

Picton Property Income Limited

Interim Report 2012

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Company Summary

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, the Company is listed on both the London Stock Exchange and Channel Islands' Stock Exchange and has approximately 850 investors.

As an investment company our 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.

It is the policy of the Company to hold a diversified portfolio of freehold and long leasehold UK commercial properties. The portfolio consists of 62 assets across the main commercial property sectors, with around 370 tenants in occupation.

The Group's Investment Manager is Picton Capital Limited, a wholly owned subsidiary company.

Financial and Operational Highlights

	6 months to 30 September 2012	6 months to 30 June 2011	15 months to 31 March 2012
Property assets	£394.9m	£425.8m	£411.7m
Net assets	£180.2m	£208.9m	£196.1m
Rental income	£16.2m	£15.6m	£40.6m
Income profit after tax	£6.9m	£5.3m	£14.2m
(Loss)/Profit after tax	£(9.0)m	£8.9m	£6.5m
Net asset value per share	52p	61p	57p
EPRA earnings per share	2.0p	1.6p	4.1p
Earnings per share	(2.6)p	2.6p	1.9p
Total dividends paid per share	2.0p	2.0p	5.0p

Financial

- Income profit for the period of £6.9 million (30 June 2011: £5.3 million);
- Benefits of internalisation evident through significant reduction in management expenses;
- Movement in net asset value per share to 52 pence (31 March 2012: 57 pence) driven by 4.0% decline in property portfolio valuation;
- Dividends paid of 2 pence per share (30 June 2011: 2 pence);
- Dividend cover of 100% for the period (30 June 2011: 76%, 31 March 2012: 82%);
- New loan facilities drawn down for £209.0 million, with simultaneous repayment of existing facilities;
- Successful rollover and placing of zero dividend preference shares following period end;
- Significant reduction in refinancing risk with staggered debt maturity profile achieved of 4, 10, 15 and 20 years;
- Annual cost savings from lower average interest rate on borrowings at 4.5% (31 March 2012: 4.8%).

Operational

- Additional rental income of £0.4 million per annum generated through 13 lettings;
- Six active management transactions, extending and securing over £0.4 million per annum;
- Three lease renewals completed securing income of £0.7 million per annum;
- Longevity of income increased to 6.9 years from 6.8 years;
- Occupancy rate of 89% at 30 September 2012, down from 91% at 31 March 2012;
- Portfolio initial yield of 7.3% at 30 September 2012, ahead of the IPD Quarterly Index of 6.1%.

Chairman's Statement

At the time of our last Annual Report, we identified three principal areas of focus for Picton, and I would like to update you on progress since then.

The first has been a successful outcome of the refinancing process, which I am pleased to report is now concluded, through three separate transactions. This has been achieved in particularly challenging lending conditions and against a backdrop of further weakness in the commercial property market. In a sector where net lending has shrunk significantly, we have achieved new facilities with new institutions at a lower cost than previously.

Secondly, this is our first reporting period in which we have operated solely under our internalised model. I am pleased to report that this is working well and, in particular, as is evident from the financial results, the enhancement in income profitability has been driven through the cost savings arising from internalisation.

Finally, our third area of focus was the effective management of the Group's assets in what remains a difficult market for both investors and occupiers alike. With a weak UK economy and continued pressure on capital values and rental growth, the portfolio has been subject to downward revaluations over the period, contributing to the overall loss reported. Over the period we saw a small reduction in occupancy, but equally an increase in the longevity of income in the portfolio. With the balanced nature of the portfolio, the positive returns from the London assets have been offset by wider negative movements elsewhere in the portfolio. This is discussed further in the Investment Manager's report.

Debt facilities

In respect of our new debt facilities, I wish to highlight a number of features which we believe provide benefits looking forward.

We have received the support of two major insurance lenders, experienced in operating in the UK market, and have taken advantage of fixing the interest rates at a time when UK gilt yields were close to record lows. As a result, Picton now has some of the longest and lowest cost debt facilities in the listed UK real estate sector, providing a stable platform from which to operate for the long term. Our debt now has a diversified maturity profile of 4, 10, 15 and 20 years; an average of 15 years.

The interest rates are fixed without the requirement for swap contracts, thus removing the fair value accounting for such instruments and the associated volatility in reported earnings. Our new borrowings also include an element of amortisation, providing regular repayment of debt on a scheduled basis and, whilst this has a cashflow impact, it is a more prudent approach to managing the Group's borrowings.

Dividend policy

During the period, the Company paid dividends totalling £6.9 million, against an income profit that was also £6.9 million, giving a cover of 100%. Despite this success, and with our new financing arrangements in place, the Board has concluded that it is appropriate to have a more conservative distribution policy in future, providing more headroom in terms of dividend cover. With the IPD Monthly Index recording negative capital value movements for eleven consecutive months and in light of the Group's new financing arrangements, we have undertaken a detailed dividend policy review. A lower level of distribution will strengthen the balance sheet and enable the Group to both invest further into the underlying portfolio, and reduce its debt through regular amortisation. Despite remaining income focused, it was considered appropriate to provide further dividend cover and we announced on 24 October that the dividend would be rebased to 0.75 pence per quarter.

Board

On behalf of the Board I would like to thank Tjeerd Borstlap for his contribution to the Company over the last five years, following his resignation due to increased employer commitments. Looking forwards we intend to strengthen the Board with a suitable replacement and a further update will be provided when an appointment has been made.

