PALACE CAPITAL plc

EXPERTS IN REGIONAL PROPERTY

ANNUAL REPORT AND ACCOUNTS 2020

WHO WE ARE

Palace Capital are experts in regional property investment, unlocking value to deliver attractive total returns.

OUR PURPOSE

We want to be the leading investor in regional commercial property, generating sector-leading total returns, while growing a sustainable portfolio of assets that adapts to changing occupier demands.

OUR VALUES

We are AMBITIOUS in our goals and together as a team we are courageous in our approach to delivering our strategy.

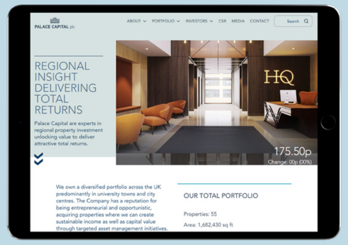
We are ASTUTE in our approach to business, identifying opportunities and applying our expertise to maximise total returns.

We are ACTIVE asset managers, focused on excelling and applying the highest standards of integrity in everything we do.

OUR CULTURE

Within Palace Capital we promote a culture of inclusivity which allows all our people to contribute to the formulation and achievement of our strategic priorities. We are a highly professional and skilled team, with a profound family ethos ensuring employees feel valued and supported in both their working and personal lives.

VISIT OUR NEW LOOK WEBSITE AT
WWW.PALACECAPITALPLC.COM



FOR REPORTS AND PRESENTATIONS, GO TO HTTPS://WWW.PALACECAPITALPLC.COM/INVESTORS/REPORTS-AND-PRESENTATIONS/

HIGHLIGHTS

TOTAL PROPERTY RETURN

1.1% (2020)
7.1% (2019)

NET RENTAL INCOME

£18.8m (2020)
£16.4m (2019)

IFRS (LOSS)/PROFIT BEFORE TAX

£(9.1)m (2020)
£6.4m (2019)

IFRS NAV

£166.3m (2020)
£180.3m (2019)

ADJUSTED PROFIT BEFORE TAX[1]

£8.0m (2020)
£8.9m (2019)

EPRA NAV PER SHARE[2]

364p (2020)
407p (2019)

1 For more information see note 6 on page 107.
2 For more information see note 7 on page 108.

COVID-19 RESPONSE

Covid-19 has had a significant impact on the UK economy since the Government enforced lockdown in March 2020. We have responded quickly to ensure our stakeholders are supported and the underlying resilience of the business is maintained.

OUR PEOPLE:

- The health and well-being of our people has always been our priority. All of our office-based staff were encouraged to work from home from 16 March.
- Our Asset Managers contacted every tenant in order to understand their needs and work through the economic challenges that they are facing.

OUR PORTFOLIO

- Covid-19 has made day-to-day operations difficult and complex for many of our tenants. For tenants most in need, we have agreed a range of rent concessions.

OUR FUNDING

- Palace Capital has a strong balance sheet and remains well placed to deal with the unprecedented challenges Covid-19 presents.
- Our major development at Hudson Quarter York is now fully debt funded and there are minimal capital expenditure commitments across the rest of the portfolio.
- We are financially robust with a Loan To Value of 38% and £47.8m of cash and available facilities as at 31 March 2020.

CONTENTS

INVESTMENT CASE

REGIONAL INSIGHT...

01 ENTREPRENEURIAL AND OPPORTUNISTIC APPROACH

We are entrepreneurial and opportunistic in our approach to stock selection. We are not restricted to one sector and evaluate each opportunity on its own merits with a view to limiting exposure to sector specific fluctuations.

02 PROACTIVE ASSET MANAGEMENT STRATEGIES

We apply proactive asset management strategies to unlock sustainable cash returns by growing rents and improving occupancy. Within our investment portfolio we have identified potential development opportunities which, providing they are viable, we will look to unlock over the medium term to deliver real estate which meets occupational demands.

03 STRONG AND EXTENSIVE EXPERTISE AND RELATIONSHIP NETWORK

The management team are regional experts with exceptional market penetration through their relationship networks and extensive property and financial backgrounds.

...DELIVERING TOTAL SHAREHOLDER RETURNS

04 TOTAL RETURN MODEL

We operate on a total return basis so it is important for us to grow our capital values as well as our income. We have established a core portfolio of sustainable income-producing assets which has enabled us to reward investors with an attractive dividend. Furthermore, we have the flexibility to reinvest surplus capital to refurbish, reposition and recycle property.

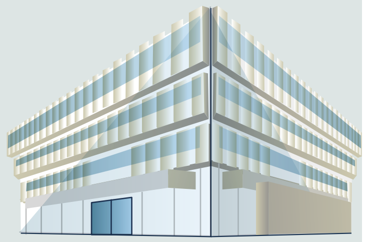
05 INVESTED IN SECTORS AND LOCATIONS WITH GOOD GROWTH PROSPECTS

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

06 DIVERSIFIED PORTFOLIO

We have a carefully selected portfolio across the UK, diversified by location, sector and tenant in order to limit risk and capitalise on rental growth dynamics.

We see particular value in university towns and cities with good infrastructure such as major road arteries and fast rail links because urbanisation and population growth drive demand for commercial space.



DEVELOPMENT PIPELINE

PROGRESSING OUR DRIVERS OF GROWTH

TOTAL POTENTIAL AREA

>209,000sq ft

HIGH STREET, WEYBRIDGE. Planning consent obtained for 28 residential units. — 23,000sq ft

HIGH STREET, UXBRIDGE. Planning application submitted for 10 residential units. — 6,000sq ft

MILBARN MEDICAL, BEACONSFIELD. Potential for up to 10,000 sq ft of mixed use development, treble the existing floorspace. — 10,000sq ft

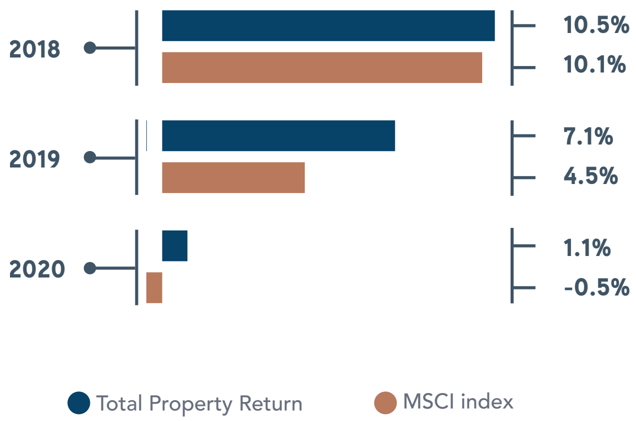
MIDSUMMER BLVD, MILTON KEYNES. Potential for at least 100,000 sq ft of mixed use development. Design and pre-application for planning being considered. — 100,000sq ft

HOLLY WALK, LEAMINGTON SPA. Potential 70,000 sq ft mixed use development. — 70,000sq ft

2020 2021 2022 2023 2024 and beyond

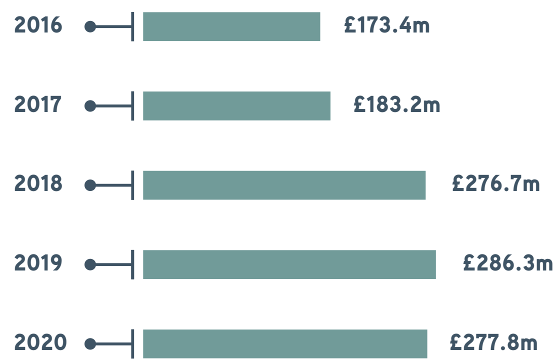
TOTAL PROPERTY RETURN VS MSCI INDEX – THREE YEAR TRACK RECORD

Total Return 2018 – 2020 % pa



PORTFOLIO VALUATION

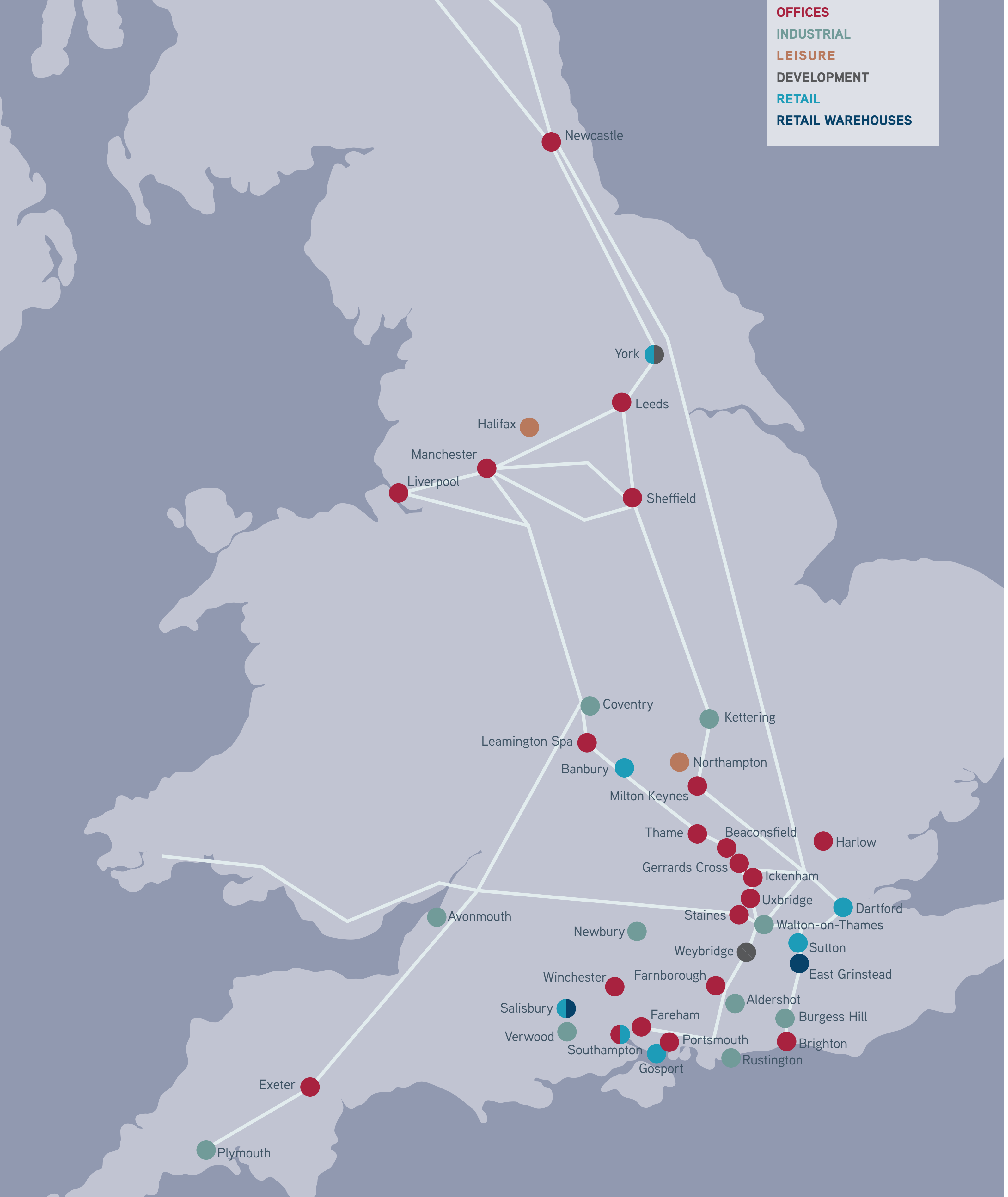
Total Value/£m



FOR MORE INFORMATION SEE NOTE 9 ON PAGES 110–113

FOR MORE INFORMATION SEE GLOSSARY ON PAGES 137–138

AT A GLANCE



TOP 10 PROPERTIES BY VALUE

YORK

AREA – 130,000 sq ft
Rental income: **N/A**

Hudson Quarter is a residential and office development within York's city walls comprising 127 apartments and 39,500 sq ft of grade A office space. Construction is due to complete in Q1 2021.

Distance from train station:
0.1m **2 min**

HALIFAX

AREA – 117,767 sq ft
Rental income: **£1.8m p.a.**

Broad Street Plaza is a dominant city centre leisure scheme anchored by a ten screen Vue cinema and a car park. Other operators include Wetherspoons, PizzaExpress, TGI Friday's and PureGym.

Distance from train station:
0.5m **12 min**

NEWCASTLE UPON TYNE

AREA – 99,125 sq ft
Rental income: **£1.3m p.a.**

Multi-let office block in the city centre with existing tenants including Serco and the National Lottery. Two refurbished floors are available to let.

Distance from train station:
0.3m **6 min**

NORTHAMPTON

AREA – 189,203 sq ft
Rental income: **£1.8m p.a.**

Dominant city centre leisure scheme incorporating a Vue Cinema, Ibis hotel and Gravity Fitness. 22,000 sq ft of vacant space is available to let.

Distance from train station:
0.2m **4 min**

MANCHESTER

AREA – 74,653 sq ft
Rental income: **£0.8m p.a.**

Boulton House is an eight storey office block in Manchester clty centre within walking distance of Piccadilly mainline station. A variety of refurbished suites are available to let.

Distance from train station:
0.3m **7 min**

LIVERPOOL

AREA – 70,161 sq ft
Rental income: **£1.1m p.a.**

City centre office and retail property with tenants including Tesco, Medicash and Exchange Chambers. 100% occupied and let.

Distance from train station:
0.5m **11 min**

LEEDS

AREA – 88,036 sq ft
Rental income: **£0.5m p.a.**

Multi-let city centre office building let to the Bank of England and JM Bentley. 33,000 sq ft is available for let on a short-term basis.

Distance from train station:
0.1m **2 min**

MILTON KEYNES

AREA – 52,818 sq ft
Rental income: **£0.7m p.a.**

Our three buildings in Kiln Farm are let to Rockwell and Monier Redland. They offer low passing rents and potential for growth.

Distance from train station:
2.9m **8 min**

EAST GRINSTEAD

AREA - 30,672 sq ft
Rental income: **£0.5m p.a.**

Multi-let Retail Warehouse in prominent location let to Wickes and Pets at Home on long-term leases.

Distance from train station:
1.4m **4 min**

VERWOOD

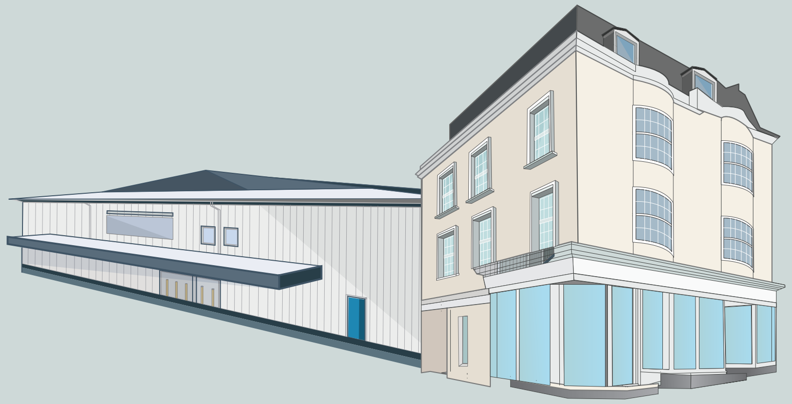
AREA - 65,765 sq ft
Rental income: **£0.4m p.a.**

Multi-let industrial estate with two refurbished units available for letting. Rental levels have grown by 30% since purchase.

Distance from train station:
11.2m **18 min**

Strategic Report

We acquire regional properties and unlock value to create sustainable assets through our proactive management approach to property investment.



WHAT WE DO

01 ACQUIRE

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

02 REFURBISH

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

03 REDEVELOP

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

04 REINVEST

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

REGIONAL FOCUS: THE NORTH

WE HAVE BEEN FOCUSED ON REGIONAL PROPERTY INVESTMENT OUTSIDE OF LONDON FOR A DECADE. WE SEE PARTICULAR VALUE IN UNIVERSITY TOWNS AND CITIES AND SELECT ASSETS WHICH ARE CLOSE TO LOCAL AND NATIONAL INFRASTRUCTURE.

Regional cities have continued to grow steadily in recent years. Following the General Election in December 2019, it is expected that the Government will introduce initiatives to support growth and development to reduce the North / South divide.

WHY THE NORTH?

There are many towns and cities which have the potential to provide rental and capital growth. Some of these larger cities are now included in the Northern Powerhouse and we have invested in these locations.

We expect the economies in the North, in particular the Yorkshire and the Humber region, to out-perform other areas of the UK in the next few years. There has been more clarity over the future of HS2 which when complete will increase connectivity throughout the UK and encourage more companies to locate away from London. Although it is forecast that the route will take until 2032 to complete, it is already encouraging more investment in the North.

Newcastle:

Speculative development of office space and strong take-up in the industrial and logistics market prove promising with prime office headline rents now at £26 psf and vacancy rates at an all-time low of 4%. Coupled with over 85,000 university students, Newcastle is an attractive and vibrant university city.

Liverpool:

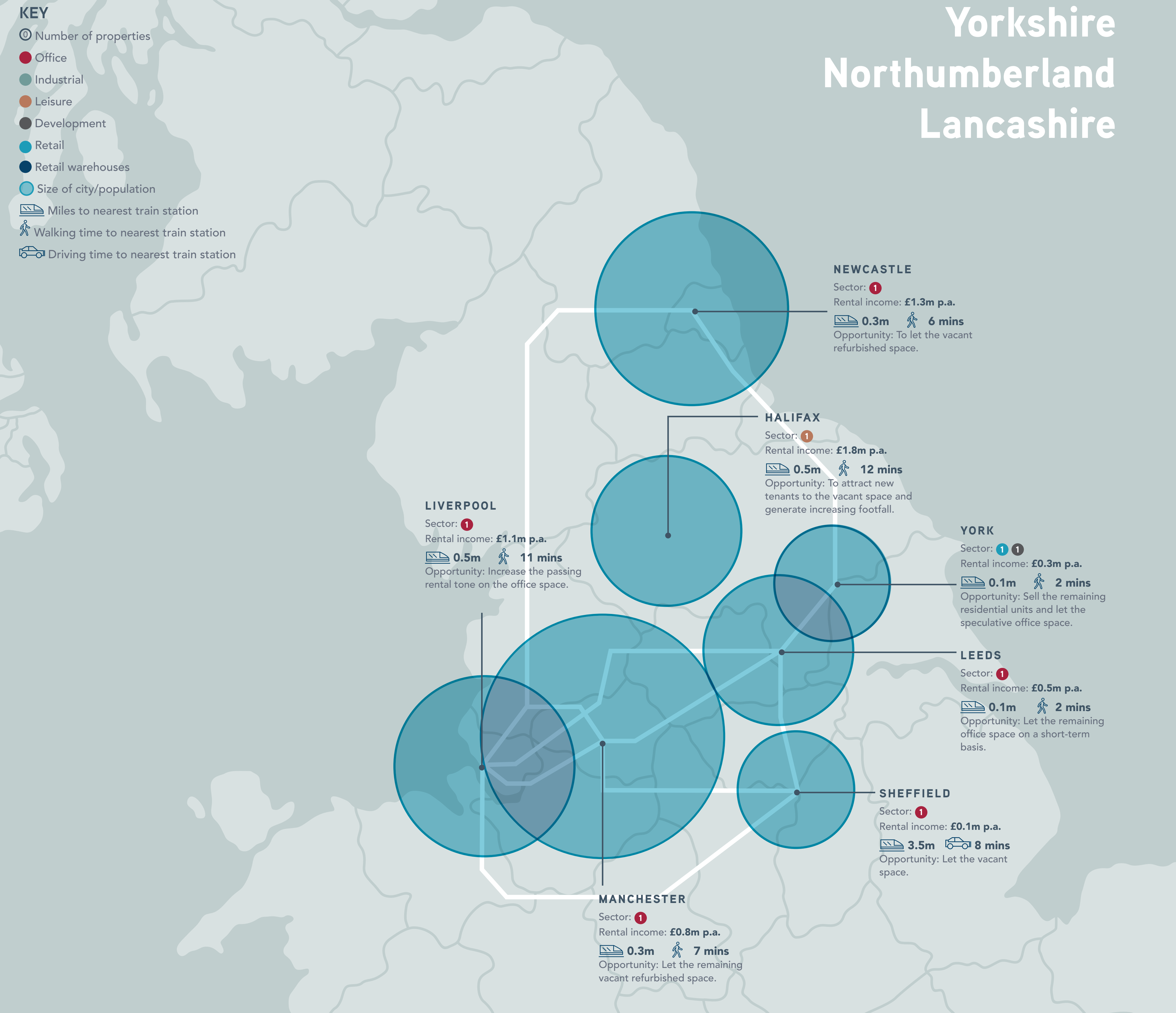
Office take-up in the city region continues to increase year on year with several key projects currently under construction and in planning, such as Paddington Village and the mixed-use Pall Mall scheme.

Home to three major universities, there are over 55,000 university students and in 2019 the city welcomed over 64 million visitors.

Leeds:

Leeds is the biggest contributor to the Northern Powerhouse – the city is England's largest regional finance centre with a total workforce of 1.4 million people in the Leeds City Region. Over the last decade there has been significant investment in large-scale mixed-use development projects, with a further £7.3bn worth of development under construction and in the pipeline. Channel 4's decision to open its national headquarters in Leeds has further marked the city as a hub for innovation and creativity.

Yorkshire Northumberland Lancashire



REGIONAL FOCUS: THE MIDLANDS

THE LARGEST INFRASTRUCTURE PROJECT IN EUROPE, HS2, IS SET TO LINK LONDON TO BIRMINGHAM AND BEYOND BY A FAST RAIL CONNECTION WITH TRAIN SPEEDS OF UP TO 225MPH ENABLING AS MANY AS 14 JOURNEYS PER HOUR.

WHY THE MIDLANDS?

We see great potential in the Midlands. Cities such as Birmingham are already moving in the right direction with developments such as the first phase of Paradise and Three Snowhill nearing completion and an even more exciting future pipeline. The East Midlands economy has grown steadily in recent years and a strong transport network should enable further economic growth.

Milton Keynes:

Milton Keynes is an active market with increasing rents, strong demand and a welcome return of development. With the town set to benefit from key transport infrastructure improvements, the fundamentals for continuing rental growth and inward investment are in place over the short and medium term, both in town and out of town.

