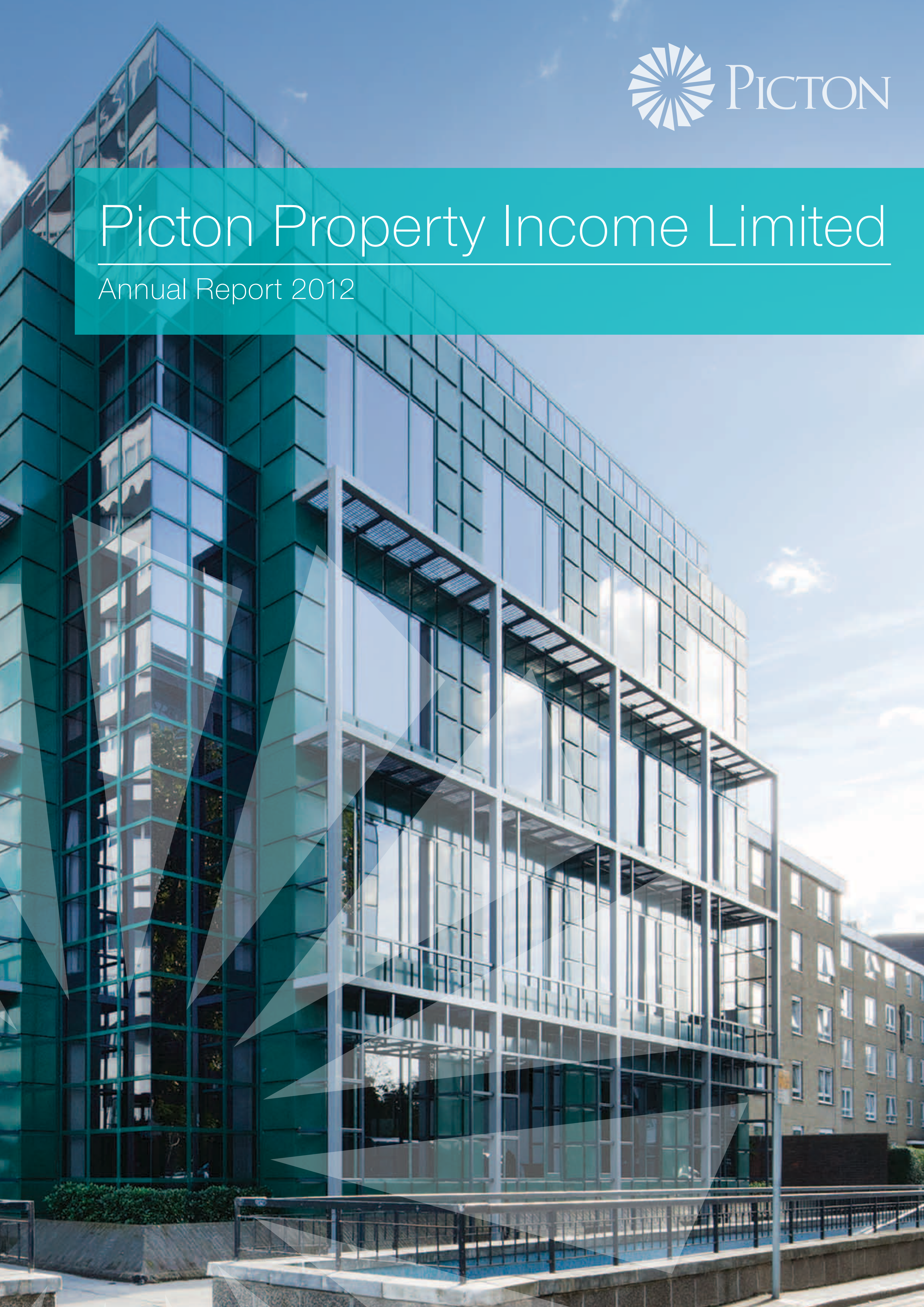
Picton

Picton Property Income Limited

Annual Report 2012



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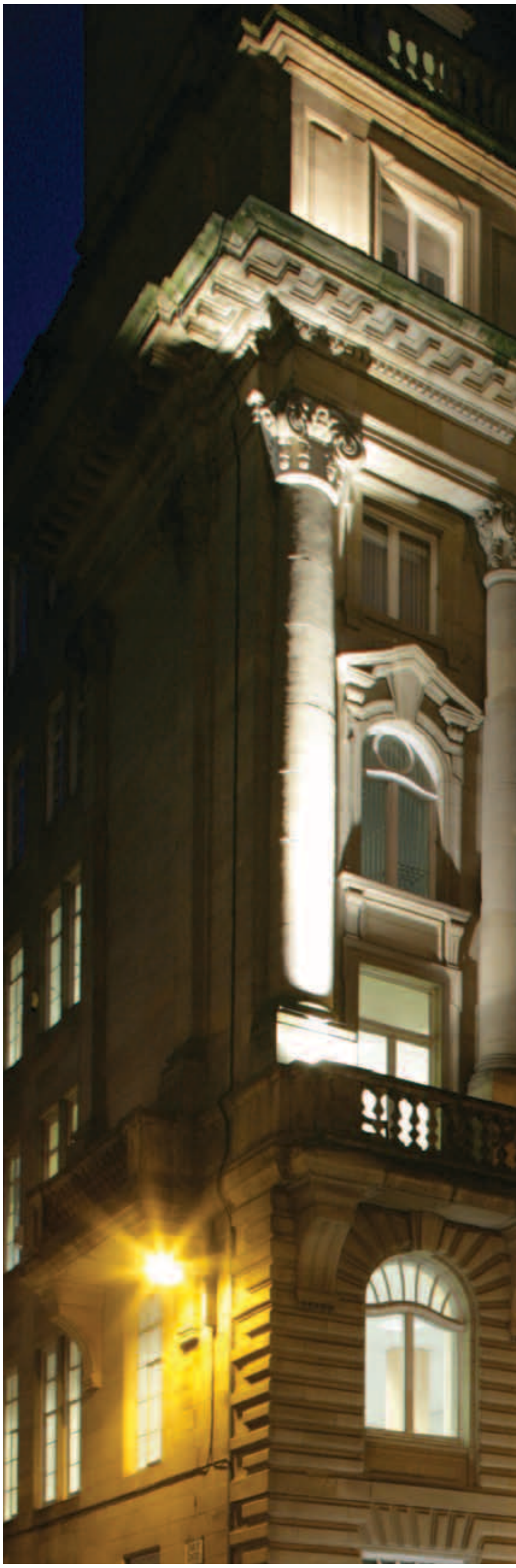



To Let

Review of Business

Who We Are

Picton Property Income Limited (the "Company" or "Picton" and together with its subsidiaries the "Group") is an income focused, internally managed investment company which invests in commercial property across the United Kingdom.

Established in 2005 as ING UK Real Estate Income Trust Limited, the Company is listed on both the London Stock Exchange and Channel Islands' Stock Exchange and has approximately 850 investors.

As an investment company its objective is to provide shareholders with an attractive level of income, together with the potential for capital growth, by investing in the principal commercial property sectors.

Financial & Operational Highlights

	31 March 2012*	31 December 2010	31 December 2009
Property assets	£411.7m	£424.3m	£352.6m
Net assets	£196.1m	£206.9m	£181.1m
Rental income	£40.6m	£31.1m	£31.9m
Profit before tax	£6.2m	£31.9m	£(19.3)m
Income profit before tax	£14.0m	£14.6m	£12.0m
Net asset value per share	57p	60p	55p
Earnings per share	1.9p	9.3p	(5.9)p
EPRA earnings per share	4.1p	4.2p	3.6p
Total dividend per share	5.0p	4.0p	3.0p

* 15 month period to 31 March 2012

Financial

- £3.9 million of debt repaid during the period ahead of refinancing
- Agreement to restructure the Group's secured borrowings on a long term basis, concluded following the period end
- Two new fixed rate financing facilities with diversified and extended maturity profile
- Dividends totalling £17.3 million, or 5 pence per share, paid in the period
- Dividend cover of 82% (93% prior to exceptional items)

Portfolio

- Successful letting of largest rental void at Farringdon Road, EC1 following refurbishment
- Positive impact of central London exposure
- High level of occupancy improving further from 90% to 91%
- 57 new lettings with a rent roll of £2.9 million per annum
- 17 rent reviews providing uplifts of £618,000 per annum
- 29 lease renewals retaining £1.1 million per annum of income
- 11 asset disposals for a total consideration of £5.6 million
- One London acquisition consolidating existing holding and resulting in a 24% London weighting

Internalisation

- Successful and cost effective internalisation of management achieved on 1 January 2012
- Reduction in annual management costs of approximately 20% or £0.6 million per annum
- Change of name to Picton Property Income Limited with LSE ticker PCTN
- Creation of fully aligned and wholly owned investment management subsidiary, Picton Capital Limited, and management team recruited
- Lenders consent on existing facilities obtained to effect the change

Chairman's Statement

Introduction

During the last fifteen months, the Company has undergone a significant transformation set against an increasingly uncertain economic background with both a weak domestic economy and the wider European debt crisis dominating investment strategies.

As Picton, we have undertaken a number of significant initiatives which we believe will strengthen both the financial and operational position of the Group. This has been achieved by principally having secured new long term debt facilities and through our transition to a self managed investment company. We have been focused on both operating in the short term economic conditions whilst at the same time positioning the Company for the changed dynamics of the UK real estate market.

Strategy

At the start of 2011, we identified three areas of immediate focus, namely, the effective management of the Group's assets against a backdrop of a fragile occupier market, the transition to become a self managed investment company and thirdly, ensuring a successful refinancing of the Group's loan facilities, all of which are due to mature between September 2012 and January 2013.

With significant progress made against these objectives our priorities are now focused on completing the refinancing exercise through an extension of the maturity, or repayment, of the zero dividend preference shares, and effectively managing the Group's assets in this period of continued uncertainty.

Our focus is on enhancing both the underlying income position and implementing value enhancing initiatives for the portfolio, in particular maintaining and improving the quality of our assets which will help to attract and retain occupiers, which is particularly important to the Group's net income position in the current market.

Financing

When the Company was established in 2005, both the wider economic environment and the UK real estate market were very different from today and this is no more apparent than in the lending market.

The Company has been in the unenviable position of having to refinance all its borrowings within a 12 month period in one of the most constrained lending markets in recent history. It had always been our intention to refinance our borrowings in 2012, with the effective closure of the securitised loan market prohibiting any early extension of the existing facilities.

The relative inflexibility of the securitised structure and the constrained nature of the UK lending market has effectively prohibited the use of any forward start facilities, hence the timing of these new arrangements taking effect six months ahead of scheduled loan maturity, primarily to mitigate the costs of unwinding hedging instruments.

As detailed in our recent announcement, the Group has obtained funding from two alternative sources and is pleased to have received the support of both Aviva Commercial Finance and Canada Life, both of whom are well established lenders within the UK real estate market.

There will be some corporate restructuring to facilitate two distinct bilateral lending pools and provide the Group with a staggered debt maturity profile of 10,15 and 20 years. This transaction diversifies the sources of funding and also provides the Company with a much more balanced financing position.

The new arrangements include an element of amortisation, which will require the Group to reduce the outstanding loan balance on an annual basis throughout its life. Whilst this will be funded from cashflow, it will gradually reduce the indebtedness of the Company over time and in a structured manner, which is consistent with the Company's desire to manage down the existing debt position.

Despite a tenfold increase in margins since the existing facilities were put in place, these new arrangements not only provide longer term lending but, based on current benchmark gilt pricing, are expected to be at lower rates than the existing arrangements. The new facilities significantly increase the average weighted maturity of the Company's debt, taking advantage of historically favourable long term rates, whilst also increasing covenant headroom. The facilities, which are expected to be drawn in July, will replace the Group's existing securitised debt and bank borrowings and will allow the Company to focus its resources on the active management of the underlying portfolio.

The Board is now considering further options available to facilitate repayment of the zero dividend preference shares. The Company's advisors have consulted with a number of existing holders and several have indicated an interest in an extension to the term. The Board is currently investigating potential options for a mechanism which would allow investors to elect to extend the maturity of their holdings. Any extension would be subject to sufficient liquidity in the extended shares. The Group will continue to engage with its investors on this matter and will make a further announcement to the market in due course.

Overview of Performance

The profit for the period was predominately driven through underlying income with a reduction of net asset value from 60 pence to 57 pence, which reflected underlying property valuation movements and the uncovered dividend over the period.

The uncertainty surrounding both the Group's debt position and the deterioration in the wider economic conditions were, we believe, contributing factors behind the share price movements over the period. Whilst not uncommon within the wider listed UK real estate market where we have seen a widening of discounts between net asset value and share price, the Board continues to explore how this may be narrowed.

Reflecting underlying market conditions and the diversified nature of the Group's property portfolio, we have seen a divergence of real estate performance over the period. Our central London assets have performed more strongly than those elsewhere in the UK, reflecting both a stronger occupier market and investor demand which has positively supported pricing.

This picture has not been consistent across the UK, particularly in the final two quarters of the period as uncertainty in the eurozone became increasingly dominant and the UK economy slipped back into recession. This appears to have affected the occupier markets and in light of lower transactional liquidity, led to lower pricing within the wider UK market which has been particularly evident on assets with a shorter term lease expiry profile.

At a portfolio level there was considerable activity over the period. Importantly, we have enhanced occupancy, successfully concluded the letting of our Farringdon asset and made a further central London purchase. We have sold a number of smaller regional assets and used the proceeds to repay debt ahead of refinancing. We have also invested in a number of assets to enhance the quality of accommodation, ensuring that we are able to attract occupiers in this competitive environment as well as helping to support our portfolio yield.

During 2011, and with support from a number of our larger shareholders, the Company considered a merger with Invista Foundation Property Trust Limited. Our belief was that a larger combined self managed investment company would create significant cost savings and would enhance profitability, combined with a more diversified asset base and debt structure. The Company was not able to structure a recommended transaction that would be in the interests of Picton's shareholders, and as such our proposals were withdrawn in order that we could focus our efforts at that time on our forthcoming internalisation and refinancing.

Governance

I would like to thank my fellow directors and the Picton team for their support during the period and, in particular, with the transition to self management and the additional demands this has incurred.

We have, during the period, established our wholly owned subsidiary, Picton Capital Limited, which has obtained FSA authorisation. The Board is cognisant of its responsibilities with the new management arrangements and has, both through its management engagement and remuneration committees, put in place control and reporting arrangements to ensure appropriate oversight and alignment of the new management structure.

As a result of these changes, Tjeerd Borstlap is no longer connected with the Investment Manager and joined the Audit, Property Valuation and Management Engagement Committees on 1 November 2011.

Chairman's Statement

Dividend

During the period the Company paid dividends of £17.3 million. Prior to the one off costs associated with internalisation and corporate activity referred to above, this reflected dividend cover of 93%, with the shortfall being funded from reserves.

Despite Picton having one of the strongest levels of dividend cover within its immediate peer group, the Board intends to review the Company's dividend policy once the refinancing exercise has been completed. It has been our intention for a period of time to reach a position where the Company operated with dividend cover of at least 100%, rather than pay dividends on an uncovered basis.

In the current economic environment we believe the balance should be more weighted to strengthening the balance sheet rather than over distribution. Following completion of the refinancing, and once financing costs are finalised, we will be in a position to update shareholders on the future dividend policy. We remain committed to distributing as high a dividend as is commercially sensible to do so and will continue to benchmark our performance against the other income orientated listed property vehicles.

Outlook

We continue to operate in volatile markets with macro issues such as the eurozone crisis, the effect of austerity led measures in the UK and the timing of any wider economic recovery unhelpful to both the investment and occupier markets in the short term.

With the immediate exception of central London, and with reduced transactional activity in many parts of the UK property market, we are currently seeing occupiers seeking flexibility, whilst at the same time investment demand is skewed towards long term income propositions. With such a wide pricing differential between short term and long term income, opportunities exist where income can be maintained or extended. Occupiers rightly continue to demand good quality, flexible accommodation and our occupancy levels are a reflection that we can provide this.

Once we have concluded the remaining component of the refinancing, our aim is to focus on short term value creation within the portfolio, concentrating on further enhancing the quality of our assets through capital improvements, a tight control on costs and our on going commitment to increasing occupancy.

In addition, as pricing drifts further, there will undoubtedly be opportunities created, and our aim is to ensure Picton is positioned to take advantage of these as appropriate.

Our focus on dividend cover will be through an improvement in the underlying occupancy, and also the ability to create value through restructuring, as leases reach maturity and we increase the longevity of cashflow. I am confident that we have a competent, motivated and aligned team to achieve these goals.

Nicholas Thompson
Chairman

9 July 2012

Our Business

Overview

Picton invests in commercial property throughout the United Kingdom and owns a property portfolio consisting of 62 assets invested across the main commercial property sectors: office, industrial, retail, retail warehouse and leisure. The Group has around 400 tenants in occupation providing a diversified income stream.

The Group is managed and controlled by its Board based in Guernsey.

During the period, the Group completed its transition to a self managed investment company, through the establishment of its wholly owned subsidiary, Picton Capital Limited, which became Investment Manager on 1 January 2012. The following Investment Manager's Report is the first to be prepared by Picton Capital Limited.

