribed maximum.	Increases in line with RPI for Neil Sinclair and Richard Starr with Stephen Silvester receiving an additional increase to maintain his salary as compared with peer group companies.
Annual bonus	The bonus is paid as to 65% in cash and 35% by way of an option over shares. This can be amended at the discretion of the Remuneration Committee. 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. Dividend equivalents accrue on the deferred shares. Malus and clawback provisions apply to all elements of the bonus.	100% of salary.	For 2018/19 the performance targets were a 40% profit target and a 60% total property return (TPR) measured as compared with an MSCI IPD index.
LTIP	Annual awards vest after three years subject to performance conditions. Vested shares are subject to a further two year holding period. Dividend equivalents accrue from the grant date to the end of the holding period. Malus and clawback provisions apply to LTIPs.	Maximum value of 100% of salary.	The 2015 LTIP vested in the year at 32.75% of the maximum. 2018 LTIPs were granted for 100% of salary.
Pension	Directors below retirement age participate in a defined contribution pension scheme	5% of salary for the Executive Directors below retirement age.	5% of salary
Other Benefits	Travel or car allowance	The allowances are fixed in the Executive Directors service contracts.	No change
	Private medical cover	Private medical cover is at a level which the Committee determines is fair and reasonable.	No change
	Life assurance	Life assurance is fixed at £1.5m for the Executive Directors below retirement age.	No change
	Critical illness cover	The critical health insurance benefit for the two Executive Directors below retirement age provides £500,000 in the event policy cover terms are met.	No change

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

In our Remuneration Policy we set out a number of scenarios for potential remuneration to be earned by our Executive Directors based on various performance assumptions. We have added a fourth column which shows the actual remuneration in the year ended 31 March 2019.



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 2019.

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

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

Name	Date of Appointment	Original contract date	Current contract date	Notice period	Termination Arrangements
Neil Sinclair	30 July 2010	8 September 2011	15 February 2018	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.
Stephen Silvester	1 July 2015	2 April 2015	15 February 2018	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.
Richard Starr	21 October 2013	24 September 2013	20 February 2018	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.

REMUNERATION REPORT CONTINUED

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 over a three-year period. The LTIP 2018 is subject to a two year holding period following vesting.

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.

ANNUAL REMUNERATION REPORT

This report was prepared by the Remuneration Committee and approved by the Board for the financial year ended 31 March 2019.

COMMITTEE MEMBERSHIP

The Remuneration Committee members throughout the year were Anthony Dove (Chairman), Stanley Davis and Kim Taylor-Smith. Mickola Wilson was appointed a member of the Committee on 1 February 2019.

MEETINGS AND ATTENDANCE

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

	Attended meetings	% meetings attended
Kim Taylor-Smith	4	80
Stanley Davis	5	100
Anthony Dove	5	100
Mickola Wilson	1	100

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 ended 31 March 2019, 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 during the year ended 31 March 2019. MM&K Limited were paid £8,900 (2018: £9,940) and do not have any other connection with the Company.

VOTING AT THE AGM

The table below sets out the results of the voting at the AGM held on 25 July 2018 in respect of the Remuneration Report and the Remuneration Policy.

	Percentage of votes cast		Number of votes cast		
	For and discretion	Against	For and discretion	Against	Withheld*
Remuneration Report	97.03	2.97	31,472,546	964,850	2,995
Remuneration Policy	99.47	0.53	32,300,663	173,706	13,750

* A vote withheld is not a vote in law and is not included in the calculation of the number or the percentage of votes For or Against the resolution

ANNUAL REMUNERATION REPORT CONTINUED

SERVICE CONTRACTS

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
Stanley Davis	17 May 2019	30 June 2022
Anthony Dove	16 November 2017	22 August 2020
Kim Taylor-Smith	15 November 2017	5 October 2020
Mickola Wilson	14 January 2019	31 January 2022

Annual Report on Remuneration

The following sections show how the policy described above was applied in the year ended 31 March 2019.

Salary

Salaries for Executive Directors at year end were as follows:

		2019	2018
Neil Sinclair	Chief Executive	£285,000	£285,000
Stephen Silvester	Group Finance Director	£180,000	£180,000
Richard Starr	Executive Director	£215,000	£215,000

The Chief Executive's salary was increased by £10,000 to £295,000 with effect from 1 April 2019.

The Group Finance Director's salary was increased by £30,000 to £210,000 with effect from 1 April 2019.

The Group Property Director's salary was increased by £8,000 to £223,000 with effect from 1 April 2019.

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:

		2019	2018
Stanley Davis	Non-Executive Chairman	£50,000	£55,000
Anthony Dove	Senior Non-Executive Director	£45,000	£45,000
Kim Taylor-Smith	Non-Executive Director	£45,000	£45,000
Mickola Wilson	Non-Executive Director	£45,000	–

The above figures include £5,000 paid to each of the three independent Non-Executive Directors for chairing a committee of the Board.

On 1 February 2019 the Chairman ceased to chair a committee and his fees were reduced to £50,000.

Mickola Wilson was appointed a Non-Executive Director on 1 February 2019 and receives a fee of £40,000 plus £5,000 for chairing a Committee.

Bonus

The Group's remuneration policy for the year ended 31 March 2019 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 depending on whether performance achieves the relevant target criterion.

For purposes of determining the total property return portion of the bonus for the year ended 31 March 2019, MSCI, the global provider of market indexes, was provided with the values of the companies properties as at 1 April 2018 based on the Cushman & Wakefield valuations as at that date. MSCI measured the increase in value as at 30 September 2018 and again on 31 March 2019 using the Cushman & Wakefield valuations as at those dates and then compared them with the MSCI IPD index. The Company's properties showed an increase as at 31 March 2019 on a total return basis of 7.1% when compared with the MSCI IPD index which showed a total return of 4.6%. The total return achieved by the Company therefore exceeded the benchmark index by 2.5%.

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 2019, 35% has been deferred in accordance with the terms of the Plan.

Annual Bonus Targets for year ended 31 March 2019 and Outcomes

Measure	Weighting	Target	Percentage Awarded	Target Achievement
Achievement of Budget	40%	Adjusted profit before tax of £9.8m achieves 50% and £10.2m 100% with pro-rata amounts in between	0%	The profit for the year did not exceed budget
Increase in Total Property Return	60%	A 20% bonus for every one percent increase over MSCI IPD index	40%	In excess of 2% above the index was achieved

Bonus Targets 2019/2020

Bonus targets for will remain capped at 100% of salary. The annual bonus targets for the year ending 31 March 2020 are as follows

Measure	Weighting
Increase in Total Property Return using the MSCI IPD Quarterly Index. An achievement of 1% over the index will provide a bonus of 16.67% of salary. Pro-rated between 1% and 3%	50%
Budgeted Profit	25%
Strategic Targets	25%

ANNUAL REMUNERATION REPORT CONTINUED

Long-Term Incentive Plans (LTIP 2015, LTIP 2016, LTIP 2017 and LTIP 2018)

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 2018	Granted	Vested and Exercised	Lapsed	As at 31 March 2019	Share price at date of award	Grant date	Vesting date
Neil Sinclair	64,864		21,240	43,624	–	£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
	80,282		–	–	80,282	£3.55	13.07.2018	13.07.2021*
Stephen Silvester	26,351		8,629	17,722	–	£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
	50,704				50,704	£3.55	13.07.2018	13.07.2021*
Richard Starr	18,243		5,974	12,269		£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
	60,563				60,563	£3.55	13.07.2018	13.07.2021*
Totals	428,939	191,549	35,843	73,615	511,030			

* Subject to a two year holding period following vesting

LTIP Performance Criteria

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

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. As a result, the base NAV has been adjusted from £4.14 to £3.93 for the final 18 months of the calculation for the 2016 LTIPs.

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.

LTIP 2018

50% based on Total Shareholder Return and 50% based on increase in total property return as compared with the increase in an MSCI IPD index. For every whole percentage point of excess performance by the Company, 16.66% of the award up to a maximum of 50% of the whole award.

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 2018 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	£94,762	26,694	13/07/18	13/07/19	13/07/20
Stephen Silvester	£59,850	16,859	13/07/18	13/07/19	13/07/20
Richard Starr	£71,488	20,137	13/07/18	13/07/19	13/07/20
Total	£226,100	63,690			

In respect of the year ended 31 March 2019 35% of the bonuses allocated to the Executive Directors amounting to £95,200, as detailed above will be the subject of the grant of further options which will be determined following the shares in the Company becoming ex-dividend on 13 June 2019.

Relative importance of spend on pay

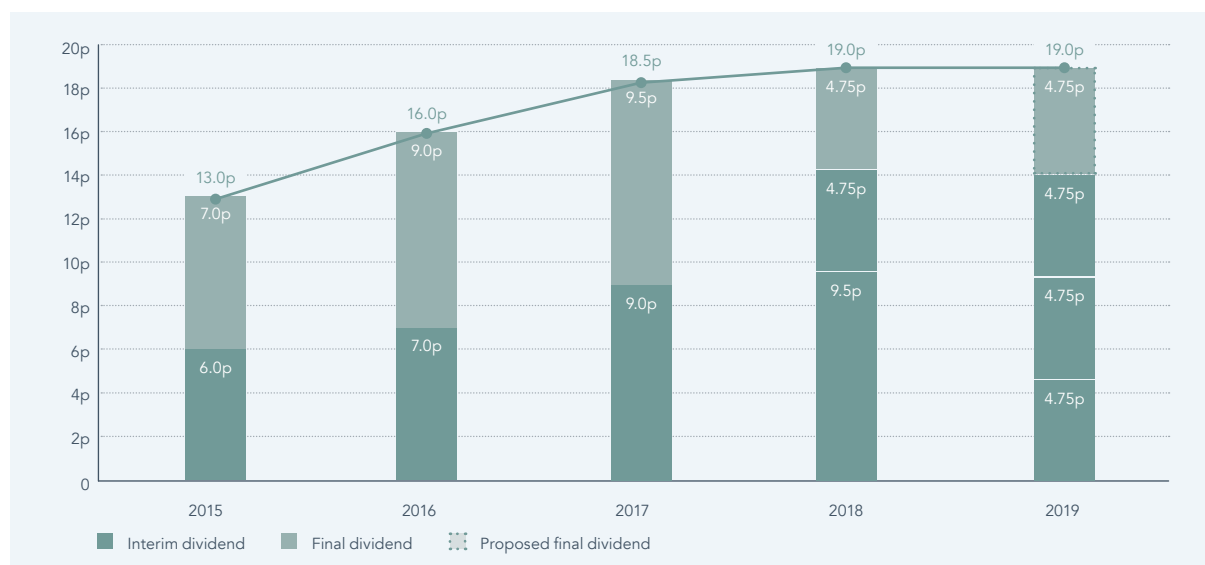
The table below shows the expenditure and percentage change in employee remuneration as compared with dividends paid to shareholders (see note 4 to the financial statements):

	2019	2018	% change
Employee costs	£2,202,000	£2,200,000	0%
Dividends	£8,718,896*	£6,744,014	29.3%

* The amount of the dividends per share paid during the year were the same for both 2018 and 2019 with the higher figure in 2019 as a result of the issue of 20,588,236 additional shares in connection with the R.T. Warren (Investments) Limited.