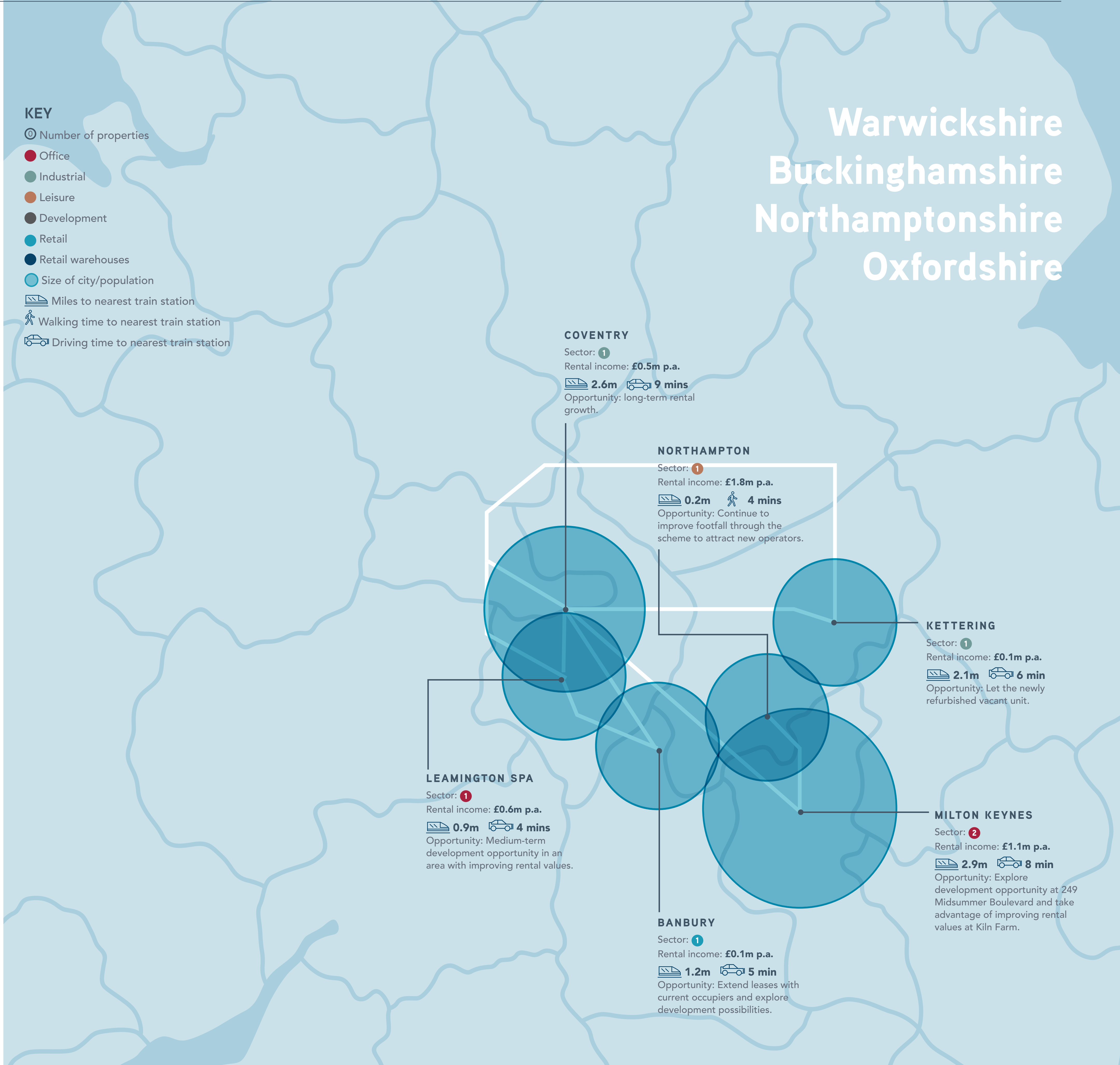
Milton Keynes has attracted a large volume of headquarter occupiers, including Network Rail, Santander, Mercedes Benz, Nissan and Volkswagen and is home to over 10,000 businesses, 75% of which consider Milton Keynes as their headquarters.

At a headline rent of £27.50 psf on new stock, Milton Keynes offers an attractive discount to the competing South East region. With the Milton Keynes University due to open in 2023, we see this as a growth area in the medium to long term.

Northampton:

Northampton is one of the largest urban centres in the United Kingdom without city status and is the most populous non-metropolitan district of England. The main private-sector employers are in distribution and finance and it is also home to Barclaycard and Nationwide Building Society as well as Carlsberg.

The University of Northampton is also a major employer, with 700 staff members and 14,000 students. The University opened a new campus in 2018 which was a £330m development and is within a 15 minute walk of our Sol Northhampton scheme. The council are keen to promote the many developments planned for the centre which include the Waterside scheme which is opposite our scheme and would provide up to 60,000 sq ft of grade A space when a private sector partner is found.



REGIONAL FOCUS: THE SOUTH

PALACE CAPITAL HOLDS OVER 25% OF ITS PORTFOLIO IN THE SOUTH EAST – MAINLY OFFICES IN TOWNS AND CITIES INCLUDING STAINES, UXBRIDGE, SUTTON AND FARNBOROUGH.

Beyond Greater London and the South East, Palace Capital owns assets across the major cities in the South, including Brighton, Southampton, Winchester and Exeter.

WHY THE SOUTH?

The South East has long been recognised as the second-most prosperous region in the UK after London. Ahead of the Covid-19 pandemic, the South East region was expected to grow significantly by the end of 2023, with strong employment growth. Meanwhile, the South West region continues to be a hub for aerospace and advanced engineering in the UK.

Weybridge:

Weybridge is a Surrey commuter town with regular trains to the capital. Its real estate prices are well above the national average. During the year we engaged a professional team and obtained planning consent to develop 28 residential apartments and 4,000 sq ft of ground floor retail space. See page 34 for further information.

Brighton:

Only 54 miles from London, with a direct train in under an hour, Brighton is a commuter town as well as being a significant hub for businesses including some well-known multinationals such as American Express.

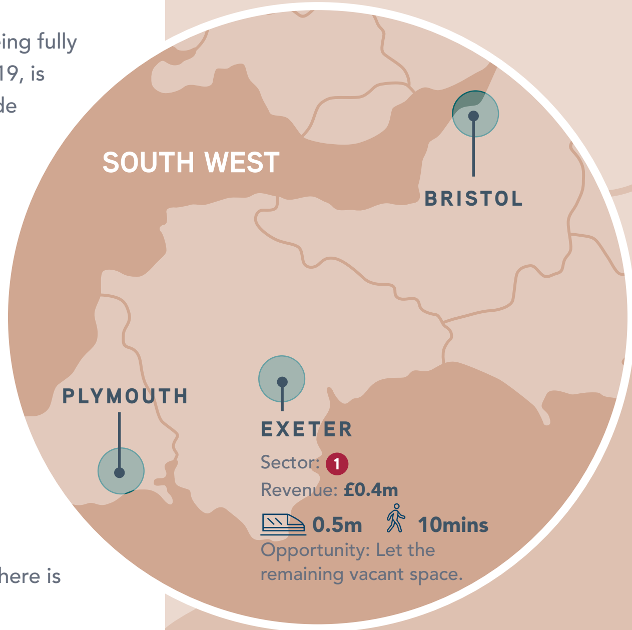
The success of The Brinell Building (65,000 sq ft), being fully pre-let eight months prior to completion in June 2019, is a testament to the attractive demand and supply side factors in this city.

Prime office headline rents are now at £32 psf and the office vacancy rate is currently at 7%.

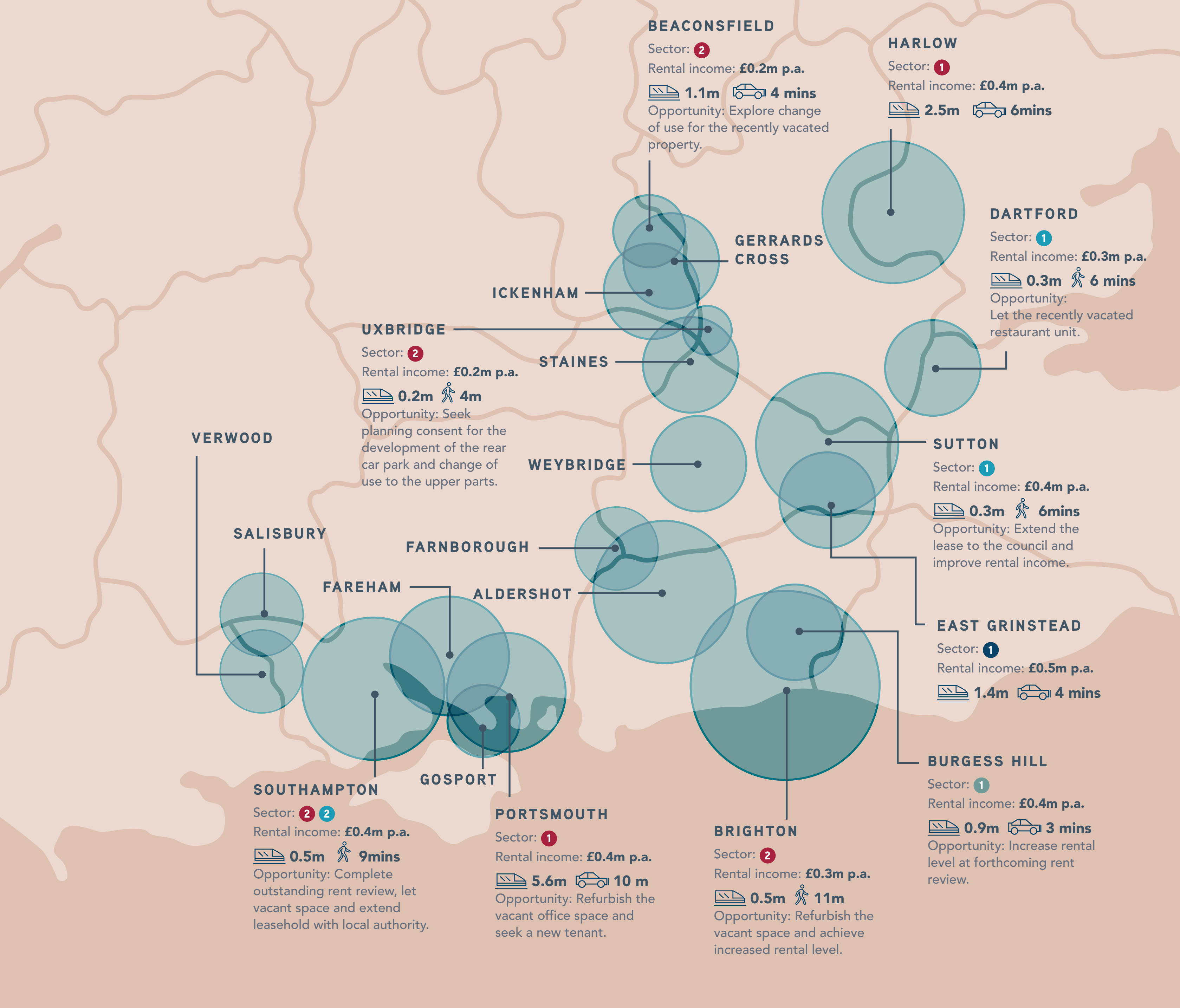
Winchester

Winchester has a critical shortage of office supply and experienced limited activity in 2019. However, it remains in strong demand should new space be delivered and office rents across the region were up in 2019, boosted by constrained supply and rising demand for better quality spaces.

Prime office headline rents are now at £25 psf and there is further growth expected.



Oxfordshire, Essex, Kent, Buckinghamshire, Berkshire, Wiltshire, Dorset, Hampshire, Sussex, Middlesex and Surrey



Other properties at: Newbury, Rustington, Thame and Walton-on-Thames

BUSINESS MODEL

KEY RESOURCES

OUR PEOPLE

- Extensive property and financial expertise
- Over 100 years of combined real estate expertise
- Regional expertise
- Entrepreneurial and proactive approach to property investment

OUR PORTFOLIO

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

OUR FUNDING

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

PORTFOLIO MIX AND FINANCIAL BENEFIT

CORE-PLUS

The core of the portfolio has medium/long leases, high occupancy and a strong income profile.

BENEFIT

Sustainable income generated, used to fund dividends

READ MORE ABOUT CORE-PLUS ASSETS ON PAGES 18 AND 19

Core-plus

Value-add

Opportunistic development

ACQUISITION OF ASSETS

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

VALUE-ADD

We reinvest surplus capital to adapt to changing occupier demands

BENEFIT

Short-term upside in rents and portfolio value

READ MORE ABOUT VALUE-ADD ASSETS ON PAGES 20 AND 21

OPPORTUNISTIC DEVELOPMENT

Within the investment portfolio, we have identified potential development opportunities, which will unlock significant growth over the medium/long term.

BENEFIT

Medium/long-term upside in rents and portfolio value

READ MORE ABOUT OPPORTUNISTIC DEVELOPMENT ON PAGES 22 AND 23

DISPOSAL AND REINVESTMENT

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

CHARACTERISTICS OF DISPOSALS:

01 Assets with limited growth prospects

02 Non-core assets that don't fit with our regional office and industrial strategy

03 Assets where we can realise profit that reflects good value from our investments, which we can reinvest into growth opportunities

04 Assets that are vacant

VALUE CREATED

INVESTORS

- We have a total return strategy, involving increasing capital return as well as income returns.
- Ambition to outperform our sector as measured against MSCI benchmark.

TOTAL PROPERTY RETURN

1.1%

versus MSCI Index: -0.5%

TENANTS

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

SPACE LET IN THE YEAR

292,000sq ft

COMMUNITIES

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

NO. OF COMMERCIAL LEASES ACROSS PORTFOLIO

220

STRATEGY

Our focus is on value creation through our targeted acquisition of regional commercial property.

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

READ MORE ABOUT OUR KPIS ON PAGES 24 AND 25

READ MORE ABOUT OUR RISKS ON PAGES 40–45

KPIs KEY

1. Total Property Return (TPR)
2. Total Shareholder Return (TSR)
3. Total Accounting Return (TAR)
4. Rental Growth versus ERV
5. Adjusted PBT
6. EPRA Vacancy Rate %
7. LTV of Group Debt
8. Average Cost of Debt

PRINCIPAL RISKS KEY

1. Development
2. Tenant
3. Financing and Cash Flow
4. Economic and Political
5. Accounting, tax, legal and regulatory
6. Operational
7. People
8. Portfolio

We acquire strategically located properties and revitalise them to create sustainable assets.

01

GROW OUR REGIONAL PORTFOLIO

We are continuously reviewing opportunities to grow the business and extend our income through both direct property and corporate acquisitions.

Through our conservative capital structure we are able to access capital and debt on attractive terms in order to support acquisitions. We have a robust programme of investor relations practices and through our careful approach to capital allocation we ensure every opportunity supports our total return model.

Progress during the year

- Monitored the market closely for potential acquisitions
- Refinanced two debt facilities, increasing average debt maturity to 3.9 years
- Made 26 presentations over four roadshows in Dublin, Edinburgh, Jersey and London

Future Focus

- Seek income-enhancing acquisitions focused on our core office and industrial sectors
- Maintain conservative levels of cash to support potential investment
- Maintain strong banking relationships
- Reduce the discount to NAV to the share price through our investor relations programme and engagement with retail investors and wealth managers as well as institutions

Link to KPIs
1 2 4 5 7 8

Link to risks
1 3 4 6 8

02

GENERATE ATTRACTIVE TOTAL RETURNS

Our long-term strategic objective is to outperform our peer group on a total return basis.

We measure ourselves against the MSCI industry benchmark.

To ensure we deliver on this strategy we acquire assets across a range of risk/return strategies from core-plus to value-add, through to opportunistic developments.

Progress during the year

- Outperformed the MSCI benchmark by 1.5%
- Secured new lettings 9% above the estimated rental value
- Increased annual rent by 21% on lease renewals

Future Focus

- Improve sustainability of dividend
- Grow recurring income through lease renewals and re-gears and reduce void costs
- Secure pre-lets on office space and complete sales programme for the 127 residential apartments at Hudson Quarter development, York
- Identify the optimum time to dispose of assets earmarked for sale
- Continue to outperform the MSCI benchmark

Link to KPIs
1 2 3 4 5 6

Link to risks
3 4 8

03

MANAGE OUR ASSETS EFFECTIVELY

We apply proactive asset management strategies balancing income generation and development activity.

By recycling equity out of under-performing assets, we can deploy this into refurbishment and other value-add opportunities in order to reposition assets and meet occupational demand. We have an opportunistic pipeline of assets which are well positioned for medium-term development.

Progress during the year

- Disposed of the final 34 residential units from the RT Warren portfolio
- Obtained planning consent for a development at High Street, Weybridge
- Surrendered short leashold at Priory House, Birmingham for £2.85m at a 25% premium to book value

Future Focus

- Increase sold units and achieve practical completion at Hudson Quarter, York in 2021
- Continue to identify assets within portfolio for optimum timing of disposal
- Improve occupier engagement
- Continue to identify assets that require improvement in order to grow rental values

Link to KPIs
4 6

Link to risks
1 2 6 8

04

BE A RESPONSIBLE COMPANY

We are committed to conducting our business responsibly and focusing on the issues that matter most to each of our stakeholder groups.

We continue to embed corporate responsibility initiatives into our daily business practices and seek to operate in a way that provides a positive contribution to society and creates sustainable value for our shareholders.

Progress during the year

- Established a CSR Committee and Workforce Advisory Panel
- Focused on tenant engagement initiatives
- Expanded environmental data collection

Future Focus

- Improve our environmental performance
- Continue to work alongside our tenants supporting their business occupational needs
- Retain and develop our talented workforce

Link to KPIs
2 6 7 8

Link to risks
2 5 7

CASE STUDY: CORE-PLUS

ONE DERBY SQUARE – LIVERPOOL

ONE DERBY SQUARE

This imposing building with extensive frontages onto Lord Street, Castle Street and Derby Square comprises 70,000 sq ft of office and retail units over five floors.

The property was acquired for £14.0m in December 2018 and included tenants such as Pret A Manger, Tesco, Medicash and Exchange Chambers.

During the year we completed three lease events which increased the rental income to £1.1m p.a. and full occupation.

LIVERPOOL

Liverpool is the 6th largest City in the UK and 2nd largest in the North West region, after Manchester. The City has undergone a major resurgence since being awarded European Capital of Culture in 2008, with investment of over £3bn in construction and infrastructure projects. The City is also home to four universities with an annual student population of approximately 50,000. Liverpool has experienced above average improvements in the skills of both 16-24 and 25-64 year olds, in housing affordability and in terms of falling carbon emissions. (Good Growth for Cities, PwC Report 2019)

RENTAL INCOME:
£1.1m p.a.

ACQUISITION DATE:
12/2018

OCCUPANCY LEVEL:
100%

AREA:
70,161 sq ft

SECTOR:
Office / Retail

CASE STUDY: VALUE-ADD

BOULTON HOUSE – MANCHESTER

BOULTON HOUSE

We had sought to purchase an office building in Manchester city centre for a few years prior to this acquisition in August 2016. Demand was high prior to the announcement of a referendum to remain within the EU, whereupon many buyers became nervous about the property market. We took the view that the property fundamentals and pricing were attractive to complete a purchase.

Totalling just under 75,000 sq ft, at the time of purchase office rents in the building were £12 psf exclusive. A number of vacant office suites required refurbishment which in 2017 was completed and included an upgrade to the ground floor reception area. Following this capital expenditure of £0.8m we have increased the rental tone to £18.50 psf. During the year six lease events were completed increasing the annual rent by £0.26m per annum. We expect to see continued growth in this asset as leases expire and tenants have rent reviews in the coming years.

Many leases are due to expire during 2024 and the building offers a medium-term development opportunity. Located in a prime growth hub within a few minutes walk of Manchester Piccadilly mainline station and only 1 mile from the university, we expect this location to be part of significant regeneration planned for Manchester in the long term.

MANCHESTER

Capital of the Northern Powerhouse and once again, named by The Economist as the most liveable city in the UK in 2019. Manchester has held top spot for Britain every year since the "Global Liveability Index" was launched in 2011 which is based on factors such as political and social stability, crime rates, education, access to healthcare, environment, culture and infrastructure. Business too thinks Manchester is a great place to locate and grow, with a record take-up of office space in 2019. Growing numbers of people are choosing Manchester as a place to study and live, helping to fuel a record number of 4,380 new jobs for the city region and a boom in both the start-up tech and creative sectors.

INCREASE IN ERV SINCE ACQUISITION:

26.5%

RENTAL INCOME:

£814,924 p.a.

ACQUISITION DATE:

08/2016

OCCUPANCY LEVEL:

80.0%

AREA:

74,653 sq ft

SECTOR:

Office

CASE STUDY: OPPORTUNISTIC DEVELOPMENT

HUDSON QUARTER - YORK

HUDSON QUARTER

This two acre property was very much the "jewel in the crown" from the Signal portfolio, acquired in September 2013. The office building was 45 years old and comprised 100,000 sq ft which was predominantly vacant and required significant capital expenditure. We looked at numerous options to maximise shareholder returns.

The property fundamentals are key to why we see this property as being transformational to our Company with significant capital enhancement options. Transport connections are excellent, having a direct non-stop train service to King's Cross in 1 hour 50 minutes. Plans to regenerate the vast area of vacant railway land known as York Central include the upgrade of the adjacent station. Residential sales values have remained strong and even in the financial crisis of 2009 plateaued rather than fell. The demand for office space is strong and rental values were predicted to grow at the time of purchase.

Between December 2014 and August 2017, we engaged with City of York Council and local interest groups to obtain planning permission for a new build development. The final scheme comprises three blocks totalling 127 high end residential apartments and a Headquarters grade A office building of 35,000 sq ft as well as a further ground floor unit of 4,500 sq ft and associated car parking.

The blocks are all set within landscape gardens close to the historic city wall.

Demolition was completed in December 2018 following which Caddick Construction was appointed contractor for a £33.6m development of the site. This is part funded by a £26.5m debt facility from Barclays with the balance from our cash reserves. Practical completion remains on course for spring 2021.

RESIDENTIAL SALES

During the financial year, contracts were exchanged on the sale of 28 apartments with 17 under offer. We continue to see demand for the units and anticipate continued sales during the construction process.

OFFICE LETTINGS

We have sought a single occupier for the Hudson Quarter office property. Interest is strong from a number of tenants, some of whom seek the whole or part of the building. We continue to negotiate with a number of parties and will announce progress in due course. In the meantime, we have pre-let the ground floor of Victoria comprising c.4,500 sq ft to a subsidiary of Knights plc for ten years at £25 psf, which is the highest rent achieved in York.

NO. OF APARTMENTS:

127

APARTMENTS SOLD AT 31 MARCH 2020:

28

EXPECTED COMPLETION:

Spring 2021

AREA OF OFFICE SPACE:

39,500 sq ft

SECTOR:

Office/ Residential

- 1 Network rail — under 5 minutes
- 2 City of York Council
- 3 Aviva
- 4 Langleys Solicitors
- 5 Sainsburys
- 6 Micklegate
- 7 National Railway Museum
- 8 Yorkshire Museum — under 10 minutes
- 9 Prime Retail
- 10 All High Street Banks
- 11 Bettys Cafe Tea Rooms
- 12 M&S and Market
- 13 Jorvik Viking Centre
- 14 Clifford's Tower — under 15 minutes
- 15 Castle Museum
- 16 Hiscox
- 17 York Minster

KPIs

We measure our performance using KPIs linked to our strategic priorities.

To align the focus of management with the interests of shareholders, some KPIs are reflected in our remunerations schemes as set out in the Directors' Remuneration Report.

Where possible, we link our performance to EPRA best practice recommendations, recognised as industry standard measures. We also consider that industry standard measures, such as those calculated by MSCI, are appropriate to use alongside certain EPRA measures and others that are relevant to our business.

READ MORE ABOUT OUR STRATEGY ON PAGES 16 AND 17

SOL – NORTHAMPTON

01 TOTAL PROPERTY RETURN (TPR)

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

Why we use this measure

Our long-term strategic objective is to outperform our peer group on a total return basis. This is the industry benchmark across the UK

Performance Vs benchmark

1.1% 2020 (MSCI: (0.5)%)

7.1% 2019 (MSCI: 4.5%)

2020/21 ambition

Outperform the MSCI IPD UK Quarterly Index

Link to strategy

1 2

Link to remuneration

- Annual Bonus and LTIP

02 TOTAL SHAREHOLDER RETURN (TSR)

Measures the performance of the Company share price over the year including any dividends paid in the period

Why we use this measure

Actual market-based returns achieved by an investor

Performance

(30.9)% 2020

(6.0)% 2019

2020/21 ambition

Reduce the discount between the share price and NAV

Link to strategy

1 2 4

Link to remuneration

- LTIP

03 TOTAL ACCOUNTING RETURN (TAR)

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

Why we use this measure

This measure takes into account the actual income return to shareholders measured by dividends added to the underlying net asset value growth

Performance

(7.5)% 2020

2.6% 2019

2020/21 ambition

Deliver superior underlying shareholder value as measured by TAR

Link to strategy

2

Link to remuneration

- LTIP

04 RENTAL GROWTH VERSUS ERV

Increase in net rental income above estimated rental value (ERV)

Why we use this measure

To identify the underlying income growth of the portfolio generated through asset management

Performance

6% 2020

14% 2019

2020/21 ambition

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

Link to strategy

1 2 3

05 ADJUSTED PBT

The Company uses recurring earnings, stripping out fair value movements and one-off items, as the basis for establishing the dividend cover

Why we use this measure

To demonstrate the sustainability of dividends paid

Performance

£8.0m 2020

£8.9m 2019

2020/21 ambition

To ensure we drive recurring income and maintain our dividend cover

Link to strategy

3

Link to remuneration

- Annual Bonus

06 EPRA VACANCY RATE %

Vacancy rate of investment portfolio measured against portfolio ERV

Why we use this measure

Maintain strong occupier contentment and retention

Performance

13% 2020

13% 2019

2020/21 ambition

Maintain high occupancy across the investment portfolio in order to maximise income and minimise costs

Link to strategy

2 3 4

Link to remuneration

- Annual Bonus

07 LTV OF GROUP DEBT

Debt drawn less cash held as a fraction of portfolio valuation

Why we use this measure

To demonstrate our commitment to a conservative level of gearing

Performance

38% 2020

34% 2019

2020/21 ambition

Maintain LTV at less than 40%

Link to strategy

1 4

08 AVERAGE COST OF DEBT

Average cost of debt drawn to finance investment portfolio

Why we use this measure

To demonstrate financial efficiency by maintaining lower cost of finance to drive returns

Performance

3.1% 2020

3.3% 2019

2020/21 ambition

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

Link to strategy

1 4

CHIEF EXECUTIVE'S REVIEW

Neil Sinclair
CHIEF EXECUTIVE

I did not expect to be reporting to you during an unprecedented lockdown, a pandemic and a severe jolt to our economy.