Strategy

The Company's objective is to provide investors with an attractive level of income, with the potential for capital growth.

Inter alia, this is achieved by:

- Growing rental income through active management
- Liaising closely with our occupiers to understand and meet their requirements
- Reducing portfolio voids by attracting new occupiers via strong marketing campaigns
- Disposal of assets when value enhancement achieved and business plans completed
- The acquisition of assets with the potential to create value
- Control of management and operating costs
- Efficient use of debt

Investment policy and restrictions

It is the policy of the Company to hold a diversified portfolio of freehold and long leasehold UK commercial properties. The Company's Investment Restrictions are set out on the Company's website, www.pictonproperty.co.uk.

Board of Directors

Nicholas Thompson

Chairman

Age 63, was formerly Director and Head of Fund and Investment Management at Prudential Property Investment Management and has served on the Board as Chairman since 2005. He is currently Chairman of IPD's Performance Analysis Service Consultative Group and their Index Consultative Group, Chairman of the Property Forum of the Association of Investment Companies, a director of the Lend Lease Retail Partnership and a board member of The Churches Conservation Trust Limited. He is a Fellow of the Royal Institution of Chartered Surveyors.

Trevor Ash

Chairman of the Management Engagement Committee

Age 66, was formerly Managing Director of Rothschild Asset Management (CI) Limited (until 1999) and a non-executive director of Rothschild Asset Management Limited. He has served on the Board since 2005. He retired as a director of NM Rothschild & Sons (CI) Limited in 2007. He is a director of a number of funds managed by Merrill Lynch, Thames River Capital and Dexion Capital Management. He is also a director of Camper and Nicholsons Marina Investments Limited and Investors in Global Real Estate Limited, and is a Fellow of the Chartered Institute for Securities & Investment.

Robert Sinclair

Chairman of the Audit Committee

Age 62, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, Chairman of Sirius Real Estate Limited, a director of AISI Public Realty Limited and a director of Chariot Oil & Gas Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Tjeerd Borstlap

Chairman of the Remuneration Committee

Age 57, is Chief Financial Officer of ING Real Estate located in The Hague, The Netherlands. In this capacity he is responsible for Finance, Treasury and Risk. Prior to joining ING Real Estate Investment Management in 2003, Tjeerd held various senior financial management positions within the ING Group. He graduated in Business Economics at the Erasmus University in Rotterdam and subsequently qualified as a Registered Auditor through the auditing profession with Peat Marwick & Mitchell, now KPMG. He was appointed to the Board in 2007.

Roger Lewis

Chairman of the Property Valuation Committee

Age 64, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which was as Chairman, a position from which he retired at the end of July 2007. He currently acts as a consultant to the Berkeley Group and is a director of three Jersey based subsidiaries of the Berkeley Group as well as being a director of the States of Jersey Development Company Limited. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group Plc from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta) and, along with Trevor Ash, he is a director of Camper and Nicholsons Marina Investments Limited. He was appointed to the Board in 2010.

Investment Management Team

1 Jay Cable

Director

Jay is Head of Asset Management at Picton Capital Limited. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. Jay plays an active role in devising and implementing the Company's strategy and is a member of Picton Capital's Investment Committee. He has over 12 years of real estate experience and is a Member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

2 Andrew Dewhirst

Finance Director

Andrew joined Picton Capital Limited as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. Prior to joining ING Andrew was Director of Securities and Property Accounting at Hermes Pensions Management Limited. He has over 24 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.

3 Michael Morris

Chief Executive

Michael is Chief Executive of Picton Capital Limited and is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy. Formerly he was Director and Fund Manager at ING Real Estate Investment Management (UK) Limited, and he has worked with the Group since it launched in 2005. He has over 16 years of real estate experience and is a Member of the Royal Institution of Chartered Surveyors and the Investment Property Forum. Michael sits on the Property Panel of the Association of Investment Companies and the CPD steering committee of the Investment Property Forum. He has obtained the IMC and the IPF Diploma in Property Investment.

4 Clare Bunning

Clare is responsible for the day to day management of the office and oversees all aspects of administration support within the Company. She joined ING Real Estate Investment Management (UK) Limited in May 2007 and has worked with the Group since then.

5 Tim Hamlin

Tim is an Asset Manager at Picton Capital Limited. He is responsible for the formulation and implementation of asset level business plans in line with the overall portfolio strategy. Previously he worked at ING Real Estate Investment Management (UK) Limited for over three years.

6 Rebecca Milne

Rebecca joined Picton Capital Limited in November 2011 and provides administration support to the team.

7 Adam Green

Adam joined Picton Capital Limited in January 2012 from Invista Real Estate Investment Management as Accounts Assistant.

8 James Forman

James is the Financial Controller at Picton Capital Limited. In this role, he is responsible for all the accounting and financial reporting for the Group. Previously at ING Real Estate Investment Management (UK) Limited, he has worked with the Group since 2005.

9 Sonya Kapur

Sonya joined Picton Capital Limited in January 2012. Previously she worked at BNP Paribas Real Estate as an investment analyst. She is responsible for all aspects of analysis and research within the Company.

10 Laurence Jones

Laurence is a Senior Asset Manager at Picton Capital Limited. In this role, he is responsible for delivering all the asset management initiatives required to fulfil the portfolio's strategy. He joined ING Real Estate Investment Management (UK) Limited in July 2007 to work on this portfolio.

Investment Manager's Report
Property Market Overview

Economic backdrop

During the course of 2011 and into 2012, we have seen a weakening in both the UK and other overseas economies as concerns have grown about the impact of the European sovereign debt crisis.

Although UK GDP grew by 0.7% in 2011, this was some way below initial expectations and the 2.1% growth recorded in 2010. The Office of Budget Responsibility had forecast a quicker recovery, and expected GDP to rise by 1.7% in their March 2011 forecasts. Economic conditions led the Bank of England to increase its quantitative easing programme by £75 billion in October 2011 and a further £50 billion in February 2012.

It became apparent that the economic outlook had deteriorated mid year, with increased concerns over the eurozone and a fear of contagion in respect of sovereign debt as a number of countries saw downgraded credit ratings. The UK re-entered recession when GDP fell to -0.3% in both the final quarter of 2011 and the first quarter of 2012.

Real wages have also fallen with average weekly earnings, as recorded by the Office for National Statistics, growing by 0.9% over the year to March 2012, well below the 3.5% recorded for CPI inflation.

The UK base rate has remained unchanged at 0.5% for the past 15 months. 10 year gilt rates have fallen from 3.4% at December 2010 to 2.2% at the end of March 2012. Swap rates have also followed a similar pattern. Five year swap rates moved from 2.7% at December 2010 to 1.6% at the end of March.

UK property market

The UK property market followed events in the wider economy and saw a general weakening position over the period. Overall, for the first 10 months of 2011, we saw positive capital growth recorded in the IPD Monthly Index, while since November 2011 we have seen month on month capital value declines, which has been caused by a combination of factors, including concerns over the economic recovery and the impact on the occupier markets. Against such an uncertain backdrop, the appetite for all but the most prime of assets, or those offering security and longevity of income, appears to have reduced. In addition, it is clear that the lending markets have become tighter and this has impacted demand further.

According to the Investment Management Association, net sales of commercial property totalled £0.6 billion in 2011, a quarter of the previous year's figure of £2.2 billion. In the first quarter of 2012, net sales rose to £40 million having been negative in the preceding quarter.

Commercial property lending flows, as recorded by the Bank of England, have been negative for three of the last five quarters, with the first quarter of 2012 recording the lowest rate of lending since the series began. New lending by banks and building societies has decreased significantly over the period, adding downward pressure on capital values. Net new lending to property fell from £0.1 billion in the first quarter of 2011 to -£4.8 billion in the first quarter of 2012.

In the 15 months to March 2012, as measured by the IPD Quarterly Index, total returns for All Property were 8.6%, comprising 1% capital growth and 7.6% income return. Offices were the best performing sector in the period delivering 9.8%, followed by industrial at 8.4% and retail at 7.6%.

Geographically, capital values for commercial properties in London outperformed those in the rest of the country as London benefitted from a combination of stronger occupier markets and its ability to attract international capital. Central London standard retail delivered the highest capital value growth of 9.5%, whereas Rest of UK office parks delivered the weakest growth at -7.8%.

Rental growth for All Property grew by 0.5% over the period, but this was driven by central and inner London offices which grew by 7.5%. The weakest performing region by sub-sector was Rest of UK standard shops which fell by -4.0%.

The IPD Quarterly Digest for the first quarter of 2012 shows an occupancy rate of 90.8% for All Property, 94.9% for retail, 85.0% for offices and 88.2% for industrial.

Office market

Over the period, offices outperformed both industrial and retail. The total return for the office sector for the period was 9.8%, with an income return of 7.2% and capital growth of 2.6%. Total returns were strongest for central and inner London at 14.7% while Rest of UK delivered 0.8%.

Office sector capital value growth by geographic region ranged from 8.9% for London Mid-town to -11.3% for Northern Ireland.

Standard office rental value growth over the period grew by 3.7%. Central and inner London offices at 7.5% outperformed the rest of the regions.

Retail market

Total returns for retail were 7.6% for the period. Returns comprised of 7.4% income return and 0.2% capital growth. Total returns were strongest for central London, delivering 15.4% total return, over double that of the retail average. All retail warehouse total returns were 9.3%, with retail parks outperforming the average by recording a 9.6% total return.

Capital growth in retail ranged from 9.5% for central London to -4.9% for Rest of UK standard shops. Rental growth for the retail sector was negative at -0.4% over the period. The largest falls were recorded in Rest of UK standard shops at -4.0%.

Industrial market

Total returns for industrials were 8.4%, with an income return of 8.6% and capital growth of -0.2%. Total returns were strongest for London industrials at 10.2%, and weakest for Rest of UK at 6.6%.

London industrials were the strongest performer growing by 2.5% while most other industrial properties saw a contraction in capital values. The worst performing was Rest of UK industrials, which contracted by -2.3%.

Rental values for industrials fell by -1.0%. Rents contracted across all industrial properties, with falls ranging from -0.2% for London industrials to -1.6% for Rest of UK industrials.

Portfolio Review

During a period where we have seen a number of significant corporate initiatives, there has also been considerable progress at a portfolio level. The focus has been to maintain and enhance occupancy, against a backdrop of challenging occupier markets, particularly in light of the weaker operating conditions as the UK economy contracted in the latter part of 2011.

During the period we have concluded 57 lettings, 29 lease renewals and 17 rent reviews. In addition we have made 11 asset disposals and the acquisition of one central London asset.

The portfolio has not been immune to the wider effects of the economic downturn and over the period we have seen a small number of tenants go into administration or liquidation. By virtue of the diverse nature of the portfolio, this risk has been mitigated and we have had particular success in the retail sector at filling these voids.

With so much macro economic uncertainty, we have found that occupiers generally want to commit to lease terms of no longer than 10 years, and in many cases require short term flexibility through break options. In a market where there is limited investor demand for shorter term income, these initiatives, whilst maintaining cash flow, have not generated significant capital uplifts. The average lease length across the portfolio is now 6.8 years to earliest termination.

The vacant element within the portfolio remains a priority and we have invested in a number of assets enhancing the overall quality of accommodation. This has been to maximise our opportunity of letting space quickly, so generating cash flow. This has proven to be the correct strategy following the success we have had with lettings over the period. We have a number of further initiatives planned which are now being progressed in order to maximise the letting potential of these specific assets.

As at 31 March 2012, the portfolio generated a net initial yield of 7%, with an occupancy rate of 91%. Through letting the vacant accommodation and based on the rental value of the portfolio as at March, the reversionary yield would be 7.7%, representing an additional £3.2 million per annum.

Industrial Portfolio

Properties valued in excess of £20 million

1 Unit 5320, Magna Park, Lutterworth, Leics.

2 Units A-G2, River Way Industrial Estate, Harlow, Essex

Properties valued between £10 million and £15 million

3 Vigo 250, Birtley Road, Washington, Tyne and Wear

Properties valued between £5 million and £10 million

4 Unit 3220, Magna Park, Lutterworth, Leics.

5 Units 1-13 Dencora Way, Sundon Park, Luton, Beds.

6 The Business Centre, Molly Millars Lane, Wokingham, Berks.

7 Datapoint Business Centre, Cody Road, London, E16

8 Lawson Mardon Buildings, Kettlestring Lane, York

9 Nonsuch Industrial Estate, 1-25 Kiln Lane, Epsom, Surrey

10 Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire

Properties valued under £5 million

11 Easter Court, Gemini Park, Warrington

12 Zenith, Downmill Road, Bracknell, Berks.

13 Heron Industrial Estate, Spencers Wood, Reading

14 Middleton Trade Park, Oldham Road, Manchester

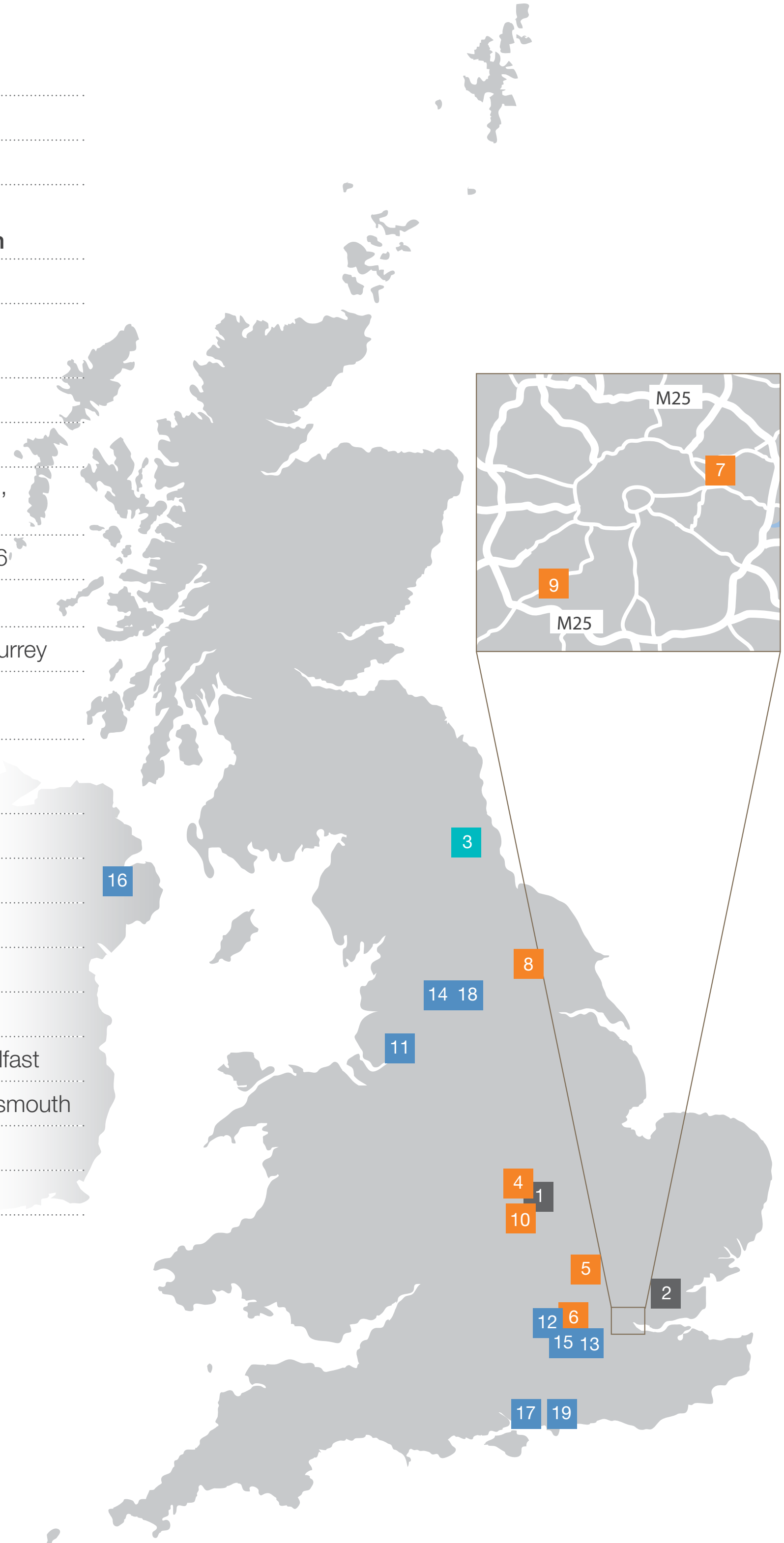
15 Magnet Trade Centre, Winnersh, Reading

16 Abbey Business Park, Mill Road, Newtownabbey, Belfast

17 Highgrove Industrial Estate, Quatremaine Road, Portsmouth

18 Manchester Road/Drury Lane, Oldham, Lancs.

19 Winston Business Centre, Lancing, Sussex



Industrial	
Value	£144.0 million
Area	2,150,000 sq ft
Annual Rental Income	£11.7 million
Occupancy	94.2%
Number of Assets	19

	Top tenants	% of portfolio
1	TNT UK Limited	9.9
2	Tanfield Group Plc	3.1
3	Exel UK Limited	2.6
4	Amcor Packaging UK Limited	1.7
5	Exel Europe Limited	1.6

Our industrial and distribution portfolio contributed positively to performance over the period, most notably through our Greater London holdings.