The Board would also like to thank the Picton team and its wider advisors for their efforts over the last six months. As a newly formed internalised company, there have been a number of crucial targets to meet and I think the team can be proud of what they have achieved in such a short period of time. They have demonstrated the commitment to the Company that we hoped internalisation would deliver.

Outlook

Like many UK listed property companies, the shares continue to trade at a discount to net asset value. The uncertainty over the refinancing process and dividend review has clearly impacted sentiment, but these are now past issues. Looking forward we will continue to seek improvements in both profitability and net asset value to deliver a reduction in this discount.

The UK commercial property market has experienced one of the most prolonged downturns on record and continues to suffer from the wider effects of the financial crisis. Despite this, the property market tends to be cyclical in nature and a rebasing of both rents and capital values will undoubtedly take effect as soon as sustainable economic growth returns to the UK economy. We are confident that we now have the appropriate framework in place and the necessary skills to take the business forward and create value for shareholders.



Nicholas Thompson
Chairman

22 November 2012

Property Market Overview

Economic backdrop

In the six months to September 2012, uncertainty over the global economy and its future growth continued to weigh on markets.

Actual recorded figures from the Office of National Statistics (ONS) showed that the UK economy contracted in the final quarter of 2011 and the first half of 2012. The latest preliminary estimates from the ONS, however, show a 1% increase in the third quarter of 2012.

In contrast, the labour market has been resilient against weakening output growth. Employment statistics in the third quarter of 2012 recorded an employment rate of 71.2%, the highest level recorded since March 2009 and up from 70.2% for the same period in 2011.

The on going restriction in lending has been a significant drag on the recovery. Lending to UK businesses on a 12 month basis fell from -2.9% in the first quarter of 2012 to -3.1% in September, compared to 16.8% in 2007. The restriction in lending led to the Government implementing the Funding for Lending Scheme (FLS) in July 2012, providing banks with a cheaper source of funding.

Over the period, the Consumer Price Index showed inflation fell from 3.5% in March 2012 to 2.2% in September 2012. Any increase in the value of household income from a reduction in inflation and the stimulus from the FLS scheme may help the economy recover at a gradual pace.

Over the period the Bank of England base rate has remained unchanged at 0.5% and ten year gilt rates have fallen from 2.2% at the beginning of March 2012 to 1.7% in September 2012. Five year swap rates have also edged lower from 1.7% in March 2012 to 1.0% in September 2012.

Property market

Over the last six months, UK property market performance has been weakened by the issues in the global economy and increased uncertainty over the strength of any UK economic recovery.

Overseas purchasing activity remains dominant with strong investor demand in particular for prime London assets. Therefore, values in the rest of the UK remain subdued. The low growth environment has seen occupier demand outside of London weaken, pushing down overall returns.

Commercial property lending remains constrained and fell for its fifth consecutive quarter in September 2012. For the year to date net property lending stood at -£8.6 billion, lower than the previous recorded low of -£7.9 billion in 2010.

According to the IPD (Investment Property Databank) Monthly Index, whilst total returns remained positive at 0.9% over the last six months, this was significantly reduced compared with the preceding six months, with a -2.4% fall in capital values. The income return remained relatively unchanged from March at 3.3%.

Overall, positive property performance was skewed towards London. Average total returns for offices, industrial and retail in central London for the six months to September were approximately 3.6% compared to the rest of the market where average total returns fell by approximately 0.2%.

Negative rental growth of -0.2% was recorded in the six months to the end of September. Office rents grew by 0.4%, retail -0.6% and industrial -0.3%. Positive rental growth was recorded for central London offices, central London retail and South Eastern industrial. All other IPD segments recorded falls.

Office market

Offices were the best performing sector over the period, but driven entirely by central London which continues to deliver positive capital growth. In the six months to September, offices outperformed both retail and industrial by delivering 1.8% total returns. Total returns comprised 3.3% income return and -1.4% capital growth.

Office sector capital growth by geographic region varied dramatically, ranging from 2.2% for Mid-town and West End to -5.1% for Outer South East. All office rental growth was 0.4% over the period. City and West End offices grew by 1.8% and 1.9% respectively, both outperforming the average, with the weakest rental growth recorded in the Rest of UK at -1.2%.

Occupancy rates for the office market in September were 83.9%, down from 85.0% in March.

Industrial market

Over the period industrial total returns grew by 1.6%, driven by an income return of 3.8% and capital growth of -2.2%. Capital growth was worst for Outer South East which fell by -2.9%. Central London performed better than all other industrial regions by falling -0.9% over the period.

Rental growth remained positive for London at 0.2% but was weakest for the Rest of UK, which fell by -0.9% over the period.

Occupancy rates for the industrial market at the end of September were 88.1% compared to 88.2% in March.

Retail market

Total returns for retail were 0.1% over the period, driven by an income return of 3.2% and -3.1% capital growth. Returns were strongest for central London at 6.4% and weakest for Rest of UK shopping centres at -3.4%.

Retail rents in the six months to September fell by -0.6%, making them the weakest performing sector. Retail returns were dragged down by weak occupier markets, and only London retail and retail warehouses recorded positive returns in the period.

Occupancy rates for the retail market at the end of September were 94.8%, compared to 94.9% in March.

Portfolio Review

Despite more challenging occupier markets, there has been considerable activity across all sectors within the portfolio. Equally, against the backdrop of such a significant refinancing event, there has not been any trading activity, with the focus being on managing existing occupier relationships and securing income through lettings and lease restructuring.