Remote working has enabled us to conduct our business successfully during this period, with our first task being to conduct an extensive stress test on our Company, taking into account the sudden deterioration of the UK economy. Our Board was very satisfied with the outcome, the details of which can be found in our viability statement. Over the past year, we continued to execute our strategy aimed at growing our income, and as part of that we have been pushing ahead with our refurbishment and redevelopment programme, including our flagship development, Hudson Quarter in York.

As expected, our capital expenditure on these value enhancing projects, together with the impact of Covid-19 in the last month of our financial year, has had an effect on the value of our portfolio. In recognition of the uncertainty created by the pandemic, real estate companies have been subject to a material uncertainty clause from independent valuers.

Our EPRA earnings for the year were £10.8m resulting in EPRA earnings per share of 23.4p (2019: 16.6p). However, as a result of the reduction in the value of our properties for the reasons outlined, we are reporting a statutory loss before tax of £9.1m.

We continue to be an exciting and ambitious property investment company with a quality portfolio that has been carefully selected. Our active asset management strategy aims to maximise the potential of those assets and across 47 new lettings, rent reviews and lease renewals over the course of the year we have increased our contractual rental income by £1.8m per annum.

HUDSON QUARTER – YORK

PORTFOLIO VALUATION
£277.8m
-3.0%

NET RENTAL INCOME
£18.8m
+14.1%

STRATEGY

Our focus since we were founded ten years ago has been on value creation through targeting regional assets and creating increased value through refurbishment and redevelopment, underpinned by the positive fundamentals in those locations in which we have chosen to invest. This strategic capital expenditure is not necessarily reflected in increased values until the properties are completed and let or sold. The effect of Covid-19 in the final month of our financial year has not been helpful. However, notwithstanding current market conditions, we firmly believe that this strategy of selected, value enhancing capital deployment is the right policy which will benefit shareholders over the medium to long term, particularly when we turn the corner and the economy begins to recover.

Offices make up nearly 50% of our portfolio. The regions have been starved of supply of good quality office space with limited construction and the amount of office space lost to Permitted Development without being replaced, particularly in cities such as Liverpool, Southampton, Winchester and Brighton. This supply pipeline is unlikely to be replenished any time soon and we believe that we will continue to see underlying growth in our portfolio.

REGIONAL FOCUS

Through careful stock selection we have acquired city centre office buildings in Liverpool, Manchester, Leeds and Newcastle, adding to that a 35,000 sq ft office building as part of the Hudson Quarter development only one minute's walk from York Station. All of these properties fall within the domain of the Northern Powerhouse, which we firmly believe in, and following the election of a Conservative Government with a significant majority we expect to be a beneficiary of the Prime Minister's "levelling up agenda". This is intended to boost the regions, particularly the Midlands and the North where we are very well represented.

The authorisation for the construction of HS2 is just the beginning and we expect to see further backing for Northern Powerhouse rail infrastructure in the near future, with the first stage being a high speed connection between Leeds and Manchester. In due course the government's intention is to connect Hull, Leeds, Manchester, Sheffield, Liverpool and Newcastle.

Graduate retention is rising in the core regional cities with Manchester at over 50%, Birmingham at just under 50% and Newcastle at over 35%. This is encouraging for companies seeking to relocate to the regions as it gives them the confidence that they can secure the appropriate talent, which was not the case even ten years ago.

One of the nasty effects of Covid-19 is unemployment and we are confident that the Government will provide every possible incentive to regenerate hard-hit areas, particularly in the Midlands and the North. We are well placed to play our part in supporting the growth of the regional economy.

READ MORE ABOUT OUR STRATEGIC PRIORITIES ON PAGES 16 AND 17

HUDSON QUARTER – YORK

2020 HIGHLIGHTS

As stated earlier, we have had a very active year. We sold the 34 remaining residential properties in the Warren portfolio for £11.7m, bringing the total to 63 non-core properties disposed in all since the Warren portfolio was acquired. We have retained two for strategic reasons because they adjoin one of our commercial properties.

The construction of our flagship project at Hudson Quarter, York where we are building 127 apartments and 39,500 sq ft of offices has only been slightly impacted by Covid-19. We are working with a strong and highly reputable Yorkshire contractor who has long-standing relationships with its subcontractors, and this has proved particularly helpful in ensuring that work has continued throughout the lockdown period (in adherence with government guidelines) and delays have been minimised. The project is due for completion in March 2021.

CHIEF EXECUTIVE'S REVIEW

Although the marketing suite was closed during the lockdown interest in the apartments continued to be robust through our website and social media, and the suite has now reopened. As at 30 June 2020 we had exchanged contracts on 32 apartments to the value of £8.5m, while five apartments are currently under offer to the value of £1.6m.

Victoria, one of the four buildings at Hudson Quarter, has a commercial use at ground floor level and in February we pre-let 4,500 sq ft to Knights, the quoted law firm, at a record rent for York of £25 psf per annum.

VALUATIONS

Our independent valuations show a decrease of 5.7%, compared to the like-for-like values as at 31 March 2019. This takes into account the reduction due to Covid-19; our capital expenditure strategy, where value impacts are yet to materialise; and a small like-for-like decline. We have also taken the decision to develop some of our properties and this includes tactically securing vacant possession, which could be followed by demolition or short-term letting. This can naturally have a short term negative effect on values, but these are ultimately enhanced in the medium to long term when the new or refurbished buildings are completed and let or sold. We believe we will see the positive effect of this at Hudson Quarter and at other properties as our capital deployment begins to bear fruit.

Our EPRA Net Asset Value per share on 31 March 2020 was 364p which is 10.5% below that as of 31 March 2019. This is largely due to the impact of Covid-19 on the year end valuations.

PORTFOLIO

Our portfolio is now valued at £277.8m with a contracted rental income of £17.6m per annum. Our net rental income after surrender premiums and the deduction of property operating expenses is £18.8m for the year ended 31 March 2020. This value includes Hudson Quarter, York which is currently under construction and due for completion in March 2021.

One of the advantages of the regions is that rents are relatively modest compared to London, while the cost of living is lower and the quality of life considered high. We believe that companies will now examine whether they need to lease expensive offices, or as much office space, in and around London. Prior to Covid-19, several companies had already relocated out of London including Talk Talk (Salford), Burberry (Leeds), Channel 4 (Leeds) and Hiscox (York).

We currently have office space available in Milton Keynes and Leeds. In the current climate our view is that companies and the public sector will be very cost conscious, therefore we are reasonably confident that a sizeable proportion of our office vacancy will be let during this financial year.

We have two leisure assets at Northampton and Halifax which make up 13.7% of our portfolio and, in line with experiences across the sector, these have been particularly challenging. However, most of our properties are let to solid covenants, some of whom have recently carried out successful equity raises on the London Stock Exchange. We expect to collect any outstanding rental arrears from these tenants when the legislation protecting them expires.

At Sol Northampton during the lockdown period, we agreed with Accor, the largest hotel company in France, a five year lease extension from 2027 to 2032 in return for a six month rent-free period from March 2020. In view of the fact that the lease yields £0.5m per annum plus a share of turnover we consider this to be a very satisfactory outcome.

Our exposure to retail is limited but our two retail warehouses are let to Booker (a subsidiary of Tesco), Wickes (part of Travis Perkins) and Pets at Home, while our only supermarket is let to Aldi on a long lease. Our retail shops, of which there are few, are generally let at very modest levels.

We are not looking in the next month or two to increase the size of our portfolio until we see where the economy may be heading. Our focus will be on actively asset managing our portfolio and particularly on rent collection, making sure that we maintain maximum liquidity.

In addition to our cash balances, we have six uncharged properties with a total value of £18.2m and a 5.6% shareholding in a listed company valued at £2.5m at the year end. Most of these uncharged properties are earmarked for sale but only at a time of our choosing.

ASSET MANAGEMENT

We continue to make good progress with our properties in Milton Keynes, Weybridge, Leeds, Newcastle, Northampton and Leamington Spa which have been identified for refurbishment or redevelopment, although against the current backdrop we have taken the prudent decision to defer all non-essential capital expenditure for this year.

Notwithstanding this, we own a prime site in Weybridge, Surrey with planning consent for 28 apartments and a small amount of retail. Weybridge has always been a very buoyant area, even in difficult times, and we are now carrying out a review of the scheme in light of current market conditions. This is one of our uncharged assets so this could either be sold or alternatively developed, which we would only proceed with when we consider it the appropriate time. These economic conditions will mean that a number of potentially competing schemes will not go ahead. However, with a recovery in the residential market expected in 2022, it may be in our interest to commence the development in our next financial year, if the viability can provide an acceptable return.

We have plans to develop or refurbish our city centre properties in Leeds and Milton Keynes but even if satisfactory planning consents are secured, these projects will not commence until 2024 at the earliest. Based on my many years of experience throughout cycles, development can provide very lucrative returns if the timing coincides with a growing economic upturn. We will keep shareholders updated on these initiatives.

LISTED INVESTMENT

We currently hold 1,592,500 ordinary shares representing a 5.6% stake in Circle Property Plc, an AIM listed property investment company. This company is not dissimilar to ours but is considerably smaller and we continue to keep our shareholding under review.

INVESTMENT STRATEGY

As indicated, we have grown our portfolio based on very careful stock selection criteria. Besides our core office holdings in the Midlands and the North, we also have office buildings in Southampton, Winchester, Staines, Exeter and Farnborough with industrial holdings in Bristol, Burgess Hill, Verwood, Coventry, Kettering and Newbury. Office and industrial assets make up 60.3% of our portfolio.

In the period leading up to the General Election, with the uncertain backdrop caused by Brexit, there were very few investment opportunities for us to seriously consider, which met our strict value criteria and which we could recommend to shareholders. We have a strong commitment to our policy of not investing where we believe properties are overpriced, based on our many years of experience and in depth knowledge of the UK's regional markets, and this approach holds us in very good stead.

We will continue to focus on the office and industrial sectors. Our 39,500 sq ft office development in York will be retained within our portfolio as York has a very low vacancy rate and is the fastest connection to the North from London, being only 1 hour and 50 minutes by train. This building will have a WiredScore certificate "Platinum" making it one of the best in the country for connectivity.

The team at Palace Capital is highly experienced and has a deep network of contacts across the property and financial worlds, exposing us to both real estate and corporate opportunities. Most of our acquisitions since inception in 2010 have been corporate and we view this as a cost effective way of accessing property portfolios, so remain alive to any opportunities that may arise in the second half of the year.

DIVIDEND POLICY

We maintain a progressive dividend policy, however following the outbreak of the pandemic we proactively reviewed this in order to preserve maximum liquidity in the Group. Taking a prudent approach in view of the uncertainty, on 2 April 2020 we announced our decision to cancel the third quarter dividend.

Parliament has since passed the Corporate Insolvency and Governance Act 2020 and this prevents commercial landlords serving statutory demands or winding up orders on tenants who do not meet their contractual obligations. We are very proud of our good relationships with our occupiers, but unfortunately a few have taken the opportunity this legislation provides to avoid paying any rent and service charge, or to discount any need to engage with us to find a mutually satisfactory conclusion. This legislation has now been extended until 30 September 2020. As with other commercial property owners, it is restricting our ability to recover rents from occupiers who are adopting a "will not pay" policy, rather than a "can pay" policy. Fortunately, the effect of this is relatively limited and we hope that the recently published Covid-19 Code of Practice for commercial real estate relationships will have a positive influence in these minority cases.

Having carefully considered our liquidity position and our positive rent collection record over the past quarter, we are proposing a final dividend of 2.5p, bringing the total annual dividend to 12p. This will be fully covered by earnings. We have conducted a very comprehensive review as to the likely outcome for the year ending 31 March 2021. Taking an ultra-conservative approach, we would expect the final dividend to be the minimum level of dividend to be paid each quarter for the year ending 31 March 2021.

We have a superb team at Palace Capital and an experienced Board with a wide range of expertise. I have worked through several downturns and pandemics and I am in no doubt that we will weather the storm and emerge fitter and stronger than ever. I am particularly grateful to our hard-working team and our long-standing shareholders who have been incredibly supportive.

NEIL SINCLAIR

Chief Executive

6 July 2020

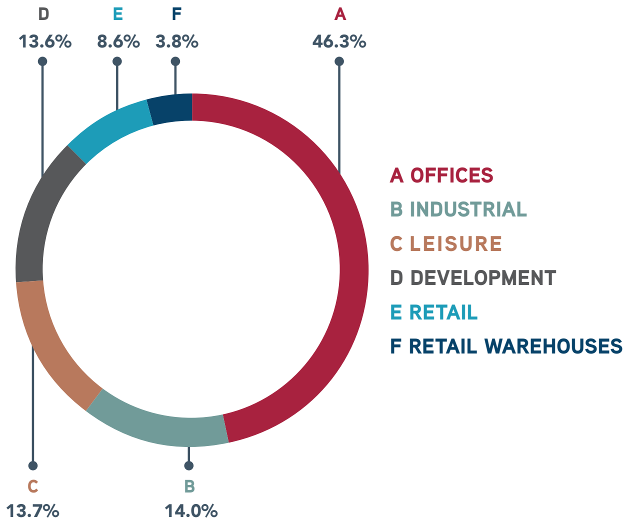
ALDI – GOSPORT

PROPERTY REVIEW

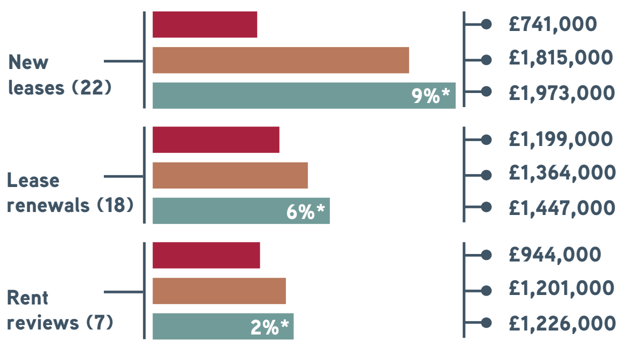
Richard Starr MRICS

EXECUTIVE PROPERTY DIRECTOR

SECTOR SPLIT



LETTING ACTIVITY



This year has been challenging on many levels. The political deadlock since the referendum to leave the EU ensured there was a continuous cloud hanging over the real estate sector for much of the financial year. The final quarter saw the "Boris bounce" following a significant Conservative majority in the general election, with a positive message for balancing the regions with London. However, by the end of March the Covid-19 pandemic had struck and this led to a decline in values across the sector, including our own portfolio, as material uncertainty clauses came into effect due to the lack of comparable and reliable market evidence.

Our holdings are predominantly in the office sector, in which we own 28 buildings, and we have ten industrial assets. Both of these subsectors have performed well over the last couple of years and we expect continued growth in the coming year. We own two leisure assets and 8.6% of the portfolio is held in the retail sector, with two development assets making up the remainder of the value.

Cushman & Wakefield independently valued the portfolio as at 31 March 2020 at £277.8m, which is a decrease of 5.7% on a like-for-like basis compared to the previous year for reasons already outlined.

Despite the challenges, our active asset management strategy has delivered positive results. New lettings secured at a 9% premium to ERV increased income by £1.2m per annum; an additional £248,193 per annum was generated from lease renewals, which is a 21% increase in annual rent (6% above ERV); and we secured a 30% increase in annual rent from open market rent reviews, or an additional £283,113 per annum (2% above ERV).

During the year, we completed 47 lease events which added £1.8m to our annual contracted rent roll and achieved £267,732 per annum above the independent ERV.

Alongside this, we continued to improve our buildings through refurbishment and development. We spent a total of £24.0m, of which £17.9m was on our Hudson Quarter development in York,

CASE STUDY

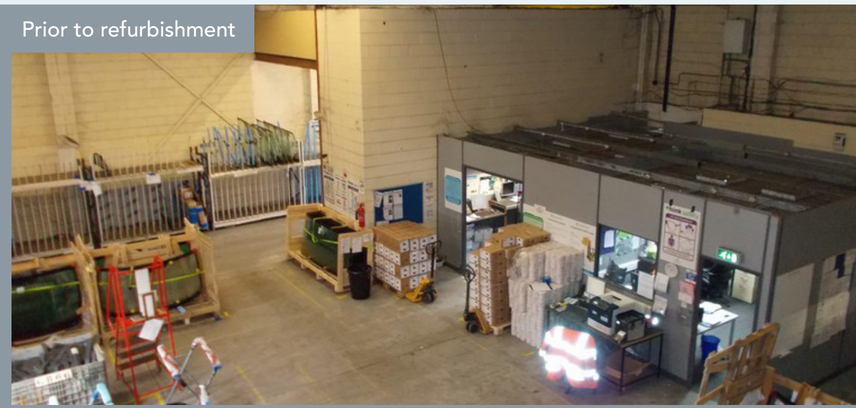
This multi-let estate was acquired in the Signal portfolio in October 2013. During the financial year we completed a refurbishment programme for two units which resulted in both units being let.

Both units were refurbished at a cost of £0.2m each and subsequently let at rental levels above ERV.

The rental tone has increased by 32% since purchase and the current income reflects the original ERV which has also continued to rise on a similar basis.

POINT 4 INDUSTRIAL ESTATE – AVONMOUTH

Prior to refurbishment



Post refurbishment

where we also secured a pre-let of 4,500 sq ft of office space for a 10 year term at a record rent of £25 psf, a significant milestone for this development and the York office market. Other buildings to benefit from capital expenditure during the year included those in Newcastle and Winchester. We also have plans to further invest in our properties in Kettering, Manchester and Avonmouth.

ACQUISITIONS

The financial year was challenging on many fronts. The delay to leaving the EU, exacerbated by the political impasse, meant that while opportunities did present themselves, pricing meant our returns requirement would not be met, so our existing portfolio was strategically prioritised for equity deployment.

DISPOSALS

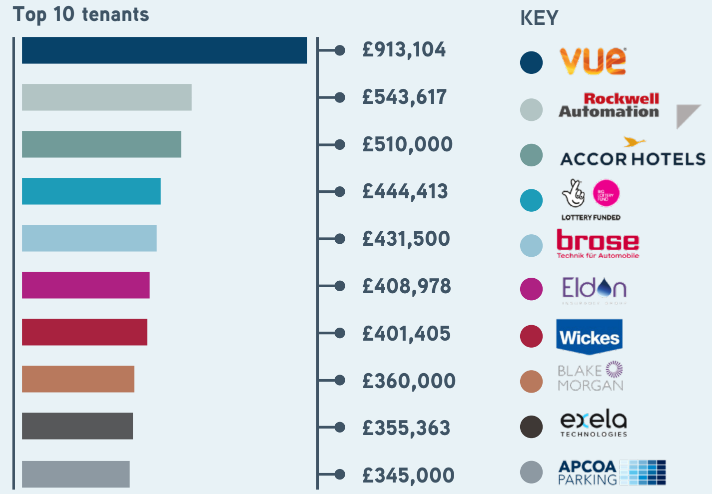
We are continuously looking to recycle assets that no longer meet our returns requirement.

We completed the sale of 34 residential assets acquired from the RT Warren purchase in October 2017 for a consideration of £11.7m. We achieved 97% of book value from these assets, which was higher than originally anticipated from a portfolio sale.

Disposals of commercial properties totalled £5.6m, reflecting a 19.0% premium to book value, in Weybridge, Southampton and Birmingham. The latter was sold at 25% above book value.

TOP 10 OCCUPIERS

We value our customer relationships and the property team inspect our buildings as regularly as possible, engaging with occupiers to understand their business needs. This ensures that our strategies for each property are current and flexible enough to be adapted to changing occupier demands.



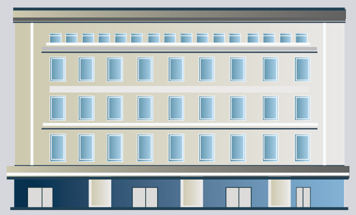
PROPERTY REVIEW

We specialise in owning property which can generate increasing returns from both income and capital.

We look to invest in university towns and city centres across different sectors in buildings either let to multiple tenants or single occupiers. We expect to grow rental and capital values over the long term through refurbishment or development.

CORE SECTOR FOCUS

01 OFFICE



OVERVIEW

46.3% of our portfolio is in this sector and accounts for £8.8m p.a. in rent from 103 tenants in 28 buildings.

INVESTMENT SUMMARY

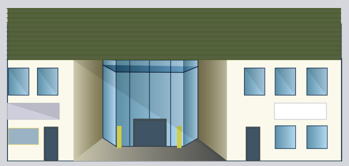
We focus on city centre locations, close to public transport connections. These locations are generally in areas we consider to have long-term rental growth.

TOP HOLDINGS BY VALUATION AT 31 MARCH 2020

- 2/3 St James' Gate, Newcastle
- Boulton House, Manchester
- One Derby Square, Liverpool

PROPERTIES 28 | AREA 778,218sq ft | VALUE £128.5m

02 INDUSTRIAL



OVERVIEW

14.0% of our portfolio is in this sector and accounts for £2.4m p.a. in rent from 28 tenants in 10 buildings.

INVESTMENT SUMMARY

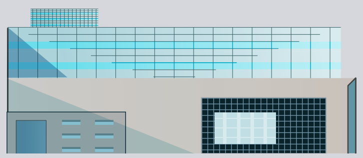
We have a mix of multi-let and single-let properties which saw good rental growth last year. We are expecting this to continue as many properties have further rent reviews and lease expiries to come.

TOP HOLDINGS BY VALUATION AT 31 MARCH 2020

- 25/27 Blackmoor Road, Verwood
- Point Four Industrial Estate, Avonmouth
- Clayton Industrial Estate, Burgess Hill

PROPERTIES 10 | AREA 409,593sq ft | VALUE £38.8m

03 LEISURE



OVERVIEW

13.7% of our portfolio is in this sector and accounts for £3.6m p.a. in rent from 19 tenants in 2 buildings.

INVESTMENT SUMMARY

A number of operators have struggled in the last few years. The majority of our tenants in both schemes continued to trade well until Covid 19. Post Covid-19, we are focused on letting the vacant space and our marketing initiatives will help to increase footfall.

TOP HOLDINGS BY VALUATION AT 31 MARCH 2020

- Broad Street Plaza, Halifax
- Sol, Northampton

PROPERTIES 2 | AREA 306,970sq ft | VALUE £37.9m

04 RETAIL

OVERVIEW

8.6% of our portfolio is in this sector and accounts for £2.0m p.a. in rent from 36 tenants in eight buildings.

INVESTMENT SUMMARY

Our units are in good locations with a mix of local and national brands. We are working closely with our tenants to ensure that they can trade effectively in light of the ongoing pandemic.

PROPERTIES 8

AREA 128,171sq ft

VALUE £23.9m

05 RETAIL WAREHOUSE

OVERVIEW

3.8% of our portfolio is in this sector and accounts for £0.8m p.a. in rent from three tenants in two buildings.

INVESTMENT SUMMARY

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

PROPERTIES 2

AREA 59,478sq ft

VALUE £10.5m

PROPERTY REVIEW

SECTOR FOCUS

OFFICES

The Government has announced a levelling of investment away from a historical bias towards southern England. However, the emergence of Covid-19 has raised questions on how quickly this will be implemented. We remain confident that our holdings are well placed to benefit from this investment as and when it occurs. A topic of debate in recent months has been whether working habits have been changed sufficiently by lockdown to affect demand for office space long term. While we believe there will inevitably be more desire to work from home where appropriate, we expect the office market to remain resilient, as it has in comparable moments over cycles. The key component will remain location, followed by connectivity and a continued emphasis on sustainability.