The portfolio has voids across eight multi-let industrial estates, with some 20% of the void in Greater London where the units are being refurbished following tenant insolvency. A number of the units in these assets are now currently under offer, which follows on from letting activity in the period outlined below.

At Nonsuch Industrial Estate in Epsom, following discussions with the tenants, the Group installed a CCTV system which, as well as being well received by existing occupiers, improved demand from new tenants and assisted in the letting of seven units in the period. Three leases were also renewed and the estate is currently fully let with rental values exceeding £13.50 per sq ft on the larger units, with strong demand from companies wanting space. We are currently looking to surrender leases to satisfy demand and drive rental values.

In Harlow, following an extensive refurbishment programme, we secured Traxx Tyres Limited who took a new 10 year lease of unit E at a rent of £190,000 per annum (£6.50 per sq ft). In addition, Shred Station Limited took a new 10 year lease of unit F3 at a rent of £57,786 per annum (£6.00 per sq ft) and Sims Engineering Systems Limited took a new five year lease of unit F2 at a rent of £56,000 per annum (£6.00 per sq ft) following which the estate was fully let. At unit G1 we removed Fedex UK Limited's break option, dated September 2012, in return for two months rent free securing a rent of £167,500 per annum (£7.25 per sq ft) for a further five years.

In a difficult local market, we completed three lettings at Abbey Business Park in Belfast, renewed one lease and sold a small piece of land for £25,000.

On multi-let estates in the Thames Valley where there is currently weaker occupier demand, we have focused on retaining our existing tenants and have succeeded in renewing Iron Mountain UK Limited's lease for another three years at Heron Industrial Estate in Spencers Wood and removed a tenant break clause in another lease on the same estate, securing another five years in return for three months rent free. In Wokingham, we have renewed two leases securing £92,250 per annum as well as accommodating a tenant's short term expansion needs by letting them occupy a vacant unit on a short term lease, mitigating void costs.

At Datapoint in Bromley-by-Bow we moved Hilti's break clause out by three years and settled a September 2012 rent review at £82,918 per annum (£11.00 per sq ft), an uplift from £69,000 per annum and setting a new rental tone for the estate.

Anixter Limited and Aquafax Limited both took new 10 year leases on units at Dencora Way in Luton at a combined rent of £90,300 per annum after incentives and we also renewed TNT's lease for three years at a rent of £65,750 per annum, maintaining full occupancy with the exception of one small unit.

In Basildon, we renewed Woseley UK Limited's lease for a further five years at £20,000 per annum, which enabled a sale of the property in August 2011 for £250,000; 10% ahead of the preceding valuation. Three vacant units at Nuffield Industrial Estate in Poole were let for a combined rent of £21,120 per annum and the lease of the largest tenant by income was extended by five years, by removing a tenant break clause in return for three months rent free. The property was then sold in August 2011 for £900,000, in line with the preceding valuation.

Vacant units in Blackpool, Chichester, Lancing and Spencers Wood were also sold, along with St Leonards, mitigating void costs and the need for capital expenditure.

In May 2011, the Group also sold a small multi-let estate in Accrington, following the letting of two vacant units, for £1,275,000, slightly ahead of the preceding valuation.

Office Portfolio

Properties valued between £10 million and £15 million

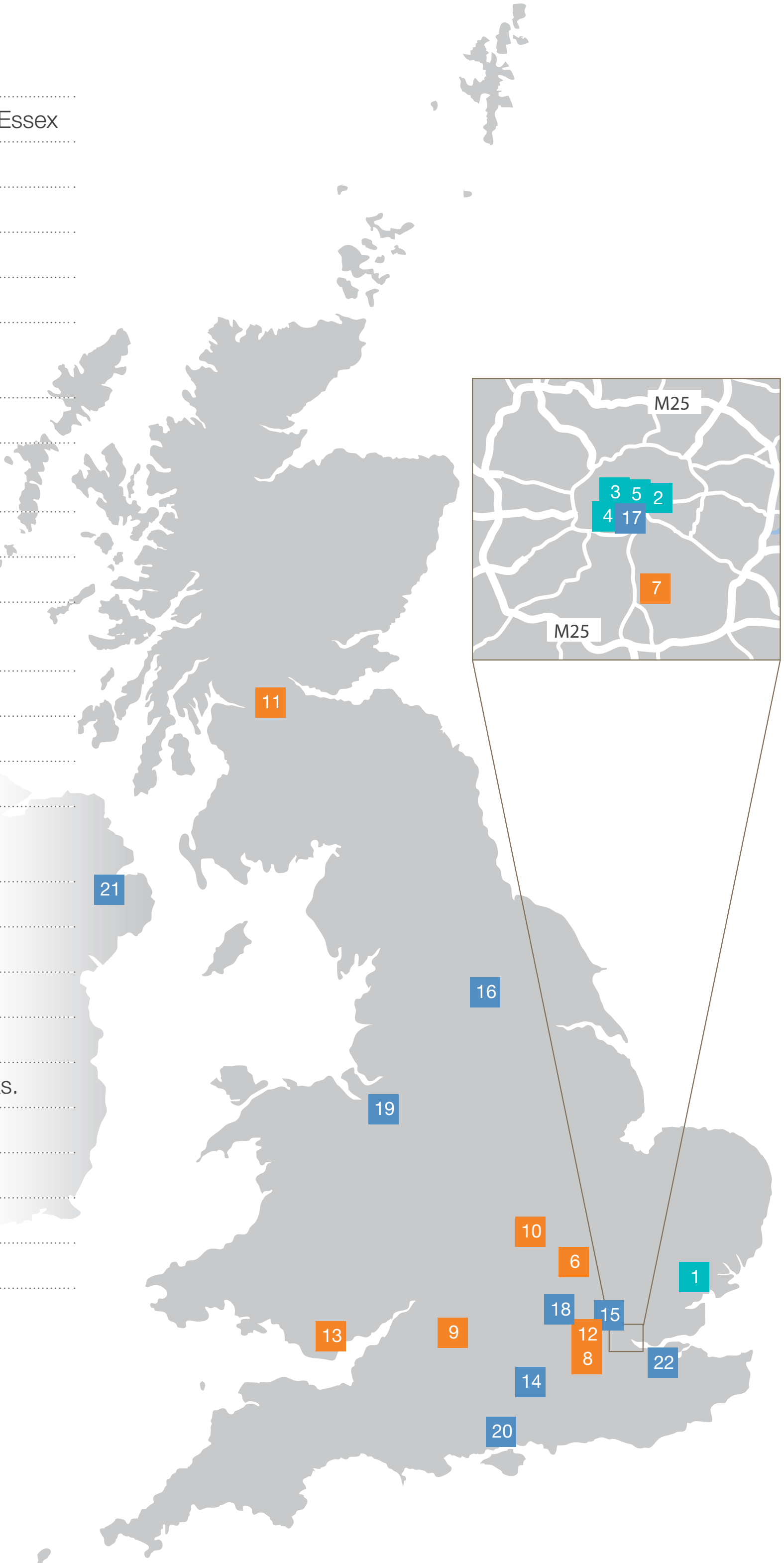
1 Colchester Business Park, The Crescent, Colchester, Essex
2 Boundary House, Jewry Street, London EC3
3 50 Farringdon Road, London EC1
4 1-3 Chancery Lane, London WC2
5 Angel Gate Office Village, City Road, London, EC1

Properties valued between £5 million and £10 million

6 401 Grafton Gate East, Milton Keynes, Bucks.
7 City Link House & Tolley House, Addiscombe Road, Croydon
8 L'Avenir, Opladen Way, Westwick, Bracknell, Berks.
9 Westlea Campus, Chelmsford Road, Swindon, Wilts.
10 Northampton Business Park, 800 Pavilion Drive, Northampton
11 Queens House, 19/29 St Vincent Place, Glasgow
12 Waterside Park, Longshot Lane, Bracknell, Berks.
13 Longcross Court, Newport Road, Cardiff

Properties valued under £5 million

14 Sentinel House, Ancells Business Park, Fleet, Hants.
15 Trident House, 42/48 Victoria Street, St Albans, Herts.
16 Waterside House, Kirkstall Road, Leeds
17 28 Austin Friars, London EC2
18 Atlas House, Third Avenue, Globe Park, Marlow, Bucks.
19 Merchants House, Crook Street, Chester
20 8-9 College Place, Southampton
21 Marshall Building,122-124 Donegall Street, Belfast
22 The Cloisters, Orchard Street, Dartford



Offices	
Value	£145.2 million
Area	926,000 sq ft
Annual Rental Income	£11.3 million
Occupancy	86.8%
Number of Assets	22

	Top tenants	% of portfolio
1	Cadence Design Systems Limited	3.0
2	Trainline.com Limited	2.6*
3	British Telecommunications Plc	2.3
4	Tech Mahindra Limited	1.2
5	RWE Npower Plc	1.2

* currently in rent free period

The Group's central London offices have performed well during the period, with strong demand leading to rental growth. The South East market and other regions have been much harder, with weaker occupier demand leading to pressure on pricing. Despite this, we have been able to retain and attract new tenants across the portfolio, reflecting the quality of accommodation we are able to provide to occupiers.

By rental value approximately 50% of our office vacancies are inside the M25, with the remainder in the wider UK market. Despite market conditions we have received interest in the majority of assets, which has culminated in some of the letting activity noted below during the period and further space currently being under offer.

The scheme at 50 Farringdon Road, EC1 was completed during the period providing 31,992 sq ft of fully refurbished office space. The first and second floors were let in August 2011 to Trainline.com Limited as their London headquarters, on a new 10 year lease, with a break at year five, at a rent of £835,296 per annum after incentives; slightly ahead of estimated rental value. In 2012, Totus Tax LLP took the ground floor south suite and Laurence Stephens Solicitors took the ground floor north suite, both on 10 year leases, with a break at year five, at a combined rent of £191,238 per annum. The property is now fully let.

At Stanford House in Covent Garden, which forms part of a larger retail holding, we settled the March 2011 rent review on the fourth floor at £82,500 per annum (£37 per sq ft), an uplift from £76,475 per annum (£32 per sq ft). The tenant of the second and third floors actioned a break clause and we agreed an early surrender of their lease to facilitate early marketing of the accommodation which has had good interest. During the period, we have also undertaken a refurbishment of the exterior of the property which was completed in May 2012.

Two properties were purchased at Angel Gate Office Village in EC1 for £2.6 million, further consolidating the holding at this site and offering an initial yield of 11%. Also at this scheme three offices were let during the period at average rents of £20 per sq ft, three leases were renewed and we agreed to remove the tenant break options in two separate leases extending the income profile. The property remains 95% let.

At Colchester Business Park, the Group surrendered three units from North East Essex PCT's lease for a premium of £164,476 and quickly re-let two; one to a fashion designer/retailer on a new 10 year lease, subject to break options, at £43,000 per annum, and the other unit to a pension advisor on a new 10 year lease, subject to breaks, at £35,500 per annum. The remaining space is being marketed and overall remains 90% let.

In other transactions in the South East, we increased the space available to HPS Group Limited following a tenant vacating and they now occupy the entire ground floor of the property on a lease expiring in March 2015. At Trident House in St. Albans, we refurbished accommodation following a lease expiry and tenant default, culminating in two lettings to CFS Management Services Limited and FRP Advisory LLP for a five year term, at a combined rent of £96,800 per annum.

In Bath Street, Bath, we renewed the leases on all of the office space within the retail property, with both tenants taking three year leases at a combined rent of £34,431 per annum. At Longcross Court in Cardiff, Dun & Bradstreet Limited took two office suites on a new ten year lease, subject to break, at a rent of £67,892 per annum.

In Glasgow where we own Queens House, in the city centre, a Grade A listed property split into small office suites, we secured three new lettings as companies moved into the property on flexible leases at a combined rent of £38,000 per annum. In Belfast, we regeared the lease to Law Centre NI, improving the lease profile by extending it to 15 years, subject to a break option in year eight, at a rent of £60,000 per annum, maintaining occupancy.

Retail Portfolio

Properties valued in excess of £20 million

1 Stanford House, 12-14 Long Acre, London WC2

Properties valued between £15 million and £20 million

2 Parc Tawe, Phase II, Link Road, Swansea

Properties valued between £10 million and £15 million

3 Angouleme Way Retail Park, Bury, Greater Manchester

Properties valued between £5 million and £10 million

4 56 Castle Street, 2/12 English Street and 12-21 St Cuthberts Lane, Carlisle, Cumbria

5 17/19 Fishergate, Preston

6 53/55/57 Broadmead, Bristol

7 Scots Corner, High Street/Institute Road, Birmingham

8 78-80 Briggate, Leeds

Properties valued under £5 million

9 72/78 Murraygate, Dundee

10 6/12 Parliament Row, Hanley, Worcs.

11 Units 1-3, 18/28 Victoria Lane, Huddersfield, West Yorks.

12 123 High Street, Guildford, Surrey

13 7 & 9 Warren Street, Stockport

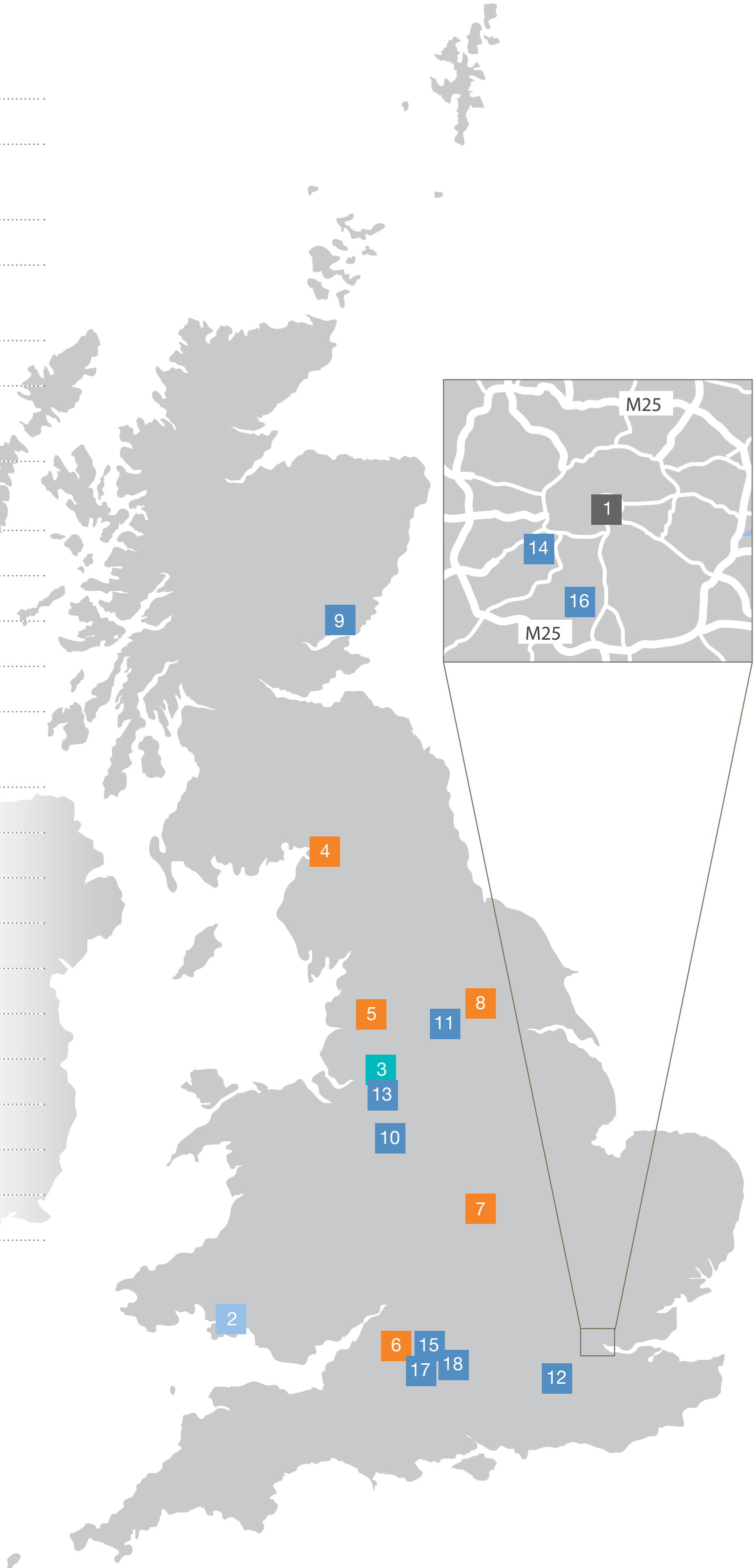
14 2/2a George Street, Richmond

15 2 Bath Street, Bath

16 113 High Street, Sutton

17 6 Argyle Street, Bath

18 3 Lower Borough Walls, Bath



Retail and Retail Warehouse	
Value	£107.7 million
Area	411,860 sq ft
Annual Rental Income	£6.4 million
Occupancy	92.4%
Number of Assets	18

	Top tenants	% of portfolio
1	Edward Stanford Limited	2.0
2	Asda Stores Limited	1.8
3	Homebase Limited	1.4
4	Barclays Bank Plc	1.2
5	Countywide Developments Limited	1.0

The Group has been successful in letting space across the retail portfolio during the period, despite a number of retailer defaults, and at the time of writing had only four vacant units in Swansea, Cardiff and Carlisle.