Through 13 lettings we secured additional rental income of £0.4 million per annum. In six active management transactions we have extended and secured over £0.4 million per annum of rental income and have completed a further three lease renewals securing income of £0.7 million per annum.

In most markets, uplifts through rent reviews are the exception, leading to limited income growth. Equally, in the case of lease restructuring and lease renewals, incentive packages are required, with occupiers increasingly aware of the value created through longer term commitments.

As a result of rent free periods within these transactions, headline income reduced marginally from £30.6 million per annum to £30.5 million per annum.

For an income biased vehicle such as Picton, there is clearly a balance between income generation and value creation. There is always a balance between these two strategies, and at present a significant valuation premium is attributed to secure income streams. The recently announced dividend policy will provide further flexibility in this regard, and in particular will allow us to undertake transactions that hitherto, with income constraints, have been difficult to justify. Whilst we remain income focused, through achieving income longevity and security, this can provide significant valuation upside which we are now better able to create.

In some instances we have taken a more proactive approach and surrendered accommodation from existing occupiers, where they have paid to be released from liabilities under their lease. This has contributed to the reduced occupancy rate over the period and that has been further exacerbated by the relative strength of the rental value of central London voids compared to the rest of the portfolio.

The Group has not been immune to the wider effects of the pressures within the occupier market and we have seen three tenants go through administration, liquidation or company voluntary arrangements. This has led to units with a rental value of approximately £0.2 million per annum being returned, together with the associated void holding costs; these are now being marketed.

The valuation movements over the period have been heavily skewed towards growth in the central London markets, but with more apparent weakness elsewhere in the portfolio. Overall the underlying property portfolio reduced in value by 4%. The retail portfolio reduced by 3.4%, the office sector by just under 3.8%, the industrial sector by 4.3% and the leisure sector by 6.1%. The movements in the office sector were marked, with the London market providing gains of 1.3%, offset by declines of over 5.5% in the regional office portfolio.

As a result of these valuation movements the portfolio delivered a total return of -1.0% for the period compared to the IPD Quarterly Benchmark return of 1.1%. However, consistent with the Company's long term strategy the portfolio delivered an income return of 7.1% per annum over five years, ahead of the IPD Benchmark return of 6.0%, and a total return of -1.3% per annum over five years, which is in line with the IPD Benchmark.

Office portfolio

In the office sector, we have completed a range of leasing transactions across our wider office portfolio. In total we have secured new occupiers with a rent roll of over £250,000 per annum and a further £625,000 per annum of income has been secured or extended through lease renewals or restructurings.

In particular, at 1 Chancery Lane, WC2, we regearched with a chamber of barristers securing £305,000 per annum on a new 15 year lease with a break option on the expiry of the tenth year; the incentive being three months' rent free. As part of the transaction the property is being refurbished. We have two further suites to let and expect strong interest due to the quality of the refurbishment and location of the property. At Atlas House in Marlow we let over 8,000 sq ft of space to STMicroelectronics Limited, who took a ten year lease without a break at £140,000 per annum after incentives, which was considerably ahead of the estimated rental value.

Industrial portfolio

In the industrial sector, units in Belfast and Wokingham were let securing £47,000 per annum. We removed FedEx's break clause in Harlow in return for three months' rent free, securing £168,000 per annum for an additional five years. In other transactions we relocated a tenant in Warrington to a larger unit and in Wokingham renewed Oxford & Cherwell Valley College's lease. The largest voids, which account for over 30% of the industrial vacancy rate by estimated rental value, are the three vacant units at Datapoint, London, E16, which are currently being refurbished following tenant defaults. By virtue of their age and location we expect these units to attract occupiers in the near future.

Retail portfolio

Our retail portfolio has remained reasonably robust and currently there are only three vacant retail units across the portfolio, in Cardiff, Carlisle and Swansea, which are being marketed. During the period, for example, we regeared McColl's lease in Bath for 15 years, extended Stan James' lease of a unit in Sutton for ten years and removed Phones 4 U's break clause in Bristol, meaning the lease continues until December 2019 at £144,000 per annum.

Leisure portfolio

At Regency Wharf in central Birmingham, Jimmy Spices expanded into a new unit earlier in the year and the vacant restaurant was let to Laitwood Entertainment Limited at £93,000 per annum, which was ahead of our estimated rental value. During the period we received a restaurant unit back from La Tasca following their company voluntary arrangement, and this is currently being marketed. A scheme to rebrand and reposition the property is being implemented.

Outlook

Whilst short term economic growth prospects continue to look subdued, it is likely that markets will remain risk averse and there is likely to be limited forward momentum for capital values within the property market.

According to Capital Economics the forecast returns for the period 2012 – 2016 are expected to average 6.6% per annum. Across the UK as a whole, property yields are close to their highest levels relative to long term gilts and the pricing differential between long term secure income and shorter term, occupational market risk opportunities is also uncharacteristically wide. This is a reflection of weak short term confidence and has led to valuations in many instances close to, or below, the cost of construction, in particular outside central London. This is prohibiting new development and in some markets leading to shortages of quality supply. Recognising the cyclical nature of property, this is unlikely to continue in the medium term.