Dividend Policy

The following chart shows the historical dividend policy. Since joining the Main Market, Palace Capital has moved to quarterly dividends payments paid in April, July, October and December.



ANNUAL REMUNERATION REPORT CONTINUED

Summary of Directors' Total Remuneration (audited)

Executive Directors	Salary 2019	Bonus 2019 Cash	Bonus 2019 shares	LTIP share sales	Pension 2019	Taxable benefits 2019	Total 2019
Neil Sinclair	£285,000	£74,100	£39,900	£65,632	£Nil	£14,800	£479,432
Stephen Silvester	£180,000	£46,800	£25,200	£26,664	£9,000	£9,591	£297,255
Richard Starr	£204,250	£55,900	£30,100	£18,460	£22,984	£9,382	£341,076
Total	£669,250	£176,800	£95,200	£110,756	£31,984	£33,773	£1,117,763

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	£Nil	£14,800	£683,379
Stephen Silvester	£142,875	£111,150	£59,850	£Nil	£17,344	£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

Mr Starr participates in a salary sacrifice scheme reducing his salary and increasing his pension. 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 2019	Fees 2018
Stanley Davis	£54,167	£40,000
Anthony Dove	£45,000	£33,750
Kim Taylor-Smith	£45,000	£33,750
Mickola Wilson	£7,500	£–

Review of past performance

The following graph shows the Group's Total Shareholder Return (TSR) for the period to 31 March 2019 as compared with the FTSE All Share Index. The Committee has chosen the FTSE All Share Index as the Company's shares are a constituent of 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 2019	Ordinary shares of 10p each 31 March 2018	Outstanding Ordinary share options of 10p each 31 March 2019	Outstanding Ordinary share options of 10p each 31 March 2018
Stanley Davis	1,665,287	1,665,287	–	–
Neil Sinclair	229,279	212,761	255,679	229,120
Stephen Silvester	12,184	2,148	141,127	109,045
Richard Starr	149,921	131,578	177,914	127,106
Anthony Dove	91,000	91,000	–	–
Kim Taylor-Smith	10,000	10,000	–	–
Mickola Wilson	–	–	–	–

Payments to past Directors

There were no payments to past Directors in the year ended 31 March 2019.

Payments for loss of office

There were no payments for loss of office in the year ended 31 March 2019.

Percentage change in Chief Executive's remuneration

The percentage change in the Chief Executive's 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	11.1%	0.0%	(57.9%)
Other employees (excluding Chief Executive)	14.8%	11.8%	(50.9%)

Chief Executive's remuneration

Year to 31 March	Total Remuneration £'000	Annual Bonus (as a % of the maximum payout)	LTIP vesting (as a % of the maximum possible)
2019	479,432	40	32.75
2018	683,379	95	16.66
2017	412,975	63	–
2016	362,629	**	–
2015	262,007	**	–
2014*	125,467	**	–

* Fourteen month period ended 31 March 2014

** No policy for annual bonuses in place

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 2019.

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 18 to 43 and is incorporated by reference.

INCORPORATION BY REFERENCE:

The Governance Report (pages 48 to 67 of this Annual Report and Accounts 2019) is incorporated by reference into this Directors' Report.

RESULTS AND DIVIDENDS

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

The Company paid interim dividends of 4.75p per ordinary share on 19 October 2018, 28 December 2018, and 12 April 2019 and the Directors recommend the payment of a final dividend in respect of the year ending 31 March 2019 of 4.75p per ordinary share to be paid on 12 July 2019 to the shareholders on the register on 14 June 2019. (2018: 29 December 2017 9.5p, 13 April 4.75p and 31 July 4.75p).

SHARE CAPITAL

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

Details of the Directors of the Company who served during the year ended 31 March 2019 and up to the date of the financial statements, are set out on pages 46 and 47 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 61 to 67.

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, Mickola Wilson who was appointed during the year retires at the forthcoming Annual General Meeting and being eligible offers herself for election. All of the other Directors offer themselves for re-election. The Directors' service contract terms are set out in the Annual Remuneration Report on pages 62 to 67

POST BALANCE SHEET EVENTS

Details of post balance sheet events are provided in note 25 on page 114 of the financial statements.

FUTURE DEVELOPMENTS

Details of future developments are provided in the Strategic Report on page 25.

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 the financial statements.

PURCHASE OF OWN SHARES BY THE COMPANY

At the Annual General Meeting of the Company held on 25 July 2018, 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.

SUBSTANTIAL SHAREHOLDINGS

As at 3 June 2019, 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 2019, the Directors have authorised no such conflicts or potential conflicts.

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 second year that Palace Capital has been required to disclose CO₂ emissions. Due to improvements in data collection and estimations of annual consumption from 2017, our overall GHG emission profile has increased. Moving forward, we will use 2018 data as the baseline from which to provide comparable performance data.

GHG emissions¹

	2019	2018
Emissions type (kg of CO ₂ equivalents)		
SCOPE 1 (DIRECT) ⁴	N/A	N/A
SCOPE 2 (INDIRECT) ²	3961	1211
Total	3961	1211
Carbon intensity ³ (kg of CO ₂ per M2 Area)		
SCOPE 1	N/A	N/A
SCOPE 2	2.23	0.68
Total	2.23	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. Our emissions profile has increased due to improved estimates and data collection not due to a material increase in electricity usage.
- 3) Intensity based on a total of 1777 m² (2018: 1777m²) 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.

2019 ANNUAL GENERAL MEETING

The 2019 AGM will be held on 12 July 2019 at the offices of Hamblins LLP, Roxburghe House, 267-283 Regent Street, London, 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

3 June 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare 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 the 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;
- 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; and

- 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 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.

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.

Directors' 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 principal 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

3 June 2019

INDEPENDENT AUDITOR'S REPORT

to the members of Palace Capital plc

OPINION

We have audited the financial statements of Palace Capital plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, Notes to the Consolidated Financial Statements, the Company Statement of Financial Position, the Company Statement of Changes in Equity and the Notes to the Company Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation 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 2019 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 40 and 41 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 51 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 68 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 and the Parent Company's ability to continue to do so over a period of at least 12 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 page 42 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, including 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Palace Capital plc

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 remain consistent with the prior year.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Valuation of property portfolio</p> <p><i>Refer to accounting policies on investment properties on pages 85 and 86, trading properties on page 86 and assets held for sale on page 86.</i></p> <p>Refer to note 9 in relation to the property portfolio.</p> <p>The valuation of the property portfolio requires significant judgement and estimates by the Directors and the independent external valuer and is therefore considered a significant risk due to the subjective nature of the assumptions inherent in each valuation.</p> <p>The Group's property portfolio includes:</p> <ul style="list-style-type: none"> • Standing investment properties: these are completed properties that are currently let. They are valued using the income capitalisation method. • Investment properties under construction: these are properties being developed. Such assets have a different risk and investment profile to standing assets. They are valued using the residual method (i.e. by estimating the fair value of the completed asset less estimated costs to completion and an appropriate developer's margin). • Trading properties: these are properties being developed with the view to sell. They are measured at the lower of the cost and estimated net realisable value. • Assets held for sale: these are investment properties held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. They are measured at fair value in accordance with IAS 40. <p>The valuation of each property requires consideration of the individual nature of the asset, its location, cash flows and comparable market transactions. The valuation of the investment properties under construction also requires the forecasting of gross development value with deductions for projected costs to complete and an appropriate developer's margin.</p> <p>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 construction) could result in a material misstatement of the Consolidated Statement of Comprehensive Income or the Consolidated Statement of Financial Position.</p> <p>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.</p>	<p>We obtained an understanding of the approach to the valuation of the property portfolio.</p> <p>We met with the Group's independent external valuer, who valued the Group's investment properties and the trading properties 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.</p> <p>We assessed the competency, independence and objectivity of the independent external valuer which included making enquiries regarding interests and relationships that may create a threat to the valuer's objectivity.</p> <p>The Directors valued the assets held for sale. We discussed with them the assumptions, methodology and sources of evidence used in the valuation process for these properties.</p> <p>We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the inputs used in the valuation of the properties. This included establishing our own range of expectations for the valuation of the properties based on externally available metrics and wider economic and commercial factors. We assessed the valuation of the properties against our own expectations and challenged those valuations which fell outside of our range of expectations.</p> <p>We agreed a sample of key observable valuation inputs supplied to and used by the independent external valuer and by the Directors to supporting documentation.</p> <p>For properties under construction, we assessed the gross development values and developers' margin based on market data. We also verified the forecast cost to complete included in the valuations to third party cost to complete information.</p> <p>Where assets held for sale have been disposed of post year end we have agreed the carrying value of such assets to post year end sale values achieved.</p>