In Bath Street, Bath, following the expiry of Kodak's lease, the unit was re-let to a shoe retailer, Ecco Shoes, for a ten year term, subject to break, at a rent of £90,000 per annum. At a smaller unit in the city we extended the income on the Fonesolutions lease for a term of ten years, subject to break, at a rent of £28,000 per annum, in line with estimated rental value.

At the parade of shops in King's Heath, Birmingham a number of 25 year leases expired simultaneously and we have undertaken a series of lettings to achieve 100% occupancy. New tenants include The Works, Costa and Cash Generators, all on ten year leases, subject to break options, at a combined rent of £112,000 per annum.

At Parc Tawe retail park in Swansea, we secured Poundworld Retail Limited on a new 10 year lease at a rent of £180,000 per annum, an increase of £100,000 per annum on the previous rent passing on a temporary letting.

In Carlisle, we regeared a lease on a unit occupied by Top Shop at 18-24 English Street, taking a new 10 year lease with no break at £230,000 per annum. In addition, we renewed a lease to Specsavers for a term of 15 years, subject to a 10 year break, at a rent of £63,500 per annum.

At Briggate in Leeds, we regeared a lease to Starbucks for a term of 10 years at a rent of £160,000 per annum and John Smith Professional Properties Limited renewed their lease for a term of 10 years at £125,000 per annum at 1 Chancery Lane in London.

Two tenants in Hanley went into liquidation and the Group re-let both units to Sayers the Bakers Limited and to a local retailer, A&W Homeware Limited, both for a five year term certain at a combined rent of £55,000 per annum. The retail units are now fully let following a regear of the lease to Supernews Stores Limited for a further five years at £18,000 per annum.

Cheque Centre Properties Limited took the vacant unit at 119 High Street, Epsom following the former tenant going into administration. They agreed a 10 year lease, subject to break, at £20,000 per annum. The property was then fully let and was sold in May 2011.

Leisure Portfolio

Properties valued between £5 million and £10 million

1 Strathmore Hotel, Arndale Centre, Luton, Beds.

2 Regency Wharf, Broad Street, Birmingham

Properties valued under £5 million

3 Thistle Hotel, Unit 1 & Le Pavilion, Brighton

Leisure	
Value	£17.6 million
Area	N/A
Annual Rental Income	£1.2 million
Occupancy	94.3%
Number of Assets	3

	Top tenant	% of portfolio
1	Menzies Hotels Property No. 20 Limited	2.4
2	JD Wetherspoon Plc	0.9
3	East and West Restaurants South Limited	0.8*
4	La Tasca Restaurants Limited	0.3

* currently in rent free period

The Group owns three leisure properties, a restaurant scheme on Broad Street in Birmingham, the Strathmore Hotel in the centre of Luton and a small interest in the Thistle Hotel in Brighton. In addition, the Group also owns the Crown & Mitre Hotel, which forms part of a larger retail holding in Carlisle.

At Regency Wharf in Birmingham, the Group took a surrender of Zinc Bar & Grill Limited's lease for a premium of £200,000. Zinc had not occupied for a number of years and the surrender allowed the adjoining tenant, East and West Restaurants South Limited, to expand into the space taking a new 25 year lease on the whole at a rent increasing to £275,000 per annum. The new restaurant will be one of the largest in Birmingham city centre. A further unit became vacant following The Living Room entering administration. We have since marketed this space and the unit is now under offer.

We also settled the 2008 rent review relating to the Crown & Mitre Hotel, which went to arbitration, during the period. Here we achieved a rent increase from £86,000 per annum to £112,000 per annum, reflecting a 30% uplift.

Portfolio Review

Portfolio returns

In a property market where positive property performance was heavily skewed towards central London, the Group's assets on an ungeared basis underperformed the IPD Quarterly Benchmark over a 15 month period. This was most notable in the final quarter and, in particular, reflected the shorter term income profile of the portfolio.

Consistent with the investment objective, the Group's income return continued to be in the upper quartile and despite the current period figures, over the longer term the underlying portfolio has outperformed the IPD Quarterly Benchmark.

	2012* %	3 years %	5 years %
Portfolio total return	5.0	8.6	-0.9
IPD Quarterly Benchmark	8.8	11.5	-1.2
Portfolio income return	8.1	7.2	7.0
IPD Quarterly Benchmark	7.3	6.3	5.9

* 15 month period to 31 March 2012

Outlook

With a generally weak economic outlook, consensus forecasts indicate further valuation drift in the short term, with positive income returns being offset by negative capital value movements. This revised pricing is likely to attract new entrants, but in the short term, we continue to operate in a constrained lending market also.

In its widest sense, the future performance of the property market is inextricably linked with the economic recovery and more recent market pricing is increasingly factoring in a weaker economic outlook. Central London, in particular, appears to remain decoupled from the rest of the UK, both in terms of occupational activity and for attracting investors where it is clear that there is a tighter level of supply relative to occupational demand.

The arbitrage between the IPD initial yield and long term gilt rates is now close to that last seen in mid 2009, and prior to that in 1993. In a cyclical market such as real estate, we are now seeing pricing, especially for shorter term income propositions, in many markets below the cost of construction, particularly in the regions, which will in turn make it uneconomic to create new supply. Occupiers continue to seek operational flexibility, whilst at the same time investor demand is more focused on longer term cashflows, and this divergence is unlikely to continue indefinitely.

In the short term, there is still the potential for value creation through successful lease restructurings and through the repositioning of assets. In the medium term, wider economic growth and improved occupier markets remain key to a sustained recovery in values.

Picton Capital Limited

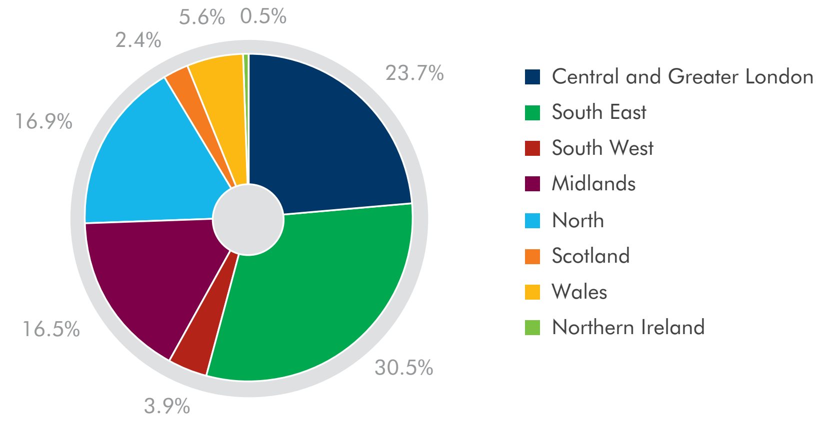
9 July 2012


Tech Mahindra

Portfolio Statistics

Geographical

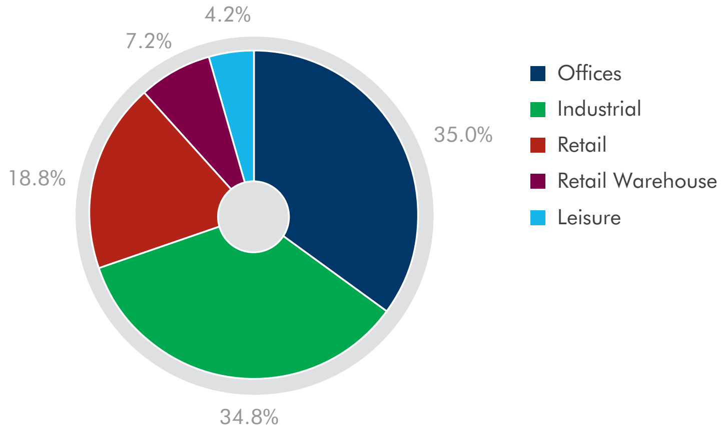
As at 31 March 2012 the regional weightings of the property portfolio, as a percentage of current portfolio value, are summarised as follows:



(Source: Picton Capital & IPD as at 31 March 2012)

Sector

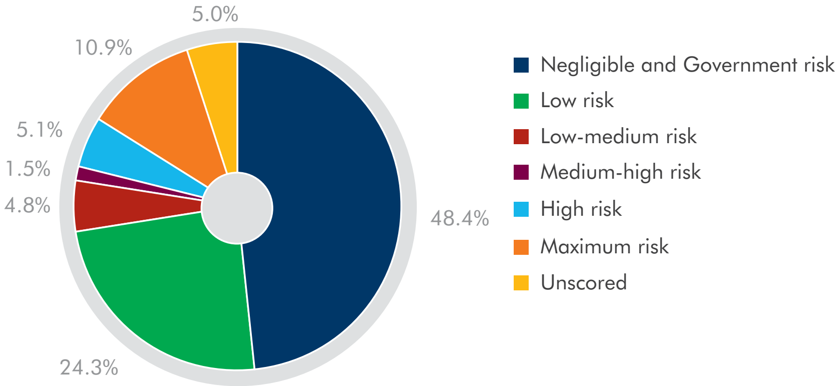
As at 31 March 2012 the sector weightings of the property portfolio, as a percentage of current portfolio value, are summarised as follows:



(Source: Picton Capital & IPD as at 31 March 2012)

Covenant Strength

The covenant strength, based as a percentage of current passing rent by risk rating, as at 31 March 2012 is summarised as follows:

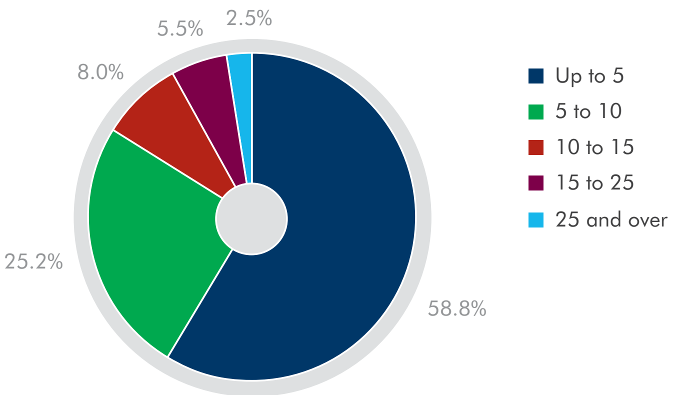


(Source: IPD IRIS Report March 2012)

Covenant strength data is produced by Investment Property Databank (IPD).
The Group held a total of £1.6 million of rental deposits at 31 March 2012.

Longevity of Income

As at 31 March 2012, based as a percentage of current net annual rent, the length of the leases to the first termination was 6.8 years. A further breakdown is summarised as follows:



(Source: Picton Capital as at 31 March 2012)

Top Ten Tenants

The top ten tenants, based as a percentage of current passing rent, as at 31 March 2012 is summarised as follows:

Tenant	Passing Rent %
TNT UK Limited	9.9
Tanfield Group Plc	3.1
Cadence Design Systems Limited	3.0
Trainline.com Limited*	2.6
Exel UK Limited	2.6
Menzies Hotels Property No. 20 Limited	2.4
British Telecommunications Plc	2.3
Edward Stanford Limited	2.0
Asda Stores Limited	1.8
Amcor Packaging UK Limited	1.7
Total	**31.4**

* currently in rent free
(Source: Picton Capital as at 31 March 2012)

Directors' Report

The Directors of Picton Property Income Limited present their Annual Report and audited financial statements for the period from 1 January 2011 to 31 March 2012.

The Company is a closed ended investment company and is registered under the provisions of the Companies (Guernsey) Law, 2008.

Principal activity

The principal activity of the Group is property investment with the objective of providing shareholders with an attractive level of income together with the potential for capital growth, by investing in a diversified UK commercial property portfolio.

With effect from 29 October 2008, the Company became regulated under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). Under this regulation, the Company was deemed to be authorised by the Guernsey Financial Services Commission.

Until 31 December 2011, the Group was externally managed by CBRE Global Investors UK Limited (formerly ING Real Estate Investment Management (UK) Limited). During the period the Group has established a wholly owned subsidiary company, Picton Capital Limited, to perform the investment management function and hence, from 1 January 2012, became a self managed investment company.

Results and dividends

The results for the period are set out in the Consolidated Statement of Comprehensive Income. Details of dividends paid and proposed are set out in note 13 to the consolidated financial statements.

Directors and Directors' interests

The Directors of the Company who served throughout the period are set out on pages 9 and 10.

The Directors' interests in the shares of the Company as at 31 March 2012 are set out in the Remuneration Report on pages 35 to 38.

Corporate Governance Report

The Company is a member of the Association of Investment Companies ("AIC") and applies the principles of the AIC Code of Corporate Governance (the "AIC Code").

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the 'UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Financial Reporting Council has confirmed that, by following the AIC Guide, investment company boards should fully meet their obligations in relation to the UK Code.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

Except as disclosed below, the Company has complied throughout the period with the recommendations of the AIC Code and the relevant provisions of the UK Code.

The Guernsey Financial Services Commission published its Code of Corporate Governance (the "Guernsey Code") in September 2011, which is effective from 1 January 2012. By complying with the AIC Code and the UK Code, the Board believes that it will be in compliance with the provisions of the Guernsey Code also.

The Board

The Board retains full responsibility for the direction and control of the Company, including investment policy and strategy, dividend policy and gearing. The Board meets regularly, normally quarterly, and more frequently if necessary.

The Board has delegated responsibility for operational matters under an Investment Management Agreement to its Investment Manager. The terms of the Investment Management Agreement continue to apply to Picton Capital Limited following its appointment as Investment Manager on 1 January 2012.

Composition

The Company is led and controlled by a Board comprising of non-executive Directors, all of whom have wide experience and are considered to be independent. Tjeerd Borstlap is now considered to be independent as he is no longer connected with the Investment Manager.

The Articles of Association stipulate that all new Directors shall retire at their first Annual General Meeting and offer themselves for re-appointment. One third, or the number nearest to but not exceeding one third, of the Directors shall retire and offer themselves for re-appointment at each subsequent Annual General Meeting.

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore have not set a finite tenure policy. This position is reviewed annually as part of the Board evaluation process.

The Board believes that it is in the shareholders' best interests for the Chairman to be the point of contact for all matters relating to the governance of the Company and as such has not appointed a senior independent non-executive Director.

Details of the Board, including biographies, can be found on pages 9 and 10.

Committees

The Board has established four Committees: Audit, Remuneration, Property Valuation and Management Engagement. The terms of reference for these Committees are available on the Company's website.

The Board has not established a separate Nominations Committee as these duties are performed by the whole Board for practical reasons.

Attendance at Board and Committee Meetings

	Board (5 meetings)	Audit (2 meetings)	Remuneration (3 meetings)	Property Valuation (4 meetings)	Management Engagement (1 meeting)
Nicholas Thompson	5	2	3	4	1
Robert Sinclair	5	2	2	4	1
Trevor Ash	4	1	3	4	1
Roger Lewis	5	2	3	4	1
Tjeerd Borstlap	4	1	2	3	-

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above. Tjeerd Borstlap joined the Audit, Property Valuation and Management Engagement Committees on 1 November 2011.

Evaluation

The performance of the Board and its Committees is evaluated on an annual basis. This is carried out by external consultants every three years, the latest being in 2010, and internally by the Directors for intervening years. An internal evaluation was performed in September 2011, using questionnaires prepared by the Company's Administrator. The questionnaires, which were completed anonymously, addressed all aspects of the running of the Company.

Internal control and risk management

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. They have therefore established an on going process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. Such review procedures have been in place throughout the full financial period, and up to the date of the approval of the financial statements, and the Board is satisfied with their effectiveness.

This process involves a review by the Board of the control environment within the Group's service providers to ensure that the Group's requirements are met.

The Group does not have an internal audit function. Following the change to internalised management, and given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place. The Board continues to place reliance on the Administrator's internal control systems.

These systems are designed to ensure effective and efficient operations, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The effectiveness of the internal control systems is reviewed annually by the Board and the Audit Committee. The Audit Committee has a discussion annually with the auditor to ensure that there are no issues of concern in relation to the audit opinion on the financial statements and, if necessary, representatives of the Investment Manager would be excluded from that discussion.

Corporate Governance Report

Statement of going concern

After due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and adopt the going concern basis in preparing the financial statements.

Relations with shareholders

In conjunction with the Board, the Administrator keeps under review the register of members of the Company. All shareholders are encouraged to participate in the Company's Annual General Meeting.

All Directors normally attend the Annual General Meeting, at which shareholders have the opportunity to ask questions and discuss matters with the Directors and senior management. Investors are able to direct any questions for the Board via the Secretary.

The Chairman regularly attends analyst meetings and roadshows to meet investors. The outcome of these meetings is communicated to the rest of the Board.


TRIDENT
HOUSE

Remuneration Report

The Remuneration Committee comprises all of the Directors of the Company and is chaired by Tjeerd Borstlap.