We therefore see short term value creation opportunities where income can be secured, maintained and extended ahead of valuation assumptions and that remains our immediate focus. We continue to work with our occupiers, helping them to meet operational requirements. We have already implemented initiatives to become more occupier facing, and this will help us to manage the forthcoming lease expiry profile within the portfolio.

We have a number of key voids that are currently being refurbished ahead of re-letting. Approximately 44% of the existing void by rental value is located within the M25 and this provides short term scope to enhance the existing income position. These assets have a rental value in excess of £1.6 million per annum and, whilst this is unlikely to have a positive impact on cashflow in the short term, there is income and capital growth expected following re-letting and expiry of rent free periods.

Finally, having completed our refinancing, we can start to refocus on the portfolio, looking to maximise both income and capital growth. We are able to react quickly to opportunities and are motivated to generate results. As we move forward, transitioning away from a more institutional approach, this will become increasingly apparent.

Picton Capital Limited

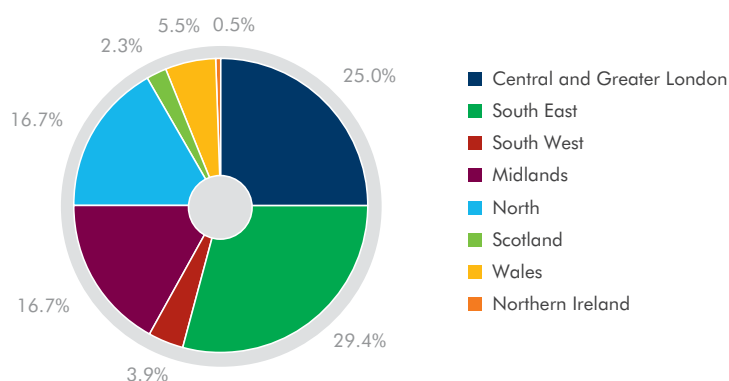
22 November 2012

Portfolio Statistics

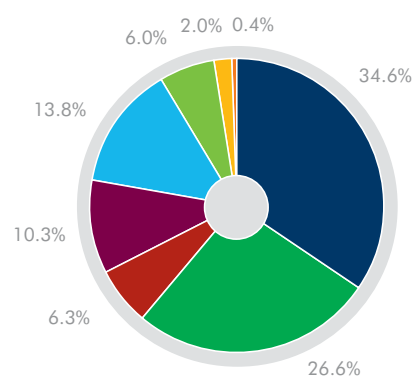
Geographical

As at 30 September 2012 the regional weightings of the property portfolio, as a percentage of current portfolio value, are summarised as follows:

Portfolio



IPD Quarterly Index

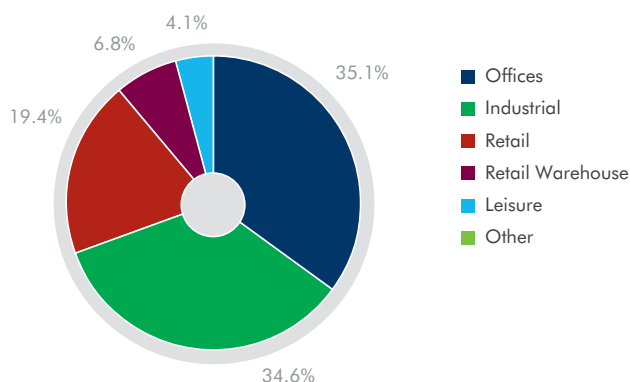


(Source: Picton Capital & IPD as at 30 September 2012)

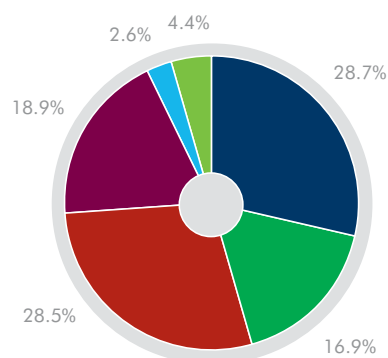
Sector

As at 30 September 2012 the sector weightings of the property portfolio, as a percentage of current portfolio value, are summarised as follows:

Portfolio



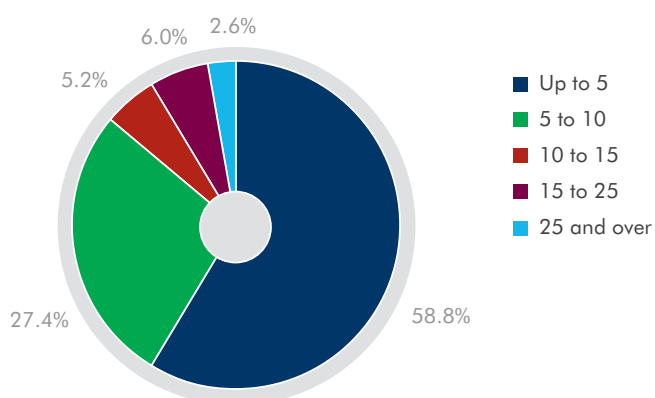
IPD Quarterly Index



(Source: Picton Capital & IPD as at 30 September 2012)