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Revenue recognition</p> <p><i>Refer to accounting policy on revenue accounting policy on pages 83 and 84.</i></p> <p>Refer to note 1 in relation to Revenue.</p> <p>The Group has several property managers and multiple tenants across its property portfolio. Revenue recognition has a significant impact on the allocation of resource and directing the efforts of the audit team.</p> <p>Rental income is recognised on a straight line basis over the lease term for the Group's properties 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.</p> <p>There is a risk that revenue is not supported by underlying tenancy agreements or is inappropriately recognised.</p>	<p>We obtained management's reconciliation of expected revenue based on the tenancy schedule to revenue recognised in the financial statements and performed the following:</p> <ul style="list-style-type: none"> • We agreed a sample of the inputs on the tenancy schedule to the underlying lease agreements and other documentation such as rent review memoranda. • We checked the integrity of the formulae used to calculate the expected revenue based on the tenancy schedule. • We agreed a sample of reconciling adjustments between the expected revenue and the amount recorded in the financial statements to supporting documentation. <p>We obtained management's schedule of lease incentive adjustments, including rent free periods, and, for a sample, we recalculated the adjustment and agreed the inputs to the underlying lease documentation. We considered the completeness of the schedule based on information included in the tenancy schedule tested above.</p>

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	£3,100,000	£348,000
Performance materiality	£2,325,000	£261,000
Reporting threshold	£62,000	£7,000

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 £3,100,000 (2018: £2,950,000) which was set at 1% of Group total assets (2018: 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 £348,000 (2018: £325,000), which was set at 5% (2018: 5%) of EPRA earnings. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, equity investments and interest rate derivatives, realised gains and losses on disposal of investment properties and related tax movements.

We determined that the same measure as the Group was appropriate for the Parent Company, and the materiality and specific materiality applied were £1,356,000 (2018: £1,800,000) and £330,600 (2018: £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% (2018: 75%) of materiality, namely £2,325,500 (2018: £2,212,500). 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 earnings, namely £261,000 (2018: £243,750).

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Palace Capital plc

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 £1,017,000 (2018: £1,350,000) and £248,000 (2018: £232,000) respectively.

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report all individual audit differences in excess of £62,000 (2018: £59,000) to the Audit and Risk Committee and any other differences that, in our view, warranted reporting on qualitative grounds. We also agreed to report differences impacting EPRA earnings in excess of £7,000 (2018: £6,500).

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 £27,120 (2018: £36,000) and £6,600 (2018: £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.

We undertook audit procedures to respond to the risk of non-compliance with laws and regulations, focussing on those that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited

to, the Companies Act 2006, the UK Listing Rules and legislation relevant to the rental of properties. We made enquiries of management to obtain further understanding of risks of non-compliance. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements. We undertook audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. Our tests included agreeing the financial statement disclosures to underlying supporting documentation and enquiries with management. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report 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.

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 70** – 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 and Risk Committee reporting set out on pages 54 and 55** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 48** – 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 and Risk 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 five financial years, covering the years ending 31 March 2015 to 31 March 2019.

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 and Risk 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

3 June 2019

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



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COURTAULD HOUSE, COVENTRY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Rental and other income	1	18,750	16,733
Property operating expenses	3b	(2,318)	(1,824)
Net rental income		16,432	14,909
Dividend income from listed equity investments		43	–
Administrative expenses	3c	(4,122)	(4,185)
Operating profit before gains and losses on property assets, listed equity investments and cost of acquisitions		12,353	10,724
Profit on disposal of investment properties		218	274
(Loss)/gain on revaluation of investment property portfolio	9	(382)	5,738
Loss on disposal of assets held for sale		(579)	–
Impairment on assets held for sale	9	(291)	–
Loss on revaluation of listed equity investments	11	(214)	–
Operating profit		11,105	16,736
Finance income		20	10
Finance expense	2	(3,763)	(3,261)
Changes in fair value of interest rate derivatives		(929)	(181)
Profit before taxation		6,433	13,304
Taxation	5	(1,263)	(773)
Profit after taxation for the year and total comprehensive income attributable to owners of the Parent		5,170	12,531
EARNINGS PER ORDINARY SHARE			
Basic	6	11.3p	35.9p
Diluted		11.3p	35.8p

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 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Investment properties	9	258,331	253,863
Listed equity investments at fair value	11	2,636	–
Property, plant and equipment	12	97	121
		261,064	253,984
Current assets			
Assets held for sale	9	11,756	21,708
Trading property	10	14,367	–
Trade and other receivables	13	6,243	5,551
Cash and cash equivalents	14	22,890	19,033
		55,256	46,292
Total assets		316,320	300,276
Current liabilities			
Trade and other payables	15	(10,001)	(8,834)
Borrowings	17	(5,999)	(2,686)
Creditors: amounts falling due within one year		(16,000)	(11,520)
Net current assets		39,256	34,772
Non-current liabilities			
Borrowings	17	(112,017)	(97,157)
Deferred tax liability	5	(5,580)	(6,531)
Obligations under finance leases	20	(1,585)	(1,588)
Derivative financial instruments	16	(815)	(181)
Net assets		180,323	183,299
Equity			
Called up share capital	21	4,639	4,639
Share premium account		125,019	125,036
Treasury shares		(1,771)	(2,011)
Merger reserve		3,503	3,503
Capital redemption reserve		340	340
Retained earnings		48,593	51,792
Equity – attributable to the owners of the parent		180,323	183,299
Basic NAV per ordinary share	7	393p	400p
Diluted NAV per ordinary share		392p	400p

These financial statements were approved by the Board of Directors and authorised for issue on 3 June 2019 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 2019

	Notes	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
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
Cost 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	8	–	–	–	–	(6,744)	(6,744)
At 31 March 2018		4,639	125,036	(2,011)	3,843	51,792	183,299
Total comprehensive income for the year		–	–	–	–	5,170	5,170
Transactions with Equity Holders							
Costs of issue of new shares		–	(17)	–	–	–	(17)
Share based payments	22	–	–	–	–	332	332
Exercise of share options	21	–	–	240	–	(240)	–
Issue of deferred bonus share options	21	–	–	–	–	257	257
Dividends paid	8	–	–	–	–	(8,718)	(8,718)
At 31 March 2019		4,639	125,019	(1,771)	3,843	48,593	180,323

For the purpose of preparing the consolidated financial statements 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 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Profit before taxation		6,433	13,304
Finance income		(20)	(10)
Finance expense	2	3,763	3,261
Changes in fair value of interest rate derivatives		929	181
Loss/(gain) on revaluation of investment property	9	382	(5,738)
Loss on revaluation of assets held for sale	9	291	–
Profit on disposal of investment properties	9	(218)	(274)
Loss on disposal of investment properties held for sale		579	–
Loss on revaluation of investments	11	214	–
Depreciation	12	31	45
Share-based payments	22	332	174
Increase in receivables		(691)	(3,081)
(Decrease)/increase in payables		(105)	2,037
Net cash generated from operations		11,920	9,899
Interest received		20	10
Interest and other finance charges paid		(3,405)	(2,714)
Corporation tax paid in respect of operating activities		(1,639)	(395)
Net cash flows from operating activities		6,896	6,800
Investing activities			
Purchase of investment property and acquisition costs capitalised	9	(15,505)	(72,808)
Capital expenditure on refurbishment of investment property	9	(2,453)	(2,754)
Capital expenditure on developments	9	(1,923)	–
Capital expenditure on trading property	9	(535)	–
Proceeds from disposal of investment property		2,078	8,765
Proceeds from assets held for sale		9,082	–
Amounts transferred from restricted cash deposits	14	553	(805)
Purchase of non-current asset - equity investment	11	(2,850)	–
Purchase of property, plant and equipment	12	(7)	(123)
Net cash flow used in investing activities		(11,560)	(67,725)
Financing activities			
Bank loans repaid	19	(8,037)	(45,242)
Proceeds from new bank loans	19	25,991	53,393
Loan issue costs paid	19	(145)	(1,085)
Proceeds from issue of Ordinary Share capital		–	70,000
Costs from issue of Ordinary Share capital		(17)	(2,349)
Dividends paid	8	(8,718)	(6,744)
Net cash flow from financing activities		9,074	67,973
Net increase in cash and cash equivalents		4,410	7,048
Cash and cash equivalents at beginning of the year		17,985	10,937
Cash and cash equivalents at the end of the year	14	22,395	17,985

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. The address of its registered office is Lower Ground Floor, One George Yard, London, United Kingdom, EC3V 9DF.

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.

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.

As at 31 March 2019 the Group had £22.9m of cash and cash equivalents, a low gearing level of 34% and a fair value property portfolio of £286.3m. Accordingly the Group has the financial resources together with long term leases with a wide range of tenants, to continue to adopt the going concern basis in preparing the Annual Report and financial statements.

After making enquiries, and in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, 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

The following new standards are effective and have been adopted for the year ended 31 March 2019.

Standards in issue and effective from 1 January 2018

IFRS 9 Financial Instruments

- This standard deals with the classification, measurement and recognition of financial assets and liabilities, impairment provisioning and hedge accounting.
- The Group does not apply hedge accounting on the financial derivatives held. The Group's assessment of IFRS 9 determined that the main area of potential impact was impairment provisioning on trade receivables, given the requirement to use a forward-looking expected credit loss model. However, the Group concludes that this has no material impact on its financial statements. This is due to the Company having a majority of tenants with strong covenants and generally tenant receipts are received in advance or on the due date, therefore the Group considers the probability of default to be low.
- In 2018 the Group extended a loan facility. Under IAS 39, the difference arising on reestimation of the cash flows was amortised over the remaining term of the loan. Under IFRS 9, this difference is recognised through profit and loss immediately. The impact of this change was not material.

IFRS 15 Revenue from Contracts with Customers

- IFRS 15 combines a number of previous standards, setting out a five-step model for the recognition of revenue and establishing principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue.
- The standard is applicable to insurance commission income, investment property disposals and trading property disposals, but excludes rent receivable, which is within the scope of IAS 17. This adoption had no material impact on the financial statements.