The flexible model will evolve further as businesses adapt and are not tied into specific buildings. This can benefit landlords' ability to capture increasing rental values on a regular basis.

We currently hold 46.3% of our portfolio in the office sector. We are looking at how we can maximise returns from our holdings, having invested £2.6m in refurbishing our properties in Newcastle, Manchester and Leeds, and adapt our space to meet shifting demands and changing structural trends. We are working with Backbone Connect, an IT services specialist, to ensure our significant holdings meet the expectations of existing tenants and attract new ones to the vacant space.

INDUSTRIAL

Demand has continued to be driven by retailers needing "last mile" distribution space to meet increased customer demand from e-commerce. Warehousing and distribution in locations with good transport links should see continued rental growth.

Having accelerated existing structural trends, including the shift towards online, the Covid-19 pandemic has highlighted the importance of warehouse space.

The industrial sector is an attractive proposition, but growing demand has left it challenging to find opportunities to invest at acceptable levels. This is unlikely to change in the forthcoming year, however we will continue to seek opportunities to increase our 14.0% holding.

LEISURE

The leisure sector as a whole has struggled, although we have not been as adversely affected as some. There has been a continued shift towards operators meeting customer demand for "experiences", which we have built into our asset management strategies, however the emergence of Covid-19 has forced widespread temporary closures. We continue to communicate regularly with our tenants which is especially critical in this difficult time. The planned reopening of leisure and hospitality venues from 4 July should provide a positive stimulus at our two leisure schemes.

Assets in the leisure sector make up 13.7% of our portfolio and we have continued to devise marketing campaigns to attract new tenants. As a result, we secured a key anchor tenant at Sol, Northampton in Gravity Fitness, for a minimum term of 10 years at a 20% premium to ERV. Post the financial year we have successfully extended the lease to Accor so that it now expires in 2032.

HIGH STREET – WEYBRIDGE

CASE STUDY

We acquired this prime office and retail property in August 2014 within the PIH acquisition. We considered that a development would maximise shareholder return and during the financial year we engaged with a professional team to obtain consent for a new building comprising 28 residential apartments and 4,000 sq ft of ground floor retail space and associated car parking.

SOL – NORTHAMPTON

CASE STUDY

A city centre leisure scheme comprising 189,000 sq ft of space which was acquired in May 2015 for £20.7m. We saw an opportunity to improve the quality of the tenant mix to match the changing leisure demand as well as increase overall rental income. In order to achieve this we accepted a surrender of the lease to Gala Casino in 2016 for £4m.

Following the letting to Soo Yoga in the last financial year we commenced a new marketing and branding campaign to attract an anchor tenant which will drive footfall. We were delighted to complete a letting to Gravity Fitness on 23,500 sq ft representing 40% of the vacant space, for a minimum ten-year term at a rent 20% above the ERV with an additional turnover rent. A £1.5m contribution was made to the internal fit-out and even though trading commenced just weeks before the Covid-19 lockdown the initial feedback is that this will drive footfall through the scheme to attract new restaurants and leisure offerings.

Pre Covid-19, Vue cinema saw an increase in the number of admissions over the year. Accor hotels also sought to improve their offering with a partial refurbishment of their hotel rooms.

RETAIL AND RETAIL WAREHOUSE

As is well reported, the retail market continues to be challenging. Traditional retailers are struggling to compete with online operators, who have less fixed costs, and changing consumer habits towards online shopping have been accelerated by the government lockdown. The Covid-19 pandemic has decimated trading due to the enforced social distancing measures. Businesses that innovate and reposition will remain competitive.

The Company has a limited exposure to the retail market with only 10% of our portfolio represented in this sector. Our tenants include Tesco and Aldi, as well as Wickes and Pets at Home which benefit from strong financial balance sheets. We will continue to have an open dialogue with our tenants and support their ability to trade where we can.

SUSTAINABILITY

We have increased our focus on the sustainability of our portfolio with a view to improving the environmental performance of individual assets on an annual basis. The specific areas we are looking at are EPC rating, energy supply and use, waste collection and water consumption.

OUTLOOK

As this report is being prepared, our team are working from home, leisure schemes have closed their doors and high street shops have only just reopened having been closed for three months. This has meant the occupational and investment market has effectively closed down, preventing us from letting our vacant space or investing our capital into new opportunities. The critical factor for the forthcoming year is to continue efforts to maximise our income and work with our tenants to help them operate and grow their businesses as best they can. We work closely with our managing agents CBRE, JLL, Knight Frank and Savills to ensure efficient rent collection. We have looked at the impact on our rental income and capital expenditure programme and continue to focus on the aspects of our business that we can control. Due to our responsive asset management team, we are well positioned operationally and financially to respond quickly once the ongoing pandemic passes, which inevitably it will.

RICHARD STARR

Executive Property Director

6 July 2020

FINANCIAL REVIEW

Stephen Silvester FCA

FINANCE DIRECTOR

Along with the rest of the UK business community, Palace Capital has faced a challenging year with a backdrop of ongoing political and economic instability. However, the financial performance for the financial year was solid, generating recurring earnings of £8.0m.

We have maintained a conservative capital structure and utilised our working capital to support a highly active year of refurbishment and redevelopment. The Group did make a loss before tax of £9.1m though this was largely due to the £17.9m decline in the value of our assets that resulted from the latest independent valuations from Cushman & Wakefield which offset the recurring earnings.

Other than the reduction in property values, the emergence of the Covid-19 pandemic and the resulting lockdown had a limited impact on the financial performance for the year ended 31 March 2020. However, it has had a significant impact on business operations post year end, with rent collection challenges and debt covenants, particularly interest cover ratios (ICR) under pressure as a result.

Rent collection and working capital have become our priorities post year end in order to manage the Group through this economic crisis. Consequently, the April 2020 quarterly dividend was cancelled in order to preserve cash, along with freezing all significant discretionary capital expenditure until we have greater clarity on the future.

Rent collection in the March 2020 and June 2020 quarters are somewhat impacted due to the moratorium on lease forfeiture and Government legislation in force until 30 September 2020. This has given tenants (even those well capitalised with a strong credit-rating) a "carte blanche" not to pay rent in order to manage their working capital. Hence landlords, ourselves included, have been left without a portion of the usual quarterly income with which to pay out dividends. Consequently, the Bank of England has firmly requested UK lenders waive covenant breaches at this unprecedented time in order to support borrowers while this moratorium is in force.

All that being said, we are well positioned with a conservative capital base and sufficient cash available to continue to grow the business and deliver on its objective to drive income and capital growth and outperform the MSCI benchmark on a Total Property Return basis. We have received covenant waivers on two of our facilities for the April quarterly test and all our lenders have either provided or offered to provide covenant waivers during these unprecedented times, if required.

As a result of our robust rent collection at both the March quarter (93% collected to date, including 91% cash collected and 2% on payment plans) and June quarter (84% to date, including 64% cash collected and 20% on payment plans) we have proposed a final dividend of 2.5p to be approved at the Annual General Meeting and have set out an expected minimum quarterly dividend level for the next financial year. As the economy recovers, we expect normal trading to resume and our rent collection to return to normal levels which will give us far better visibility as the year progresses.

TOTAL PROPERTY RETURN

1.1%

MSCI BENCHMARK: -0.5%

TAX SAVING SINCE REIT CONVERSION

£0.7m

FINANCIAL HIGHLIGHTS

	Change	2020	2019	2018
Income growth				
IFRS (loss)/profit after tax	↓	**(£5.4m)**	£5.2m	£12.5m
Adjusted profit before tax	↓	**£8.0m**	£8.9m	£8.5m
EPRA earnings	↑	**£10.8m**	£7.6m	£6.5m
Basic EPS	↓	**(11.8p)**	11.3p	35.9p
EPRA EPS	↑	**23.4p**	16.6p	18.7p
Adjusted EPS	↑	**17.5p**	17.3p	21.2p
Dividend per share	↓	**12.0p**	19.0p	19.0p
Dividend cover	↑	**1.5×**	0.9×	1.1×
Capital growth				
Portfolio like-for-like value	↓	**-5.7%**	+0.5%	+3.5%
Net Asset Value	↓	**£166.3m**	£180.3m	£183.3m
Basic NAV per share	↓	**361p**	393p	400p
EPRA NAV per share	↓	**364p**	407p	415p
Total accounting return	↓	**-7.5%**	2.6%	-2.0%
Total shareholder return	↓	**-30.9%**	-6.0%	-1.4%
Debt finance				
Debt balance	↑	**£120.8m**	£119.4m	£101.4m
Average cost of debt	↓	**3.1%**	3.3%	3.4%
Average debt maturity	↑	**3.9yrs**	3.6yrs	4.7yrs
Loan to Value Ratio	↑	**38%**	34%	30%
NAV gearing	↑	**63%**	52%	43%

KEY PERFORMANCE MEASURES

The Group's financial statements are prepared under IFRS which incorporates non-realised fair value measures and nonrecurring items. Alternative Performance Measures ("APMs"), being financial measures which are not specified under IFRS, are also used by the Directors to assess the Group's performance included in the highlights for the year and throughout this document. These include a number of European Public Real Estate Association (EPRA) measures, prepared in accordance with the EPRA Best Practice Recommendations (BPR) framework, and Group adjusted measures. Further details are given in notes 6 and 7 to the financial statements. We report a number of these measures (detailed in the glossary of terms) because the Directors consider them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

HEADLINE FY20 RESULTS

Despite the impact of Covid-19 at the back end of the financial year, the Group continues to outperform the MSCI benchmark on a Total Property Return basis, generating 1.1% for the year, versus the benchmark performance of -0.5%. This was made up of income return of 7.5% for the year and capital return of -6.0%. Despite this strong performance on a relative basis, it has nonetheless resulted in an overall IFRS loss after tax of £5.4m (2019: £5.2m profit) and a reduction in the Group net asset value to £166.3m (2019: £180.3m) as at 31 March 2020.

EPRA earnings is the industry measure of underlying profit excluding revaluation gains, profits on disposals and exceptional items. EPRA earnings for the year ended 31 March 2020 increased by 41.9% to £10.8m compared to £7.6m last year, reflecting the increased earnings from the portfolio and specifically including £2.9m for a surrender premium received from the tenant at the Priory House, Birmingham property which we subsequently sold.

The Group also report an adjusted profit before tax in order to track recurring earnings and to form a basis for calculating dividend cover. This totalled £8.0m for the year (2019: £8.9m), down 10.2%, albeit adjusted earnings per share increased to 17.5p from 17.3p as a result of a lower tax bill from REIT conversion.

On the capital side, we have experienced a 7.7% reduction in our IFRS net asset value to £166.3m (2019: £180.3m), a reduction in net asset value per share from 393p in 2019 to 361p and this translates into EPRA net asset value per share of 364p, down from 407p in 2019. The 43p decrease, together with the total dividends of 12.0p paid during the year, represents a -7.5% total accounting return overall. The reduction in net asset value in the year is reflective of the write-down in property valuations based on Cushman's assessment of the market as a result of Covid-19 impacting the economy in an unprecedented way. There is also a timing issue, given that £24.0m of capital expenditure across the portfolio, including the major investment into our flagship development scheme at Hudson Quarter in York, has been incurred and until the newly developed space has been let, the valuation cannot fully account for any uplift.

We have undertaken significant capital expenditure in the year and we expect to benefit from future rental and capital growth subsequent to re-letting vacant, refurbished space. Our approach to recycling capital out of lower-performing assets and sectors continued as we sold the final 34 residential assets which were acquired as part of the R.T. Warren portfolio in 2017. This completed the sale of the residential portfolio, releasing surplus funds into working capital to support our capital expenditure strategy.

FINANCIAL REVIEW

RECURRING EARNINGS

Gross income totalled £21.1m in the year ended 31 March 2020 (2019: £18.8m) maintained by a steady portfolio and supported by the significant £2.9m surrender premium received from a departing tenant at Priory House, Birmingham as part of their lease surrender. Net rental income similarly increased to £18.8m (2019: £16.4m).

Administrative expenses increased to £4.3m (2019: £4.1m) largely due to amortisation of a right of use asset and including one-off costs associated with converting to a REIT on 1 August 2019 and recruitment fees in relation to the appointment of an additional Non Executive Director in early 2020.

The employee numbers were fairly stable throughout the year and, including the Board, totalled 17 people at the balance sheet date, compared to 16 in the prior year. Finance costs remained stable at £3.8m (2019: £3.8m). There was £0.5m of debt termination costs as a result of a refinancing which has had a positive impact by contributing to a reduction in the average cost of debt to 3.1% (2019: 3.3%) leveraging our larger diversified portfolio and established banking relationships for an improvement to lender terms.

Looking forward, the business is capable of scalability with the team and systems in place to support significant growth of the portfolio.

The Group has a gross rent roll of £17.6m per annum as at 31 March 2020 with a reversion to £20.6m per annum as well as holding cash to support working capital, fund further acquisitions and continue to reinvest in the portfolio to generate further growth.

VALUATION LOSSES & PROFITS ON DISPOSAL

The movement in the values of our investment properties can make a significant impact on profit before tax, even though they are not cash-based or realised. They are determined by independent valuers' assessment of what a willing purchaser would pay for the property on the basis of an arm's length transaction. At this reporting date, Cushman & Wakefield carried out the portfolio-wide valuation exercise and included a "material uncertainty" clause in their report to acknowledge the difficulty of valuing in a market impacted by Covid-19 and with limited transactional evidence. Like-for-like valuations at year-end were consequently down 5.7%. This resulted in a £17.9m downward revaluation through the income statement.

We have progressed extremely well with our flagship development at Hudson Quarter, York, where we have seen 28 flats exchanged as at the year end and secured a ten-year lease on 4,500 sq ft at a record rent for York of £25 psf on one of the commercial units. With completion expected in March 2021, this will have a significant impact on income and capital for the business.

DEBT

	Fixed	Floating	Total drawn	Years to maturity
Barclays	34.9	6.0	40.9	4.2
NatWest	–	28.6	28.6	4.4
Santander	19.3	6.5	25.8	2.3
Lloyds	–	6.8	6.8	2.9
Scottish Widows	13.7	–	13.7	6.3
Barclays development	–	5.0	5.0	1.5
	67.9	**52.9**	**120.8**	**3.9**

DIVIDENDS

In light of the Covid-19 outbreak, the Board has given careful consideration to our obligations to all our stakeholders. Therefore, the Board is recommending a final quarterly dividend of 2.5p per share to be paid 14 August 2020 to shareholders registered at the close of business on 24 July 2020. The Group announced on 2 April that it would cancel the payment of the April 2020 quarterly dividend, as the Covid-19 pandemic began to impact on the global economy. The Group made this prudent decision to ensure maximum liquidity at such an unprecedented time. The full year dividend, when taking account of the quarterly dividends paid in October and December 2019, will total 12.0p, representing a 6.7% yield on the share price at 31 March 2020.

NET ASSETS

At 31 March 2020, our net assets totalled £166.3m, equating to a basic net asset per share of 361p, a decrease of 32p since 31 March 2019. The decrease in our net assets was driven largely by the decrease in value of our investment properties and also the £0.4m mark-to-market reduction in the value of the equity investment we hold, priced at 31 March 2020 subsequent to the stock market fall as a result of the Covid-19 economic lockdown and the £0.3m loss on disposal of the remaining residential assets held for sale, in addition to the one-off debt termination costs of £0.5m.

We calculate an EPRA NAV consistent with standard practice in the property industry to adjust for any dilution of outstanding share options and fair value adjustments of financial instruments and deferred tax which totalled 364p at 31 March 2020, down from 407p at 31 March 2019.

DEBT FINANCING

The Group maintained its conservative capital structure ending the year with a loan to value (LTV) of 38% net of cash (2019: 34%). This increased over the year in line with expectations as the Group commenced monthly drawdowns of the development facility for Hudson Quarter, York.

AVERAGE COST OF DEBT

3.1%

ADJUSTED PBT

£8.0m

PORTFOLIO VALUE

£277.8m

We refinanced two debt facilities during the year resulting in an improved debt profile, lowering our overall total cost of debt to 3.1% (2019: 3.3%). We have increased the revolving credit facility with NatWest from £30.0m to £40.0m and extended it to August 2024, reducing the margin to 2.1% from 2.5%. We charged additional security to access a further £3.5m on the Barclays investment facility due to expire in August 2023 and extended this to June 2024 at the same margin of 1.95% over three-month LIBOR. This has provided additional capacity to support our capital expenditure strategy.

We began our monthly drawdown on the Barclays development facility for the Hudson Quarter, York, development in January 2020. We have completed our equity investment into the project and we will now fund this project solely from the debt facility through to completion in early 2021. Finally, we repaid the remaining £3.5m on one of our two Lloyds facilities in May 2019 from our cash reserves as the maturity date approached.

The Group debt facilities at year end total £120.8m with a further £32.9m undrawn. We continue to monitor swap rates and as at year end held £67.9m of fixed or hedged debt which was approximately 56% of overall debt drawn. The average debt maturity on the investment facilities has increased to 3.9 years and there is no investment facility that is due for repayment within the next two years.

NET DEBT & GEARING

Each debt facility is secured at a Special Purpose Vehicle (SPV) level and we assess the gearing mainly through interest cover ratios (ICR) and loan to value ratios (LTV). In normal market conditions we gear our assets within a range of 40% to 60% LTV. At a Group level we measure both the debt to net asset value ratio (NAV gearing) and loan to value net of cash. NAV gearing at 31 March 2020 was 63% and the LTV ratio was 38% at 31 March 2020. The Group remains conservatively geared and at year end had £14.9m of cash and £32.9m of unutilised facilities available, along with £18.2m of properties uncharged to lenders.

Post year end, two of our facilities have breached ICR covenants as part of the quarterly April test due to the non payment of rent specifically at our two leisure assets. Both banks have provided covenant waivers and we expect to return to compliance once the leisure schemes reopen and the tenants recommence rental payments.

REIT CONVERSION AND TAXATION

The Group converted to a UK REIT on 1 August 2019. As a consequence, our UK tax liability has reduced as the majority of the Group's activities falls within the REIT exemption. The Group has a tax credit for the year ended 31 March 2020 of £3.6m. The bulk of this was in relation to the deferred tax credit of £5.6m as part of the REIT conversion, which was offset by a corporation tax charge for the year of £2.0m. If the Group had not converted to a REIT, an additional £0.7m corporation tax liability would have been recognised in the financial statements for the year.

OUTLOOK

The Group has performed well from a financial perspective against a challenging political and economic environment, made more difficult with the emergence of Covid-19. We have continued to outperform the UK MSCI IPD index benchmark while remaining financially robust with conservative gearing at 38%, cash reserves of £14.9m and the ability to draw down further on our revolving credit facility with NatWest. This provides the Group with capacity to support our working capital requirements and invest in our excellent regional assets, to continue to grow income and capital values. We have proposed a final dividend of 2.5p and we expect to maintain this as the minimum level of quarterly dividend going forwards. We look forward to continued progress on our flagship development at Hudson Quarter in York, where we expect to deliver an excellent sustainable mixed-use scheme which will benefit the local economy of York, come completion in 2021.

STEPHEN SILVESTER

Finance Director

6 July 2020

INCOME STATEMENT AS FOLLOWS

	FY20 £m	FY19 £m
INCOME STATEMENT		
Adjusted profit after tax	**8.0**	7.9
Surrender premium & fair value of options	**2.8**	(0.3)
EPRA earnings	**10.8**	7.6
Revaluation losses	**(17.9)**	(0.7)
Equity investment revaluation losses	**(0.4)**	(0.2)
Losses on disposals	**(0.2)**	(0.4)
Hedging and derivative losses	**(0.9)**	(1.0)
Debt termination costs	**(0.5)**	-
Deferred tax REIT adjustment	**3.7**	(0.2)
IFRS (loss)/profit for the year	**(5.4)**	5.1

DIVIDENDS RECORD AS FOLLOWS

	FY16	FY17	FY18	FY19	FY20
DIVIDENDS					
Adjusted EPS	18.9p	22.2p	21.2p	17.3p	**17.5p**
DPS	16.0p	18.5p	19.0p	19.0p	**12.0p**
Dividend cover	1.2×	1.2×	1.1×	0.9×	**1.5×**

RISK MANAGEMENT

RISK FRAMEWORK

The Board has overall responsibility for ensuring that an effective system of risk management and internal control exists within the business and confirms that it has undertaken a robust assessment of the Group's emerging and principal risks.

Risk management is an inherent part of the Executive team's day-to-day decision making, as they work hard to deliver the Company's strategy. The amount of risk taken is assessed in light of our strengths, the external environment, our financial position and where we are in the property cycle. Our risk appetite will vary over time but as a business with a small number of employees and a relatively flat management structure, we are able to assess and respond quickly to new and emerging risks.

Our top down, bottom up approach to risk identification means that asset managers and key individuals in the finance team are able to report directly and at an early stage, allowing management to take appropriate mitigating action.
The Executive team maintain a formal register of current and emerging risks and this is reviewed by the Audit and Risk Committee twice a year.

The Audit and Risk Committee will support the Board in determining the principal risks facing the business and reviewing, at least annually, the effectiveness of the Company's system of risk management and internal control.

COVID-19

A number of risks are heightened during the current period of disruption caused by Covid-19 and we have seen an impact across all aspects of the business. As uncertainty increased, we paid particularly close attention to our tenant exposure and the macroeconomic environment.

While the full effects are yet to be seen, there is no doubt that the ramifications will be far-reaching. We expect all sectors of the commercial property market to be impacted, not only affecting our business, but those of our tenants and suppliers.

Our team mobilised quickly to respond to the various risks and challenges that presented themselves following the outbreak. The Board has met and continues to meet fortnightly to review the businesses response and take any decisions that are required. For further detail regarding the impact on the business and the mitigating action that has been taken please refer to the eight Principal Risks set out on pages 42–44.

EMERGING RISKS

While the UK's exit from the European Union is somewhat overshadowed by the ongoing pandemic the Board continues to consider how supply and demand and consumer confidence may be affected once the UK leaves the EU.

Cyber risks and the potential impact on operations are increasing for all businesses and are further heightened as working from home becomes vital in the fight against Covid-19. We have taken steps to increase our security measures during the year and continue to review ways in which we can further mitigate the risk to our network and data.

In addition, climate change is a global issue which presents both risks and opportunities to the commercial real estate market, with the potential to adversely impact the macroeconomic environment as well as our own operations and those of our supply chain.

GOING CONCERN STATEMENT

The Directors have made an assessment of the Group's ability to continue as a going concern which includes the current uncertainties created by Covid-19, coupled with the Group's cash resources, borrowing facilities, rental income, acquisition and disposals of investment properties, committed capital expenditure and dividend distributions.

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

As at 31 March 2020 the Group had £14.9m of cash and cash equivalents, of which £13.9m was unrestricted cash, a low gearing level of 38% and a fair value property portfolio of £277.8m. The Directors have reviewed the forecasts for the Group taking into account the impact of Covid-19 on trading over the twelve months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income in line with the possible effects of the pandemic.

The key assumptions used in the review are summarised below:

- The Group rental income receipts were modelled for each tenant on an individual basis
- Existing loan facilities remain available, but no new financing is arranged; and
- Free cash is utilised to repay debt/cure bank facilities covenants.

DEBT COVENANTS

Although there has been significant headroom on the majority of covenants within the year ended 31 March 2020, the impact of Covid-19 and the resultant lock-down post year-end has resulted in a number of tenants withholding rental payments and, in particular ,at the two leisure schemes in Halifax and Northampton. As a result, two of the facilities, Scottish Widows and Santander, did not meet their ICR covenant tests at the April 2020 test dates. On request the banks provided covenant waivers for both the April and July covenant test dates. In addition, during the year £0.8m cash was placed in a lock-up account on behalf of Scottish Widows in order to satisfy the LTV covenant resulting from a reduction in the property valuation prepared on behalf of the bank in August 2019. All other facilities remain within covenants.

As part of the going concern assessment, and taking the above into consideration, the Directors reviewed a number of scenarios which included extreme downside sensitivities and reverse stress tests in relation to rental cash collection assuming no property acquisitions, no further capital expenditure beyond that committed and no dividends.