Longevity of Income

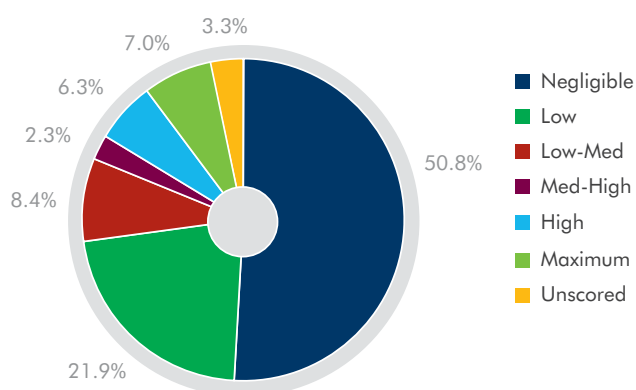
As at 30 September 2012, based as a percentage of current net annual rent, the average length of the leases to the first termination was 6.9 years. A further breakdown is summarised as follows:



(Source: Picton Capital as at 30 September 2012)

Covenant Strength

Covenant strength, based as a percentage of current passing rent by risk rating, as at 30 September 2012 is summarised as follows:



(Source: IPD IRIS Report 30 September 2012)

Property Portfolio

AS AT 30 SEPTEMBER 2012

Properties valued in excess of £20 million

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

Unit 5320, Magna Park, Lutterworth, Leics.

Stanford House, 12-14 Long Acre, London WC2

Properties valued between £15 million and £20 million

Parc Tawe, Phase II, Link Road, Swansea

50 Farringdon Road, London EC1

Properties valued between £10 million and £15 million

Angel Gate Office Village, City Road, London EC1

Boundary House, Jewry Street, London EC3

Colchester Business Park, The Crescent, Colchester, Essex

1-3 Chancery Lane, London WC2

Angouleme Way Retail Park, Bury, Greater Manchester

Vigo 250, Birtley Road, Washington, Tyne and Wear

Properties valued between £5 million and £10 million

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

401 Grafton Gate East, Milton Keynes, Bucks.

Unit 3220, Magna Park, Lutterworth, Leics.

17/19 Fishergate, Preston

Regency Wharf, Broad Street, Birmingham

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

City Link House & Tolley House, Addiscombe Road, Croydon

L'Avenir, Opladen Way, Westwick, Bracknell, Berks.

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

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

Datapoint Business Centre, Cody Road, London E16

53/55/57 Broadmead, Bristol

Strathmore Hotel, Arndale Centre, Luton, Beds.

Lawson Mardon Buildings, Kettlestring Lane, York

Northampton Business Park, 800 Pavilion Drive, Northampton

Scots Corner, High Street/Institute Road, Birmingham

Queens House, 19/29 St Vincent Place, Glasgow

Westlea Campus, Chelmsford Road, Swindon, Wilts.

Longcross Court, Newport Road, Cardiff

Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire

78-80 Briggate, Leeds

Waterside Park, Longshot Lane, Bracknell, Berks.

Properties valued under £5 million

Zenith, Downmill Road, Bracknell, Berks.

Easter Court, Gemini Park, Warrington

Trident House, 42/48 Victoria Street, St Albans, Herts.

28 Austin Friars, London EC2

72/78 Murraygate, Dundee

123 High Street, Guildford, Surrey

Sentinel House, Ancells Business Park, Fleet, Hants.

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

Atlas House, Third Avenue, Globe Park, Marlow, Bucks.

6/12 Parliament Row, Hanley, Worcs.

Waterside House, Kirkstall Road, Leeds

Heron Industrial Estate, Spencers Wood, Reading

7 & 9 Warren Street, Stockport

Merchants House, Crook Street, Chester

2/2a George Street, Richmond

2 Bath Street, Bath

Magnet Trade Centre, Winnersh, Reading

Middleton Trade Park, Oldham Road, Manchester

Abbey Business Park, Mill Road, Newtownabbey, Belfast

Highgrove Industrial Estate, Quatremaire Road, Portsmouth

Thistle Hotel, Unit 1 & Le Pavilion, Brighton

113 High Street, Sutton

8-9 College Place, Southampton

Manchester Road/Drury Lane, Oldham, Lancs.

Marshall Building, 122-124 Donegall Street, Belfast

6 Argyle Street, Bath

The Cloisters, Orchard Street, Dartford

3 Lower Borough Walls, Bath

Winston Business Centre, Lancing, Sussex

Directors' Responsibilities

Statement of Principal Risks and Uncertainties

The Company's assets comprise direct investments in UK commercial property. Its principal risks are therefore related to the commercial property market in general and its investment properties. Other risks faced by the Company include economic, investment and strategic, regulatory, management and control, operational, and financial risks. These risks, and the way in which they are managed, are described in more detail under the heading 'Risk Management' within the Directors' Report in the Company's Annual Report for the period ended 31 March 2012. The Company's principal risks and uncertainties have not changed materially since the date of that report, with the exception of interest rate risk which is set out in note 15.

Statement of Directors' Responsibilities in Respect of the Interim Report

We confirm that to the best of our knowledge:

- a) the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- b) the Chairman's Statement and Investment Manager's Report (together constituting the Interim Management Report) together with the Statement of Principal Risks and Uncertainties above include a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements; and
- c) the Chairman's Statement together with the condensed set of consolidated financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