Standards in issue but not yet effective

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 standard 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. The accounting for lessors will not significantly change as we will continue to account for leases either as finance or operating leases.

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 and associates 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 until the date that control ceases.

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. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

REVENUE

Revenue is primarily 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.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Group Statement of Comprehensive Income when the right to receive them arises.

Insurance commissions are recognised as performance obligations are fulfilled in terms of the individual performance obligations within the contract with the insurance provider. Revenue is determined by the transaction price in the contract and is measured at the fair value of the consideration received. Revenue is recognised once the underlying contract between insured and insurer has been signed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

REVENUE CONTINUED

Revenue from the disposal of investment properties is recognised when significant risks and rewards attached to the property have transferred from the Group. This will ordinarily occur on completion of contracts. Such transactions are recognised when any conditions are satisfied. The profit or loss on disposal of investment property is recognised separately in the Consolidated Statement of Comprehensive Income and is the difference between the net sales proceeds and the opening fair value asset plus any capital expenditure during the period to disposal.

Revenue from the sale of trading properties are recognised when significant risks and rewards attached to the trading property have transferred from the Group, which is usually on completion of contracts.

Dividend income comprises dividends from the Group's listed equity investments and is recognised when the shareholder's right to receive payment is established. Revenue is measured at the fair value of the consideration received. All income is derived in the United Kingdom.

BORROWING COSTS

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

Borrowing costs directly attributable to development properties are capitalised and not recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

FINANCIAL ASSETS

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

FAIR VALUE THROUGH PROFIT OR LOSS

This category comprises in-the-money derivatives (see 'financial liabilities' section for out-of-the-money derivatives classified as liabilities). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income in the finance income or expense line.

LISTED EQUITY INVESTMENTS

Listed equity investments are classified at fair value through profit and loss. Listed equity investments are subsequently measured using level 1 inputs, the quoted market price, and all fair value gains or losses in respect of those assets are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

Fair value hierarchy

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost being the effective interest rate method, less provision for expected credit loss.

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

FINANCIAL LIABILITIES

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives (see "Financial assets" for in-the-money derivatives where the time value offsets the negative intrinsic value). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

Amortised cost

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

OTHER FINANCIAL LIABILITIES

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensure that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payment while the liability is outstanding.

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 Consolidated Statement of Comprehensive Income in the year in which they arise.

Investment properties are stated at fair value as determined by the independent external 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. This is usually the date of completion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

INVESTMENT PROPERTIES CONTINUED

Investment properties cease to be recognised on completion of the disposal or when the property is 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 Consolidated Statement of Comprehensive Income as they are incurred.

Investment properties under construction are initially recognised at cost (including any associated costs), which reflect the Group's investment in the assets. The Group undertakes certain works including demolition, remediation and other site preparatory works to bring a site to the condition ready for construction of an asset. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment properties under construction is estimated as the fair value of the completed asset less any costs still payable in order to complete, and an appropriate developer's margin.

ASSETS HELD FOR SALE

Assets 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 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.

Investment properties classified as held for sale are measured at fair value in accordance with the measurement criteria of IAS 40.

Assets held for sale are derecognised when significant risks and rewards attached to the asset have transferred from the Group which is on completion of contracts.

TRANSFERS BETWEEN INVESTMENT PROPERTIES AND TRADING PROPERTIES

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property continues to be held as an investment property. When the Group begins to redevelop an existing investment property with a view to sell, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of the transfer with any gain or loss being taken to the Consolidated Statement of Comprehensive Income. The re-measured amount becomes the deemed initial cost of the trading property.

TRADING PROPERTIES

Trading property is being developed for sale or being held for sale after development is complete, and is carried at the lower of cost and net realisable value. Trading properties are derecognised on completion of sales contracts. Cost includes direct expenditure and capitalised interest. Cost of sales, including costs associated with off-plan residential sales, are expensed to the Consolidated Statement of Comprehensive Income as incurred.

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 Consolidated 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 Consolidated 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
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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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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.

Estimates

Properties

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties and assets held for sale in the Consolidated Statement of Financial Position. The investment property portfolio and assets held for sale are 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 and assets held for sale at fair value. To the extent that any future valuation affects the fair value of the investment properties and assets held for sale, this will impact on the Group's results in the period in which this determination is made.

Judgements

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. The variables used to measure the fair value of share-based payments could have a significant impact on that valuation, and the determination of these variables require a significant amount of professional judgement. A minor change in a variable which requires professional judgement, such as volatility or expected life of an instrument, could have a quantitatively material impact on the fair value of the share-based payments granted, and therefore will also result in the recognition of a higher or lower expense in the Consolidated Statement of Comprehensive Income.

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 and tax rate applied to these transactions. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity in assessing the recoverability of assets recognised.

1. RENTAL AND OTHER INCOME

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

Operating segments are 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, 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.

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.

Revenue – type	2019 £'000	2018 £'000
Rents received from investment properties	17,960	16,360
Dilapidations and other property related income	589	257
Insurance commission	201	116
Total Revenue	18,750	16,733

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

2. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £'000	2018 £'000
Interest on bank loans	3,291	2,677
Loan arrangement fees	364	342
Debt termination cost	–	127
Interest on finance leases	108	115
	3,763	3,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. PROFIT FOR THE YEAR

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

	2019 £'000	2018 £'000
Depreciation of tangible fixed assets:	31	45
Auditor's remuneration:		
Fees payable to the auditor for the audit of the Group's annual accounts	109	83
Fees payable to the auditor for the audit of the subsidiaries' annual accounts	25	21
Additional fees payable to the auditor in respect of the 2018 audit	20	–
Fees payable to the auditor and its related entities for other services:		
Audit related assurance services	8	8
Tax services	3	64
	165	176

In addition to the above, the auditor's remuneration for 2018 included an amount of £240,000 which related to share issues, which was debited to the share premium account.

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

	2019 £'000	2018 £'000
Void, investment and development property costs	1,844	1,445
Legal, lettings and consultancy costs	474	379
	2,318	1,824

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

	2019 £'000	2018 £'000
Staff costs	2,202	2,200
Rent, rates and other office costs	363	207
Share based payments	332	174
Other overheads	264	162
Accounting and audit fees	225	188
Consultancy and recruitment fees	213	145
Stock Exchange costs	176	93
PR and marketing costs	169	160
Legal and professional fees	143	108
Depreciation	31	45
Property management fees	4	5
Costs in respect of move to Main Market	–	698
	4,122	4,185

d) EPRA cost ratios are calculated as follows:

	2019 £'000	2018 £'000
Gross property income	18,750	16,733
Administrative expenses	4,122	4,185
Property operating expenses	2,318	1,824
EPRA costs (including property operating expenses)	6,440	6,009
EPRA Cost Ratio (including property operating expenses)	34.3%	35.9%
Less property operating expenses	(2,318)	(1,824)
EPRA costs (excluding property operating expenses)	4,122	4,185
EPRA Cost Ratio (excluding property operating expenses)	22.0%	25.0%
Adjust for:		
Exceptional costs in respect of move to Main Market	–	(698)
Net administrative expenses	4,122	3,487
Company administrative cost ratio	22.0%	20.8%

4. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows:

	2019 £'000	2018 £'000
Non-Executive Directors' fees	152	108
Wages and salaries	1,696	1,795
Pensions	98	67
Social security costs	256	230
	2,202	2,200
Share based payments	332	174
	2,534	2,374

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

	2019 Number	2018 Number
Directors	7	6
Senior management and other employees	9	8
	16	14

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. EMPLOYEES AND DIRECTORS' REMUNERATION CONTINUED

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

	2019 £'000	2018 £'000
Emoluments for qualifying services	1,127	1,369
Social security costs	156	200
Pension	33	38
	1,316	1,607
Share-based payments	291	153
	1,607	1,760

Full details of the Directors' individual remuneration can be found in the Corporate Governance section on pages 66 to 67.

5. TAXATION

	2019 £'000	2018 £'000
Current income tax charge	1,008	1,062
Capital gains charge in period	1,194	31
Tax underprovided in prior year	12	10
Deferred tax	(951)	(330)
Tax charge	1,263	773

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	6,433	13,304
Based on profit for the period: Tax at 19.0% (2018: 19%)	1,222	2,528
Effect of:		
Utilisation of tax losses not previously recognised in deferred tax	(5)	(1,142)
Net expenses not deductible for tax purposes	75	48
Chargeable gain (lower than)/in excess of profit or loss on investment property	(126)	31
Tax underprovided in prior years	12	10
Movement on sale and revaluation not recognised through deferred tax	85	(702)
Tax charge for the period	1,263	773

Deferred taxes relate to the following:

	2019 £'000	2018 £'000
Deferred tax liability – brought forward	(6,531)	(2,187)
Losses used in the year	–	(13)
Deferred tax liability on accredited capital allowances	(647)	400
Deferred tax on fair value of investment property	1,598	(40)
Deferred tax recognised on acquisition	–	(4,691)
Deferred tax liability – carried forward	(5,580)	(6,531)

	2019 £'000	2018 £'000
Accelerated capital allowances	(3,241)	(2,594)
Investment property unrealised valuation gains	(2,339)	(3,937)
Deferred tax liability – carried forward	(5,580)	(6,531)

Capital allowances have been claimed on improvements to investment properties amounting to £19,065,000 (2018: £15,259,000). A deferred tax liability amounting to £3,241,000 (2018: £2,594,000) has been recognised in the financial statements, although the Directors do not expect that the capital allowances will reverse when the properties are disposed of as a result of section 198 elections being agreed with purchasers.

A deferred tax liability on the revaluation of investment properties to fair value has been provided totalling £2,339,000 (2018: £3,937,000) 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 2019 the Group had approximately £6,328,000 (2018: £6,413,000) of realised capital losses to carry forward. There has been no deferred tax asset recognised as the Directors do not consider it probable that future taxable profits will be available to utilise these losses.

Finance Act 2015 sets the main rate of UK corporation tax at 20% 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% from April 2017 and 17% from April 2020. The deferred tax liability has been calculated on the basis of 17% 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%.