Terms of reference

The Committee will consider the following matters:

- Appointment of, and terms of reference for, any remuneration consultants
- Remuneration levels for the Directors, within the limit set by the Company's Articles of Association
- Recommend remuneration policies to the Board for Directors and senior management
- Review and note remuneration trends across the Group
- Determine the policy for expense claims by Directors

Activity

The Committee met three times during the period from 1 January 2011 to 31 March 2012 and considered the following matters:

- Remuneration trends across similar property companies
- Directors' duties following internalisation
- Chairman's additional time spent on the internalisation project
- Succession planning
- Remuneration levels for Picton Capital directors
- Shareholder feedback regarding Annual Report disclosures
- Performance of the Committee

Remuneration policy

The objective of the Group's remuneration policy is to have a simple and transparent remuneration structure aligned with the Group's strategy.

The Group aims to provide a remuneration package which will retain Directors and management with the skills and experience necessary to manage the Group and maximise shareholder value on a long term basis. The remuneration policy aims to incentivise management by rewarding performance and shareholder value.

Directors receive an annual fee as set out below plus additional fees on a time spent basis, if applicable. Directors will not receive share options or other performance related elements, unless approved in advance by shareholders.

The Committee has determined the remuneration policy for the management and staff of Picton Capital Limited following independent advice and recommendations from Hewitt New Bridge Street. This policy is set out below.

Terms of employment

The terms of appointment of the Directors are documented in letters of appointment. They have a three month notice period and their appointment would terminate without compensation if not re-elected at the Annual General Meeting. The Directors have no service contracts or interests in any material contracts with the Group.

Directors' fees

All of the Directors of the Company are non-executive and their fees are recommended by the Board. The level of Directors' fees were independently reviewed in August 2011 by Hewitt New Bridge Street. The recommendations from their report were adopted by the Remuneration Committee and the following annual fee rates became effective from 1 January 2012, which are reflective of the internalised management arrangements from that date, and have been set at the lower quartile level compared to the Company's benchmarked peer group of similar companies. Any additional time spent above the expected annual commitments will be compensated at the rate of £1,200 per day.

Until 31 October 2011, Tjeerd Borstlap was connected to the previous investment manager by virtue of his employment by the ING Group, and therefore waived any entitlement to remuneration on that basis.

	Expected annual time commitment (days)	Annual rate from 1 January 2012 £	Annual rate to 31 December 2011 £
Chairman	30	63,000	40,000
Chairman of the Audit Committee	22	38,000	30,000
Chairman of the Property Valuation Committee	22	35,000	25,000
Director	20	33,000	25,000

Remuneration Report

The total fees earned by each Director for the period from 1 January 2011 to 31 March 2012 were as follows:

	1 January 2011 to 31 March 2012 £	Year ended 31 December 2010 £
Nicholas Thompson	76,150	70,000
Robert Sinclair	39,500	33,500
Trevor Ash	33,250	23,500
Roger Lewis	33,750	22,750
Tjeerd Borstlap	12,415	-
	195,065	**149,750**

During the period the Chairman received fees for an additional 17 days of time spent on the internalisation project.

No Director received any additional fees in relation to time spent on the proposed merger with Invista Foundation Property Trust Limited.

The Company's Articles set an annual limit of £200,000 for Directors' remuneration in 2005. It is proposed that this will be increased at the Annual General Meeting to reflect, inter alia, the new internalised management structure and that Tjeerd Borstlap is now independent from the Investment Manager and his fees are no longer waived.

Picton Capital Limited remuneration

Picton Capital Limited, the Group's Investment Manager, employed ten staff as at 31 March 2012, five of whom transferred employment from the previous Investment Manager under the Transfer of Undertakings (Protection of Employment) Regulations 2006 as at 1 January 2012. During the internalisation project, up to 31 December 2011, Picton Capital Limited employed two directors under specific contracts for that period, prior to internalisation becoming fully effective.

The policy and components of remuneration set by the Committee in respect of Picton Capital Limited directors and staff are as follows.

Base salary	Base salaries are set around the lower quartile of benchmarked companies, based on market data provided by the Company's independent advisers. Base salaries are reviewed annually on 1 April.
Pension	The Group makes contributions for eligible employees into a Group personal pension plan to a maximum of 12% of base salary. Further contributions to a maximum of 5% will be paid by the Group if matched by additional voluntary contributions by the employee. The Group's pension scheme was established on 1 January 2012.
Annual bonus	A discretionary annual bonus may be awarded to recognise individual performance. An award will take into account three factors: the underlying performance of the Group, the underlying real estate return and the individual's performance. Bonus payments are not pensionable.
Long Term Incentive Plan	A long term incentive plan has been established that aligns remuneration with that of shareholders. Any award under the plan is linked to both share price movement and dividend distributions. Awards will normally last for either two or three years.
Other benefits	These include private medical insurance and life cover.

Share Ownership

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors and as such all employees of Picton Capital Limited held shares in the Company as at 31 March 2012.

The number of shares beneficially held by each Director, and senior management, (including spouses), as at 31 March 2012 were as follows:

	Shares
Nicholas Thompson *	77,900
Robert Sinclair	15,000
Trevor Ash	150,000
Roger Lewis	150,000
Tjeerd Borstlap	-
Michael Morris **	53,596
Andrew Dewhirst	11,964
Jay Cable	7,030

*includes 39,433 shares held by Mrs Elizabeth Thompson
**includes 28,596 shares held by Mrs Joanne Morris

Audit Committee Report

The Audit Committee comprises all of the Directors of the Company and is chaired by Robert Sinclair. Tjeerd Borstlap joined the Committee on 1 November 2011.

Meetings of the Audit Committee are attended by the Finance Director of Picton Capital Limited and other members of the finance team, and the external auditors. The external auditors are given the opportunity to discuss matters without management presence.

Terms of Reference

The Committee's terms of reference include consideration of the following issues:

- Financial reporting
- Internal controls and risk management systems
- External audit
- Reporting responsibilities

Activity

The Committee met twice during the period from 1 January 2011 to 31 March 2012 and considered the following matters:

- The Annual and Interim Reports of the Group
- Reports from the external auditors
- Stock Exchange announcements

Internal controls

Up to 31 December 2011 the Board placed reliance on the Administrator's and Investment Manager's internal control systems. Following the change to internalised management and given the scale of the Group's operations the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place.

Independence of Auditors

It is the policy of the Audit Committee that non-audit work will not be awarded to the external auditors if there is a risk their independence may be conflicted. The Committee must approve all non-audit assignments to the external auditors.

For the period from 1 January 2011 to 31 March 2012 there were no non-audit assignments carried out by the external auditors.

Tenure of Auditors

KPMG Channel Islands Limited have been auditors to the Group since the year ended 31 December 2009. The Senior Statutory Auditor, Ewan McGill, has served three years in this position.

Audit Fees

The fees payable to the Group's auditor are as follows:

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Audit fees	102	91
Interim review fees	15	10
Non-audit fees	-	-
	117	101

Property Valuation Committee Report

The Property Valuation Committee comprises all of the Directors of the Company and is chaired by Roger Lewis. Tjeerd Borstlap was appointed to the Committee with effect from 1 November 2011.

Terms of Reference

The Committee shall review the quarterly valuation reports produced by the independent valuers before their submission to the Board, looking in particular at:

- Significant adjustments from previous quarters
- Individual property valuations
- Commentary from the Investment Manager
- Significant issues that should be raised with the Investment Manager
- Material and unexplained movements in the Company's net asset value
- Compliance with applicable standards and guidelines
- Reviewing findings or recommendations of the valuers
- The appointment, remuneration and removal of the Company's valuers, making such recommendations to the Board as appropriate

Activity

The Committee met four times during the period from 1 January 2011 to 31 March 2012 and considered the quarterly reports from the Company's valuers, including whether movements were explainable and in line with market trends. The Committee was satisfied with the valuation process throughout the period.

Management Engagement Committee Report

The Management Engagement Committee comprises all of the Directors of the Company and is chaired by Trevor Ash. Tjeerd Borstlap was appointed to the Committee with effect from 1 November 2011.

Terms of Reference

The Committee's terms of reference include consideration of the following issues:

- Reviewing the performance of the Administrator and Investment Manager
- Compliance with the Investment Management Agreement
- The Board's ability to act independently of the Investment Manager
- Reporting requirements under the Listing Rules

Activity

The Committee met once during the period from 1 January 2011 to 31 March 2012 and considered all of the matters within its terms of reference.

The Committee considered that the performance of both the Administrator and Investment Manager were satisfactory and compliant with the terms of the respective agreements, and also found that the Board had continued to act independently of the Investment Manager and any shareholder throughout the period.

Risk Management

There are a number of potential risks and uncertainties which could have a material impact on the Group's long term performance and could cause actual results to differ materially from the expected and historic results. The main risks and how they are mitigated are summarised below.

Risk and Impact	Mitigation
Property Market	
The property market is cyclical and therefore returns can be volatile, having a significant impact on the Group's reported earnings.	The Group analyses market research data to ensure that the Group's strategy can be amended to take account of expected changes in the market.
Returns can vary significantly between different geographical areas and sectors which can have a material impact on the Group's results.	The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector.
Investment	
A failure to identify good investment opportunities or to sell existing assets at the appropriate time can result in poor investment returns.	The Group maintains close contact with investment agents to assist in identifying opportunities and prepares annual business plans for each of its assets to ensure timing of sales are optimised.
Valuation	
The assumptions used in the valuation of property assets include many external factors, including prevailing economic conditions. In adverse conditions there can be a reduction in property values leading to a fall in the Group's net asset value and potentially failure to meet financing covenants.	The Group maintains detailed forecasts of its property portfolio which are subject to regular scenario testing. In this way the Group will be able to react to expected changes in economic conditions in a timely manner.
Asset Management	
Poor asset management can lead to long void periods, low tenant retention, high tenant arrears and defaults, and cash flow problems.	The Group's asset managers are focused on income generation and maintain close contact with tenants to ensure their space requirements are understood and addressed proactively. Creditworthiness checks of potential tenants are carried out prior to letting.
Financial	
Fluctuations in cash flows from operating activities can have a detrimental impact on debt servicing, asset management initiatives and shareholder returns.	Cash flow forecasts are regularly prepared and reviewed by the Board to ensure sufficient future cash resources are available to meet the operating needs of the business. Debt covenants are continually monitored and reported to the Board. Exposure to fluctuations in interest rates is managed by the use of interest rate swaps on the majority of the Group's borrowings.
People	
A failure to attract and retain staff of a suitable calibre to manage the Group's affairs could lead to poor shareholder returns.	The Group has a remuneration policy in place which incentivises performance and is aligned to the results of the Group. The Board commissions independent reviews of market remuneration to ensure salary levels are competitive.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Corporate Responsibility Statement

The Board is responsible for setting the values and standards of the Group, including leadership on environmental and social issues.

Last year the Group had no employees other than the Directors, and as such the Board ensured that the Investment Manager adhered to the corporate responsibility policies of ING Real Estate Investment Management (UK) Limited.

From 1 January 2012, the Group has set its own framework for conducting business in a way that makes a positive contribution to society, whilst minimising any negative impacts on people and the environment.

The Environment

It is recognised that certain natural resources are finite and must therefore be used responsibly. This is achieved through external business dealings, but also by controlling any environmental burdens caused by the Group itself.

Within the workplace, we:

- Constantly strive to reduce the amount of paper used.
- Encourage staff to use public transport where possible to reduce C02 emissions.
- Pick products wisely such as using recycled paper and avoiding disposable or non-biodegradable items.
- Recycle, by offering accessible recycling bins in the office.
- Use energy efficient products and appliances and reduce consumption where possible.

The Group understands the importance of managing climate change risks and the increasingly challenging environmental legislative context. We recognise that by taking a responsible and sustainable approach to property investment, we will protect and enhance long term performance.

Picton will integrate energy and sustainability into all of our portfolio activities through:

- Ensuring compliance and managing emerging policy risks.
- Delivering cost effective and pragmatic reductions in environmental impact and occupancy costs through the property lifecycle, as follows:
  - Through property management activities, delivering cost effective savings.
  - At refurbishment, through raising standards beyond building regulations.
  - In leases, where acceptable to our prospective tenants.
  - Through informed due diligence at acquisition.
- Measuring and reporting on our activities and performance in a transparent manner.

To date, the Group has been trialling an environmental management plan on eight of its multi-let office properties. The properties were chosen due to the Group being able to control certain factors through the service charge and common areas. We have liaised closely with the tenants on site to get them to 'buy into' the concept which has been well received.

We have focused upon:

- Energy - metering, lighting and temperature control.
- Water - efficient fittings, metering and leak detection.
- Waste - management plans, recycling and sustainable product sourcing.
- Transport - cycling facilities.

These investigations have resulted in the Group implementing the following low cost initiatives across a number of the eight trial properties:

- Installation of bicycle racks.
- Phasing out of halogen spot lights/florescent tubes as and when maintenance is required.
- Lighting strategy adopted by various tenants.
- Instruction of consultants to manage water in building—identified areas of insulating pipe work to reduce energy loss.
- Installation of energy efficient hand dryers to reduce the use of paper towels.
- Rolling program to replace bulbs with energy efficient ones when they fail.
- Installation of male and female showers to encourage staff to cycle to work.
- Recycling programs introduced.

Fairness and equality

The Group values the contributions made by all its employees and believes that a diverse workforce is key to maximising business effectiveness. The Group aims to select, recruit, develop and promote the very best people and is committed to creating a workplace where everyone is treated with dignity and respect, and where individual difference is valued.

This is accomplished by:

- Ensuring equal opportunities in the recruitment process.
- Paying staff fair and competitive salaries and having reasonable and competitive family and well-being policies.
- Being opposed to any form of less favourable treatment, whether through direct or indirect discrimination, harassment and victimisation, accorded to employees and applicants for employment on the grounds of sex, sexual orientation, marital or parental status, disability, race, religious beliefs, creed, colour, nationality, age, ethnic or national origin, or any other protected characteristic.

Charity and local communities

Building and maintaining good relationships with local communities is fundamental to Picton. Community relations are based on mutual trust, respect and active partnership. The Group demonstrates its commitment by making donations and sponsoring and supporting numerous social activities. All Picton employees are encouraged to play a positive role in community activities.

The Group has the following objectives:

- To encourage individual charitable fundraising through the process of 'matched giving'.
- To establish office wide initiatives that directly benefit charitable organisations and the local community. We have allocated one day per year for an organised corporate charity day to benefit the local community.
- To create long term relationships with specific charitable organisations.
- To organise or support fund-raising initiatives throughout the year.

Performance and development

The Group aims to provide a business environment which inspires staff and encourages them to realise their full potential by giving them access to development and training opportunities.

This is attained through the following key principles:

- Development should be continuous; staff should always be actively seeking improved performance.
- Regular investment of time in learning is seen as an essential part of working life.
- Development needs are met by a mix of activities, which include internal and external training courses, structured 'on the job' work experience and thorough interaction with professional colleagues.

Health and wellbeing

Health and wellbeing is critical to the business, both within the property portfolio and also within the office environment.

Our commitment to providing a safe and healthy working environment for all employees is achieved by:

- Adhering to the appropriate health and safety standards.
- Providing a working environment that enables employees to work effectively and free from unnecessary anxiety, stress and fear.
- Offering private health benefits to all employees.
- Ensuring employees can report inappropriate behaviour or concerns through the whistle blowing policy.
- Providing all employees with a suitable level of training.
- Having appropriate family friendly policies.

Directors' Report

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Responsibility statement

We confirm to the best of our knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Standards, 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 taken as a whole as required by Disclosure and Transparency Rules ('DTR') 4.1.12 R; and

(b) the Investment Manager's Report includes a fair review of development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face as required by DTR 4.1.12 R.

Listings

The Company is listed on both the main market of the London Stock Exchange and the Channel Islands' Stock Exchange.

Share capital

The issued share capital of the Company as at 31 March 2012 was 345,336,118 (31 December 2010: 345,336,118) ordinary shares of no par value.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of this authority from shareholders. Any buy back of ordinary shares is, and will, be made subject to Guernsey law, and the making and timing of any buy backs are at the absolute discretion of the Board.

Substantial shareholdings

The Company has received notification that the following shareholders had a beneficial interest of 3% or more of the Company's issued share capital as at 31 May 2012.

	% of issued share capital
Rathbone Brothers plc	8.09
Investec Wealth and Management Limited	8.03
JOHCM UK Equity Income Fund	6.93
Iceberg Alternative Real Estate LLP	6.57
Schroders plc	4.93
Lloyds Banking Group plc	4.80
Legal & General Group plc	3.91

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Channel Islands Limited (the "Auditor") has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its reappointment will be submitted at the Annual General Meeting.

By order of the Board

Robert Sinclair

9 July 2012

Financial Statements
Financial Overview

The reported results are for the 15 month period to 31 March 2012, following the change of accounting reference date from 31 December to 31 March. The key events that have taken place, and which are discussed in more detail below, are the internalisation of the Group's management and the refinancing of the Group's debt facilities. Both will have a significant positive long term impact on the Group's financial position.