STRESS TESTS

The debt covenants were reverse stress-tested to validate resilience to property valuation declines and rental income declines as well as increases in future interest costs. It assessed the limits at which key financial covenants and ratios would be breached. To supplement the scenario planning, constructive discussions were held with all the Group's lenders around the ability to waive or change the respective covenants, if required. All lenders have indicated they will be willing to provide covenant waivers for the June and September quarters in the event of a breach. This was further underpinned by the Bank of England's financial services regulatory and supervisory body, the Prudential Regulation Authority ("PRA") providing guidance to its regulated members on 26 March 2020. The Group has organised its debt at a loan security sub pool / single purpose vehicle ("SPV") level so in the unlikely event of a covenant breach that led to a lender requesting early repayment of the loan, the facility is non-recourse and does not affect the financing and cash flow for the rest of the Group.

DOWNSIDE SCENARIO

The downside scenario considered the impact on the working capital model, including the loss of 50% of all rental income over a 12-month period, taking into consideration no property acquisitions, only committed capital expenditure and no dividend payments. In this scenario the business would be loss-making and therefore it would be unlikely to be required to pay out any dividends under the REIT regime. A 50% reduction in rental income would result in a breach of the financing cost ratio requirement of 1.25x under the REIT regime. However, there would be no adverse implication in terms of going concern from exiting the REIT regime, albeit the payment of corporation tax would commence when the business returned to profitability.

More critical would be the covenant breaches with the debt lenders. The main covenants on the Group's loans are the interest cover ratio ("ICR"), debt service cover ("DSC") and loan to value ("LTV") ratios. Our reverse stress tests indicate that, depending on the particular loan security sub pool, income would need to fall by between 7% and 62% and values by between 6% and 26% before key ICR, DSC and LTV covenants were breached. Mitigating the various covenant requirements would, in the first instance, involve requests for covenant waivers.

If the property values fell by approximately 20%, a £9.2m repayment of debt would be required to cure loan breaches under the existing debt facilities and future covenants, which could be satisfied with existing working capital. However, in the downside scenario allowing for loss of 50% of all rental income over the going concern period, assuming the lenders require debt covenant cures, the business would need to reduce loan balances by up to £38m in order to bring down interest costs in line with ICR and DSC requirements. This is above and beyond current cash balances available. The Group would therefore look to access additional cash through liquidating various assets within the balance sheet not secured to lenders.

As noted above, the ICR covenants for the two loan facilities relating to the two leisure schemes had to be waived by the lenders at the April testing date. Whilst we forecast that these covenants will be met at the July testing date and future periods, in the worst case scenario that the covenants are not met, and the Group is unable to agree a suitable cure right position with the lenders, this could result in early repayment of the debt forcing the sale of some or all of the assets charged to these loans which include two office assets in addition to the two leisure assets. On aggregate they are currently valued at £73.8 million compared to the drawn debt balances of £39.2 million so the disposal of all the assets would most likely lead to surplus cash available to the Group once debt has been repaid. However, in a downside scenario and assuming it would not be possible to sell the assets and the banks took control of the assets, the Group's net assets would be reduced by £34.6 million, loss of annual net income would total £4.9 million and reduction in annual finance costs would total £1.3 million.

CONCLUSION

Subject to these downside scenarios, the results of the sensitivity analysis and stress testing demonstrates that the Group has sufficient liquidity to meet its on-going liabilities and committed capital expenditure as they fall due over the period of assessment. Given the amount of unrestricted cash currently held by the Group, the limited level of committed capital expenditure in the forthcoming 12 months, and reasonable downside sensitivities, the Directors are satisfied that the Group has adequate resources to continue in operational existence, for a period of at least 12 months from the date that these Financial Statements were approved.

Should the impacts of the pandemic on trading conditions be more prolonged or severe than currently forecast by the Directors, the Going Concern statement would be dependent on the Group's ability to take further actions. Detailed consideration was given to the availability and likely effectiveness of mitigating actions that could be taken, including future cash conservation strategies and discussions with lenders regarding the terms of the loan agreements, being mindful of recent PRA guidance to lenders.

Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Based on these considerations, together with available market information and the Directors' knowledge and experience of the Company's property portfolio and markets, the Directors have adopted the going concern basis in preparing the accounts.

The Audit Committee reviewed whether it was appropriate to adopt the going concern basis in the preparation of the financial statements. In considering this the Committee reviewed the 12-month forecasts, availability of bank facilities and the headroom under the financial covenants in our debt arrangements. With this knowledge and following the review the Committee recommended to the Board that it was appropriate to adopt a going concern basis.

RISK MANAGEMENT

VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code, and taking into consideration Covid-19, the Directors have assessed the prospects of the Group and future viability over a three-year period from the year end, being longer than the 12 months required by the 'Going Concern' provision. The Board conducted the review with regard to the Group's long-term strategy, principal risks and risk appetite, current position, asset performance and future plans, and determined that three years to 31 March 2023 is the maximum timescale over which the performance of the Group can be forecast with any material degree of accuracy, and so is an appropriate period over which to consider the Group's viability.

A range of downside sensitivity analyses were stress tested to form part of the review, with material inputs filtered to consider differing economic backdrops, and how such challenges would be met. Achievement of the one-year forecast has a greater level of certainty and is used to set near-term targets across the Group. Achievement of the subsequent forecasted years is less certain than the one year. The Board's forecast, though provides a longer-term outlook against which strategic decisions can be made.

ASSESSMENT OF REVIEW PERIOD

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

- The Group's working capital model, detailed budgets and cash flows consist of a rolling three-year forecast.
- It reflects the short cycle nature of the Group's developments and asset management initiatives.
- Office refurbishments completed to date have taken less than 12 months and the major redevelopment at Hudson Quarter in York is expected to take no longer than 24 months from commencement to practical completion.
- The Group's weighted average debt maturity at 31 March 2020 was 3.9 years.
- The Group's WAULT at 31 March 2020 was 4.8 years.

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

ASSESSMENT OF PROSPECTS

The financial planning process considers the Group's profitability, capital values, cash flows, dividend cover, banking covenants including but not exclusively LTV and ICR tests, and other key financial metrics over the three-year period. The metrics were subject to a sensitivity analysis, in which a number of the main underlying assumptions are flexed and reverse stress-tested to consider a range of alternative macro-environments and portfolio compositions. In addition, the review was updated to consider the impact of Covid-19 using a severe but plausible downside scenario.

STRESS TESTS & DOWNSIDE

The debt covenants were reverse stress-tested beyond the 12 month going concern period to allow for changes to banking covenants over the three-year viability period to validate resilience to property valuation declines and rental income declines as well as increases in future interest costs. As noted above, the ICR covenants have come under pressure at the April 2020 test dates due to the impact of lockdown on tenants who have withheld rent. However, we expect to be compliant with all ICR covenants at the July 2020 test dates across all the debt facilities. Longer term, in the event of an economic downturn there is a greater risk that LTV covenants would come under pressure during the viability period. We have considered the fall in property values which could be sustained without an impact on banking covenants. In the event of covenant breaches, the Group would in the first instance apply cure rights and the Group would therefore look to access additional cash through liquidating various assets not secured by lenders. In the worst case scenario that covenants are not met, the Group is unable to agree a suitable cure right position with a lender, and the assets cannot be sold to repay the debt, then the properties effectively become the property of the bank. However, all debt is secured at an SPV level and is non-recourse to Palace Capital plc which would enable the Group to continue operating, albeit in a reduced form.

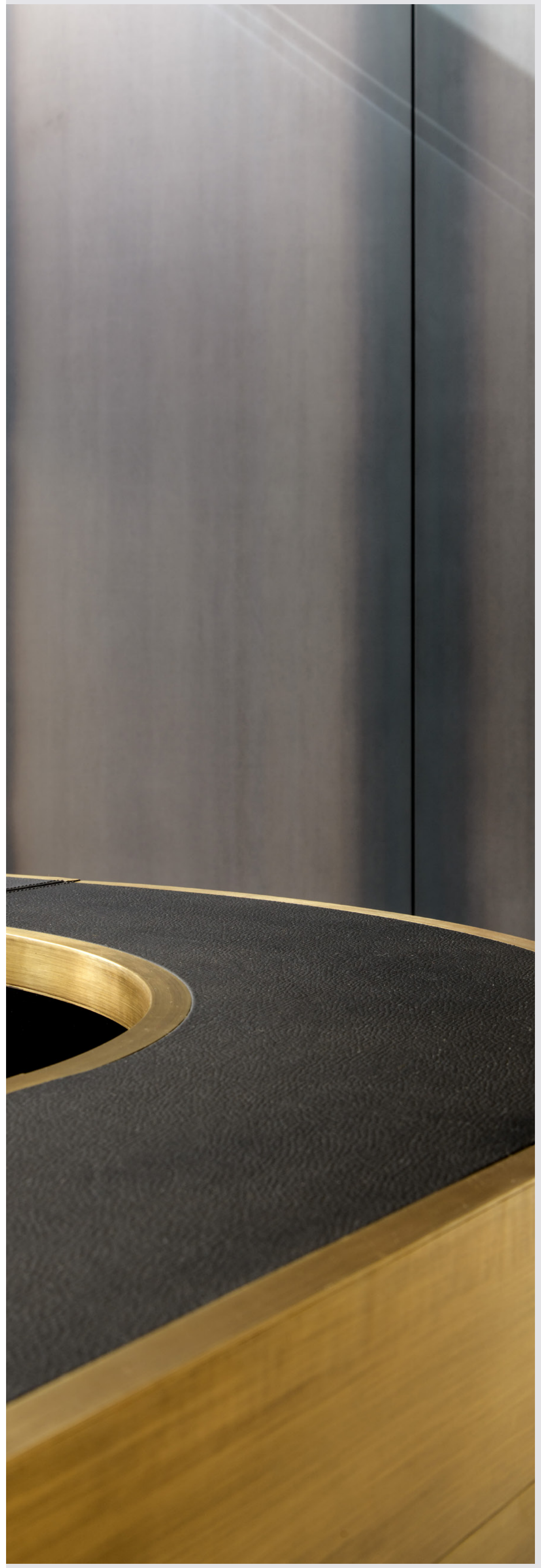
In the period of the viability assessment and on the assumption the current economic turbulence resulting from the impact of Covid-19 will be ameliorated by the UK Government actions and normalise within one year and taking into account lender support and mitigating management actions, the Company would have adequate resources to continue its operations and in the downside scenario, any debt covenant curing could be resolved with a combination of disposals in order to release sufficient cash to pay down debt.

Furthermore, the Board, in conjunction with the Audit and Risk Committee, carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, strategy, future performance, solvency or liquidity over the three-year period. The risk review process provided the Board with assurance that the mitigations and management systems are operating as intended. The Board believes that the Group is well positioned to manage its principal risks and uncertainties successfully, taking into account the current Covid-19 risk, and the economic and political environment.

The Board's expectation is further underpinned by the regular briefings provided by the Executive team. These briefings consider updated rent collections, tenant negotiations, debt covenant status, market conditions, opportunities, the ability to raise third-party funds and deploy these promptly, and changes in the regulatory landscape, and the current political and economic risks and uncertainties. These risks, and other potential risks which may arise, continue to be closely monitored by the Board.

CONFIRMATION OF VIABILITY

The Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years, taking account of the Group's current position, the principal risks as set out on the following pages and on the assumption the current economic turbulence resulting from the impact of Covid-19 will be ameliorated by the UK Government actions and normalise within one year.



KEY

L Low M Medium H High D Decrease S Stable I Increase

01 DEVELOPMENT

Risk description

Overexposure to development could put pressure on cash flow and debt finance and must be managed in the context of the REIT regime.

Delays with construction, increased costs, adverse planning judgements and failure of a major contractor may all impact our underlying income.

As a result of Covid-19 there may be implications if access to labour is limited and the availability of raw materials continue to be affected. Over the longer term, profitability of schemes may be impaired as macroeconomic circumstances worsen.

Mitigation

- The Group's Capital Risk Management Policy limits development expenditure to <25% of Gross Asset Value.
- Core portfolio generates sustainable cash flows.
- Developments are modelled and financed appropriately to minimise risk and maximise return.
- A competitive tender process is undertaken, and Contractors are assessed for financial stability.
- Project managers are utilised to closely monitor the design, construction and delivery projects.
- Professional teams engaged to develop sales strategies.

Progress 2019/2020

- £34m construction contract in respect of Hudson Quarter is underway and part funded by £26.5m Barclays Development facility.
- Principal Contractor appointed with proven track record and strong safety credentials.
- Development pipeline continuously assessed ensuring exposure is limited at any one time

Likelihood	Impact	Change
M	H	S

02 TENANT

Risk description

Exposure to tenant administration and poor tenant covenants could result in lower income, liability for voids and management time spent chasing arrears. The ongoing Covid-19 pandemic is likely to result in an increase in business failures.

Changing tenant demand in relation to new technologies, energy efficiency and new trends and practices.

Mitigation

- Our strategy to invest across different sectors reduces our exposure to an individual sector or tenant.
- We maintain close relationships with our tenants, understanding their needs and supporting them throughout their business cycle.
- Management meet with managing agents to review rent collection and arrears on a regular basis.
- We actively manage our properties to improve security of income and limit exposure to voids.

Progress 2019/2020

- Total number of leases across portfolio: 220, making up contractual rent roll of £17.6m.
- Loss of income from tenant administrations and CVAs in the year totalled £67.4k, which is 0.4% of portfolio contractual income.
- Portfolio weighted average lease length is 4.8 years, providing reasonable longevity of income.
- Occupancy across the portfolio is 87%.
- A tenant survey has been conducted in the year.
- Corporate Social Responsibility committee established to ensure sufficient Board oversight of stakeholder interests.
- In light of the Covid-19 pandemic we have undertaken a risk review of each one of our tenants. We are regularly communicating with each of our tenants and continue to work with them through this difficult time.

Likelihood	Impact	Change
M	M	I

RISK MANAGEMENT

KEY

L Low M Medium H High D Decrease S Stable I Increase

03 FINANCING AND CASH FLOW

Risk description

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

As the full impact of Covid-19 materialises we could see cash flows impacted where tenants request payment holidays or are unable to pay rent.

Mitigation

- The Group actively engages in close relationships with its key lenders, ensuring transparency when it comes to monitoring the properties secured by debt.
- Assets are purchased that generate surplus cash and significant headroom on ICR and LTV Loan Covenants.
- Gearing is maintained at a conservative level and hedging utilised to reduce exposure to interest rate volatility.
- We maintain significant cash balances and where necessary we will defer capital expenditure projects.

Progress 2019/2020

- Amendment and extension to NatWest RCF providing additional financial support and longevity at lower margin.
- The Group's weighted average debt maturity is currently 3.9 years.
- The Group's net LTV is conservative at 38%.
- Fifty-seven per cent of drawn debt at year end is hedged, limiting the Group's exposure to increases in Bank of England base rate and LIBOR.
- We continue to stress test our budgets and cash flows and have updated our scenario modelling in light of the current Covid-19 pandemic.

Likelihood	Impact	Change
M	H	I

04 ECONOMIC AND POLITICAL

Risk description

Uncertainty from Covid-19 and other world events (including Brexit) could impact economic growth, weakening demand of our tenants and the profitability of their businesses. Decisions made by Government and local councils can have a significant impact on our ability to extract value from our properties.

Mitigation

- Monitoring of economic and property industry research by Executive team and review at Board meetings, adjusting strategy accordingly.
- Our activities are focused solely on the UK regions with no foreign exchange exposure.
- We undertake sensitivity modelling against a downturn in economic outlook to test the robustness of our financial position.
- Use of consultants and experts when considering planning and development work.
- Review tenant profile and sector diversification.

Progress 2019/2020

- The full impact of the ongoing Covid-19 pandemic is yet to be seen. Where we can, we have updated our budget in respect of the next financial year and continue to closely monitor the situation.
- Concerns remain as to whether there will be an orderly Brexit and the climate of uncertainty continues to impact decision making. However, the UK's economy has remained relatively stable.
- Government support for regional development initiatives bodes well for the markets in which we operate.

Likelihood	Impact	Change
H	H	I

05 ACCOUNTING, LEGAL AND REGULATORY

Risk description

Non-compliance as a result of changes to accounting standards, and the legal and regulatory requirements for a public real estate company.

Non-compliance with REIT regime leading to loss of REIT status or other changes to the Company's tax status and/or incorrect application of new tax rules.

Mitigation

- Advisers including Solicitors and Brokers are engaged on key regulatory, accounting and tax issues.
- Engagement with The British Property Federation on regulatory changes that impact the real estate industry.
- REIT regime compliance is regularly monitored by the Board and the Executive team will consider the impact on the regime as part of their decision making.

Progress 2019/2020

- Greater level of scrutiny from the Board covering corporate governance and the FRCs reporting requirements.
- Business forecasts and strategy allow for changes to corporation tax rates and interest deductibility rules.
- Following conversion to a REIT on 1 August 2019 the Company has complied with the REIT regime.

Likelihood	Impact	Change
H	L	I

06 OPERATIONAL

Risk description

Business disruption as a result of physical damage to buildings, IT systems failure, cybercrime, extreme weather occurrences, or other environmental events, including those arising from climate change.

Without adequate systems and controls our exposure to operational risk and business disruption is increased.

Mitigation

- Our buildings are covered by comprehensive buildings and loss of rent insurance.
- Antivirus software and firewalls protect IT systems and data is regularly backed up. Cyber insurance is in place.
- Tight-knit team with systems in place to ensure Executive team have shared responsibility across all major decisions.
- Segregation of duties applied to payments processing and bank authorisations.
- Climate related risks are considered as part of our ongoing environmental management. For example, flood risk assessments are considered as part of our acquisition strategy and compliance with Minimum Energy Efficiency Standards is regularly monitored.

Progress 2019/2020

- Continued to keep under review the internal control environment and ensure good governance practices are adopted throughout the business.
- Reviewed our cyber security arrangements to ensure we are deploying the most up-to-date technologies.
- Increased our focus on environmental management, which forms a key part of the work of the Corporate Social Responsibility Committee.

Likelihood	Impact	Change
M	M	I

07 PEOPLE

Risk description

The Group's strategy and core business operations are led by a small number of individuals.

An inability to attract or retain staff and Directors, suppliers and/or managing agents with the right skills and experience may result in significant underperformance or impact the overall effectiveness of our operations.

Mitigation

- Key man insurance cover in place for Executive Directors.
- Succession planning is a regular agenda item for the Nomination Committee.
- We engage with staff regularly and encourage a positive working environment.
- We maintain an attractive reward and benefits package and undertake regular performance reviews.
- General policy of retaining incumbent managing agents on new property acquisitions to avoid awkward transitions and potential loss of income.

Progress 2019/2020

- The number of staff remains at 12 and provides cover across the team reducing exposure should any of the key personnel be unavailable.
- Formed the Workforce Advisory Panel to further enhance employee engagement and ensure the Board understands the views of the whole workforce.

Likelihood	Impact	Change
L	M	D

08 PORTFOLIO

Risk description

Decrease in portfolio valuation, volatile rental values and general underperformance of assets through inappropriate investment strategies and failure to implement asset business plans will adversely impact profitability and net assets.

Mitigation

- Diversification of portfolio minimising exposure to any one geographic location or sector with no exposure to London.
- All investment decisions require Board approval.
- Experienced management team with vast experience, networks and use of advisers to support the assessment of investment opportunities.
- Asset managers report regularly to the Executive management team on their progress implementing their business plans.
- Independent valuations are undertaken for all assets at the year end and half year end.
- Property returns are benchmarked against MSCI IPD UK Quarterly Index and performance against the benchmark is reviewed formally at the half year and year end.

Progress 2019/2020

- We have a balanced portfolio across a range of geographical areas outside of London.
- No single asset comprises more than 10% of the portfolio's value.
- The portfolio's valuation remains consistent taking into consideration strategic disposals during the year.

Likelihood	Impact	Change
L	M	I

CORPORATE SOCIAL RESPONSIBILITY

SECTION 172

OUR SECTION 172 STATEMENT CAN BE FOUND IN THE GOVERNANCE SECTION ON PAGE 60

STAKEHOLDER RELATIONS

	HOW WE ENGAGE	INTERESTS OF THE STAKEHOLDER
01 INVESTORS	We engage with our investors through a regular programme of events, where we set out how we intend to generate attractive total returns: • Bi-annual presentations • Capital Markets days • Shareholder analysis • Regular updates on lettings, acquisitions and disposals via RNS • Property/site visits	Our investors are looking for robust financial performance that generates a return on their investment incorporating both income and capital growth within a control environment that mitigates risk and ensures sound governance and compliance.
02 TENANTS	Through our proactive approach to asset management we engage with our tenants in a variety of ways: • On-site review meetings • Dedicated building managers and asset managers • Visiting assets and listening to concerns • Tenant surveys which cover general satisfaction, and opinions on how we can improve our assets – in the broadest sense	Our tenants want fit-for-purpose spaces that are able to evolve with their business. This includes the necessary utilities and amenities as well as good local infrastructure and connectivity.
03 EMPLOYEES	Our employees are vital to our continued success and as a small team we encourage a positive contribution through: • Bi-weekly team meetings • Regular internal communications • Team strategy days • Formal Workforce Advisory Panel • Team building events • Participation in employee share schemes • Annual performance appraisals	Our employees value an open and positive working environment. They want work that is both challenging and interesting and provides continuing professional development, as well as a package that provides valuable benefits and reward and a work environment that is modern and fit-for-purpose.
04 SUPPLIERS, AGENTS AND CONSULTANTS	We rely on a number of key partnerships to support our property and facilities management. We actively engage with these suppliers and work closely with them: • Weekly calls with our managing agents and regular contact by telephone and email • Formal review meetings • Monthly meetings with our external project managers • Sharing insights and initiatives • Ensuring payments are made within agreed terms	Our relationships with our suppliers are mutually beneficial supporting both parties' interests. Our managing agents, property managers and external project managers want clear communication and operational efficiency.
05 COMMUNITIES AND THE ENVIRONMENT	We actively support community events and seek to have a positive impact on local areas: • Creating employment opportunities • Enhancing the built environment • Supporting charitable organisations and local community activities • Where large construction or refurbishment projects are underway, our contractors will participate in schemes such as the Considerate Constructors Scheme and we will consider certifications such as BREEAM to minimise the impact on our neighbours and the environment	The communities within which we invest want to see attractive, safe and environmentally friendly spaces, which enhance the local area. They want to be kept up to date with planned activities and have a say on what happens.

CASE STUDY

HUDSON QUARTER – YORK

In York, where our flagship development Hudson Quarter is taking shape, we raised over £850 for Variety, the Children's Charity where our kart "The Hudson Rocket" whizzed over the cobbles at the Micklegate Run.

A joint collaboration with our consultants Fuse Design and our principal contractor Caddick Construction, The Hudson Rocket came in 8th place (out of 37) and scooped best and most innovative design trophy.

OUR APPROACH TO CORPORATE RESPONSIBILITY

At Palace Capital, we believe in conducting our business activities ethically and responsibly. With £278m invested in commercial property across the UK, our shareholders depend on us to protect their assets in a safe, secure and responsible manner.

Our approach to Corporate Social Responsibility (CSR) seeks to reduce the negative impacts our operations may have on the environment and society as a whole. The current pace of technological, social and environmental change means we must continuously adapt to ensure we are meeting the needs of our tenants, our employees, the communities within which we invest, and those we work with on a day-to-day basis.

COMMUNITY ENGAGEMENT

For the year ended 31 March 2020, our charitable donations reached over £19,335. A large benefactor of our philanthropic activity was Variety, the Children's Charity, focusing on improving the lives of sick, disabled or disadvantaged young people.

It has been an honour to engage with the York community in many ways including sponsoring the annual ice trail, donating theatre tickets to hundreds of disadvantaged children at the Rose Theatre pop-up production and most notably, making the most of the Company's valued collaboration with Fuse Design and Caddick Construction who joined forces to create our sponsored go-kart in York's annual Micklegate go-kart run which also raised money for Variety.