6. 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).

	2019 £'000	2018 £'000
Profit after tax attributable to ordinary shareholders for the year	5,170	12,531

	2019 No of shares	2018 No of shares
Weighted average number of shares for basic earnings per share	45,834,436	34,943,855
Dilutive effect of share options	63,690	36,322
Weighted average number of shares for diluted earnings per share	45,898,126	34,980,177

Earnings per ordinary share		
Basic	11.3p	35.9p
Diluted	11.3p	35.8p

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 reporting framework the latest update of which was issued in November 2016. The Group reports a number of these measures (detailed in the glossary of terms) because the Directors consider them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6. EARNINGS PER SHARE CONTINUED

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

The Group 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. This includes share-based payments being a non-cash expense. The corporation tax charge (excluding deferred tax movements, being a non-cash expense) is deducted in order to calculate the adjusted earnings per share.

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

	2019 £'000	2018 £'000
Profit for the year	5,170	12,531
Adjustments:		
Loss/(gain) on revaluation of investment property portfolio	382	(5,738)
Impairment on assets held for sale	291	–
Profit on disposal of investment properties	(218)	(274)
Loss on disposal of assets held for sale	579	–
Loss on revaluation of listed equity investments	214	–
Debt termination interest rate costs	–	127
Fair value loss on derivatives	929	181
Deferred tax relating to EPRA adjustments and capital gain charged	243	(299)
EPRA earnings for the year	7,590	6,528
Share based payments	332	174
Costs in respect of move to Main Market	–	698
Adjusted profit after tax for the year	7,922	7,400
Tax excluding deferred tax on EPRA adjustments and capital gain charged	1,020	1,071
Adjusted profit before tax for the year	8,942	8,471
EPRA AND ADJUSTED EARNINGS PER ORDINARY SHARE		
EPRA Basic	16.6p	18.7p
EPRA Diluted	16.5p	18.7p
Adjusted EPS	17.3p	21.2p

7. NET ASSET 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:

	2019 £'000	2018 £'000
Net assets at the end of the year	180,323	183,299
Diluted net assets at end of the year	180,323	183,299
Include fair value adjustment of trading properties	250	–
Exclude fair value of derivatives	815	181
Exclude deferred tax on latent capital gains and capital allowances	5,580	6,531
EPRA NAV	186,968	190,011
Include fair value of derivatives	(815)	(181)
Include deferred tax on latent capital gains and capital allowances	(5,580)	(6,531)
EPRA NNNAV	180,573	183,299

	2019 No of shares	2018 No of shares
Number of ordinary shares issued at the end of the year (excluding treasury shares)	45,883,249	45,805,280
Dilutive effect of share options	63,690	36,322
Number of ordinary shares issued for diluted and EPRA net assets per share	45,946,939	45,841,602
Net assets per ordinary share		
Basic	393p	400p
Diluted	392p	400p
EPRA NAV	407p	415p
EPRA NNNAV	393p	400p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. DIVIDENDS

	Payment date	Dividend per share	2019 £'000	2018 £'000
2019				
Interim dividend	28 December 2018	4.75	2,182	–
Interim dividend	19 October 2018	4.75	2,182	–
		9.50	4,364	–
2018				
Final dividend	31 July 2018	4.75	2,177	–
Interim dividend	13 April 2018	4.75	2,177	–
Interim dividend	29 December 2017	9.50	–	4,355
		19.00	4,354	4,355
2017				
Final dividend	28 July 2017	9.50	–	2,389
		9.50	–	2,389
Dividends reported in the Group Statement of Changes in Equity			8,718	6,744

Proposed Dividends

	2019 £'000	2018 £'000
July 2019 final dividend in respect of year end 31 March 2019: 4.75p (2018 final dividend: 4.75p)	2,182	2,177
April 2019 interim dividend in respect of year end 31 March 2019: 4.75p (2018 final dividend: 4.75p)	2,182	2,177
	4,364	4,354

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 2019.

9. PROPERTY PORTFOLIO

	Freehold investment properties £'000	Leasehold investment properties £'000	Total investment properties £'000
At 1 April 2017	160,228	23,688	183,916
Additions – refurbishment	2,681	73	2,754
Additions – new properties	70,306	–	70,306
Gains on revaluation of investment properties	4,888	850	5,738
Disposals	(5,361)	(3,490)	(8,851)
At 1 April 2018	232,742	21,121	253,863
Additions – refurbishments	2,521	179	2,700
Additions – new properties	15,505	–	15,505
Capital expenditure on developments	2,014	–	2,014
Transfer to trading property	(13,509)	–	(13,509)
Loss on revaluation of investment properties	(122)	(260)	(382)
Disposals	(1,860)	–	(1,860)
At 31 March 2019	237,291	21,040	258,331

	Standing investment properties £'000	Investment properties under construction £'000	Total investment properties £'000	Trading properties £'000	Assets held for sale £'000	Total property portfolio £'000
At 1 April 2017	183,916	–	183,916	–	–	183,916
Additions – refurbishment	2,754	–	2,754	–	–	2,754
Additions – new properties	70,306	–	70,306	–	21,708	92,014
Gains on revaluation of investment properties	5,738	–	5,738	–	–	5,738
Disposals	(8,851)	–	(8,851)	–	–	(8,851)
At 1 April 2018	253,863	–	253,863	–	21,708	275,571
Additions – refurbishments	2,700	–	2,700	–	–	2,700
Additions – new properties	15,505	–	15,505	–	–	15,505
Transfer to investment property under construction	(3,810)	3,810	–	–	–	–
Capital expenditure on developments	1,772	242	2,014	–	–	2,014
Transfer to trading property	(13,509)	–	(13,509)	13,509	–	–
Additions – trading property	–	–	–	858	–	858
Loss/(gain) on revaluation of investment properties	(452)	70	(382)	–	–	(382)
Loss on revaluation of assets held for sale	–	–	–	–	(291)	(291)
Disposals	(1,860)	–	(1,860)	–	(9,661)	(11,521)
At 31 March 2019	254,209	4,122	258,331	14,367	11,756	284,454

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. PROPERTY PORTFOLIO CONTINUED

The property portfolio (other than assets held for sale) has been independently valued at fair value. The valuations have been prepared in accordance with the RICS Valuation – Global Standards July 2017 (“the Red Book”) and incorporate the recommendations of the International Valuation Standards and the RICS valuation – Professional Standards UK January 2014 (Revised April 2015) which are consistent with the principles set out in IFRS 13.

The valuer in forming its opinion make a series of assumptions, which are typically market related, such as net initial yields and expected rental values and are based on the valuer’s professional judgement. The valuer has sufficient current local and national knowledge of the particular property markets involved and has the skills and understanding to undertake the valuations competently.

In addition to the gain on revaluation of investment properties included in the table above, realised gains of £218,000 (2018: £274,000) 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:

	2019 £'000	2018 £'000
Cushman & Wakefield LLP (property portfolio)	274,560	255,024
Assets held for sale	11,756	21,708
Fair value of property portfolio	286,316	276,732
Adjustment in respect of minimum payment under head leases	1,600	1,600
Less assets held for sale	(11,756)	(21,708)
Less trading properties at cost	(14,367)	–
Less lease incentive balance included in accrued income	(2,752)	(1,731)
Less rent top-up adjustment	(460)	(1,030)
Less fair value uplift on trading properties	(250)	–
Carrying value of investment properties	258,331	253,863

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 – investment properties

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;
- An appropriate yield; and
- For investment properties under construction: gross development value, estimated cost to complete and an appropriate developer's margin.

Valuation technique – standing investment properties

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

					Significant unobservable inputs
31 March 2019	Office	Leisure	Industrial	Other	Total
Fair value of property portfolio	£135,455,000	£41,380,000	£37,395,000	£60,330,000	£274,560,000
Area (sq ft)	794,726	247,470	409,593	205,649	1,657,438
Gross Estimated Rental Value	£12,094,259	£3,341,944	£2,891,320	£3,145,621	£21,473,144
Net Initial Yield					
Minimum	(4.6%)	6.2%	4.2%	(7.3%)	(7.3%)
Maximum	14.6%	6.9%	8.5%	25.0%	25.0%
Weighted average	5.4%	6.5%	5.7%	6.0%	5.7%
Reversionary Yield					
Minimum	4.7%	7.1%	5.5%	4.5%	4.5%
Maximum	14.6%	7.6%	8.7%	28.1%	28.1%
Weighted average	8.0%	7.3%	6.6%	5.3%	7.0%
Equivalent Yield					
Minimum	4.1%	7.5%	5.4%	5.0%	4.1%
Maximum	10.2%	8.3%	8.1%	13.2%	13.2%
Weighted average	7.5%	7.8%	6.3%	7.1%	6.8%

Negative net initial yields arise where properties are vacant or partially vacant and void costs exceed rental income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. PROPERTY PORTFOLIO CONTINUED

31 March 2018	Significant unobservable inputs				
	Office	Leisure	Industrial	Other	Total
Fair value of property portfolio	£117,724,000	£42,070,000	£36,075,000	£59,155,000	£255,024,000
Area (sq ft)	722,977	247,472	427,789	208,418	1,606,656
Gross Estimated Rental Value	£10,453,820	£3,341,875	£2,691,524	£3,400,050	£19,887,269
Net Initial Yield					
Minimum	(4.0%)	6.2%	3.8%	1.6%	(4.0%)
Maximum	8.7%	8.8%	8.0%	21.5%	21.5%
Weighted average	5.9%	6.7%	5.8%	7.0%	6.2%
Reversionary Yield					
Minimum	4.7%	7.1%	5.6%	5.2%	4.7%
Maximum	13.2%	7.5%	9.6%	15.0%	15.0%
Weighted average	8.0%	7.4%	5.2%	5.1%	6.9%
Equivalent Yield					
Minimum	4.2%	7.8%	5.7%	3.5%	3.5%
Maximum	15.5%	8.3%	9.3%	13.4%	15.5%
Weighted average	7.4%	7.8%	6.5%	6.9%	7.2%

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

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: £38,400 – £1,761,669 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.