Net Asset Value

The net asset value of the Group has decreased to £196.1 million at 31 March 2012 from £206.9 million at 31 December 2010, principally driven by valuation movements in the Group's property portfolio, reflecting conditions in the wider UK property market.

The following table reconciles the net asset value calculated in accordance with International Financial Reporting Standards (IFRS) with that of the European Public Real Estate Association (EPRA). The EPRA net asset value measure is to highlight the fair value of net assets on an on going, long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value of financial derivatives, are therefore excluded.

	31 March 2012 £m	31 December 2010 £m	31 December 2009 £m
Net asset value (IFRS)	196.1	206.9	181.1
Fair value of interest rate swaps	5.1	11.3	11.5
EPRA net asset value	201.2	218.2	192.6
Net asset value per share (pence)	57	60	55
EPRA net asset value per share (pence)	58	63	58

The EPRA NNNAV ('Triple net asset value'), which includes the fair value of financial instruments, is the same as the reported IFRS results shown above.

Income Statement

The income profit for the period, excluding all capital gains and losses, but taking into account the income and expenditure relating to the property portfolio, management costs and financing, was £14.2 million (Annual result for 2010: £14.2 million). The result for this period was impacted by £1.8 million of one off costs, arising from the internalisation project and the costs of the aborted merger with Invista Foundation Property Trust Limited. The resultant lower management costs arising through internalisation were demonstrated in the first quarter of 2012, and will continue to positively impact the income result in future periods. The income profit for 2010 was boosted by the large surrender premium received in respect of 50 Farringdon Road, London EC1, which has been subsequently refurbished and re-let during this period.

Finance costs increased to £14.7 million for the period, reflecting a full period's charge for the zero dividend preference shares, which were issued during 2010 to partly finance the Rugby REIT acquisition. The on going costs of finance are discussed further under Borrowings below.

The reported results for any period are particularly influenced by the revaluation gains and losses on the property portfolio, which have been especially volatile in the past few years. Significant negative market movements in 2009 were followed by modest gains in 2010 and into 2011, and more recently there have been falls of around 3% giving an overall unrealised loss of £13.3 million for the 15 month period to 31 March 2012. The swap liability has continued to fall as it approaches maturity and consequently a gain of £6.2 million was recorded for the current period.

The overall reported result for the period is a profit of £6.5 million, which equates to earnings of 1.9 pence per share, or 4.1 pence per share on an EPRA basis, which excludes capital losses incurred during the period.

Dividends

Dividends have been maintained at one pence per share per quarter, an annual rate of four pence per share. Dividend cover for the period prior to one off costs was 93%, reducing to 82% after the deduction of £1.8 million costs in respect of internalisation and corporate activity.

The Group intends to review its dividend policy following the completion of its refinancing programme, with a view to maintaining a covered dividend position.

Internalisation

As previously reported, the external management arrangements for the Group were terminated on 31 December 2011 and Picton Capital Limited took over as Investment Manager from 1 January 2012. The total costs of internalisation were £1.1 million as reported in note 8 to the financial statements. This includes the staff costs of two Picton Capital directors during 2011, who carried out all the necessary set up work for the new management platform to become operational, as well as the professional fees incurred in obtaining the necessary lender consents to the change of Investment Manager.

Investment Properties

The Group's property portfolio had a carrying value of £411.7 million at 31 March 2012, a fall of £12.6 million from the previously reported figure at 31 December 2010. This is largely due to a valuation decrease of £13.3 million which was mainly recorded in the final quarter of the period. The Group sold 11 properties during the period, realising a small loss of £0.6 million compared to the December 2010 valuation. Total capital additions were £7.0 million, including two new units at Angel Gate Office Village to complement the Group's existing holdings at that site.

Borrowings

The Group's borrowings at 31 March 2012 are set out in detail in note 20 to the financial statements. Subsequent to the period end the Group has finalised new long term lending facilities and intends to fully repay the securitised loan notes and bank loan on the next interest payment date at the end of July 2012. The liquidity facility will be repaid from the matching short term cash deposit the Group holds.

On 27 June 2012, the Group entered into conditional agreements for two separate long term fixed rate debt facilities ahead of its secured loan maturities in January 2013. On completion, expected in July 2012, the new facilities will be used to repay the securitised loan notes and bank loan totalling £188.5 million.

The Group has agreed loan facilities of up to £114 million with Canada Life Limited for a term of up to 15 years with £34 million repayable after ten years, and up to £95 million with Aviva Commercial Finance for a term of 20 years. This loan has a scheduled annual amortisation profile repaying approximately one third of the loan over its life. These facilities have been secured at a blended margin of approximately 2.1% which, based on the reference benchmark gilts, currently reflects a total cost of approximately 4.4%. The new loan to value covenant on both facilities is 65%. The agreements, which are conditional upon satisfying conditions precedent, are expected to complete in July 2012 to coincide with specified prepayment dates on existing facilities.

As part of the transaction, the Group will undertake an element of corporate restructuring to facilitate two bilateral pools of assets.

Cash Flow

The Group had a net cash outflow for the period of £3.7 million, resulting in a cash balance of £ 31.1 million at 31 March 2012. Asset sales during the period were £5.6 million, which enabled the Group to repay £3.9 million of its bank debt. The exceptional costs incurred during the period, as discussed above, contributed to the net outflow.

Consolidated Statement of Comprehensive Income

For the period from 1 January 2011 to 31 March 2012				1 January 2011 to 31 March 2012	Year ended 31 December 2010
	Note	Income £000	Capital £000	Total £000	Total £000
Income					
Revenue from properties	3	48,631	-	48,631	41,197
Property expenses	4	(12,450)	-	(12,450)	(10,396)
Net property income		**36,181**	**-**	**36,181**	**30,801**
Expenses					
Management expenses	7	(3,838)	-	(3,838)	(2,882)
Other operating expenses	10	(2,754)	-	(2,754)	(2,340)
Internalisation costs	8	(1,063)	-	(1,063)	-
Acquisition costs of subsidiary	6	-	-	-	(2,509)
Total operating expenses		**(7,655)**	**-**	**(7,655)**	**(7,731)**
Operating profit before investment property disposals and valuation movements		**28,526**	**-**	**28,526**	**23,070**
Gains and losses on investments					
(Loss)/ profit on disposal of investment properties	16	-	(637)	(637)	1,530
Investment property valuation movements	16	-	(13,339)	(13,339)	10,191
Gains arising on acquisition of subsidiary	6	-	-	-	8,761
Total gains and losses on investments		**-**	**(13,976)**	**(13,976)**	**20,482**
Operating profit		**28,526**	**(13,976)**	**14,550**	**43,552**
Financing					
Interest receivable		115	-	115	235
Interest payable	11	(14,684)	-	(14,684)	(11,236)
Change in fair value of derivative financial instruments		-	6,228	6,228	(839)
Realised losses on disposal of derivative financial instruments		-	-	-	(767)
Realised gains on cancellation of loan notes		-	-	-	976
Total finance costs		**(14,569)**	**6,228**	**(8,341)**	**(11,631)**
Profit/(loss) before tax		**13,957**	**(7,748)**	**6,209**	**31,921**
Tax	12	280	-	280	(340)
Total comprehensive income		**14,237**	**(7,748)**	**6,489**	**31,581**
Earnings/(loss) per share Basic and diluted	14	4.1p	(2.2)p	1.9p	9.3p

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income. The supplementary income return and capital return columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity holders of the Company. There are no minority interests. Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the period from 1 January 2011 to 31 March 2012	Note	Share Capital £000	Retained Earnings £000	Total £000
Balance as at 31 December 2009		**31,389**	**149,672**	**181,061**
Profit for the year		-	31,581	31,581
Dividends paid	13	-	(13,515)	(13,515)
Issue of ordinary shares	23	8,420	-	8,420
Issue costs	23	(660)	-	(660)
Balance as at 31 December 2010		**39,149**	**167,738**	**206,887**
Profit for the period		-	6,489	6,489
Dividends paid	13	-	(17,266)	(17,266)
Balance as at 31 March 2012		**39,149**	**156,961**	**196,110**

Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 March 2012	Note	31 March 2012 £000	31 December 2010 £000
Non-current assets			
Investment properties	16	411,744	424,260
Tangible assets		119	-
Total non-current assets		**411,863**	**424,260**
Current assets			
Accounts receivable	17	6,624	7,589
Cash and cash equivalents	18	31,115	34,839
Total current assets		**37,739**	**42,428**
Total assets		**449,602**	**466,688**
Current liabilities			
Accounts payable and accruals	19	(15,194)	(13,773)
Loans and borrowings	20	(231,360)	(237)
Obligations under finance leases	25	(107)	(110)
Derivative financial instruments		(5,104)	-
Total current liabilities		**(251,765)**	**(14,120)**
Non-current liabilities			
Loans and borrowings	20	-	(232,621)
Obligations under finance leases	25	(1,727)	(1,728)
Derivative financial instruments		-	(11,332)
Total non-current liabilities		**(1,727)**	**(245,681)**
Total liabilities		**(253,492)**	**(259,801)**
Net assets		**196,110**	**206,887**
Equity			
Share capital	23	39,149	39,149
Retained earnings		156,961	167,738
Total equity		**196,110**	**206,887**
Net asset value per share	26	**£0.57**	**£0.60**

These consolidated financial statements were approved by the Board of Directors on 9 July 2012 and signed on its behalf by:

Robert Sinclair
Director

Notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the period from 1 January 2011 to 31 March 2012	Note	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Operating activities			
Operating profit		14,550	43,552
Adjustments for non-cash items	24	15,656	(23,815)
Interest received		115	235
Interest paid		(11,270)	(9,114)
Tax expense		(39)	(340)
Cash inflows from operating activities		**19,012**	**10,518**
Investing activities			
Subsidiary cash at acquisition	6	-	2,563
Purchase of investment properties	16	(7,048)	(2,698)
Disposal of investment properties		5,588	15,133
Purchase of tangible assets		(125)	-
Cash (outflows)/inflows from investing activities		**(1,585)**	**14,998**
Financing activities			
Borrowings repaid		(3,885)	(24,213)
Termination of derivatives		-	(2,858)
Equity issue costs	23	-	(660)
Dividends paid	13	(17,266)	(13,515)
Cash flows from financing activities		**(21,151)**	**(41,246)**
Net decrease in cash and cash equivalents		**(3,724)**	**(15,730)**
Cash and cash equivalents at beginning of period/year		34,839	50,569
Cash and cash equivalents at end of period/year	18	**31,115**	**34,839**

Notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Picton Property Income Limited (formerly ING UK Real Estate Income Trust Limited) (the "Company" and together with its subsidiaries the "Group") was registered on 15 September 2005 as a closed ended Guernsey investment company. During the period the Company changed its accounting reference date and as such the consolidated financial statements are prepared for the period from 1 January 2011 to 31 March 2012 with comparatives for the year ended 31 December 2010.

The Company presents financial statements for a longer period having changed the end of its reporting period from 31 December to 31 March to facilitate the transition into a self managed investment company. The prior year comparative amounts presented in the financial statements are therefore not entirely comparable.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis and adopt the historical cost basis, except for the revaluation of investment properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The financial statements are in accordance with International Financial Reporting Standards ("IFRS") as adopted by IASB and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand, except when otherwise indicated.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the following which have had no effect on the financial statements:

- IAS 24 (revised 2009) – Related Party Disclosures, effective for accounting periods beginning on or after 1 January 2011

At the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective for the financial period and have not been adopted early:

- Amendment to IFRS 7 Financial Instruments: Disclosures, effective for accounting periods beginning on or after 1 July 2011
- IFRS 9 Financial Instruments, effective for accounting periods beginning on or after 1 January 2013
- IFRS 10 Consolidated Financial Statements, effective for accounting periods beginning on or after 1 January 2013
- IFRS 13 Fair Value Measurement, effective for accounting periods beginning on or after 1 January 2013
- Amendment to IAS 1 Presentation of Financial Statements, effective for accounting periods beginning on or after 1 July 2012
- IAS 19 Employee Benefits (2011), effective for accounting periods beginning on or after 1 January 2013

The Directors do not expect that the adoption of the standards listed above will have a material impact on the Group's financial statements in the year of initial application, other than on presentation and disclosure.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. Where such judgements are made they are discussed below.

Fair value of investment properties

The fair value of the Group's investment properties is a key source of estimated uncertainty; however, in accordance with the accounting policy of the Group, investment properties have been valued on the basis of market value and market rental value by external valuers.

Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The Group ensures the use of suitable qualified external valuers valuing the investment properties held by the Group.

Fair value of derivatives

The Directors use their judgement in selecting an appropriate valuation technique for financial instruments. Valuation techniques commonly used by market practitioners are applied. For derivative instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Derivatives are valued in these financial statements based on the valuations received from the issuer of the swaps.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company at the reporting date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The results of Picton (UK) Listed Real Estate Issuer Plc (formerly ING (UK) Listed Real Estate Issuer Plc) are consolidated in accordance with SIC 12, 'Consolidation – Special Purpose Entities'.

Business combinations

Goodwill on business combinations is measured as the fair value of the consideration transferred less the net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, this is recognised immediately in the Statement of Comprehensive Income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

Investment properties

Freehold property held by the Group to earn income or for capital appreciation or both is classified as investment property in accordance with IAS 40 'Investment Property'. Property held under finance leases for similar purposes is also classified as investment property. Investment property is initially recognised at purchase cost plus directly attributable acquisition expenses. Investment properties are carried at a revalued amount which is stated at its fair value as determined on an open market basis as at the reporting date. The fair value of investment property is based on valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

Notes to the Consolidated Financial Statements

2. Significant accounting policies (continued)

The fair value of investment property generally involves consideration of:

- Market evidence on comparable transactions for similar properties;
- The actual current market for that type of property in that type of location at the reporting date and current market expectations;
- Rental income from leases and market expectations regarding possible future lease terms;
- Hypothetical sellers and buyers, who are reasonably informed about the current market and who are motivated, but not compelled, to transact in that market on an arm's length basis; and
- Investor expectations on matters such as future enhancement of rental income or market conditions.

Gains and losses arising from changes in fair value are included in the Statement of Comprehensive Income in the year in which they arise. Purchases and sales of investment property are recognised when contracts have been unconditionally exchanged and the significant risks and rewards of ownership have been transferred.

An item of investment property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year the item is derecognised. Investment properties are not depreciated.

Realised and unrealised gains on investment properties have been presented as capital items within the Statement of Comprehensive Income.

The loans have a first ranking mortgage over the majority of properties, see note 16.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

An operating lease is a lease other than a finance lease. Lease income is recognised in income on a straight-line basis over the lease term. Direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. The financial statements reflect the requirements of SIC 15, 'Operating Leases – Incentives' to the extent that they are material. Premiums received on the surrender of leases are recorded as income immediately if there are no relevant conditions attached to the surrender.

Cash and cash equivalents

Cash includes cash in hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities in three months or less and that are subject to an insignificant risk of change in value.

Income and expenses

Income and expenses are included in the Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease commencement to the earliest termination date. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties.

Property operating costs include the costs of professional fees on letting and other non-recoverable costs.

The income charged to tenants for property service charges and the costs associated with such service charges are shown separately in notes 3 and 4 to reflect that, notwithstanding this money is held on behalf of tenants occupying the properties, the ultimate risk for paying and recovering these costs rests with the property owner.

Dividends

Dividends are recognised in the period in which they are paid.

Derivative financial instruments

The Group's activities expose it to the financial risks of changes in interest rates. The Group uses interest rate swap contracts to mitigate this exposure. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments are recognised in the Statement of Comprehensive Income as they arise. These derivatives are categorised as held for trading under IAS 39, 'Financial Instruments: Recognition and Measurement' and are held only to mitigate the risk of changes in interest rates as disclosed in note 27.

Trade receivables

Trade receivables are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts.

Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate 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 the Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

Other assets and liabilities

Other assets and liabilities are not interest bearing and are stated at their nominal value.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Taxation

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom. Accordingly the Group will not be liable to United Kingdom taxation on its income or capital gains arising in the United Kingdom, other than certain income deriving from a United Kingdom source.

The Group is subject to United Kingdom taxation on income arising on the investment properties and intra-group loans after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the period ended 31 March 2012.

Notes to the Consolidated Financial Statements

2. Significant accounting policies (continued)

Principles for the Statement of Cash Flows

The Statement of Cash Flows has been drawn up according to the indirect method, separating the cash flows from operating activities, investing activities and financing activities. The net result has been adjusted for amounts in the Statement of Comprehensive Income and movements in the Balance Sheet which have not resulted in cash income or expenditure in the relating period.

The cash amounts in the Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction. Dividends that have been paid are included in the cash flow from financing activities.

3. Revenue from properties

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Rents receivable (adjusted for lease incentives)	40,565	31,131
Surrender premium	277	2,883
Dilapidation receipts	653	1,500
Other income	197	791
Service charge income	6,939	4,892
	48,631	**41,197**

Rents receivable includes lease incentives recognised of £0.9 million (31 December 2010: £0.7 million).

4. Property expenses

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Property operating expenses	2,960	3,769
Property void costs	2,551	1,735
Recoverable service charge costs	6,939	4,892
	12,450	**10,396**

5. Operating segments

The Board is charged with setting the Company's investment strategy in accordance with the Company's investment restrictions and overall objectives. They have delegated the day to day implementation of this strategy to the Investment Manager but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The operating activities of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board.