TENANT SURVEY

During 2019, we undertook a satisfaction survey of our 200+ occupiers, receiving responses from 26%. We asked occupiers to rate their overall satisfaction with Palace Capital as a landlord, as well as a range of other aspects, including: the overall management of their building, their facilities and whether the building met their overall needs and expectations.

The survey captured both quantitative and qualitative feedback and provided very useful insights into our performance as a landlord and areas for further action. Following the survey, we have taken steps to reinforce our key value of working closely with tenants and our managing agents.

OUR WORKFORCE

We recognise the importance of each and every employee and seek to be an ethical and progressive employer. This means encouraging a culture of openness, collaboration and continuous professional development and rewarding the effectiveness and loyalty of our employees.

We provide fair salaries with a competitive benefits package and all employees participate in the Company's Long-Term Incentive Plan. A thorough annual appraisal process is conducted, and we regularly invest in employees' development needs allowing them to reach their full potential.

Bi-weekly whole team meetings are held along with a specific annual strategy session which feeds directly into the materials prepared for the Board's annual strategy day.

CORPORATE SOCIAL RESPONSIBILITY

CASE STUDY

Back in September 2019, six Palace Capital employees tested their mettle against other property industry professionals when they met in Dorking on a drizzly day, to participate in the Paragon Mudathon and raise money for Land Aid, which combats youth homelessness.

Over the 5km cross-country run, interspersed with a multitude of challenging, mostly watery obstacles, the team stuck together and crossed the finish line in a respectable 2 hours 7 minutes, in varying states of exhaustion!

It was quite extreme as far as team building exercises go but encouraging each other throughout certainly served to strengthen our working relationships!

CASE STUDY

Following an asset-level environmental risk assessment at Sol, Northampton, we have confirmed that appropriate controls and procedures are in place for managing environmental risks and associated incident reporting:

- This site is low risk of flooding for rivers and groundwater.
- Smart meters are installed.
- Photocells are installed in public areas improving energy efficiency.
- Recycling protocols are in place, including cardboard balers which help improve waste management.

A number of pollution prevention recommendations are being incorporated and we have tightened up our maintenance regimes.

To ensure the Board has a comprehensive understanding of the views of the workforce, a Workforce Advisory Panel was established during the year. This forum provides employees with an opportunity to discuss and debate matters across the business. Feedback from the panel is provided directly to the Board of Directors. During the year the Workforce Advisory Panel met twice, and the following key themes were considered:

- Communications – employees sought a greater understanding of current performance and strategy. Time is now specifically allocated for such updates.
- Benefits – both the Company's pension offering and maternity/paternity practices have been discussed and debated at Board level.
- HR policies regarding the carrying over of holiday, flexible start and end times and dress code were reviewed and updated.
- There has been an increased focus on team social events and employee charitable activities – employees are encouraged to engage with fundraisers that are important to them.

CULTURE AND DIVERSITY

We ensure the values and behaviours within the business underpin a culture that is aligned to the Group's strategy and that policies and training are in place to support this.

As our employees are at the heart of delivering our strategy it is vital that they are empowered to take responsibility for their contribution to the business. To ensure this was clear, we refreshed our values during the year, setting out how we work and the principles we expect everyone in our business to follow. These values create the framework for building on our positive culture of inclusivity and working together.

Ambitious **Astute** **Active**

Underpinning these values is our profound family ethos which permeates through our employment policies, our approach to health and well-being and the manner in which we support our employees.

ONE DERBY SQUARE – LIVERPOOL

CASE STUDY

At One Derby Square we have taken a range of actions to improve the efficiency of the building:

- Electricity supplies are 100% renewable energy, obtained from a combination of wind, solar panels, biomass, and biogas.
- Water tanks on the roof have reduced the water held on-site.
- Robust recycling policies are in place and we encourage all our occupiers to recycle, including the retail occupiers who are responsible for their own waste.
- Further operational and energy efficiency initiatives planned for 2020.

We continue to promote inclusivity and will ensure that no person is discriminated against on grounds of religion, race, gender, pregnancy, marital status, age, sexual orientation, or any other attribute which does not speak to such person's ability to perform. We believe a diverse workforce is key to maximising business effectiveness and with this in mind we aim to select, recruit, develop and promote the very best people.

While diversity is much wider than gender balance, this area continues to be a key area of focus and we have made good progress within our small team:

	Male	Female	Total
Board of Directors	6	2	8
Senior Managers	1	1	2
Other employees	4	3	7
Employees (Total)	11	6	17

For further information on the Board's approach to diversity, please refer to page 63 in the Nominations Committee report.

IMPROVING THE ENVIRONMENTAL PERFORMANCE OF ASSETS

Through effective asset management, we are seeking to reduce our energy and resource consumption and minimise the impact our assets have on the natural environment.

We recognize that in order to meet our tenants' needs and be a responsible landlord our strategy must address the accelerating industry and global challenges in the built environment. Not only will this future-proof our business and ensure we are resilient, but it will also bring greater consistency and efficiency across our portfolio management.

During the year we have expanded our data collection methods in relation to resource consumption and waste management. While we will not see the output of these processes until future years, we have achieved some particular successes on our larger assets.

CLIMATE CHANGE

As the first major economy to legislate for net zero emissions by 2050, the UK's commitment to climate change is clear.

The UK commercial property sector has a responsibility to reduce the environmental impact of its buildings and we are committed to the progressive reduction of our carbon footprint.

At the very minimum we undertake flood risk assessments when acquiring assets and we have begun working with our sustainability consultants to develop a rigorous set of environmental standards against which new acquisitions can be assessed.

Our active asset management approach means that we are constantly assessing our portfolio and earmarking assets for refurbishment and renewal, utilising the latest technology and environmentally efficient products so that our properties are equipped to meet minimum energy efficiency standards. We continue to review the EPC risk associated with new purchases and implement improvement plans for any asset with an "E" rating or below. Over the next year we will continue to put in place further internal processes to ensure environmental considerations are factored into our portfolio management initiatives.

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

NEIL SINCLAIR
Chief Executive

Governance

FRASER HOUSE – STAINES

> *We recognise that the success of our business depends on us maintaining a strong governance framework that supports effective strategic and operational decision making and risk management.*

TRANSPARENCY

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

AN ETHICAL BUSINESS

We promote a culture with strong ethical values ensuring that all employees and everyone associated with the Group is aware of their responsibility to act lawfully and with the highest standards of business integrity.

BOARD OF DIRECTORS

COMMITTEE MEMBERSHIP

Audit and Risk Committee · Remuneration Committee · Nomination Committee · CSR Committee

EXECUTIVE DIRECTORS

NEIL SINCLAIR
FRICS
CHIEF EXECUTIVE

Date of appointment

Co-founded the Group in 2010

Expertise

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

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

External appointments

- Variety the Children's Charity
- London Active Management

STEPHEN SILVESTER
FCA
FINANCE DIRECTOR

Committee membership

Date of appointment

Joined the Group in 2015

Expertise

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

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

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

External appointments

- None

RICHARD STARR
MRICS
EXECUTIVE DIRECTOR

Committee membership

Date of appointment

Joined the Group in 2013

Expertise

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

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

External appointments

- Acorn2Oak Property Advisors Limited

NON-EXECUTIVE DIRECTORS

STANLEY DAVIS
NON-EXECUTIVE CHAIRMAN

Date of appointment

Co-founded the Group in 2010

Expertise

Stanley is a successful serial entrepreneur who has been involved in financial services and property businesses since 1977.

Stanley's founding company was company registration agent Stanley Davis Company Services Limited, which he sold in 1988. In 1990 he became Chief Executive of a small share registration company, which became known as IRG plc, and acquired several businesses including Barclays Bank Registrars and was sold for a substantial sum to The Capita Group plc. Until very recently, Stanley was Chairman of Stanley Davis Group Limited specialising in company formations, property and company searches.

External appointments

- University Jewish Chaplaincy

ANTHONY DOVE
INDEPENDENT NON-EXECUTIVE DIRECTOR

Committee membership

Date of appointment

Joined the Group in 2011

Expertise

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

External appointments

- None

KIM TAYLOR-SMITH
INDEPENDENT NON-EXECUTIVE DIRECTOR

Committee membership

Date of appointment

Joined the Group in 2014

Expertise

Kim, a Chartered Accountant, brings to Palace Capital over 30 years' experience as a company director for a range of businesses. He has a background in property management, investment and development. He was Finance Director and latterly Chief Executive of Birkby plc, a manager of serviced workspace (IMEX) and indoor markets (Inshops). Between 1983 and 1999 Kim continued as Chief Executive of the enlarged Group after the agreed takeover by Mentmore plc, at that time Europe's leading records management and self-storage company where he remained until 2001.

External appointments

- Deputy Leader Kensington & Chelsea Borough Council
- Bowlhead Properties Group

MICKOLA WILSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Committee membership

Date of appointment

Joined the Group in 2019

Expertise

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

External appointments

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

PAULA DILLON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Committee membership

All from 26 March 2020

Date of appointment

Joined 1 March 2020

Expertise

Paula is a qualified lawyer who specialised in the real estate sector for more than 30 years. During this time, Paula worked on some of the largest developments in the north of England. Paula recently retired from Womble Bond Dickinson LLP, which she joined in 2013 and where she spearheaded the growth of the firm's Leeds office. Paula served on the US/UK board of Womble Bond Dickinson LLP and was the board sponsor for Diversity and Inclusion.

Paula currently serves as vice-chair on the board of the West and North Yorkshire Chamber of Commerce.

External appointments

- West and North Yorkshire Chamber of Commerce
- Leisure and Hotel Investment Limited

CHAIRMAN'S GOVERNANCE OVERVIEW

Stanley Davis

CHAIRMAN

We have demonstrated resilience during a further period of political uncertainty in the UK, with the latter part of our financial year eclipsed by the unsettling Covid-19 pandemic.

As a Board, we continue to strive for the highest standards of corporate governance and aim to operate in the best interests of our Shareholders and other stakeholders. During the year, we have worked hard to ensure we are compliant with the UK Corporate Governance Code following the introduction of the Financial Reporting Council's 2018 version of the code which applies to accounting periods beginning on or after 1 January 2019 and therefore applied during the period under review.

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

WESTMINSTER HOUSE – GERRARDS CROSS

"The Board is pleased to confirm that it considers that the Company has complied in full, throughout the accounting period, with the relevant provisions of the UK Corporate Governance Code, other than the provisions relating to the tenure and independence of myself as Chairman. This is expanded upon further in the Nominations Committee Report."

STRATEGY

At the Board's annual strategy day, we reiterated our strategic areas of focus. These are set out on pages 16 and 17, and are underpinned by our core objective of creating value by growing our income whilst implementing a capital expenditure programme.

This has positioned us well during these uncertain times and, although the investment in our existing portfolio may not be realised in the financial year, we believe this strategy is in the best interests of our Shareholders over the longer term.

We set out our intention to convert to a UK REIT in last year's Annual Report. Following our successful conversion on 1 August 2019, we have benefited from a reduction in our tax liability for the year.

This will have a further positive impact in next year's results when we will have been in the regime for a full year.

As a UK REIT, we are part of an established tax exempt regime which should enhance returns for the majority of Shareholders. Over the longer term we expect our status as a REIT to be positive for both liquidity and share price.

BOARD COMPOSITION

Following the appointment of Mickola Wilson in February 2019, we were very pleased that Paula Dillon agreed to join the Board as Non-Executive Director in March 2020. Paula brings significant experience from her distinguished legal career and we look forward to working with her in the years to come.

We keep the composition of the Board under continuous review, and succession planning remains high on the Nominations Committee's agenda. I am satisfied that we have a strong Board with the appropriate balance of skills, experience and independence to add value to Board decision making and debate.

The Board works in an open and transparent manner with constructive discussion and challenge. This open and inclusive culture, combined with sound corporate governance, permeates throughout the organisation and is an essential part of the delivery of our strategy.

BOARD EVALUATION

As set out in last year's report, and in accordance with best practice, the Board participated in an externally facilitated evaluation during the year. Being our first such exercise, we found the process very insightful. Overall, it demonstrated that we have come a long way in a short time, having only joined the Main Market in March 2018.

The results from the evaluation were positive and shows that the Board and its Committees continue to be effective. For more information please refer to page 61 where the full output is reported.

CORPORATE SOCIAL RESPONSIBILITY

With the new Code further emphasising the importance of positive relationships between companies, Shareholders and stakeholders, and the need to have a clear purpose and strategy that is aligned with a healthy corporate culture, the Board constituted a new Corporate Social Responsibility Committee to oversee our work in these areas. The CSR Committee has overall responsibility for the formulation and discharge of the Group's corporate and social responsibilities, and ensures that our social, environmental and economic activities are aligned.

As part of our employee engagement initiatives, we put in place a Workforce Advisory Panel, which helps identify issues relating to the capacity, wellbeing and the engagement of employees and allows the Board to develop appropriate strategies for reward, recognition and development of a diverse workforce.

OUTLOOK

As a Board, we responded quickly to the Covid-19 pandemic. We recognised the need to work with our tenants, particularly the smaller and independent brands where the impact of Covid-19 could be profound.

We took steps to further control our costs and preserve our cash in anticipation of heightening levels of macroeconomic uncertaInty.

We are aware that the effects of Covid-19 will continue well into the next financial year and the Board will continue to take a proactive approach in our response. We are confident that the business has the resilience required to overcome any potential downturn.

On a final note, Anthony Dove will stand down from the Board at the conclusion of the Company's 2020 AGM, having served for nine years. On behalf of all my colleagues, I would like to thank Anthony for his many years of service to Palace Capital since its inception and his invaluable contribution towards its growth over the past nine years.

STANLEY DAVIS

Chairman

6 July 2020

"We have worked hard to ensure we are compliant with the UK Corporate Governance Code."

CORPORATE GOVERNANCE STATEMENT

GOVERNANCE FRAMEWORK

BOARD COMMITTEES

The Board has delegated authority to the following Committees and there are written terms of reference for each, outlining its authority and duties, which may be found on the Company's website, www.palacecapitalplc.com.

THE BOARD

Chairman: Stanley Davis

Comprises: Three Executive and five Non-Executive Directors (including the Chairman)

Role: Responsible to the Shareholders for the long-term strategy, control and leadership of the Group

BOARD COMMITTEES

Audit and Risk Committee (Four members)

Chair: Kim Taylor-Smith

Comprises additionally: Three independent Non-Executive Directors

Roles:
- Financial reporting
- Monitors risk management and internal control
- Monitors external auditors

Remuneration Committee (Four members)

Chair: Anthony Dove

Comprises additionally: Three independent Non-Executive Directors

Roles:
- Remuneration policy
- Sets Directors' remuneration packages and incentives
- Approves bonus and LTIP targets

Nominations Committee (Four members)

Chair: Mickola Wilson

Comprises additionally: Three independent Non-Executive Directors

Roles:
- Recommends Board appointments
- Succession planning
- Board composition skills and diversity of Board members
- Performance evaluation

Corporate Social Responsibility Committee (Six members)

Chair: Mickola Wilson

Comprises additionally: Two Independent Non-Executive Directors, the Finance Director, the Property Director and the Group Financial Controller

Roles:
- Stakeholder engagement
- Monitors social and environmental impacts and initiatives

KEY RESPONSIBILITIES

CHAIRMAN

- Leads the Board ensuring it operates effectively and in accordance with good governance.
- Sets Board agendas and oversees the conduct at Board meetings, ensuring all the Directors are properly briefed and are able to take a full and constructive part in Board discussions.
- Responsible for evaluating the performance of the Board and of the Executive Management and of the other Non-Executive Directors.
- Supports the CEO on the day-to-day management of the business and is actively involved in all key strategic decisions taken by the Group.

CHIEF EXECUTIVE

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

- Oversees the day-to-day running of the Group's business including the development and implementation of the Board's agreed strategy.
- Communicates and provides feedback to the Board on the Group's culture and the operation of policies and processes, ensuring these are consistent with the expected values and behaviours.
- Leads the Executive Team and evaluates the performance of Executive Management.
- Leads engagement with investors and public relations and other external communications.

COMPANY SECRETARY

- Provides advice and assistance to the Board, the Chairman and other Directors.
- Supports the Chairman with the development of agendas for Board meetings and provision of information to the Board.
- Advises and keeps the Board up to date with the latest corporate governance developments.
- Responsible for the induction of new Directors and considering training and development needs in conjunction with the Chairman and the Senior Independent Director.

SENIOR INDEPENDENT DIRECTOR

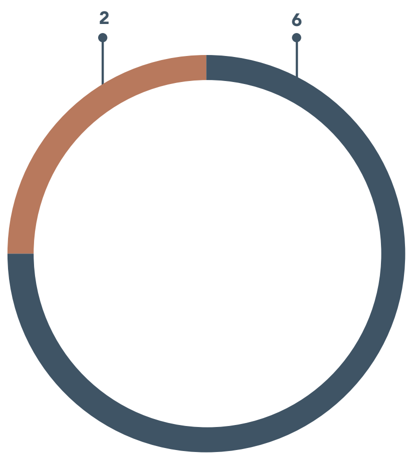
- Provides a sounding board for the Chairman and serves as an intermediary for the other Directors.
- Available to discuss concerns with Shareholders that cannot be resolved through the normal channels of communication with the Chairman or the Chief Executive.
- Responsible for leading the annual appraisal of the Chairman's performance.

NON-EXECUTIVE DIRECTORS

- Bring an external perspective, independent judgement and objectivity to the Board's deliberations and decision making.
- Scrutinise and hold to account the performance of management and individual Executive Directors against agreed performance objectives.
- Have a prime role in appointing and removing Executive Directors.

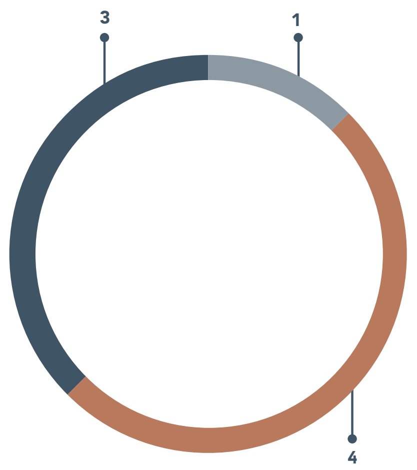
BOARD COMPOSITION

GENDER DIVERSITY



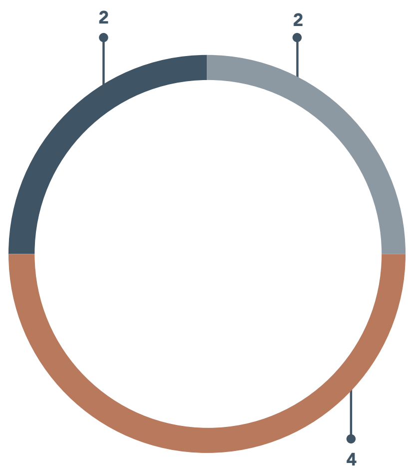
- Male
- Female

INDEPENDENCE



- Non-Independent Executive Directors
- Non-Independent Chairman
- Independent Non-Executive Directors

BOARD TENURE



- Under 2 years
- 3 to 6 years
- Over 7 years

CORPORATE GOVERNANCE STATEMENT

BOARD AND COMMITTEE ATTENDANCE

During the year, the Board consisted of a Non-Executive Chairman, Chief Executive, Group Finance Director, Executive Property Director and four further Non-Executive Directors. One of the Non-Executive Directors, Paula Dillon, was appointed to the Board on 1 March 2020.

The Non-Executive Directors are considered to be independent and free from any relationship that could affect the exercise of their independent judgement. It is felt that their knowledge and understanding are fundamental to the Board's deliberations. No individual or group of individuals dominates the Board's decision making. Mickola Wilson was appointed the Senior Independent Director during the year in preparation of Anthony Dove's retirement from the Board. As set out in last year's report Anthony Dove will not stand for re-election at the AGM in August 2020 following a total of nine years' service with the Group.

The profiles of the Board members appear on pages 52 and 53 of this Report. They demonstrate a complementary diversity of skills, backgrounds and experience, which enables the Group to be managed effectively. The Directors' interests in the shares of the Company are set out on page 78. The Board met eight times during the financial year for meetings with fixed dates, and a further four meetings were convened to deal with matters requiring approvals. The Board has a schedule of matters reserved for its decision which includes material capital commitments, business acquisitions and disposals and Board appointments. Directors are given appropriate information for each Board meeting, including reports on the current financial and trading position.

	Board	Audit and Risk	Remuneration	Nominations	Corporate Social Responsibility
Stanley Davis	7	–	–	–	–
Neil Sinclair	8	–	–	–	–
Richard Starr	8	–	–	–	1
Stephen Silvester	8	–	–	–	1
Anthony Dove	8	3	7	3	–
Kim Taylor-Smith	8	3	7	3	–
Mickola Wilson	8	3	7	3	1
Paula Dillon*	1	1	1	–	–

*Appointed 1 March 2020

ASSESSMENT AND MONITORING OF CULTURE

The Board has overall responsibility for establishing the Company's purpose and strategy and satisfying itself that these and the Company's culture are aligned.

During the year, the Board considered the values, beliefs, policies and practices that characterise the Group's culture. In doing so, it reviewed reports from management and the output of the Workforce Advisory Panel. It monitored adherence to Group policies and compliance with the corporate governance requirements of a Main Market Listed company.

The Board remains focused on enabling an inclusive and supportive culture. At the heart of this is the need for Directors and employees alike to work together and feel that they are contributing to the overall success of the business. This is achieved in many ways and during the year a greater emphasis was placed on understanding the skills, strengths and competences that each individual brings to the team.

The Executive Management Team drives the embedding of the desired culture throughout the organisation and ensuring that the expected values and beliefs are sufficiently understood.

INDUCTION, TRAINING AND DEVELOPMENT

A central part of our culture is to support the continuing development of all employees and Directors. Formal training is arranged and seminars and conferences relevant to individual roles are encouraged. The Board in particular receives regular briefings on a range of strategically important matters to ensure they are informed of developments in these areas.

A structured and tailored induction programme is prepared for new Directors. This is designed to enhance Directors' knowledge and understanding of the Group's business, operations and regulatory environment. Materials will cover, among other matters, current strategic priorities, meeting packs and minutes from recent Board meetings, a history of the Group, and all relevant policies, procedures and other governance material.

All Directors have access to the Company Secretary in relation to the discharge of their duties.

BOARD ACTIVITIES

STRATEGIC AIMS

1 Grow our regional portfolio
2 Generate attractive total returns
3 Manage our assets effectively
4 Be a responsible company

	KEY PRIORITIES FOR 2019/20	KEY ACTIVITIES AND DISCUSSIONS IN 2019/20	LINK TO STRATEGY
01 STRATEGY AND GOVERNANCE	• Promote the long-term sustainable success of the Company. • Generate value for Shareholders. • Contribute to wider society. • Ensure the Board and its Committees have the appropriate combination of skills, experience and knowledge.	• Held detailed strategy sessions throughout the year to set and further develop future strategy. • Monitored the performance of the portfolio and individual asset valuations. • Reviewed and approved half-yearly and annual results, viability statement and going concern matters. • Considered and reviewed the Board's composition, diversity and succession plans. • Reviewed its Committees' structure, membership and terms of reference. • Participated in an externally facilitated Board evaluation and effectiveness review. • Reviewed the Group's risk register and the effectiveness of the systems of internal control and risk management. • Appointed and inducted a new Non-Executive Director. • Established a Corporate Social Responsibility Committee.	1 2 3 4
02 FINANCIAL	• Competent and prudent financial management. • Integrity of the financial statements.	• Approved the budget for 2019/20. • Set financial targets and messaging around market guidance. • Monitored trading performance conditions. • Monitored major capital expenditure projects. • Increased and extended the revolving credit facility with NatWest. • Monitored rent collection and quarterly debt compliance, particularly following the onset of Covid-19.	2 3
03 STAKEHOLDERS	• Understand the views of and meet its responsibilities to Shareholders and stakeholders. • Ensure workforce policies and practices are consistent with the Company's values.	• Broad programme of investor relations throughout the year. • Received regular updates from management on engagement with Shareholders, tenants and employees. • Approved the Company's dividend policy. • Held an Annual General Meeting providing Shareholders with an opportunity to question the Board. • Formulated a Workforce Advisory Panel responsible for employee engagement. • Approved the Group's general response to support our tenants following the Covid-19 outbreak.	1 2 4

CORPORATE GOVERNANCE STATEMENT

HOW STAKEHOLDER INTERESTS HAVE BEEN CONSIDERED IN BOARD DECISION MAKING (SECTION 172 STATEMENT)

The Board is committed to engaging proactively and constructively with our stakeholders and devotes sufficient time and effort to consider the interests of all stakeholders impacted by our activities. An overview of our stakeholder engagement can be found on page 46, and Board proceedings are conducted in such a manner as to ensure due regard is given to all the Group's stakeholders. The following summary demonstrates how this was achieved during the period ending 31 March 2020. Further details can be found throughout this Annual Report as set out in the table at the bottom of this page.