By Order of the Board

Robert Sinclair
22 November 2012

Condensed Consolidated Statement of Comprehensive Income

For the period from 1 April 2012 to 30 September 2012				1 April 2012 to 30 September 2012 Unaudited	1 January 2011 to 30 June 2011 Unaudited	1 January 2011 to 31 March 2012 Audited
	Note	Income £000	Capital £000	Total £000	Total £000	Total £000
Income						
Revenue from properties	3	18,689	-	18,689	19,103	48,631
Property expenses	4	(4,064)	-	(4,064)	(5,089)	(12,450)
Net property income		14,625	-	14,625	14,014	36,181
Expenses						
Management expenses	6	(687)	-	(687)	(1,647)	(3,838)
Other operating expenses	7	(866)	-	(866)	(875)	(2,754)
Internalisation costs		-	-	-	(173)	(1,063)
Total operating expenses		(1,553)	-	(1,553)	(2,695)	(7,655)
Operating profit before investment property disposals and valuation movements		13,072	-	13,072	11,319	28,526
Gains and losses on investments						
Loss on disposal of investment properties	10	-	-	-	(67)	(637)
Investment property valuation movements	10	-	(17,509)	(17,509)	1,872	(13,339)
Total gains and (losses) on investments		-	(17,509)	(17,509)	1,805	(13,976)
Operating profit/(loss)		13,072	(17,509)	(4,437)	13,124	14,550
Financing						
Interest receivable		56	-	56	52	115
Interest payable		(6,076)	-	(6,076)	(5,819)	(14,684)
Change in fair value of derivative financial instruments		-	-	-	1,849	6,228
Realised gains on disposal of derivative financial instruments		-	1,617	1,617	-	-
Total finance costs		(6,020)	1,617	(4,403)	(3,918)	(8,341)
Profit/(loss) before tax		7,052	(15,892)	(8,840)	9,206	6,209
Tax		(123)	-	(123)	(274)	280
Total comprehensive income		6,929	(15,892)	(8,963)	8,932	6,489
Earnings/(loss) per share						
Basic and diluted	9	2.0p	(4.6)p	(2.6)p	2.6p	1.9p

The total column of this statement represents the Group's Condensed 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 17 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the period from 1 April 2012 to 30 September 2012	Note	Share Capital £000	Retained Earnings £000	Total £000
Balance as at 31 December 2010		39,149	167,738	206,887
Profit for the period		-	8,932	8,932
Dividends paid	8	-	(6,907)	(6,907)
Balance as at 30 June 2011		39,149	169,763	208,912
Loss for the period		-	(2,443)	(2,443)
Dividends paid	8	-	(10,359)	(10,359)
Balance as at 31 March 2012		39,149	156,961	196,110
Loss for the period		-	(8,963)	(8,963)
Dividends paid	8	-	(6,907)	(6,907)
Balance as at 30 September 2012		39,149	141,091	180,240

Notes 1 to 17 form part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

As at 30 September 2012	Note	30 September 2012 Unaudited £000	30 June 2011 Unaudited £000	31 March 2012 Audited £000
Non-current assets				
Investment properties	10	394,891	425,778	411,744
Tangible assets		112	-	119
Total non-current assets		395,003	425,778	411,863
Current assets				
Accounts receivable		12,248	6,250	6,624
Cash and cash equivalents		31,960	36,809	31,115
Total current assets		44,208	43,059	37,739
Total assets		439,211	468,837	449,602
Current liabilities				
Accounts payable and accruals		(15,030)	(15,459)	(15,194)
Loans and borrowings	11	(33,959)	(1,840)	(231,360)
Obligations under finance leases		(106)	(107)	(107)
Derivative financial instruments		-	-	(5,104)
Total current liabilities		(49,095)	(17,406)	(251,765)
Non-current liabilities				
Loans and borrowings	11	(208,149)	(231,310)	-
Obligations under finance leases		(1,727)	(1,726)	(1,727)
Derivative financial instruments		-	(9,483)	-
Total non-current liabilities		(209,876)	(242,519)	(1,727)
Total liabilities		(258,971)	(259,925)	(253,492)
Net assets		180,240	208,912	196,110
Equity				
Share capital	12	39,149	39,149	39,149
Retained earnings		141,091	169,763	156,961
Total equity		180,240	208,912	196,110
Net asset value per share	14	£0.52	£0.61	£0.57

These condensed consolidated financial statements were approved by the Board of Directors on 22 November 2012 and signed on its behalf by:

Robert Sinclair
Director

Notes 1 to 17 form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the period from 1 April 2012 to 30 September 2012	Note	1 April 2012 to 30 September 2012 Unaudited £000	1 January 2011 to 30 June 2011 Unaudited £000	1 January 2011 to 31 March 2012 Audited £000
Operating activities				
Operating (loss)/profit		(4,437)	13,124	14,550
Adjustments for non-cash items	13	14,813	392	15,656
Interest received		56	52	115
Interest paid		(4,506)	(4,330)	(11,270)
Tax expense		-	(14)	(39)
Cash inflows from operating activities		5,926	9,224	19,012
Investing activities				
Capital expenditure on investment properties	10	(656)	(2,556)	(7,048)
Disposal of investment properties		-	2,843	5,588
Purchase of tangible assets		(7)	-	(125)
Cash (outflows)/inflows from investing activities		(663)	287	(1,585)
Financing activities				
Borrowings repaid		(199,314)	(634)	(3,885)
Borrowings drawn		209,047	-	-
Financing costs		(3,756)	-	-
Termination of derivatives		(3,488)	-	-
Dividends paid	8	(6,907)	(6,907)	(17,266)
Cash outflows from financing activities		(4,418)	(7,541)	(21,151)
Net increase/(decrease) in cash and cash equivalents		845	1,970	(3,724)
Cash and cash equivalents at beginning of period/year		31,115	34,839	34,839
Cash and cash equivalents at end of period/year		31,960	36,809	31,115

Notes 1 to 17 form part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1. General information

Picton Property Income Limited (the “Company” and together with its subsidiaries the “Group”) was registered on 15 September 2005 as a closed ended Guernsey investment company.