The Investment Manager has been given full authority to act on behalf of the Company in certain situations. Under the terms of the Investment Management Agreement, subject to the overall supervision of the Board, the Investment Manager advises on the investment strategy of the Company, advises the Company on its borrowing policy and geared investment position, manages the investment of the Company's short term liquid resources, and advises on the use of (and manage) derivatives and hedging by the Company. Whilst the Investment Manager may make operational decisions on a day to day basis regarding the property investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager.

The Board therefore retains full responsibility for investment policy and strategy. The Investment Manager will always act under the terms of the Prospectus and the Investment Management Agreement which cannot be changed without the approval of the Board. The Board has considered the requirements of IFRS 8 'Operating Segments". The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom and therefore no segmental reporting is required. The portfolio consists of 62 commercial properties, which are in the office, retail, industrial, retail warehouse, and leisure sectors.

6. Acquisition of subsidiary

On 14 May 2010 the Group obtained control of Rugby Estates Investment Trust Plc., a diversified Real Estate Investment Trust listed on the London Stock Exchange, by acquiring the entire share capital by means of a public offer.

Gains on acquisition of £8,761,000 were realised in the year ended 31 December 2010 after deducting the consideration paid of £38,217,000 from the net assets acquired of £46,978,000.

The Group incurred acquisition-related costs of £2,509,000 relating to external professional advisors and due diligence costs. These costs have been included in the Group's Consolidated Statement of Comprehensive Income in the year ended 31 December 2010.

7. Management expenses

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Staff costs	383	-
Other management costs	147	-
External investment manager's fees	3,308	2,882
	3,838	**2,882**

Up to 31 December 2011 the Group's external investment manager was CBRE Global Investors UK Limited (formerly ING Real Estate Investment Management (UK) Limited). The fees payable to the external investment manager for property management and administrative services were calculated as follows:

- A base management fee, payable quarterly in arrears, of one quarter of 145 basis points of the Group's net asset value (excluding the net asset value represented by the value of the ZDP shares) plus one quarter of 72.5 basis points of net asset value represented by the value of the ZDP shares issued; and
- A performance fee payable annually where the property assets have outperformed the specified benchmark on a rolling three year basis.

No performance fee was paid to the external investment manager in the current or previous periods.

From 1 January 2012 the Group appointed Picton Capital Limited, a wholly owned subsidiary company, as Investment Manager. The above staff and other management costs are those of Picton Capital Limited from 1 January 2012 to 31 March 2012.

Notes to the Consolidated Financial Statements

8. Internalisation costs

As stated in note 7 above, the Group became internally managed with effect from 1 January 2012. The costs of internalisation were:

	£000
Staff costs	475
Professional fees	414
Other set up costs	174
	1,063

9. Staff costs

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Wages and salaries	729	-
Social security costs	96	-
Other pension costs	33	-
	858	**-**

Staff costs are those of the employees of Picton Capital Limited from its incorporation on 23 February 2011 to 31 March 2012, of which £475,000 has been included within internalisation costs and £383,000 within management expenses (see notes 8 and 7 respectively). The emoluments of the Directors are set out in the Remuneration Report on page 37. The Group employed 10 staff at 31 March 2012.

10. Other operating expenses

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Recurring costs		
Valuation expenses	257	184
Administrator fees	255	308
Auditor's remuneration	117	101
Directors' fees	195	150
Other expenses	1,167	722
	1,991	1,465
Exceptional costs		
Merger costs	763	-
Listing of zero dividend preference shares	-	245
Rugby operating expenses	-	630
	763	875
	2,754	**2,340**

Merger costs are the costs incurred relating to the aborted merger with Invista Foundation Property Trust Limited. Further details on the merger are disclosed in the Chairman's Statement.

Auditor's remuneration comprises:

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Audit fees:		
Audit of Group financial statements	39	48
Audit of subsidiaries' financial statements	63	43
Audit related fees:		
Review of half year financial statements	15	10
	117	**101**

11. Finance costs

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Interest payable on loans at amortised cost	11,216	8,986
Capital additions on zero dividend preference shares	2,388	1,306
Interest on obligations under finance leases	83	-
Amortisation of finance costs	997	944
	14,684	**11,236**

The loan arrangement costs incurred to 31 March 2012 are £3,655,000 (31 December 2010: £3,655,000), these are amortised over the duration of the loans. For the period ended 31 March 2012 £997,000 (31 December 2010: £944,000) of these costs were written off to the Statement of Comprehensive Income.

12. Tax

The (credit)/charge for the period is:

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
UK corporation tax at 26%	(318)	318
UK income tax at 20%	38	22
	(280)	**340**

Notes to the Consolidated Financial Statements

12. Tax (continued)

For the period ended 31 March 2012 there was an income tax liability of £38,000 in respect of Picton (UK) Listed Real Estate Limited (31 December 2010: £22,000), and a corporation tax credit of £318,000 in respect of Rugby REIT following the reversal of provisions made in 2010 (31 December 2010: £318,000).

The Group is exempt from Guernsey taxation. The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom.

The Group is subject to United Kingdom taxation on income arising on the investment properties and intra-group loans after deduction of allowable debt financing costs and allowable expenses. The Group has not recognised a deferred tax asset arising as a result of the tax losses carried forward. This will only be utilised if the Group has profits chargeable to income tax in the future.

The Group has tax return enquiries open with HMRC on two subsidiary companies for the tax years 2007/08, 2008/09 and 2009/10. No provisions have been made in the accounts as the relevant companies have cumulative tax losses which may be applied to any potential tax liabilities that arise in the future.

13. Dividends

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Declared and paid:		
Interim dividend for the period ended 31 December 2009: 1 pence	-	3,304
Interim dividend for the period ended 31 March 2010: 1 pence	-	3,304
Interim dividend for the period ended 30 June 2010: 1 pence	-	3,453
Interim dividend for the period ended 30 September 2010: 1 pence	-	3,454
Interim dividend for the period ended 31 December 2010: 1 pence	3,453	-
Interim dividend for the period ended 31 March 2011: 1 pence	3,453	-
Interim dividend for the period ended 30 June 2011: 1 pence	3,453	-
Interim dividend for the period ended 30 September 2011: 1 pence	3,453	-
Interim dividend for the period ended 31 December 2011: 1 pence	3,454	-
	17,266	**13,515**

The interim dividend of 1 pence per ordinary share in respect of the period ended 31 March 2012 has not been recognised as a liability as it was declared after the period end. A dividend of £3,453,000 was paid on 25 May 2012.

14. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period. The following reflects the profit and share data used in the basic and diluted profit per share calculation:

	1 January 2011 to 31 March 2012	Year ended 31 December 2010
Net profit/ (loss) attributable to ordinary shareholders of the Company from continuing operations (£000)	6,489	31,581
Weighted average number of ordinary shares for basic and diluted profit/ (loss) per share	345,336,118	339,509,405

15. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2012:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton (UK) Listed Real Estate Limited	Guernsey	100%
IRET Securities Limited	Guernsey	100%
Merbrook Business Property Unit Trust*	Jersey	100%
Merbrook Prime Retail Property Unit Trust*	Jersey	100%
Merbrook Bristol Property Unit Trust*	Jersey	100%
Merbrook Swindon Property Unit Trust*	Jersey	100%
Picton Capital Limited	England & Wales	100%
Picton (UK) Listed Real Estate Issuer Plc	England & Wales	-

* - (the “JPUTS”)

The results of the above entities are consolidated within the Group financial statements.

Picton UK Real Estate (Property) Limited and Picton (UK) REIT (SPV) Limited own 100% of the units in Picton (UK) Listed Real Estate, a Guernsey Unit Trust (the “GPUT”).At the period end the GPUT owned the majority of the units in the JPUTs, which are each registered as Jersey Unit Trusts. The remaining units are held by Picton (UK) Listed Real Estate Limited, which in turn is owned in equal shares by Picton (UK) Listed Real Estate Nominee (No.1) Limited (“Nominee 1”) and the GPUT. Shares in Nominee 1 are held in trust by Admiral Nominees Limited and Nelson Representatives Limited on behalf of the Company.

Under the principles of SIC 12 the Group has consolidated the results of Picton (UK) Listed Real Estate Issuer Plc, a Special Purpose Entity (the “SPE”), that provides funding to the Group. Under the terms of the securitisation documents the Group has an obligation to the SPE in respect of any amounts due or payable under the swap agreements and hence accounts for movements in the fair value of these swaps through the Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements

16. Investment properties

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Carrying value at start of period/year	424,260	352,599
Acquisitions	2,732	-
Capital expenditure on investment properties	4,316	2,698
Acquisitions through business combinations	-	69,000
Disposals	(5,588)	(11,758)
Realised (losses)/ gains on disposal	(637)	1,530
Change in fair value	(13,339)	10,191
Carrying value at the end of the period/year	**411,744**	**424,260**
Historic cost at the end of the period/year	**547,245**	**546,895**

The carrying value of investment properties reconciles to the Appraised Value as follows:

	31 March 2012 £000	31 December 2010 £000
Appraised value	414,470	425,408
Valuation of assets held under finance leases	1,389	1,726
Lease incentives held as debtors	(4,115)	(2,874)
Carrying value at the end of the period/year	**411,744**	**424,260**

The investment properties were valued by Jones Lang LaSalle Limited and CBRE Limited, Chartered Surveyors, as at 31 March 2012 and 31 December 2010, on the basis of Market Value in accordance with RICS Valuation Standards.

The Group's borrowings (note 20) are secured by a first ranking fixed charge over the majority of investment properties held.

Rental income and property expenses arise from the properties shown above.

17. Accounts receivable

	31 March 2012 £000	31 December 2010 £000
Tenant debtors	1,712	2,909
Lease incentives	4,115	2,874
Other debtors	266	264
Capitalised finance costs	531	1,542
	6,624	**7,589**

The Directors consider that the carrying amount of accounts receivable approximates their fair value.

18. Cash and cash equivalents

	31 March 2012 £000	31 December 2010 £000
Cash at bank and in hand	16,384	16,016
Short term deposits	14,731	18,823
	31,115	**34,839**

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The carrying amounts of these assets approximate their fair value.

Short term deposits includes £10.6 million drawdown from the liquidity facility (see note 20).

19. Accounts payable and accruals

	31 March 2012 £000	31 December 2010 £000
Accruals	3,090	2,993
Deferred rental income	7,759	6,956
VAT liability	1,653	1,661
Corporation tax liability	-	318
Trade creditors	495	68
Other creditors	2,197	1,777
	15,194	**13,773**

The Directors consider that the carrying amount of accounts payable and accruals approximates their fair value.

Notes to the Consolidated Financial Statements

20. Loans and borrowings

	Maturity	31 March 2012 £000	31 December 2010 £000
Current			
Unsecured guaranteed loan stock	30 September 2012	-	170
Unsecured loan stock	30 September 2012	2,218	67
Floating rate notes	31 January 2013	171,600	
Liquidity facility	31 January 2013	10,677	-
Bank loan	30 January 2013	16,911	-
Zero dividend preference shares	31 October 2012	29,954	-
		231,360	**237**
Non-current			
Floating rate notes	31 January 2013	-	171,600
Liquidity facility	31 January 2013	-	10,677
Bank loan	30 January 2013	-	20,414
Unsecured loan stock	30 September 2012	-	2,364
Zero dividend preference shares	31 October 2012	-	27,566
		-	**232,621**
		231,360	**232,858**

On 20 December 2005 the Group issued £200 million of AAA rated seven year loan notes to the debt market. The interest payable on these notes is fixed at 4.795% by means of an interest rate swap. On 6 July 2006 a further £25 million of loan notes were issued on the same terms, with the interest payable fixed at 5.3804% by means of a further swap. The interest rate swaps mature on the same dates as the associated borrowings. The total amount of loan notes prepaid is £53.4 million.

The loan notes have a loan to value covenant of 55% until July 2012 when it reduces to 50%. The interest cover ratio is 1.75 times until maturity of the notes in January 2013.

The loan notes are secured over the investment properties held by the GPUT and the JPUTs, and are repayable on 31 January 2013. The loan notes were issued by Picton (UK) Listed Real Estate Issuer Plc, a Special Purpose Entity that is consolidated under the principles of SIC 12, see note 15. The Group's securitised debt facility has a Liquidity Facility of £14 million, provided by Barclays Bank Limited ("Barclays"), which is controlled by Picton (UK) Listed Real Estate Issuer Plc. This is a standard feature designed to cover short term income shortfalls between interest received and interest paid under the loan. The full amount was drawn down during 2009 as required by the loan note documentation and was placed on deposit. A total of £3.3 million of the Liquidity Facility has been repaid as prepayments of the loan notes have been made.

On 14 May 2010 the Group issued 46,556,800 zero dividend preference shares ("ZDPs") at 65 pence per share as part consideration for the acquisition of Rugby REIT, see note 6. The ZDPs have an entitlement to receive a fixed cash amount on 31 October 2012 but do not receive any dividends or income distributions. Additional capital accrues to the ZDPs at a rate of 6.875% per annum resulting in a final capital entitlement of 76.6 pence per ZDP share at maturity. The ZDPs were listed on the London Stock Exchange at the end of 2010. Upon listing the Company repurchased 5,902,317 at approximately 68 pence per share.

The Group has a £21.3 million loan facility agreement with The Royal Bank of Scotland Plc of which £20.4 million has been drawn down. The interest payable on the loan is charged at LIBOR plus 185 basis points. However interest on £12.0 million is fixed until 30 January 2013 by means of an interest rate swap at 1.255% plus a margin of 185 basis points. Additionally the Group pays a commitment fee of 0.75% per annum on any unutilised part of the facility. A total of £3.5 million of the loan has been prepaid in the period.

The Company has unsecured loan stock which pays interest at the rate of 0.5% above the six month LIBOR rate on £2.1 million, and a rate of 0.75% below the base rate of Royal Bank of Scotland Plc on the remaining £0.1 million of stock. The Group has the option to repay the unsecured loan stock on 30 September 2012.

The weighted average interest rate paid on the Group's borrowings for the period was 4.80% (31 December 2010: 4.73%). The Directors consider that the carrying value of loans and borrowings approximates their fair value.

On 27 June 2012, the Group entered into conditional agreements for two separate long term fixed rate debt facilities ahead of its secured loan maturities in January 2013. On completion, expected in July 2012, the new facilities will be used to repay the securitised loan notes and bank loan totalling £188.5 million.

The Group has agreed loan facilities of up to £114 million with Canada Life Limited for a term of up to 15 years with £34 million repayable after ten years, and up to £95 million with Aviva Commercial Finance for a term of 20 years. This loan has a scheduled annual amortisation profile repaying approximately one third of the loan over its life. These facilities have been secured at a blended margin of approximately 2.1% which, based on the reference benchmark gilts, currently reflects a total cost of approximately 4.4%. The new loan to value covenant on both facilities is 65%. The agreements, which are conditional upon satisfying conditions precedent, are expected to complete in July 2012 to coincide with specified prepayment dates on existing facilities.

As part of the transaction, the Group will undertake an element of corporate restructuring to facilitate two bilateral pools of assets.

The Directors are now considering further the options available to facilitate repayment of the zero dividend preference shares. The Group's advisors have consulted with a number of existing holders and several have indicated an interest in an extension to the term. The Directors are currently investigating potential options for a mechanism which would allow investors to elect to extend the maturity of their holdings. Any extension would be subject to sufficient liquidity in the extended shares. The Group will continue to engage with its investors on this matter and will make a further announcement to the market in due course.

All of the Group's property assets, with the exception of a number of small assets valued at £7.9 million, will be secured against the new facilities.

21. Contingencies and capital commitments

The Group has entered into contracts for refurbishment of 8 properties with commitments outstanding at 31 March 2012 of approximately £0.6 million, (31 December 2010: £4.3 million). There are no other contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements as at 31 March 2012.

Notes to the Consolidated Financial Statements

22. Ordinary share capital

	31 March 2012 £000	31 December 2012 £000
Authorised		
Unlimited number of ordinary shares of no par value	-	-
Issued and fully paid		
345,336,118 ordinary shares of no par value (31 December 2010: 345,336,118)	-	-

The Company has one class of ordinary shares which carry no right to fixed income.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue subject to the annual renewal of the authority from shareholders. Any buy back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy backs will be at the absolute discretion of the Board.

23. Share capital

	£000
Balance at 31 December 2009	**31,389**
Issue of ordinary shares	8,420
Issue costs	(660)
Balance at 31 December 2010 and at 31 March 2012	**39,149**

24. Adjustment for non-cash movements in the cash flow statement

	1 January 2011 to 31 March 2012 £000	Year ended 31 December 2010 £000
Loss/ (profit) on disposal of investment properties	637	(1,530)
Investment property valuation movements	13,339	(10,191)
Net gains on acquisition of subsidiary	-	(6,252)
Net acquisition costs of subsidiary	-	(2,044)
Amortisation of tangible assets	6	-
Increase in receivables	(32)	(1,885)
Increase / (decrease) in payables	1,706	(1,913)
	15,656	**(23,815)**

25. Obligations under finance leases

The Group has entered into a number of leases in relation to its investment properties, the carrying amounts of which are disclosed in note 16. These leases are for fixed terms and subject to regular rent reviews. They contain no material provisions for contingent rents, renewal or purchase options nor any restrictions outside of the normal lease terms.