APPROACH TO INVESTOR RELATIONS

The Board recognises the importance of maintaining a strong relationship with the Company's Shareholders. During the year ended 31 March 2020, a detailed programme of Shareholder engagement was undertaken:

- Regular trading updates and announcements to the market regarding performance.
- Following the announcement of the Company's full year and half year results, a series of presentations were held in London and the regions.

Feedback is provided via the Company's joint brokers, who ensure the Board is aware of and have a clear understanding of the views of major Shareholders and the capital markets.

Shareholders are also able to attend the Company's AGM where they are able to question Directors and vote on matters put to the meeting.

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

ENGAGEMENT WITH THE WORKFORCE

In accordance with the UK Code, a Workforce Advisory Panel was established to ensure the Board understands the views of employees. All employees are invited to participate in formal workshops with agendas specifically formulated to cover matters that affect the whole workforce.

To encourage an open forum for discussion, members of the Executive team do not attend and are formally debriefed on discussions and developments following each workshop. The output of each meeting is then reported directly to the Board with decisions taken as appropriate. During the year, the Board discussed and debated proposals relating to the Company's defined contribution pension scheme, and the maternity and paternity offering provided to employees. These matters will be an area of focus for the Board during the next financial year. The Board and Remuneration Committee are kept informed of matters related to employee remuneration.

OUR TENANTS' INTERESTS

Our tenant diversification is high, which means the Board must consider a range of different interests in its decision-making process. It receives regular reports from the Executive Property Director and will pay particularly close attention to the interests of tenants as part of approving capital expenditure projects.

As a result of the close relationship our asset managers have with tenants, the Board is able to obtain regular feedback on business performance and general tenant satisfaction. Following the Covid-19 outbreak, the Board approved the overall approach of working with tenants, particularly small and independent brands who needed support through the challenging period.

Section 172	Page	Disclosure	Section 172	Page	Disclosure
The Long Term	IFC*	Purpose and values	**Community and Environment**	Page 47	Community engagement
	Pages 14–15	Business model		Page 49	Improving the environmental performance of our assets
	Pages 16–17	Strategic priorities		Page 49	Climate change
	Page 29	Dividend policy		IFC*	Purpose and values
Employees	IFC*	Purpose and values	**Business Conduct**	Page 68	Whistleblowing
	Page 47	Our workforce		Page 68	Internal controls
	Page 48	Culture and diversity		Pages 16–17	Strategic priorities
Business Relationships	Pages 16–17	Strategic priorities	**Shareholders**	Page 29	Dividend policy
	Pages 30–35	Property review		Page 40–45	Risk management

*Inside Front Cover

BOARD PERFORMANCE EVALUATION

PROCESS

An external evaluation of the Board was undertaken during the year. Facilitated by the ICSA Board Evaluation service, the process ran between November 2019 and January 2020. The objective of the evaluation was to obtain an independent view of the performance of the Board as a whole and its main Committees and identify actions and areas for development in order to enhance the Board's effectiveness.

The ICSA Board Evaluation service has no other connection with Group.

The process was led by the Chairman, supported by the Company Secretary and overseen by the Nominations Committee.

STAGE 01

Following a selection process, the ICSA Board Evaluation service was appointed to undertake the evaluation. The Chair of the Nominations Committee and Company Secretary met with the evaluator to set the context for the evaluation and to tailor the evaluation content to the specific circumstances of Palace Capital.

STAGE 02

The Evaluator conducted a face-to-face interview with each individual Director covering the following key themes:

1. Board responsibilities
2. Oversight
3. Board meetings
4. Support for the Board
5. Board composition
6. Working together
7. Outcome and achievements

STAGE 03

A report was compiled based on the findings from the interviews. This was initially shared with the Chairman and Company Secretary before being presented to the Board. Following Board discussion and debate, a range of actions were agreed. An action plan has been prepared and progress will be monitored by the Nominations Committee during the next financial year.

Key findings from the 2019/20 Board evaluation	Key actions planned
The Board has a clear understanding of its role, with great clarity regarding the Group's purpose and values. The balance of operational and strategic discussions at Board level could be enhanced further by reviewing the structure and time available at Board meetings. Board Committees operate well, with sufficient information flows and external advice is available when it is needed.	• Review the organisation and structure of the annual Strategy Day and regular Board Agendas to ensure strategic output is optimised.
The Board's oversight role and ability to assess the system of internal control is considered to be very good. Greater visibility of the senior management team below the executive team would be welcomed and in the absence of a formal internal audit function there is a need to ensure sufficiently robust discussions continue to take place regarding the company's risk management and internal control systems.	• Develop the process for assessing individual performance and receive more presentations from those in the senior management team. • Consider whether any improvement can be made to the process for reviewing the effectiveness of the Company's risk management and internal control system.
The Company's operations are considered to be in step with the set strategy, which is being correctly executed. Progress in meeting strategic objectives is monitored well through regular reporting to the Board. Board composition is regularly reviewed, and succession planning remains a key area of focus. The Board as a whole is cohesive and new Directors continue to build relationships which further improves the Board dynamic.	• Consider how feedback from broker, market expectations and peer group analysis can be further improved. • Nominations Committee to maintain attention on succession planning.

NOMINATIONS COMMITTEE REPORT

Mickola Wilson

CHAIR OF NOMINATIONS COMMITTEE

The Nominations Committee (the "Committee") keeps the structure and composition of the Board under regular review to ensure it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership.

During the year the Committee continued to focus on wider succession planning for the Group and oversaw the appointment of Paula Dillon, who joined the Board on 1 March 2020. Paula's appointment as independent Non-Executive Director followed a formal, rigorous and transparent procedure led by the Chairman and I. As noted in last year's Annual Report, Anthony Dove will stand down from the Board at the conclusion of the Company's 2020 AGM, having served for nine years. In accordance with the provisions of the UK Code, Paula's appointment will ensure that at least half the board is independent following Anthony's departure. I was also pleased to accept the position of Senior Independent Director in March 2020 and will become Chair of the Remuneration Committee when Anthony stands down in the summer.

Diversity has been a key consideration throughout the year, not only in relation to new appointments to the Board, but also in relation to the wider workforce. It is pleasing to see that our female representation across the workforce has increased to 35%, up from 25% in the prior year.

The Committee also oversaw the externally facilitated Board evaluation process ensuring that a clear action plan was put in place.

MEMBERS

- Mickola Wilson (Chair)
- Kim Taylor-Smith
- Anthony Dove
- Paula Dillon (joined 26 March 2020)

MEETINGS HELD: 5

2019/20 KEY ACHIEVEMENTS

- Recruitment
- Succession planning
- Board evaluation
- Diversity

AREAS OF FOCUS IN 2020/21

- Onboarding new Non-Executive Director
- Succession planning

COMMITTEE MEMBERSHIP AND MEETINGS

In accordance with the UK Code, at least a majority of members of the Committee are Independent Non-Executive Directors. The Non-Executive Chairman and Chief Executive may attend Committee meetings by invitation. The Committee is supported by the Company Secretary.

The Committee met three times during the year (details of attendance are set out on page 58). There were also a number of informal meetings, conference calls and general discussions between Committee members regarding the appointment of a new Non-Executive Director.

COMMITTEE ROLE AND EFFECTIVENESS

The Committee's terms of reference set out its role and the authority delegated to it by the Board. The primary responsibilities of the Committee are to:

- Lead the process for appointments to the Board, ensuring a formal, rigorous and transparent procedure
- Assist the Board in ensuring its composition is regularly reviewed and refreshed
- Ensure plans are in place for orderly succession to positions on the Board and senior management

The performance of the Committee was reviewed as part of the Board's annual evaluation, which concluded that the Committee is effective and provides a positive contribution to the composition of the Board. The process by which appointments are made is robust and succession planning continues to be a key area of focus.

BOARD COMPOSITION

In preparation of the departure of Anthony Dove, the Committee kept the balance of skills, experience, independence and knowledge under review and made a recommendation to the Board to appoint a new Non-Executive Director.

The Committee evaluated the skills and experience necessary to complement the existing members of the Board. In particular it was noted that a further legal and/or a professional services background would be desirable with experience in real estate and the regional economies within which the Group operates.

Appointment of Paula Dillon

The Committee appointed recruitment consultants, Warren Partners, which has no other connection with the Company, to undertake the task of finding the right candidate. A range of potential Non-Executive Director candidates were presented, from which a shortlist of six were subsequently interviewed. The Committee were delighted with the level of interest and the quality of the candidates put forward. Following further meetings and in consideration of the skills required and Paula's extensive legal experience, the Committee agreed to recommend Paula's appointment. Paula joined the Board on 1 March 2020.

Skills and background

Paula is a qualified lawyer who specialised in the real estate sector for more than 30 years. During this time, Paula worked on some of the largest developments in the north of England. Paula recently retired from Womble Bond Dickinson LLP, which she joined in 2013 and where she spearheaded the growth of the firm's Leeds office. Paula served on the US/UK board of Womble Bond Dickinson LLP and was the board sponsor for diversity and inclusion.

Outside of her extensive legal career, Paula served on the board of Opera North between 2009 and 2017 before stepping down to become the first female President of the Leeds Chamber of Commerce in 2017. Paula currently serves as vice-chair on the board of the West and North Yorkshire Chamber of Commerce.

External appointments:

West and North Yorkshire Chamber of Commerce

Chairman of the Board

Stanley Davis was appointed to the Board in 2010 when he and Neil Sinclair acquired Board control of the Company, which at the time was quoted on the AIM market. In view of his shareholding in the Company, he was not considered to be independent at that time. Stanley's shareholding is now 3.63% and, although he is still not considered to be independent, his contribution to the strategic direction of the business is invaluable.

Following developments in corporate governance it is not considered best practice for the Chairman to remain in post beyond nine years from the date of their first appointment. However, the Board strongly believes that retaining Stanley's knowledge and expertise will be in the best interests of Shareholders and the Board wishes to retain his services notwithstanding his tenure. This will allow for the orderly facilitation of effective succession planning and the development of an experienced and diverse Board to take the Company forward in future years. Stanley continues to demonstrate strong independence in the manner in which he discharges his responsibilities and Shareholders should be reassured that the Board proactively ensures the separation of responsibilities between the role of the Chairman and Chief Executive.

SUCCESSION PLANNING

Succession planning has continued to be a key area of focus during the year, both in respect of the Board and wider talent development to support the Company's long-term plans. The Committee has focused on potential skill shortages, putting in place specific training initiatives and will ensure a formal, rigorous and transparent procedure is followed for any new appointments.

In addition to longer-term succession planning, the Committee reviewed contingency plans and the Group's ability to respond to sudden and unexpected loss or non-availability of key Directors. These plans ensure that individuals are identified who can quickly assume key roles and provide effective support.

DIVERSITY

The Board recognises the benefits of diversity in its broadest sense, both in the boardroom and throughout the business.

While appointments will always be made on merit, the Company is committed to considering all aspects of diversity, and will promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths when recruiting at any level.

When making appointments to the Board, the Committee will only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity. It will ensure that candidate lists are compiled by drawing from a broad and diverse range of individuals and consider candidates against objective criteria with regard to the benefits of all aspects of diversity.

Further information on our approach to diversity can be found on page 49 in the CSR report.

INDEPENDENCE AND RE-ELECTION

Any Director appointed during the year is required to retire and seek election by Shareholders at the next Annual General Meeting following their appointment. Accordingly, Paula Dillon will retire and offer herself for election to the Board at the AGM in August 2020.

At the 2019 AGM all Directors stood for re-election for the first time. In previous versions of the UK Code this provision had only applied to larger companies. In accordance with best practice, all Directors will stand for re-election again at the 2020 AGM, except Anthony Dove who is retiring from the Board following conclusion of the AGM.

The Committee, on behalf of the Board, is satisfied that all Board members put forward for re-election have, and commit, the time required to discharge their roles effectively. Further, the Board has the appropriate balance of skills, experience, independence and knowledge and shareholders should support the re-election of all Directors.

Mickola Wilson

MICKOLA WILSON
Chair of Nominations Committee
6 July 2020

CSR COMMITTEE REPORT

Mickola Wilson

CHAIR OF CSR COMMITTEE

MEMBERS

- Mickola Wilson (Chair)
- Kim Taylor-Smith
- Stephen Silvester
- Richard Starr
- Matthew Simpson
- Paula Dillon (joined 26 March 2020)

MEETINGS HELD: 1

2019/20 KEY ACHIEVEMENTS

- Reviewed regulatory requirements
- Considered CSR risks
- Agreed priority actions

AREAS OF FOCUS IN 2020/21

- Review environmental performance following improvements to data collection
- Engage with professional advisers to develop a set of targets and initiatives
- Consider joining the Global Real Estate Sustainability Benchmark

During the year, the Board constituted a Corporate Social Responsibility Committee to oversee the formulation and discharge of the Group's corporate and social responsibilities and ensure its social, environmental and economic activities are aligned.

The Committee met once during the year and at this meeting it reviewed the Group's corporate and social obligations, the initiatives the business is currently undertaking, and the material risks it faces. A clear set of actions has been agreed and the Committee will review progress against these in the next financial year.

For more information on the Group's activities in this area, please see the Corporate Social Responsibility section in the Strategic Report.

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee is made up of Mickola Wilson (Non-Executive Director), Kim Taylor-Smith (Non-Executive Director), Stephen Silvester (Executive Director), Richard Starr (Executive Director) and Matthew Simpson (Group Financial Controller). Paula Dillon joined the Committee on 26 March 2020 and will chair the Committee going forward.

COMMITTEE ROLE

The Committee's terms of reference set out its role and the authority delegated to it by the Board. The primary responsibilities of the Committee are to:

- Define the Group's corporate and social obligations, agree a strategy for discharging these and oversee the implementation of such strategy.
- Ensure there is a recognition of the impact of the Group's activities on all stakeholders, monitor the engagement with each stakeholder group and support the Board in its understanding of the interests of key stakeholders.
- In conjunction with management, the Board and other Committees, identify the material social and environmental risks and ensure that appropriate measures are taken to mitigate any such risks.

LOOKING AHEAD

The Committee will continue to review the way in which the business is conducted and seek to ensure this is done in a socially responsible manner. It will do this by setting targets and objectives against which performance can be measured. One such measure is the Group's greenhouse gas emissions, and in line with the Companies Act 2006, we have set out our greenhouse gas emissions report on the next page.

GREENHOUSE GAS EMISSIONS

Our GHG calculation and reporting process follows the Greenhouse Gas Protocol ("operational approach") and the DEFRA Environmental Reporting Guidelines (2013). The boundary for reporting includes emissions from sources under our control, grouped under: Scope 1 (direct) GHG emissions from owned assets; and Scope 2 (indirect) GHG emissions from supplied electricity to leased office space. Emissions from sources such as Company vehicles, production processes and combustion sources are minimal and therefore not deemed to be material. As a result, these emissions are not included in reported totals.

We have a limited amount of energy use within our control. In order to have a meaningful impact on greenhouse gas emissions we must ensure we are also engaging with our tenants and encouraging them to consider their own energy consumption. This will be a priority in the next financial year.

This is the third year that Palace Capital has been required to disclose CO_2 emissions. Scope 2 emissions have decreased during the year by 33%. This is a result of reduced energy consumption as well as a reduction in the Government's GHG conversion factors.

GHG emissions[1]

	2020	2019[5]
Emissions type (kg of CO_2 equivalents)		
Scope 1 (direct)[2]	**N/A**	N/A
Scope 2 (indirect)[3]	**1,789**	2,671
TOTAL	**1,789**	2,671
Carbon intensity[4] (kg of CO_2 per m² area)		
Scope 1	**N/A**	N/A
Scope 2	**1.01**	1.50
TOTAL	**1.01**	1.50
Total energy use (kWh of electricity, gas and biomass use)	**6,999**	N/A

1 Emissions from properties leased to tenants are not included with the above figures as they are out of scope from the GHG protocol's operational approach.

2 The Group does not directly combust fuels or own Company vehicles.

3 Indirect (Scope 2) GHG emissions from supplied electricity are based on actual and estimated energy consumption values.

4 Intensity based on a total of 1,777 m² in one leased office.

5 The Company's emissions for the year to March 2019 have been restated due to Q4 2018/19 data not being available at the time of reporting; this final period of data is estimated in every Annual Report.

MIDSUMMER BOULEVARD – MILTON KEYNES

AUDIT AND RISK COMMITTEE REPORT

Kim Taylor-Smith

CHAIR OF AUDIT AND RISK COMMITTEE

MEMBERS

- Kim Taylor-Smith (Chair)
- Anthony Dove
- Mickola Wilson
- Paula Dillon (joined 26 March 2020)

MEETINGS HELD: 3

2019/20 KEY ACHIEVEMENTS

- Reviewed and approved the annual and half yearly financial statements
- Ensured that the Annual Report was fair, balanced and understandable
- Scrutinised margins and property valuations ensuring sufficient management controls and that these support the financial reporting
- Full and mid-year risk reviews
- Considered the appointment of the external Auditor, their reports to the Committee and their independence
- Reviewed and approved its terms of reference, independence and financial literacy

AREAS OF FOCUS IN 2020/21

- Maintain oversight of IT strategy and cyber security matters
- Monitor and review the implementation of a new property management system
- Ensure the smooth transition to a new audit partner

The Committee is an important element of the Group's governance structure and provides a key oversight and assurance role. It has supported the Board through its monitoring of the integrity of financial reporting and the robustness of the Group's risk management and internal control framework. It has worked closely with the external auditors, reviewing key accounting judgements and policies, and ensuring an effective external audit process.

COMMITTEE MEMBERSHIP AND MEETINGS

In accordance with the UK Code, all members of the Committee are Independent Non-Executive Directors. The Non-Executive Chairman, Chief Executive and Group Finance Director may attend Committee meetings by invitation. The Committee is supported by the Company Secretary.

The Committee is satisfied that Kim Taylor-Smith, a Chartered Accountant, brings recent and relevant financial experience, as required by the UK Corporate Governance Code, having held the position of Finance Director of a number of Stock Exchange listed companies. The Committee considers that all members have the necessary competence relevant to the sector in which the Company operates. Biographies of the Committee members can be found on pages 52 and 53.

The Committee met three times during the year (details of attendance are set out on page 58).

COMMITTEE ROLE AND EFFECTIVENESS

The Committee's terms of reference set out its role and the authority delegated to it by the Board. Its primary role is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- The integrity of the financial and narrative statements and other financial information provided to Shareholders.
- The Company's system of internal controls and risk management.
- The external audit process and relations with Auditors.
- The process for compliance with laws, regulations and ethical codes of practice.

The performance of the Committee was reviewed as part of the Board's annual evaluation, which concluded that the Committee carries out its role thoroughly and adds value to the Groups control systems.

FINANCIAL REPORTING AND SIGNIFICANT MATTERS

As part of its role the Committee has considered a number of significant issues relating to the financial statements. This includes the suitability of accounting policies and the appropriateness of managements judgements and estimates.

The Group's accounting policies can be found in the notes to the consolidated financial statements and further information on the significant issues considered by the Committee are set out below.

Property valuation

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

The Committee reviews the valuations and the underlying assumptions and judgments applied by management and the valuers, Cushman & Wakefield. The Committee receives information on the valuation process and reviews updates from management in relation to current market trends and key valuation movements compared to previous periods. The Committee provides robust challenge and satisfies itself that sufficient oversight and controls are in place and that the financial reporting is supported.

Recoverability of receivables

The impact of Covid-19 on some tenants has been significant and this has led to a higher arrears position at the year end. The Committee has considered the ability of the Group to recover these amounts. In doing so, it has reviewed management's risk assessment and associated provisions and deems these to be appropriate.

Share-based payments

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

In connection with the approval of the financial statements the Executive Directors confirm to the Committee that they are not aware of any material misstatements in the Annual Report. The Committee is satisfied that the financial statements in respect of both the amounts reported and the disclosure have been thoroughly considered.

Going concern

The Committee reviewed whether it was appropriate to adopt the going concern basis in the preparation of the financial statements. In considering this the Committee reviewed the 12-month forecasts, availability of bank facilities and the headroom under the financial covenants in our debt arrangements. The NatWest facility was refinanced during the year providing additional capacity. With this knowledge and following the review the Committee recommended to the Board that it was appropriate to adopt a going concern basis.

READ MORE ABOUT THE GOING CONCERN ON PAGES 40 AND 41

ADMIRAL HOUSE – FAREHAM

AUDIT AND RISK COMMITTEE REPORT

Viability statement

The Committee reviewed the viability statement and the period for which the Board should assess the prospects of the Group. Following the review the Committee concluded that a three-year period was appropriate. Further details are provided on page 42.

Fair, balanced and understandable

At the request of the Board, the Committee has considered whether the Annual Report is fair, balanced and understandable and provided the information necessary for Shareholders to assess the Company's position, performance, business model and strategy.

In forming its opinion, the Committee considered whether the Annual Report:

- provided a comprehensive review and included all relevant transactions and balances;
- was consistent throughout with a mix of statutory and alternative performance measures;
- had been written in straightforward language without unnecessary repetition with appropriate use of diagrams and charts; and
- had sufficient emphasis on both the positive and negative issues faced by the Group.

Following review the Committee confirmed it is satisfied that, taken as a whole, the Annual Integrated Report and Accounts is fair, balanced and understandable.

EXTERNAL AUDITOR

BDO LLP was first appointed as external Auditor in respect of the year ended 31 March 2015. There are no current plans to carry out a re-tender exercise, but in accordance with the EU Audit Regulation and Directive, the Group will be required to put the external audit contract out to tender by 2024. The lead audit partner, Richard Levy, has held the position for five years and will rotate off the account following the completion of the audit in relation to the financial year ending 31 March 2020.

The Committee has assessed BDO's performance, independence, objectivity and fees. In making its assessment, the Committee considered the qualifications, expertise and resources of the audit partner and team as well as the quality and timeliness of the delivery of the audit and the provision of non-audit related services. The Committee members made their assessment based on feedback from management and their own interaction with the audit team.

The Committee is conscious of the need to ensure that the independence and objectivity of BDO LLP is not compromised. In the year ended 31 March 2020, the only non-audit services provided to the Group related to the independent review of the half-year results. The Committee will keep under review the provision of audit and non-audit assignments and will only authorise non-audit services on the basis that they are permissible under regulations relating to a Public Interest Entity.

AUDIT FEES

Fees payable to the Group's Auditors for audit and non-audit services are set out in note 3 on page 104. Total fees for non-audit services represented 5.7% of the total fees for audit services (2019: 7.14%).

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the Group's risk management and internal control systems. To support the Board, the Committee will oversee and at least annually review the effectiveness of the Group's internal controls and risk management systems, and will review and approve the related statements in the Annual Report.

During the year the Committee received updates from management and the external Auditor regarding the operation of key controls. As part of their review the Committee also considered the process of risk identification, mitigation and evaluation of the potential impact on the Group's strategic objectives. The Directors are satisfied that the current controls are effective with regard to the size of the Group.

The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. However, they can only provide reasonable, but not absolute assurance against material misstatement or loss.

INTERNAL AUDIT

Given the size of the Group, in the opinion of the Committee, there is currently no need for an internal audit function. The work of the external Auditor provides an element of comfort that controls are operating as intended and the management team regularly review the operation of the Group's policies and procedures.

The Committee is mindful of the need to ensure a sufficiently robust evaluation of the Company's risk management and internal control systems is undertaken. In the absence of a dedicated internal audit function it will keep under review the arrangements for achieving internal assurance and continuously strive to improve this.