These half yearly financial statements are prepared for the period from 1 April to 30 September 2012, with unaudited comparatives for the period from 1 January to 30 June 2011. Comparatives are also provided from the audited financial statements for the period ended 31 March 2012.

The financial information for the period ended 31 March 2012 is derived from the financial statements delivered to the UK Listing Authority and does not constitute statutory accounts.

2. Significant accounting policies

These half yearly financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the period ended 31 March 2012.

The accounting policies applied by the Company in these half yearly financial statements are the same as those applied by the Company in its financial statements as at and for the period ended 31 March 2012.

The annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards (‘IFRS’).

3. Revenue from properties

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Rents receivable (adjusted for lease incentives)	16,199	15,589	40,565
Surrender premium	82	33	277
Dilapidation receipts	225	450	653
Other income	3	69	197
Service charge income	2,180	2,962	6,939
	18,689	19,103	48,631

Rents receivable includes lease incentives recognised of £0.3 million (30 June 2011: £0.1 million, 31 March 2012: £0.9 million).

4. Property expenses

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Property operating expenses	753	1,145	2,960
Property void costs	1,131	982	2,551
Recoverable service charge costs	2,180	2,962	6,939
	4,064	5,089	12,450

5. Operating segments

The Directors are 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, retail warehouse, industrial and leisure sectors. A more detailed breakdown is included within the Investment Manager's Report.

6. Management expenses

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Staff costs	485	-	383
Other management costs	202	-	147
External investment manager's fees	-	1,647	3,308
	687	1,647	3,838

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 were for property management and administrative services.

From 1 January 2012 Picton Capital Limited, a wholly owned subsidiary company, became the Group's Investment Manager. The above staff and other management costs are those of Picton Capital Limited.

7. Other operating expenses

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Valuation expenses	93	115	257
Administrator fees	105	104	255
Auditor's remuneration	63	57	117
Directors' fees	101	63	195
Other expenses	504	536	1,167
Merger costs	-	-	763
	866	875	2,754

Notes to the Condensed Consolidated Financial Statements

8. Dividends

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Declared and paid:			
Interim dividend for the period ended 31 December 2010: 1 pence	-	3,454	3,453
Interim dividend for the period ended 31 March 2011: 1 pence	-	3,453	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
Interim dividend for the period ended 31 March 2012: 1 pence	3,454	-	-
Interim dividend for the period ended 30 June 2012: 1 pence	3,453	-	-
	6,907	6,907	17,266

The interim dividend of 0.75 pence per ordinary share in respect of the period ended 30 September 2012 has not been recognised as a liability as it was declared after the period end. A dividend of £2,590,000 will be paid on 30 November 2012.

9. 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 April 2012 to 30 September 2012	1 January 2011 to 30 June 2011	1 January 2011 to 31 March 2012
Net (loss)/profit attributable to ordinary shareholders of the Company from continuing operations (£000)	(8,963)	8,932	6,489
Weighted average number of ordinary shares for basic and diluted profit/(loss) per share	345,336,118	345,336,118	345,336,118

10. Investment properties

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Carrying value at start of period	411,744	424,260	424,260
Acquisitions	-	-	2,732
Capital expenditure on investment properties	656	2,556	4,316
Disposals	-	(2,843)	(5,588)
Realised losses on disposal	-	(67)	(637)
Change in fair value	(17,509)	1,872	(13,339)
Carrying value at the end of the period	394,891	425,778	411,744
Historic cost at the end of the period	547,901	546,193	547,245

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

	30 September 2012 £000	30 June 2011 £000	31 March 2012 £000
Appraised value	398,005	427,004	414,470
Valuation of assets held under finance leases	1,293	1,700	1,389
Lease incentives held as debtors	(4,407)	(2,926)	(4,115)
Carrying value at the end of the period	394,891	425,778	411,744

The investment properties were valued by Jones Lang LaSalle Limited and CBRE Limited, Chartered Surveyors, as at 30 September 2012, on the basis of Market Value in accordance with RICS Valuation Standards.

The Group's borrowings (note 11) 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.

Notes to the Condensed Consolidated Financial Statements

11. Loans and borrowings

	Maturity	30 September 2012 £000	30 June 2011 £000	31 March 2012 £000
Current				
Secured loan facility	24 July 2032	898	-	-
Unsecured loan stock	-	2,092	-	2,218
Floating rate notes	31 January 2013	-	-	171,600
Liquidity facility	31 January 2013	-	-	10,677
Bank loan	30 January 2013	-	1,840	16,911
Zero dividend preference shares	31 October 2012	30,969	-	29,954
		33,959	1,840	231,360
Non-current				
Secured loan facility	20 July 2022	33,718	-	-
Secured loan facility	24 July 2027	80,000	-	-
Secured loan facility	24 July 2032	94,431	-	-
Floating rate notes	31 January 2013	-	171,600	-
Liquidity facility	31 January 2013	-	10,677	-
Bank loan	30 January 2013	-	18,216	-
Unsecured loan stock	-	-	2,327	-
Zero dividend preference shares	31 October 2012	-	28,490	-
		208,149	231,310	-
		242,108	233,150	231,360

On 27 June 2012 the Group entered into conditional agreements for two separate secured loan facilities. These new facilities were drawn down on 24 July 2012 and were used to repay the Group's floating rate notes and bank loan, totalling £188.5 million. The liquidity facility was also repaid on the same date. The loan arrangement costs for the new debt facilities were £4.5 million. These costs have been capitalised and will be amortised over the duration of the loans.