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

	31 March 2012 £000	31 December 2010 £000
Future minimum payments due:		
Within one year	117	117
In the second to fifth years inclusive	466	582
After five years	8,198	8,344
	8,781	**9,043**
Less: finance charges allocated to future periods	(6,947)	(7,205)
Present value of minimum lease payments	**1,834**	**1,838**

The present value of minimum lease payments is analysed as follows;

	31 March 2012 £000	31 December 2010 £000
Current		
Within one year	107	110
	107	**110**
Non-current		
In the second to fifth years inclusive	377	548
After five years	1,350	1,180
	1,727	**1,728**
	1,834	**1,838**

Operating leases where the Group is lessor

The Group leases its investment properties under operating leases.

Notes to the Consolidated Financial Statements

25. Obligations under finance leases (continued)

At the reporting date, the Group's future income based on the unexpired lessor lease length was as follows (based on annual rentals):

	31 March 2012 £000	31 December 2010 £000
Within one year	31,896	32,930
In the second to fifth years inclusive	99,390	105,296
After five years	214,464	225,330
	345,750	**363,556**

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining lease terms of more than 5 years.

26. Net asset value

The net asset value per ordinary share is based on net assets at the period end and 345,336,118 (31 December 2010: 345,336,118) ordinary shares, being the number of ordinary shares in issue at the period end.

At 31 March 2012, the Company had a net asset value per ordinary share of £0.57 (31 December 2010: £0.60).

27. Financial instruments

31 March 2012	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Cash and cash equivalents	18	-	31,115	31,115
Accounts receivable	17	-	6,624	6,624
		-	**37,739**	**37,739**
Financial liabilities				
Loans	20	-	231,360	231,360
Obligations under finance leases	25	-	1,834	1,834
Interest rate swaps		5,104	-	5,104
Accounts payable and accruals	19	-	15,194	15,194
		5,104	**248,388**	**253,492**

31 December 2010	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Cash and cash equivalents	18	-	34,839	34,839
Accounts receivable	17	-	7,589	7,589
		-	**42,428**	**42,428**
Financial liabilities				
Loans	20	-	232,858	232,858
Obligations under finance leases	25	-	1,838	1,838
Interest rate swaps		11,332	-	11,332
Accounts payable and accruals	19	-	13,773	13,773
		11,332	**248,469**	**259,801**

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels that have been defined are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
31 March 2012				
Interest rate swaps	-	5,104	-	5,104
31 December 2010				
Interest rate swaps	-	11,332	-	11,332

28. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. The Investment Manager reports regularly both verbally and formally to the Board to allow them to monitor and review all the risks noted below.

Capital risk management

The Group aims to manage its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Notes to the Consolidated Financial Statements

28. Risk management (continued)

The Directors have been focused on agreeing new debt facilities in order to secure long term funding for the Group and thus achieve an appropriate capital structure for the long term benefit of the equity holders, against a volatile market background. The new facilities are detailed in note 20.

The capital structure of the Group consists of debt, as disclosed in note 20, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group is not subject to any external capital requirements.

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into new long term loan arrangements which will be used to repay existing debt facilities. The new facilities will enable the Group to reduce its borrowings in an orderly manner over the long term.

The Group's net debt to equity ratio at the reporting date was as follows.

	31 March 2012 £000	31 December 2010 £000
Total liabilities	253,492	259,801
Less: cash and cash equivalents	31,115	34,839
Net debt	**222,377**	**224,962**
Total equity	**196,110**	**206,887**
Net debt to equity ratio at end of period	**1.13**	**1.09**

Interest rate risk management

Interest rate risk arises on interest payable on the floating rate loans and borrowings; the Board has managed this risk by the use of interest rate swaps. Interest payable on the bank loan of £12.0 million and loan notes of £171.6 million have been fixed using interest rate swaps as described in note 20. The Group's new debt facilities will have fixed interest rates over the lives of the loans and thus the Group will not be exposed to interest rate risk on its borrowings.

Interest rate risk

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The table below has been drawn up based on the undiscounted contractual maturities of the financial liabilities, including interest that will accrue to maturity. As stated in note 20, the Group intends to repay its existing fixed and floating rate loan facilities in July 2012.

	Weighted average effective Interest rate	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
31 March 2012					
Cash	0.50%	31,154	-	-	31,154
Finance lease liability		(117)	(466)	(1,251)	(1,834)
Fixed interest rate loans	5.06%	(222,122)	-	-	(222,122)
Floating interest rate facility	1.79%	(18,064)	-	-	(18,064)
31 December 2010					
Cash	0.50%	34,883	-	-	34,883
Finance lease liability		(117)	(582)	(1,139)	(1,838)
Fixed interest rate loans	5.04%	(10,642)	(222,239)	-	(232,881)
Floating interest rate facility	1.72%	(373)	(22,084)	-	(22,457)

The following table details the Group's remaining contractual obligations for its derivative financial instruments and have been based on the undiscounted net cash outflows of those derivative instruments.

	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
31 March 2012				
Interest rate swaps	(7,289)	-	-	(7,289)
31 December 2010				
Interest rate swaps	(8,747)	(9,476)	-	(18,223)

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest rate swap contracts

Interest rate swap contracts enable the Group to mitigate the risk of changing interest rates and cash flow exposures on the floating rate debt held. The fair values of interest rate swaps at the period end are the marked to market values supplied by the issuer of the swap. This value is based on future cash flows relating to the outstanding balances at the start of the financial year at the relevant interest rate.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Notes to the Consolidated Financial Statements

28. Risk management (continued)

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2012 %	2010 %	2012 £000	2010 £000	2012 £000	2010 £000
Outstanding						
Less than 1 year	4.76%	-	183,600	-	(5,104)	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years		4.76%		183,600		(11,332)
More than 5 years	-	-	-	-	-	-
			183,600	**183,600**	**(5,104)**	**(11,332)**

The £183.6 million notional principal amount for the period ended 31 March 2012 consists of £171.6 million held on floating rate notes and £12.0 million on bank loans (31 December 2010: £183.6 million).

Swap contracts interest risk sensitivity

The sensitivity analysis below has been determined based on the exposure to swap interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates based on the swap movements over the past year.

At the reporting date, if swap interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's;

- Net profit would increase or decrease by £1,492,000 (2010: increase or decrease by £3,629,000 at 100 basis points higher or lower) and
- Other equity reserves would increase or decrease by £1,492,000 (2010: increase or decrease by £3,629,000 at 100 basis points higher or lower) as a result of the changes in the fair value of interest rate swaps.

See note 20 for full details of all loans and swaps held.

Credit risk

The following tables detail the balances held at the reporting date that may be affected by credit risk:

	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
31 March 2012 Financial assets				
Cash and cash equivalents	18	-	31,115	31,115
Accounts receivable	17	-	6,624	6,624
		-	**37,739**	**37,739**
31 December 2010 Financial assets				
Cash and cash equivalents	18	-	34,839	34,839
Accounts receivable	17	-	7,589	7,589
		-	**42,428**	**42,428**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade debtors consist of a large number of tenants, spread across diverse industries and geographical areas. On going credit evaluation is performed on the financial condition of trade debtors, and where appropriate, credit guarantees are acquired. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of tenants. A provision of £600,000 (31 December 2010: £1,220,000) exists at the period end, in relation to outstanding debtors that are considered to be impaired based on a review of individual debtor balances. The Group believe that unimpaired amounts that are past due by more than 30 days are still collectible, based on the historic payment behaviours and extensive analyses of the underlying customers' credit ratings.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's exposure to credit risk. See the Risk Management section for further information regarding the current position.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits. The Group's main cash balances are held with National Westminster Bank Plc. ("NatWest"), ING Bank N.V. ("ING"), Santander Plc. ("Santander") and The Royal Bank of Scotland Plc ("RBS"). Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an on going basis. NatWest, ING, Santander and RBS are rated by all the major rating agencies. If the credit quality of these banks deteriorates, the Group would look to move the short term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure.

There has been no change in the fair values of cash, loans, swaps or receivables as a result of changes in credit risk in the current or prior periods, due to the actions taken to mitigate this risk, as stated above.

The Group is exposed to credit risk from counterparties of the interest rate swaps. The risk is mitigated by the Group only engaging with creditworthy counterparties. The counterparty for the interest rate swaps is JP Morgan and The Royal Bank of Scotland Plc., which have a credit rating of A+ and A respectively.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and loan facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Consolidated Financial Statements

28. Risk management (continued)

The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

31 March 2012	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	31,115	-	-	31,115
Liquidity facility	(10,677)	-	-	(10,677)
Bank loan	(4,911)	-	-	(4,911)
Unsecured loan stock	(2,218)	-	-	(2,218)
Fixed				
Loan notes fixed using interest rate swaps	(171,600)	-	-	(171,600)
Bank loan fixed using interest rate swap	(12,000)	-	-	(12,000)
Zero dividend preference shares	(29,954)	-	-	(29,954)
	(200,245)	**-**	**-**	**(200,245)**

31 December 2010	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	34,839	-	-	34,839
Liquidity facility	-	(10,677)	-	(10,677)
Bank loan	-	(8,414)	-	(8,414)
Unsecured loan stock	(67)	(2,364)	-	(2,431)
Unsecured guaranteed loan stock	(170)	-	-	(170)
Fixed				
Loan notes fixed using interest rate swaps	-	(171,600)	-	(171,600)
Bank loan fixed using interest rate swap	-	(12,000)	-	(12,000)
Zero dividend preference shares	-	(27,566)	-	(27,566)
	34,602	**(232,621)**	**-**	**(198,019)**

Market risk

The Group's activities are primarily within the real estate market, exposing it to very specific industry risks.

The yields available from investments in real estate depend primarily on the amount of revenue earned and capital appreciation generated by the relevant properties as well as expenses incurred. If properties do not generate sufficient revenues to meet operating expenses, including debt service and capital expenditure, the Group's revenue will be adversely affected. Revenue from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the Group operates, the attractiveness of the properties to tenants, the quality of the management, competition from other available properties and increased operating costs (including real estate taxes).

In addition, the Group's revenue would be adversely affected if a significant number of tenants were unable to pay rent or its properties could not be rented on favourable terms. Certain significant expenditure associated with each equity investment in real estate (such as external financing costs, real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and tenants, the Investment Manager expects to lower the risk profile of the portfolio. The Board continues to oversee the profile of the portfolio to ensure risks are managed. See the Portfolio Statistics section for the geographical spread and the analysis of the top ten tenants of the portfolio.

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £20.7 million (31 December 2010: £21.3 million).

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore is exposed to macroeconomic changes in the UK economy. Furthermore, the Group places reliance on a limited number of tenants for its rental income.

Currency risk

The Group has no exposure to foreign currency risk.

29. Related party transactions

The previous investment manager CBRE Global Investors UK Limited (see note 7) was paid a total of £3,308,000 (31 December 2010: £2,882,000) in respect of the property management and administration services. As at 31 March 2012 the Group owed £nil to the Investment Manager (31 December 2010: £830,000).

The total fees earned during the period by the five Directors of the Company was £195,000 (31 December 2010: £150,000). As at 31 March 2012 the Group owed £nil to the Directors (31 December 2010: £nil). The emoluments of each Director are set out in the Remuneration Report on page 37.

Picton Property Income Limited has no controlling parties.

30. Events after the balance sheet date

A dividend of £3,453,000 (1 pence per share) was approved by the Board on 23 April 2012 and paid on 25 May 2012.

On 27 June 2012 the Group agreed new loan facilities with Canada Life Limited and Aviva Corporate Finance Limited, for up to £114 million and £95 million respectively. Details of these new facilities are set out in note 20.

Independent Auditor's Report

TO THE MEMBERS OF PICTON PROPERTY INCOME LIMITED ("THE COMPANY")

We have audited the Group financial statements (the "financial statements") of Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") for the period from 1 January 2011 to 31 March 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 47, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2012 and of its profit for the period from 1 January 2011 to 31 March 2012;
- are in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

We have nothing to report with respect to the following:

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Ewan F McGill

For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

10 July 2012

Shareholder Information

HISTORIC FINANCIAL SUMMARY

Income Statements	2012	2010	2009	2008	2007	2006
Net property income	36.2	30.8	28.3	37.3	40.8	41.4
Management expenses	(3.8)	(2.9)	(3.2)	(5.3)	(6.5)	(5.9)
Other operating expenses	(2.1)	(2.4)	(1.5)	(1.2)	(1.2)	(1.1)
Exceptional costs	(1.8)	(0.9)	(1.5)	(0.8)	-	(0.2)
Income profit	**28.5**	**24.6**	**22.1**	**30.0**	**33.1**	**34.2**
Net finance costs	**(14.6)**	**(10.1)**	**(10.1)**	**(12.1)**	**(15.1)**	**(11.2)**
Income profit before tax	13.9	14.5	12.0	17.9	18.0	23.0
Tax	0.3	(0.3)	-	-	0.5	(0.5)
Income profit after tax	**14.2**	**14.2**	**12.0**	**17.9**	**18.5**	**22.5**
Property gains and losses	(13.9)	18.0	(31.9)	(138.6)	(42.7)	75.0
Financing gains and losses	6.2	0.6	0.6	(19.7)	(3.1)	8.7
Profit/loss after tax	**6.5**	**31.6**	**(19.3)**	**(140.4)**	**(27.3)**	**106.2**
Dividends paid	**17.3**	**13.5**	**9.9**	**18.8**	**20.7**	**17.8**

Balance Sheets	2012	2010	2009	2008	2007	2006
Investment properties	411.7	424.3	352.6	436.0	633.2	702.2
Borrowings	(233.0)	(245.9)	(217.3)	(241.1)	(303.4)	(304.7)
Other assets and liabilities	17.4	28.5	45.8	15.4	39.7	20.8
Net assets	**196.1**	**206.9**	**181.1**	**210.3**	**369.5**	**418.3**
Net asset value per share (pence)	57	60	55	64	112	126
EPRA net asset value per share (pence)	58	63	58	68	110	124
Earnings per share (pence)	1.9	9.3	(5.9)	(42.5)	(8.2)	34.4
Dividends per share (pence)	5.0	4.0	3.0	5.69	6.25	5.85
Dividend cover (%)	82	105	121	95	89	126
Total expense ratio (%)	1.03	1.30	1.17	1.42	1.11	0.96
Share price (pence)	41.3	53.5	53.8	22.5	69.5	118

All figures are in £million unless otherwise stated.

Reporting dates are annual to 31 December each year except 2012 which is a 15 month period to 31 March 2012, and 2006 which is the period from 15 September 2005 to 31 December 2006.

Shareholder Information

Shareholder Enquiries

All enquiries relating to holdings of shares, bonds or debentures in Picton Property Income Limited, including notification of change of address, queries regarding dividend/interest payments or the loss of a certificate, should be addressed to the Company's registrars:

Administrator, Registrar and Secretary

Northern Trust International Fund Administration Services (Guernsey) Limited
PO Box 255, Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

Registered Number: 43673
Contact: David Sauvarin
T: 01481 745 529 E: dts6@ntrs.com

Investment Manager

From 1 January 2012
Picton Capital Limited
28 Austin Friars
London
EC2N 2QQ

Until 31 December 2011
CBRE Global Investors UK Limited
60 London Wall
London
EC2M 5TQ

Crest Service Provider

Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey
JE1 1ES

Property Valuers

Jones Lang LaSalle Limited
22 Hanover Square
London
W1S 1JA

CBRE Limited
Henrietta House
Henrietta Place
London
W1G 0NB

Website

The Company has a corporate website which holds, amongst other information, a copy of our latest annual report and accounts, a list of properties held by the Group and copies of all press announcements released over the last five years. The site can be found at: www.pictonproperty.co.uk

Corporate Brokers

JP Morgan Securities Limited
125 London Wall
London
EC2Y 5AJ

Oriel Securities Limited
150 Cheapside
London
EC2V 6ET

Auditor

KPMG Channel Islands Limited
20 New Street
St Peter Port
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Tax Adviser

Deloitte LLP
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1 Little New Street
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Directors

Nicholas Thompson (Chairman)
Trevor Ash
Tjeerd Borstlap
Roger Lewis
Robert Sinclair

As to Guernsey Law

Carey Olsen
PO Box 98
Carey House
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Financial Calender	
Annual Results announced	11 July 2012
Annual Results posted to shareholders	24 July 2012
Annual General Meeting	24 August 2012
Interim Management Statement (first half)	July 2012 (provisional)
2012 Half Year Results to be announced	November 2012 (provisional)
Interim Management Statement (second half)	January 2013 (provisional)

Sir Thomas Picton fought at the battle of Waterloo under Wellington and was the highest ranking officer killed during the battle.

One of the Group's earliest investment transactions, in 2006, was the disposal of a portfolio of public houses to a pub operating company, realising a significant profit. The General Picton was one of the pubs in that portfolio.

PICTON

Picton Property Income Limited

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