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 passing rent (£m)	+5% in passing rent (£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 2019	(12.95)	12.95	(10.16)	12.63
(Decrease)/increase in the fair value of investment properties as at 31 March 2018	(8.77)	10.33	(9.73)	10.74

Valuation technique: properties under construction

Development assets are valued using the gross development value of the asset less any costs still payable in order to complete, and an appropriate developer's margin.

Assets held for sale

Assets held for sale consist of the residential portfolio acquired in October 2017 as part of the Warren acquisition. On acquisition, the Group announced it was its intention to dispose of the portfolio as soon as terms with a potential buyer could be agreed.

Assets totalling £9,661,000 were disposed of during the year. The remaining £11,756,000 are expected to be sold within the next 12 months. Details of disposals post year end can be found in note 25 on page 114.

In accordance with the Group's accounting policy, these properties are classified as held for sale at 31 March 2019 and measured at fair value.

The residential portfolio has been valued by the Directors based on open market information available and discussions with valuation professionals.

10. TRADING PROPERTY

	Total £'000
At 1 April 2018	—
Transfer from standing investment properties	13,509
Costs capitalised	858
At 31 March 2019	14,367

The Group is developing a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of residential units which the Group holds for sale. As a result, the residential element of the scheme is classified as trading property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. LISTED EQUITY INVESTMENTS

	Total £'000
At 1 April 2018	—
Additions	2,850
Loss on revaluation of equity investment shown in Consolidated Statement of Comprehensive Income	(214)
At 31 March 2019	2,636

During the year the Group purchased listed equity investments to the value of £2,850,000. The investment has subsequently been revalued using level 1 inputs, the quoted market price.

12. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2017	92
Additions	123
At 1 April 2018	215
Additions	7
At 31 March 2019	222
Depreciation	
At 1 April 2017	49
Provided during the year	45
At 1 April 2018	94
Provided during the year	31
At 31 March 2019	125
Net book value at 31 March 2019	97
Net book value at 31 March 2018	121

13. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Current		
Gross amounts receivable from tenants	2,006	2,598
Less: expected credit loss provision	(71)	(163)
Net amount receivable from tenants	1,935	2,435
Other taxes	177	609
Other debtors	604	114
Accrued income	2,752	1,731
Prepayments	775	662
	6,243	5,551

Accrued income amounting to £2,752,000 (2018: £1,731,000) 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.

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts. The expected credit loss provision and the incurred loss provision in the prior year is immaterial. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material difference.

The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's tenants.

As at 31 March 2019 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 90 days past due £'000	Total £'000
Expected loss rate	0%	1%	1%	16%	
Gross carrying amount	1,400	144	26	436	2,006
Loss provision	–	2	–	69	71

Movement in the expected credit loss provision was as follows:

	2019 £'000	2018 £'000
Brought forward	163	139
Receivable written off during the year as uncollectible	(154)	(71)
Provisions increased	62	95
	71	163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2019 and 31 March 2018 are in sterling and held at floating interest rates.

	2019 £'000	2018 £'000
Cash and cash equivalents - unrestricted	22,395	17,985
Restricted cash	495	1,048
	22,890	19,033

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 realised over time consistent with the loss of income on vacant units.

15. TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
Trade payables	1,229	986
Corporation tax	1,626	1,051
Other taxes	914	1,307
Other payables	503	108
Deferred rental income	3,457	3,466
Accruals	2,272	1,916
	10,001	8,834

The Directors consider that the carrying amount of trade and other payables measured at amortised cost approximates to their fair value.

16. DERIVATIVES

The Group adopts a policy of entering into derivative financial instruments with banks 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 and bank base rate the banks are paying for the interest rate swaps.

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

The valuations of all derivatives held by the Group are 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.

Bank	Notional principal	Expiry date	Contract rate %	Valuation rate %	2019 Fair value £'000	2018 Fair value £,000
Barclays Bank plc	35,347,900	25/01/2023	1.3420	1.2850	(526)	(92)
Santander plc	19,718,310	03/08/2022	1.3730	1.2630	(289)	(89)
	55,066,210				(815)	(181)

17. BORROWINGS

	2019 £'000	2018 £'000
Current liabilities		
Bank loans	5,999	2,686
Non-current liabilities		
Bank loans	112,017	97,157
Total borrowings	118,016	99,843

	2019 £'000	2018 £'000
Non-current liabilities		
Secured bank loans drawn	113,351	98,709
Unamortised lending costs	(1,334)	(1,552)
	112,017	97,157

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

	2019 £'000	2018 £'000
Within one year	5,999	2,686
From one to two years	29,825	2,686
From two to five years	71,546	83,607
After five years	11,980	12,416
	119,350	101,395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17. BORROWINGS CONTINUED

Facility and arrangement fees

As at 31 March 2019

Secured Borrowings	All in cost	Maturity date	Loan Balance £'000	Unamortised facility fees £'000	Facility drawn £'000
Santander Bank plc	3.74%	August 2022	25,961	(289)	26,250
Lloyds Bank plc	2.95%	May 2019	3,562	(1)	3,563
Lloyds Bank plc	2.80%	March 2023	6,715	(130)	6,845
National Westminster Bank plc	3.35%	March 2021	29,204	(185)	29,389
Barclays	3.24%	January 2023	38,589	(554)	39,143
Scottish Widows	2.90%	July 2026	13,985	(175)	14,160
			118,016	(1,334)	119,350

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%	May 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 £250,960,000 (2018: £234,429,000) are subject to a first charge to secure the Group's bank loans amounting to £119,350,000 (2018: £101,395,000).

The Group has unused loan facilities amounting to £26,500,000 (2018: £14,152,000). This facility is with Barclays Bank plc is secured on the Hudson Quarter, York development held by Palace Capital (Developments) Limited.

The Group constantly monitors its approach to managing interest rate risk. The Group has fixed £69,226,000 (2018: £70,119,000) 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 £14,160,000 (2018: £14,596,000) which is fully fixed at a rate of 2.9%.

The Group has a loan with Barclays Bank plc for £39,143,000 (2018: £35,848,000), of which £35,348,000 (2018: £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 £26,250,000 (2018: £26,750,000), of which £19,718,000 (2018: £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 fair value of borrowings held at amortised cost at 31 March 2019 was £117,720,000 (2018: £99,843,000).

The Group has two loans with Lloyds Bank plc; one for £3,563,000 (2018: £3,812,000) which is fully charged at floating rate of 3m LIBOR plus 2.1%, and one for £6,845,000 which is fully charged at floating rate of 3m LIBOR plus 1.95%.

The Group has a loan with National Westminster Bank plc for £29,389,000 (2018: £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:

	2019 £'000	2018 £'000
EPRA net asset value (note 7)	186,968	190,011
Borrowings (net of unamortised issue costs)	118,016	99,843
Obligations under finance leases	1,585	1,588
Cash and cash equivalents	(22,890)	(19,033)
Net debt	96,711	82,398
NAV gearing	52%	43%

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

	2019 £'000	2018 £'000
Fair value of investment properties	259,943	255,024
Fair value of trading properties	14,617	–
Fair value per Cushman's valuation	274,560	255,024
Fair value of assets held for sale	11,756	21,708
Fair value of property portfolio	286,316	276,732
Borrowings	119,350	101,395
Cash at bank	(22,890)	(19,033)
Net bank borrowings	96,460	82,362
Loan to value ratio	34%	30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19. RECONCILIATION OF LIABILITIES TO CASH FLOWS FROM FINANCING ACTIVITIES

	Bank borrowings £'000	Total £'000
Balance at 1 April 2017	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 R.T. 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 1 April 2018	99,843	99,843
Cash flows from financing activities:		
Bank borrowings drawn	25,991	25,991
Bank borrowings repaid	(8,037)	(8,037)
Loan arrangement fees paid	(145)	(145)
Non cash movements:		
Amortisation of loan arrangement fees	364	364
Balance at 31 March 2019	118,016	118,016

20. LEASES

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

	2019 £'000	2018 £'000
Within one year	16,118	16,911
From one to two years	14,803	14,699
From two to five years	35,039	29,612
From five to 25 years	59,685	41,635
	125,645	102,857

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

	2019 £'000	2018 £'000
Within one year	178	178
From one to two years	178	178
From two to five years	197	375
	553	731

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

	2019			2018
	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	289	(281)	8	8
From five to 25 years	1,870	(1,814)	56	58
After 25 years	7,852	(6,335)	1,517	1,518
	10,203	(8,618)	1,585	1,588

The net carrying amount of the leasehold properties is shown in note 9.

The Group has over 230 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, with the exception of Hudson Quarter, York held in Palace Capital (Developments) Limited which commenced development in February 2018. Direct operating costs of £Nil were incurred on the property.

21. SHARE CAPITAL

Authorised, issued and fully paid share capital is as follows:	2019 £'000	2018 £'000
46,388,515 ordinary shares of 10p each (2018: 46,388,515)	4,639	4,639
	4,639	4,639

Reconciliation of movement in ordinary share capital	2019 £'000	2018 £'000
At start of year	4,639	2,580
Issued in the year	–	2,059
At end of year	4,639	4,639

Movement in ordinary authorised share capital	Price per share pence	Number of ordinary shares issued	Total number of shares
As at 31 March 2017			25,800,279
Equity issue	9 October 2017	340	20,588,236
As at 31 March 2018 and 31 March 2019			46,388,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. SHARE CAPITAL CONTINUED

Movement in treasury shares		Number of ordinary shares issued	Total number of shares
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
Shares issued under deferred bonus share scheme	27 September 2018	(38,586)	
Share options exercised under employee LTIP scheme	14 January 2019	(39,383)	
As at 31 March 2019			505,266
Total number of shares excluding the number held in treasury at 31 March 2019			45,883,249

Year ended 31 March 2019

On 27 September 2018, 38,586 share options were exercised under the deferred bonus share scheme.

On 14 January 2019, 39,383 share options were exercised under the 2015 employee LTIP scheme.