In order to achieve bilateral agreements and distinct security pools with the new lenders, a re-organisation of the Group's corporate structure took place to coincide with the drawdown under the new facilities, such that the Group's investment properties are now held in a number of new subsidiary entities.

As at 30 September 2012 the Group has a loan with Canada Life Limited for £113.7 million, which is fully drawn. The loan is for a term of 15 years, with £33.7 million repayable on the tenth anniversary of drawdown. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited.

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which is fully drawn. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership and Picton Property No 3 Limited.

On 14 May 2010 the Group issued 46,556,800 zero dividend preference shares ('ZDPs') at 65 pence per share, with a final maturity date of 31 October 2012. On 6 September 2012 the Group announced a rollover offer of these 2012 ZDPs into new 2016 ZDPs, and a placing of new 2016 ZDPs. On 15 October 2012 the Group issued 22,000,000 new ZDPs at a price of 100 pence per share and with a maturity date of 15 October 2016. The 2016 ZDPs accrue additional capital at a rate of 7.25% per annum, resulting in a final capital entitlement at maturity of 132.3 pence per share. The ZDPs do not receive any dividends or income distributions, and are listed on the London Stock Exchange. The 2016 ZDPs have been issued by Picton ZDP Limited, a wholly owned subsidiary company.

The holders of the 2012 ZDPs that opted not to rollover into new 2016 ZDPs received their final capital entitlement totalling £21.0 million on 14 November 2012 following IRET Securities Limited, the issuer of the 2012 ZDPs, entering liquidation on 31 October 2012.

The Group's unsecured loan stock pays interest at 0.5% above six month LIBOR. The loan stock is repayable at the request of the holders at 31 March and 30 September each year. The Group has the option to repay the loan stock at any time by giving four months notice.

The weighted average interest rate on the Group's borrowings as at 30 September was 4.53% (30 June 2011: 4.75%, 31 March 2012: 4.80%).

12. Ordinary share capital

The Company has 345,336,118 ordinary shares in issue of no par value (30 June 2011 and 31 March 2012: 345,336,118).

The balance on the Company's share premium account as at 30 September 2012 was £39,149,000 (30 June 2011 and 31 March 2012: £39,149,000).

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

	1 April 2012 to 30 September 2012 £000	1 January 2011 to 30 June 2011 £000	1 January 2011 to 31 March 2012 £000
Loss on disposal of investment properties	-	67	637
Investment property valuation movements	17,509	(1,872)	13,339
Depreciation of tangible assets	14	-	6
(Increase) / decrease in receivables	(1,643)	947	(32)
Increase / (decrease) in payables	(1,067)	1,250	1,706
	14,813	392	15,656

14. Net asset value

The net asset value per ordinary share is based on net assets at the period end and 345,336,118 (30 June 2011 and 31 March 2012: 345,336,118) ordinary shares, being the number of ordinary shares in issue at the period end.

At 30 September 2012, the Company had a net asset value per ordinary share of £0.52 (30 June 2011: £0.61, 31 March 2012: £0.57).

Notes to the Condensed Consolidated Financial Statements

15. Risk management

The Group is no longer exposed to the risk of fluctuations in interest rates on its borrowings. As described in note 11, its new secured loan facilities are at fixed rates of interest throughout the duration of the loans. As a result of this change, the Group no longer uses interest rate swap contracts to mitigate against interest rate movements and so are not exposed to changes in the fair value of derivative instruments caused by movements in swap rates.

16. Related party transactions

The total fees earned during the period by the five Directors of the Company were £101,000 (30 June 2011: £61,000 and 31 March 2012: £195,000). As at 30 September 2012 the Group owed £nil to the Directors (30 June 2011 and 31 March 2012: £nil).

The previous investment manager, CBRE Global Investors UK Limited (see note 6), was not paid any fees during the period in respect of property management and administration services (30 June 2011: £1,647,000 and 31 March 2012: £3,308,000).

Picton Property Income Limited has no controlling parties.

17. Events after the balance sheet date

A dividend of £2,590,000 (0.75 pence per share) was approved by the Board on 23 October 2012 and payable on 30 November 2012.

As set out in note 11, the Group issued 22,000,000 new zero dividend preference shares on 15 October 2012 at 100 pence per share.

Independent Review Report

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

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half Yearly Financial Report for the six months ended 30 September 2012 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the Half Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Half Yearly Financial Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Yearly Financial Report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the Annual Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards. The condensed set of financial statements included in this Half Yearly Financial Report has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half Yearly Financial Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Yearly Financial Report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34 and the DTR of the UK FSA.

Neale D Jehan

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

Guernsey

22 November 2012

Shareholder Information

Shareholder Enquiries

All enquiries relating to holdings 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.

Directors

Nicholas Thompson (Chairman)

Trevor Ash

Tjeerd Borstlap (resigned 30 September 2012)

Roger Lewis

Robert Sinclair

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Registered Number: 43673

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Picton has a corporate website which has further information about the Group and the property portfolio at:
www.pictonproperty.co.uk

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