Issue costs amounting to £17,000 were incurred and were deducted from the share premium account relating to shares issued in the prior year.

Year ended 31 March 2018

On 20 September 2017, 66,352 share options were exercised under the 2014 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 were deducted from the share premium account.

Shares held in Employee Benefit Trust

Authorised, issued and fully paid share capital is as follows:	2019 No of options	2018 No of options
Brought forward	33,648	–
Transferred under scheme of arrangement	100,000	100,000
Shares exercised under deferred bonus share scheme	(38,586)	–
Shares exercised under employee LTIP scheme	(39,383)	(66,352)
At end of year	55,679	33,648

Share options:

Reconciliation of movement in outstanding share options	2019 No of options	2018 No of options
At start of year	536,827	689,660
Issued in the year	265,774	215,456
Exercised in the year	(39,383)	(66,352)
Lapsed in the year	(138,856)	(338,259)
Deferred bonus share options issued	63,690	36,322
Deferred bonus share options exercised	(36,322)	–
At end of year	651,730	536,827

As at 31 March 2019, the Company had the following outstanding unexpired options.

Description of unexpired share options	2019		2018	
	No of options	Weighted average option price	No of options	Weighted average option price
Employee benefit plan (note 22)	588,040	0p	500,505	0p
Deferred bonus share scheme issued	63,690	0p	36,322	0p
Total	651,730	0p	536,827	0p
Exercisable	–	0p	–	0p
Not exercisable	651,730	0p	536,827	0p

The weighted average remaining contractual life of share options at 31 March 2019 is 1.4 years (2018: 1.3 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 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	–	25 September 2017	25 September 2018
Lapsed during year (LTIP 2014)	(331,759)	0p	–		
Lapsed during year (LTIP 2017)	(6,500)	0p	–		
Outstanding at 31 March 2018	536,827	0p	–		
Exercised during the year (LTIP 2015)	(39,383)	0p	309p		
Issued during the year (LTIP 2018)	265,774	0p	–	13 July 2018	13 July 2021
Deferred bonus share options issued	63,690	0p	–	13 July 2018	13 July 2019
Deferred bonus share options exercised	(36,322)	0p	306p	25 September 2017	25 September 2018
Lapsed during year (LTIP 2015)	(80,885)	0p	–		
Lapsed during year (LTIP 2017)	(21,000)	0p	–		
Lapsed during year (LTIP 2018)	(36,971)	0p	–		
Outstanding at 31 March 2019	651,730	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 64.

LTIP 2016

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. 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 ended 31 March 2019, and comparing this with the Net Asset Value Growth of a group of comparable companies. The base NAV per share was £4.14 and this was adjusted to £3.89 for the final 18 months of calculations as reported previously.

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 was £3.16 per share which was the market price at the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. SHARE-BASED PAYMENTS CONTINUED

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% 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 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. 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 is £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 is £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

LTIP 2018

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. The options are subject to a two year holding period following vesting. Half the options will be awarded based on the first target and half based on the achievement of the second.

Total property return growth is based on the increase in the total property return of the Company compared with an increase in the MSCI IPD UK Quarterly Index as at 31 March 2018. This target will measure the compound growth in total property return over the three-year period ending 31 March 2021, and comparing this with the total property return growth of a group of comparable companies.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 13 July 2018 to 12 July 2021. The base price is £3.54 per share which was the market price at the grant date.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual PV growth (compounded) over the TSR performance period	Vesting %
<8%	0	<1%	0
Equal to 8%	33.33	Equal to 1%	33.33
Equal to 13%	100	Equal to 3%	100

The fair value of grants was measured at the grant date using a Black-Scholes pricing model for the Portfolio Value (PV) 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 PV Tranche
Grant date	13.07.18	13.07.18
Share price	£3.54	£3.54
Exercise price	0p	0p
Term	5 years	5 years
Expected volatility	15.84%	15.84%
Expected dividend yield	5.44%	5.44%
Risk free rate	0.77%	0.77%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£0.65	£3.00

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

	2019 £'000	2018 £'000
LTIP 2015	46	82
LTIP 2016	171	61
LTIP 2017	67	31
LTIP 2018	48	–
Total expense arising from share-based payment transactions	332	174

23. RELATED PARTY TRANSACTIONS

Accounting services amounting to £1,960 (2018: £84,951) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a Director and shareholder. Prior year includes one off fees paid for property searches in connection with the acquisition of R.T. Warren (Investments) Limited of £61,069.

Charitable donations amounting to £13,757 (2018: £19,953) 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 £404,734 (2018: £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 amounted to £35,412,295 (2018: £1,595,028).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25. POST BALANCE SHEET EVENTS

On 16 April 2019 the Group completed the disposal of one residential unit for a total consideration of £525,000.

On 17 April 2019, the Group completed the disposal of one residential unit, with a further 23 residential units completing on 1 May 2019. These units were part of the 50 residential units where contracts were exchanged with London Borough of Barnet on 28 November 2018. The disposal of 26 of these units completed before 31 March 2019.

On 30 April 2019, the Group completed the disposal of Rathbone House and Old House in Weybridge, for a total consideration of £1.5 million.

On 2 May 2019, the Group repaid its loan facility with Lloyds Bank plc, which was fully charged at 3m LIBOR plus 2.1%. At 31 March 2019, the outstanding amount of this loan facility was £3,563,000.

On 7 May 2019, the Group completed the disposal of one residential unit for a total consideration of £285,000.

On 7 May 2019, the Group contractually agreed the surrender of the occupational lease at Priory House, Gooch Street North, in Birmingham. The tenant has agreed to surrender its lease, which runs to December 2027 at a rent of £322,000 per annum, and to pay effectively all rent due to expiry, totalling £2.85 million. The contract for surrender completed on 31 May 2019, with the tenant continuing to pay all outgoing until then. The Group will continue to be liable for empty rates and insurance. The lease surrender will allow Palace Capital to move forward with a business plan for the property, with all options to maximise shareholder value currently being assessed.

On 30 May 2019, the Group exchanged sales contracts on three residential units for a total consideration of £720,000.

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.

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 £180,323,000 at 31 March 2019 (2018: £183,299,000). 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.

Market risk

Market risk arises from the Group's use of interest bearing, and tradable 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) or other market factors.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2019 and 31 March 2018 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 2019					
Trade and other receivables	2,539	–	–	–	2,539
Cash and cash equivalents	–	22,890	–	–	22,890
Trade and other payables	(4,004)	–	–	–	(4,004)
Equity investments	2,636	–	–	–	2,636
Interest rate swaps	–	–	(815)	–	(815)
Bank borrowings	–	–	(69,226)	(48,790)	(118,016)
Obligation under finance leases	–	–	(1,585)	–	(1,585)
	1,171	22,890	(71,626)	(48,790)	(96,355)

	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)

The Group's interest rate risk arises from borrowings issued at floating interest rates. The Group's interest rate risk is reviewed throughout the year by the Directors. 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. 59% of the Group's interest rate exposure is fixed and the remainder 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 £22,890,000 (2018: £19,033,000). The income statement would be affected by £229,000 (2018: £190,000) by a one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £48,790,000 (2018: £29,724,000) 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 £488,000 (2018: £297,000).

The Group has interest rate swaps with a nominal value of £55,066,210 (2018: £55,722,900). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26. FINANCIAL RISK MANAGEMENT CONTINUED

Change in interest rate	-1% £'000	+1% £'000
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2019	(1,947)	1,869
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2018	(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 2019 the cash balances of the Group were £22,890,000 (2018: £19,033,000). The concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £16,964,000 (2018: £11,884,000). 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 5.2% (2018: 5.4%) 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 2019 was £1,935,000 (2018: £2,435,000). The details of the provision for expected credit loss 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 2019						
Interest bearing loans	–	9,484	32,323	76,132	12,767	130,706
Finance leases	–	96	96	289	9,722	10,203
Derivative financial instruments	–	–	–	815	–	815
Trade and other payables	4,004	–	–	–	–	4,004
	4,004	9,580	32,419	77,236	22,489	145,728

	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 loan	–	5,168	4,780	90,294	13,705	113,947
Finance lease	–	96	96	290	9,819	10,301
Derivative financial instruments	–	–	–	181	–	181
Trade and other payables	3,010	–	–	–	–	3,010
	3,010	5,264	4,876	90,765	23,524	127,439

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	2019 £'000	As previously stated 2018 £'000	Prior Year Adjustment £'000	Restated 2018 £'000
Non-current assets					
Investments in subsidiaries	2	77,671	126,331	–	126,331
Loans to subsidiary undertakings	2	53,823	26,569	–	26,569
Listed equity investments	3	2,636	–	–	–
Property, plant and equipment	4	92	121	–	121
		134,222	153,021	–	153,021
Current assets					
Trade and other receivables	5	22,042	22,185	(790)	21,395
Cash at bank and in hand		12,176	5,363	–	5,363
		34,218	27,548	(790)	26,758
Total assets		168,440	180,569	(790)	179,779
Current liabilities					
Creditors: amounts falling due within one year	6	(5,862)	(1,772)	(23,409)	(25,181)
Net current assets		28,356	25,776	(24,199)	1,577
Net assets		162,578	178,797	(24,199)	154,598
Equity					
Called up share capital	7	4,639	4,639	–	4,639
Share premium account		125,019	125,036	–	125,036
Treasury shares		(1,771)	(2,011)	–	(2,011)
Merger reserve		3,503	3,503	–	3,503
Capital redemption reserve		340	340	–	340
Retained earnings		30,848	47,290	(24,199)	23,091
Equity – attributable to the owners of the parent		162,578	178,797	(24,199)	154,598

The Company's profit after tax for the year was £16,126,000 (restated 2018: £8,565,000).

The financial statements were approved by the Board of Directors and authorised for issue on 3 June 2019 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 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 as previously stated	4,639	125,036	(2,011)	3,843	47,290	178,797
Prior year adjustment (note 10)	–	–	–	–	(24,199)	(24,199)
At 31 March 2018 restated	4,639	125,036	(2,011)	3,843	23,091	154,598
Total comprehensive income for the year	–	–	–	–	16,126	16,126
Transactions with Equity Holders						
Costs of issue of new shares	–	(17)	–	–	–	(17)
Share based payments	–	–	–	–	332	332
Exercise of share options	–	–	240	–	(240)	–
Issue of deferred bonus share options	–	–	–	–	257	257
Dividends	–	–	–	–	(8,718)	(8,718)
At 31 March 2019	4,639	125,019	(1,771)	3,843	30,848	162,578

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 and 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.

LISTED EQUITY INVESTMENTS

Listed equity investments been classified as being at fair value through profit and loss. Listed equity investments are subsequently measured using level 1 inputs, the quoted market price, and all fair value gains or losses in respect of those assets are recognised in the profit and loss.

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 balances are recognised in respect of timing differences that have originated but not reversed on the balance sheet date. 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.

Deferred tax balances are not recognised in respect of permanent differences between the fair value of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

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.

TRADE AND OTHER RECEIVABLES

Trade and other receivables and intercompany receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Company 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 Company 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 Company 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.

PARENT COMPANY DISCLOSURE EXEMPTIONS

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

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

JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Investments and loans to subsidiary undertakings (see note 3)

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

2. INVESTMENTS IN SUBSIDIARIES

Cost:	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
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
Additions	3,743	27,254	30,997
Write down of investments	(9,360)	–	(9,360)
At 31 March 2019	122,244	53,823	176,067
Provision for impairment:			
At 1 April 2017	1,530	–	1,530
Provided during the year	–	–	–
At 31 March 2018	1,530	–	1,530
Provided during the year	43,043	–	43,043
At 31 March 2019	44,573	–	44,573
Net book value at 31 March 2019	77,671	53,823	131,494
Net book value at 31 March 2018	126,331	26,569	152,900

Loans to Subsidiaries

A loan amounting to £2,566,660 remains outstanding at 31 March 2019 (2018: £3,430,660) from Palace Capital (Northampton) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 14 June 2020.

A loan amounting to £13,711,448 remains outstanding at 31 March 2019 (2018: £14,614,856) 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 £944,025 remains outstanding at 31 March 2019 (2018: £1,875,025) 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 £3,067,963 remains outstanding at 31 March 2019 (2018: £2,992,963) from Palace Capital (Manchester) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 December 2020.

A loan amounting to £4,328,294 remains outstanding at 31 March 2019 from Palace Capital (Liverpool) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 7 March 2023.

A loan amounting to £29,204,796 remains outstanding at 31 March 2019 (2018: £33,703,000) from Palace Capital (Signal) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 October 2023.

Investment in Subsidiaries

Year ended 31 March 2019

On 21 December 2018 the Company acquired One Derby Square, Liverpool. The Company issued 3,500,000 ordinary £1 share in Palace Capital (Liverpool) Limited.

Year ended 31 March 2018

On 4 August 2017 the Company acquired 100% of the share capital of SM Newcastle OB Limited for £20,000,000. 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 £53,400,000.

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.

The Group comprises a number of companies, all subsidiaries included within these financial statements are noted below:

	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
Palace Capital (Liverpool) Limited	Ordinary	100	Property Investments
Hockenhull Estates Limited **	Ordinary	100	Property Investments
Palace Capital (Signal) Limited	Ordinary	100	Property Investments
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
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
Meadowcourt Management (Meadowhall) Limited*	Ordinary	30	Property Management
Clubcourt Limited*	Ordinary	40	Property Management

* Held indirectly

** Incorporated in Isle of Man

The results of the associates are immaterial to the group.

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: 2nd Floor, Quay House, South Quay, Douglas, Isle of Man, IM1 5AR.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

3. LISTED EQUITY INVESTMENTS

	Total £'000
At 1 April 2018	–
Additions	2,850
Loss on revaluation of listed equity investment shown in statement of comprehensive income	(214)
At 31 March 2019	2,636

During the year the Company purchased listed equity investments to the value of £2,850,000. The investment has subsequently been revalued using level 1 inputs, the quoted market price.

4. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2017	76
Additions	139
At 1 April 2018	215
Additions	2
At 31 March 2019	217
Depreciation	
At 1 April 2017	49
Provided during the period	45
At 1 April 2018	94
Provided during the period	31
At 31 March 2019	125
Net book value at 31 March 2019	92
Net book value at 31 March 2018	121

5. TRADE AND OTHER RECEIVABLES

	2019 £'000	Restated 2018 £'000
Current		
Amounts owed by subsidiary undertakings	14,250	15,944
Trade debtors	720	540
Corporation tax recoverable	–	144
Other debtors	48	37
Other taxes and social security	34	150
Accrued interest on amounts owed by subsidiary undertakings	6,882	4,499
Prepayments	108	81
	22,042	21,395

A loan amounting to £10,160,251 remains outstanding at 31 March 2019 (2018: £7,976,000) from Palace Capital (Developments) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £4,090,165 remains outstanding at 31 March 2019 (2018: £3,655,165) 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.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	Restated 2018 £'000
Trade creditors	57	476
Amount owed to subsidiary undertaking	5,104	23,839
Other taxes	55	52
Accruals and deferred income	646	814
	5,862	25,181

A loan amounting to £Nil remains outstanding at 31 March 2019 (2018: £165,000) to Hockenhull Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £1,538,132 remains outstanding at 31 March 2019 (2018: £265,000) 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 2019 (2018: £32,913,000) to R.T. Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £3,566,350 remains outstanding at 31 March 2019 (2018: £7,969,000 debtor) to Property Investment Holdings limited. No interest is charged on this loan. 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:

	2019 £'000	2018 £'000
Within one year	178	178
From one to two years	178	178
From two to five years	197	375
	553	731

9. POST BALANCE SHEET EVENT

There are no post balance sheet events.

10. PRIOR YEAR ADJUSTMENT

During the year ended 31 March 2018 the Parent Company, Palace Capital plc, received a dividend from a subsidiary company which, due to a technical error, was subsequently found to have been declared unlawfully (as the subsidiary did not have relevant accounts that had been properly prepared as prescribed by Companies Act 2006 at the time that it declared the dividend). Consequently, the Parent Company's financial statements for the year ending 31 March 2019 reflect a prior year adjustment which reduces its profit after tax for the year ended 31 March 2018 by £24.2 million and increases amounts due by the Parent Company to subsidiaries at that date by the same amount. There was no impact on the Consolidated Financial Statements. In November 2018, Palace Capital was released from the liability to repay the dividend which has restored the £24.2 million of profit after tax and decreased the sum due to the subsidiary by an equivalent amount.

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
Mickola Wilson	Non-Executive Director

SECRETARY

David Kaye F.C.I.S.

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Santander UK PLC

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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 movement in derivatives and share-based payments and exceptional items.

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

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

Building Research Establishment Environmental Assessment Methodology (BREEAM) rating: A set of assessment methods and tools designed to help construction professionals understand and mitigate the environmental impacts of the developments they design and build. Performance is measured across a series of ratings: Good, Very Good, Excellent and Outstanding.

Core plus: Is a property investment management style which adopts a certain risk appetite growth strategy. Core plus is typically associated with a low to moderate risk profile. Core plus property owners would have the ability to increase cash flows through light refurbishment and asset management strategies. Core plus properties tend to be high-quality and well-occupied.

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 ratio (ICR): Is the number of times net interest payable is covered by underlying profit before net interest payable and taxation.

Investment Property Databank (IPD): A wholly owned subsidiary of MSCI producing an independent benchmark of property returns and the Group's portfolio returns.

Key Performance Indicators (KPIs): Are the most critical metrics that measure the success of specific activities used to meet business goals – measured against a specific target or benchmark, adding context to each activity being measured.

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.

GLOSSARY CONTINUED

MSCI Inc. (MSCI IPD): Is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

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.

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.

Northern Powerhouse: Is a proposal to boost economic growth in the North of England by the 2010-15 coalition government and 2015-2017 Conservative government in the United Kingdom, particularly in the 'Core Cities' of Manchester, Liverpool, Leeds, Sheffield, Hull and Newcastle.

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

Peer Group: Is 16 companies within the listed real estate sector.

Property Income Distribution (PID): A dividend received by a shareholder of the principal company in respect of profits and gains of the Property Rental Business of the UK resident members of the REIT Group or in respect of the profits or gains of a non-UK resident member of the REIT Group.

Portfolio Valuation: The value of the Company's property portfolio, including all investment and trading properties as valued by our independent valuers, Cushman & Wakefield, and assets held for sale.

Portfolio Value (PV): The value of the investment properties within the Palace Capital property portfolio as measured by Cushman & Wakefield. It is referenced in relation to the 2018 LTIP's awarded to employees in 2018.

Real Estate Investment Trust (REIT): A UK Real Estate Investment Trust must be a company listed on a recognised stock exchange with at least three-quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90% of those profits to shareholders. Tax is payable on profits from non-qualifying activities of the residual business.

Special Purpose Vehicle (SPV): Is a separate legal entity created by an organisation. The SPV is a distinct company with its own assets and liabilities, as well as its own legal status. Usually, they are created for a specific objective, often which is to isolate financial risk. As it is a separate legal entity, if the Parent Company goes bankrupt, the special purpose vehicle can carry its obligations.

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 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.

Total Property Return (TPR): Total property return is a performance measure calculated by the MSCI IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as 'the percentage value change plus net income accrual, relative to the capital employed.'

Value added: Is a risk appetite growth strategy. Typically associated with a moderate to high risk profile. Value add properties tend to have low cash flows at acquisition but have the potential to produce future cash flow uplifts once value has been added. This could be by taking on larger capital refurbishment projects to improve the layout and look of the property to ensure rental increases and capital value enhancement.

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.

WiredScore: Wired Certification is a commercial real estate rating system that empowers landlords to understand, improve, and promote their buildings' digital infrastructure. Connectivity is measured across a series of ratings: Platinum, Gold, Silver and Certified.



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