WHISTLEBLOWING PROCEDURES

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

KIM TAYLOR-SMITH

Chair of Audit and Risk Committee

6 July 2020

DIRECTORS' REMUNERATION REPORT

Anthony Dove

CHAIR OF REMUNERATION COMMITTEE

MEMBERS

- Anthony Dove (Chair)
- Kim Taylor-Smith
- Mickola Wilson
- Paula Dillon (joined 26 March 2020)

MEETINGS HELD: 7

2019/20 KEY ACHIEVEMENTS

- Responded to the 2018 UK Corporate Governance Code
- Reviewed performance outcomes
- Agreed new Non-Executive Director fee

AREAS OF FOCUS IN 2020/21

- Grant 2020 LTIP
- Remuneration policy review

The Committee's primary objective is to ensure that the Group's remuneration policies and practices support the successful delivery of the long-term strategy. This report sets out how the Committee has fulfilled its objective and details the remuneration outcomes for the Executive Directors.

COMMITTEE MEMBERSHIP AND MEETINGS

In accordance with the UK Code, all members of the Committee are Independent Non-Executive Directors. The Non-Executive Chairman and Chief Executive may attend Committee meetings by invitation. The Committee is supported by the Company Secretary.

The Committee met seven times during the year (details of attendance are set out on page 58).

ADVISERS

The Company has been advised by MM&K during the year ended 31 March 2020. MM&K Limited were paid £6,120 (2018: £8,900) and do not have any other connection with the Company.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY

When setting the remuneration policy for the Executive Directors, the Committee considers the need to attract, retain and motivate Executive Directors and senior management, whilst ensuring the overall approach to remuneration is aligned with the interests of Shareholders.

The current remuneration framework was adopted at the Company's 2018 AGM following its move to the Main Market. While the Remuneration Policy is not being put to the vote this year, in accordance with the 2018 UK Corporate Governance Code we have introduced formal guidance in relation to Directors' minimum shareholding requirements and post-employment requirements. Further details can be found on page 73.

The Remuneration Committee keeps up to date with developments in Executive pay and will monitor and review how practice and investor expectations evolve throughout the year, ahead of the Policy being put to a binding Shareholder vote in 2021.

2020 ANNUAL BONUS

Financial and operational targets are set each year for the annual bonus scheme. Notwithstanding the challenging macro-environment, the business has performed well during the year ended 31 March 2020, and this resulted in 69.25% of the maximum potential target being achieved.

However, in light of the reduction to Shareholder dividends in the year and the prevailing market conditions, the Executive Directors agreed with the Remuneration Committee to reduce the level of bonus achieved by 10%. As such, the Directors will receive a bonus of 62% of salary for the year.

LTIP VESTING

The LTIP awards which were made in July 2016 became exercisable on 4 July 2019. The performance conditions related 50% to Total Shareholder Return and 50% to Net Asset Growth versus a selected peer group. As a result of the performance during a three-year period, 50% of the award was achieved. Full details can be found on page 78.

2019 LTIP GRANT

On 25 June 2019 awards were granted to the Executive Directors over 245,531 shares. The awards are subject to the achievement of performance criteria, which are linked to the Group's overall strategy, with 50% based on Total Shareholder Return and 50% based on the growth in the portfolio value using Total Property Return ("TPR") (as calculated by MSCI), when measured against the TPR of the MSCI IPD Index over a three-year performance period.

ACTION TAKEN IN RESPONSE TO COVID-19

In response to the Covid-19 outbreak, the Committee considered the approach to Executive pay, particularly in light of the Board's decision to cancel the quarterly dividend which was due to be paid to Shareholders in April 2020. The following decisions were taken:

- The salary reviews effective 1 April 2020 were agreed in principle although the implementation of these was delayed while we reviewed our rent collection position and cash flow forecasts.
- Owing to the uncertainty surrounding the pandemic, the Committee has delayed setting the targets for the Directors' annual bonus for the year ending 31 March 2021. We have expanded upon this further in the Directors' Remuneration Report.
- The Committee also expects to defer the grant of 2020 LTIPs until later in the year.

BOARD CHANGES

Paula Dillon was appointed as a Non-Executive Director on 1 March 2020 and the fee agreed in line with other Non-Executive Directors was £40,000.

On a final note, this will be my last year on the Board, having joined the team in July 2011. It has been a pleasure to work alongside Stanley and Neil for the past nine years and I wish the Board every success in the future. I will not be standing for re-election at the AGM in August and Mickola Wilson will assume the position of Chair of the Remuneration Committee following my departure.

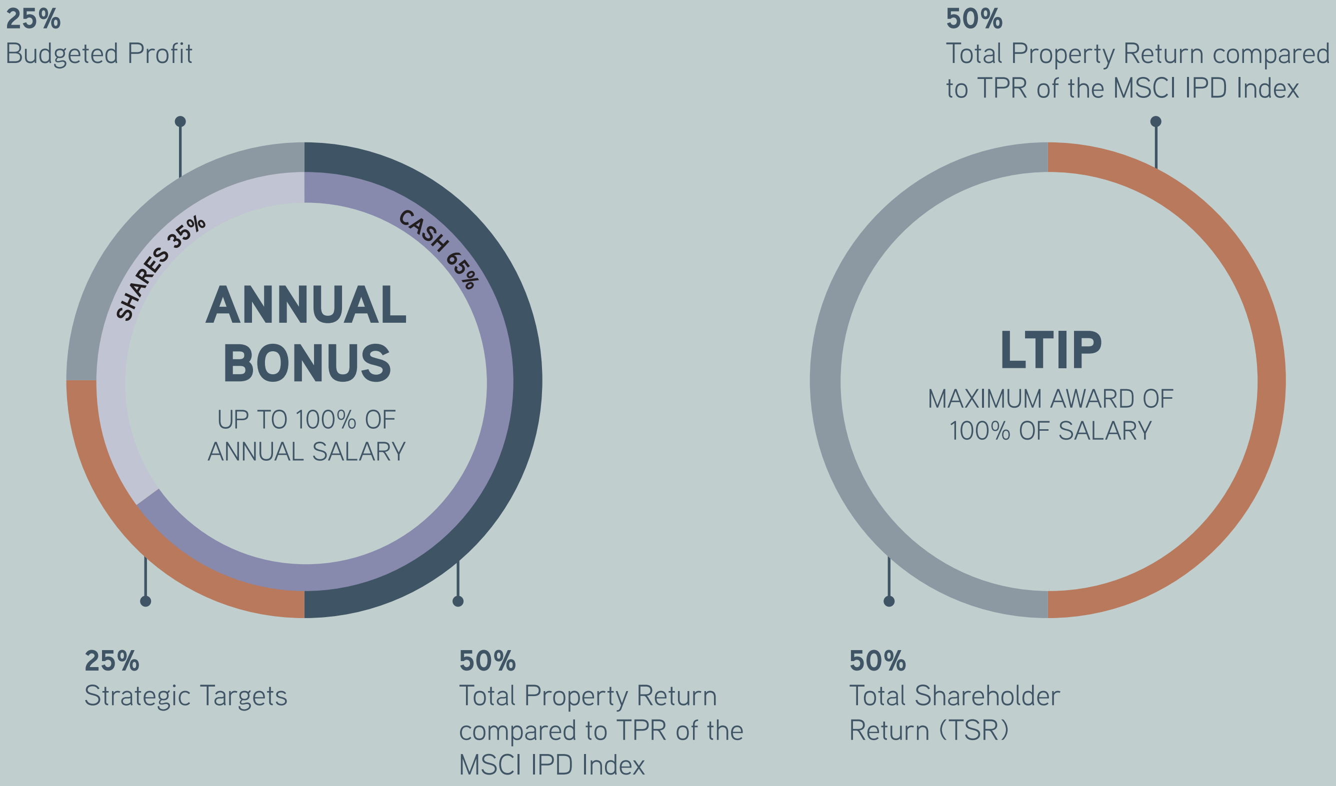
ANTHONY DOVE

Chair of Remuneration Committee

6 July 2020

REMUNERATION AT A GLANCE

PERFORMANCE-RELATED PAY FRAMEWORK (2019 AWARDS)



ADJUSTED PBT

£10.9m

Including Priory House surrender premium

TPR EXCESS PERFORMANCE OVER TPR MSCI IPD INDEX

1.53%

TOTAL SHAREHOLDER RETURN

-30.9%

STRATEGIC TARGETS

See page 76 for full details

OUR REMUNERATION POLICY

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

Element	Operation	Maximum potential value	Operation in the year ended 31 March 2020
Salary	Salaries are reviewed annually with effect from 1 April each year. Salary levels take account of the following: • Role, performance and experience. • Business performance. • Salary levels at similar companies. • Salary increases across the Group.	There is no prescribed maximum.	Increases in line with RPI for Neil Sinclair and Richard Starr, with Stephen Silvester receiving an additional increase to maintain his salary as compared with peer group companies.
Annual bonus	The bonus is paid as to 65% in cash and 35% by way of an option over shares. The Committee has discretion for 100% to be paid in cash. The ability to exercise the option is deferred for a year and there is a period of a further year during which the options may be exercised. Dividend equivalents accrue on the deferred shares. Malus and clawback provisions apply to all elements of the bonus.	100% of salary.	For 2019/20 the performance targets were 50% Total Property Return (TPR) measured as compared with an MSCI IPD Index, 25% Profit and 25% Strategic Targets.
LTIP	Annual awards vest after three years subject to performance conditions. Vested shares are subject to a further two-year holding period. Dividend equivalents accrue from the grant date to the end of the holding period. Malus and clawback provisions apply to LTIPs.	Maximum value of 100% of salary.	The 2016 LTIP vested in the year at 50% of the maximum. 2019 LTIPs were granted for 100% of salary.
Pension	Directors below retirement age participate in a defined contribution pension scheme.	5% of salary for the Executive Directors below retirement age.	5% of salary
Other benefits	Travel or car allowance	The travel allowances are fixed in the Executive Directors' service contracts.	No change
	Private medical cover	Private medical cover is at a level which the Committee determines is fair and reasonable.	No change
	Life assurance	Life assurance is fixed at £1.5m for the Executive Directors below retirement age.	No change
	Critical illness cover	The critical health insurance benefit for the two Executive Directors below retirement age provides £500,000 in the event policy cover terms are met.	No change

SHAREHOLDING REQUIREMENTS

The Chief Executive is expected to build up and retain a minimum shareholding of 200% of basic salary. The other Executive Directors are expected to build up and retain a minimum shareholding of 100% of basic salary.

The shareholding will be built up over time, with a requirement to retain 25% of any shares vesting under the Deferred Bonus Plan or the Long-Term Incentive Plan (after tax/NI has been settled) until the guideline is met.

POST-EMPLOYMENT REQUIREMENTS

Any shares that are still subject to the holding period as defined in the respective award will need to be retained, and in all other regards the Executive will be encouraged to engage with the Company regarding the timing of any sales for a period of two years following the termination of their employment to ensure an orderly market is preserved. The Committee may, in exceptional circumstances, exercise its discretion to adjust the holding requirement.

SERVICE CONTRACTS AND PAYMENTS FOR LOSS OF OFFICE

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

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

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

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

Name	Date of letter for current appointment	Date term due to expire
Stanley Davis	17 May 2019	30 June 2022
Anthony Dove	16 November 2017	22 August 2020
Kim Taylor-Smith	15 November 2017	5 October 2020
Mickola Wilson	14 January 2019	31 January 2022
Paula Dillon	30 January 2020	28 February 2023

EXTERNAL APPOINTMENTS

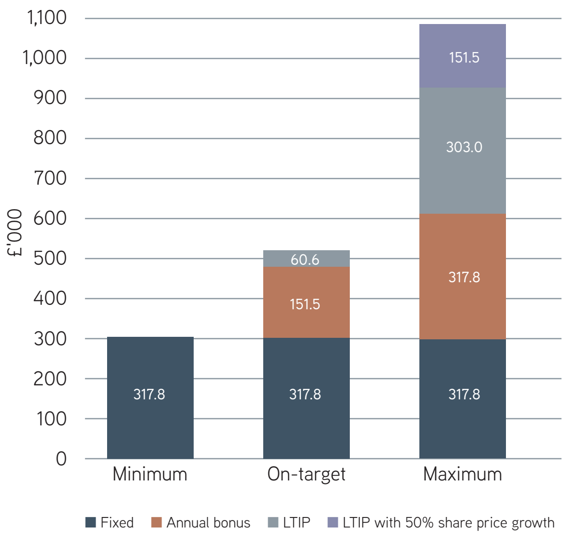
Executive and Non-Executive Directors are permitted to accept external appointments with the prior approval of the Board, where there is no adverse impact on their role with the Group. Any fees arising from such roles may be retained by the Director.

OUR REMUNERATION POLICY

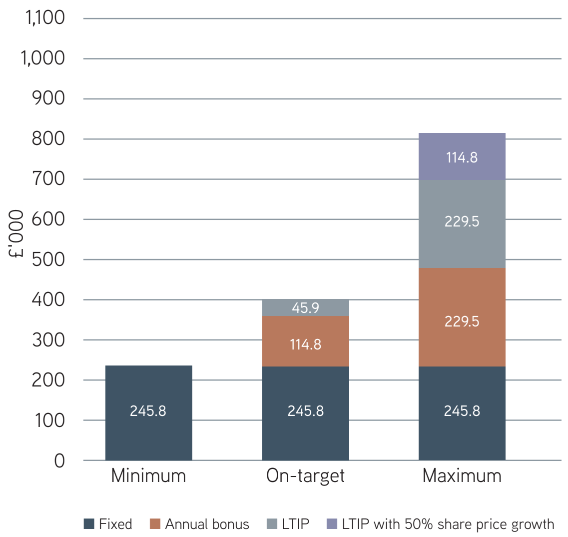
ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY

In our Remuneration Policy we set out a number of scenarios for potential remuneration to be earned by our Executive Directors based on various performance assumptions.

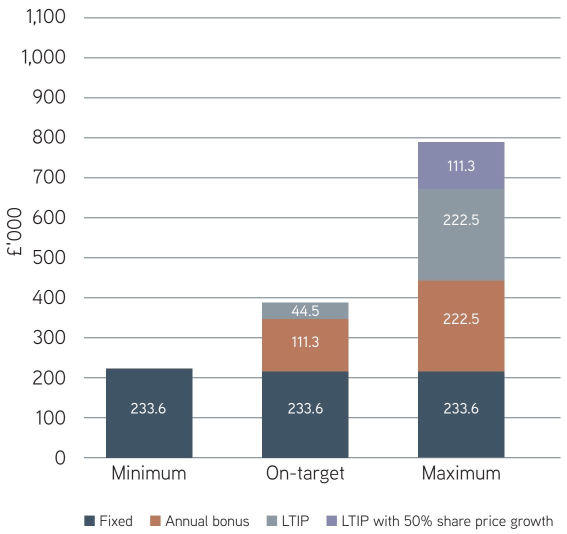
Neil Sinclair



Richard Starr



Stephen Silvester



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

The minimum reflects salary, pension and benefits which are based on the remuneration as at 1 April 2020.

The on-target includes the remuneration above plus bonus pay-out of 50% of salary and LTIP threshold vesting at 20% of maximum award.

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

The graphs also show what would happen should Palace Capital's share price increase by 50%, increasing the value of LTIP awards. Other than illustrating 50% share price growth, share price movement and dividend accrual are excluded.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

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

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Committee takes into account the published remuneration guidelines and specific views of Shareholders and proxy voting agencies when considering the operation of the Remuneration Policy. Where appropriate, the Committee will consult with the Company's larger Shareholders regarding changes to the operation of the Policy. The Committee will consider specific concerns or matters raised at any time by Shareholders.

ANNUAL REMUNERATION REPORT

This report was prepared by the Remuneration Committee and approved by the Board for the financial year ended 31 March 2020.

DIRECTORS' TOTAL REMUNERATION (AUDITED)

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2020, with a comparison to the previous financial year.

Executive Directors		Salary	Benefits[1]	Bonus cash	Bonus deferred into shares	Long-Term Incentive Plan	Pension	Total
Neil Sinclair	**2020**	**295,000**	**16,192**	**118,885**	**64,015**	**104,314**	**–**	**598,406**
	2019	285,000	14,800	74,100	39,900	65,632	–	479,432
Stephen Silvester	**2020**	**210,000**	**8,905**	**84,630**	**45,570**	**42,579**	**10,500**	**402,184**
	2019	180,000	9,591	46,800	25,200	26,664	9,000	297,255
Richard Starr	**2020**	**211,850**[2]	**8,461**	**89,869**	**48,391**	**58,956**	**23,839**	**441,366**
	2019	204,250[2]	9,382	55,900	30,100	18,460	22,984	341,076

1 The figure includes the value of health insurance and a cash alternative to Company cars or payment of certain travel costs.

2 Mr Starr participates in a salary sacrifice scheme reducing his salary and increasing his pension.

Non-Executive Directors	Fees to 31 March 2020	Fees to 31 March 2019
Stanley Davis	**50,000**	54,167
Anthony Dove	**45,000**	45,000
Kim Taylor-Smith	**45,000**	45,000
Mickola Wilson	**45,000**	7,500
Paula Dillon	**3,333***	–

*Joined the Board 1 March 2020

ANNUAL BONUS

The Group's remuneration policy for the year ended 31 March 2020 caps bonus payments to the Executive Directors at 100% of salary. In determining the bonuses, the Executive Directors are measured against specific criteria. Bonuses are awarded depending on whether performance achieves the relevant target criterion.

For the year ended 31 March 2020 the specific criteria comprised Total Property Return compared to the MSCI IPD Index, Budgeted Profit and Strategic Targets linked to key deliverables for the year. The assessment of actual performance achieved is set out below.

For purposes of determining the Total Property Return portion, MSCI, the global provider of market indexes, was provided with the values of the Company's properties as at 1 April 2019 based on the Cushman & Wakefield valuations as at that date. MSCI measured the increase in value as at 30 September 2019 and again on 31 March 2020 using the Cushman & Wakefield valuations as at those dates and then compared them with the MSCI IPD index. The Company's properties showed an increase as at 31 March 2020 on a total return basis of 1.08% when compared with the MSCI IPD Index, which showed a total return of -0.45%. The total return achieved by the Company therefore exceeded the benchmark index by 1.53%.

Based on the performance criteria, the Executive Directors achieved 69.25% of the maximum award. However, the Committee was mindful of the reduction to Shareholder dividends following the onset of the Covid-19 pandemic and the continuing macro-economic uncertainty. It was concluded that a reduction to the Directors' bonus was appropriate. Consequently, the formula outcome of 69.25% was reduced by 10% (7.25% on an absolute basis) resulting in 62% of the award being settled.

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded are deferred for a year and shares to the value of the deferred bonus amount allocated. The Executives will have a further year from the vesting date to exercise their options. In respect of the year ended 31 March 2020, 35% will be deferred in accordance with the terms of the Plan.

ANNUAL REMUNERATION REPORT

ANNUAL BONUS TARGETS FOR YEAR ENDED 31 MARCH 2020 AND OUTCOMES

Measure		Weighting	Target	Achievement	Awarded (% of maximum)
Increase in Total Property Return		50%	Increase in TPR between 1–3% above MSCI Index	1.53%	25.5%
Profit		25%	Adjusted PBT between £10.0m–£10.5m	£10.85m	25%
Strategic Targets	EPRA Occupancy	6.25%	Above 90% (excluding development assets)	91%	6.25%
	Profit on disposal	6.25%	Profits on disposal net of costs to exceed £0.5m	£(0.3)m	0%
	Hudson Quarter residential sales	6.25%	Exchange contracts for the sale of 20 residential units	28	6.25%
	Lettings at Sol, Northampton	6.25%	Vacant space below 50%	46.6%	6.25%
Total		100%			69.25%
Reduction					-7.25%[1]
Net total					62.00%

1 This represents a reduction of 10.5% of the formulaic outcome.

LONG-TERM INCENTIVE PLAN

Executives have been able to participate in the Group's LTIP. The scheme is designed to encourage the matching of interests between management and Shareholders. Further details are provided in note 22 of the Group financial statements.

On 4 July 2019, 50% of the awards granted under the 2016 LTIP became exercisable following satisfaction of the performance conditions over a three-year period as follows:

Measure	Performance condition	Threshold	Maximum	Actual	Weighting	Awarded (% of maximum)
Total Shareholder Return	Annualised and Total TSR over the performance period. 33.3% vests for achieving threshold performance increasing on a straight-line basis to full vesting.	Annualised TSR 8% Total TSR 26%	Annualised TSR 13% Total TSR 44.3%	Annualised 1.13% Total TSR 3.43%	50%	0%
NAV Growth	EPRA net asset value per share growth over the performance period when compared to the NAV growth of a group of comparable companies. 20% vests for achieving threshold performance increasing on a straight-line to full vesting.	Median	Upper Quartile	Upper Quartile	50%	50%

SCHEME INTERESTS AWARDED DURING THE YEAR

The following awards under the Long-Term Incentive Plan were granted to the Executive Directors on 25 June 2019:

	Number of shares	% of salary	Face value of award*	Performance period end	Threshold vesting
Neil Sinclair	99,494	100	295,000	24 June 2022	20%
Stephen Silvester	70,826	100	210,000	24 June 2022	20%
Richard Starr	75,211	100	223,000	24 June 2022	20%

* Face value calculated based on the mid-market closing average price for the five days ended on 21 June 2019 of 296.5 pence.

The awards are subject to the achievement of performance criteria over a three-year period based on Total Shareholder Return (50%) and the growth in the portfolio value using Total Property Return compared against the MSCI IPD Index (50%).

OUTSTANDING SCHEME INTERESTS

The executive directors have the following outstanding awards under the Long-term Incentive Plan:

	At 31 March 2019	Granted	Vested and exercised	Lapsed	As at 31 March 2020	Share price at date of award	Grant date	Vesting date
Neil Sinclair	75,949	–	37,975	37,974	–	£3.16	04/07/2016	04/07/2019
	72,754	–	–	–	72,754	£3.39	01/11/2017	01/11/2020
	80,282	–	–	–	80,282	£3.55	13/07/2018	13/07/2021
		99,494	–	–	99,494	£2.96	25/06/2019	25/06/2022
Stephen Silvester	30,854	–	15,427	15,427	–	£3.16	04/07/2016	04/07/2019
	42,710	–	–	–	42,710	£3.39	01/11/2017	01/11/2020
	50,704	–	–	–	50,704	£3.55	13/07/2018	13/07/2021
		70,826	–	–	70,826	£2.96	25/06/2019	25/06/2022
Richard Starr	42,722	–	21,361	21,361	–	£3.16	04/07/2016	04/07/2019
	54,492	–	–	–	54,492	£3.39	01/11/2017	01/11/2020
	60,563	–	–	–	60,563	£3.55	13/07/2018	13/07/2021
		75,211	–	–	75,211	£2.96	25/06/2019	25/06/2022

Awards granted from 2018 onwards are subject to a two-year holding period following vesting.

DEFERRED BONUS PLAN

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

The Deferred Bonus Plan awards do not have any performance criteria attached to them.

In respect of the year ended 31 March 2019, 35% of the bonuses due to the Executive Directors were deferred and the details of the outstanding awards are as follows:

	At 31 March 2019	Granted	Vested and exercised	Lapsed	As at 31 March 2020	Share price at date of award	Grant date	Vesting date
Neil Sinclair	26,694	1,722[1]	28,416	–	–	£3.55	13/07/18	13/07/19
		13,457	–	–	13,457	£2.97	24/06/19	24/06/20
Stephen Silvester	16,859	1,087[1]	17,946	–	–	£3.55	13/07/18	13/07/19
		8,499	–	–	8,499	£2.97	24/06/19	24/06/20
Richard Starr	20,137	1,299[1]	21,436	–	–	£3.55	13/07/18	13/07/19
		10,152	–	–	10,152	£2.97	24/06/19	24/06/20

1 Dividend equivalents

TOTAL PENSION ENTITLEMENTS

The Company makes pension contributions into a defined contribution scheme on behalf of Directors below retirement age. For the year ending 31 March 2020, contributions were paid at a rate of 5% of basic salary.

PAYMENTS TO PAST DIRECTORS

There were no payments to past Directors in the year ended 31 March 2020.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office in the year ended 31 March 2020.

ANNUAL REMUNERATION REPORT

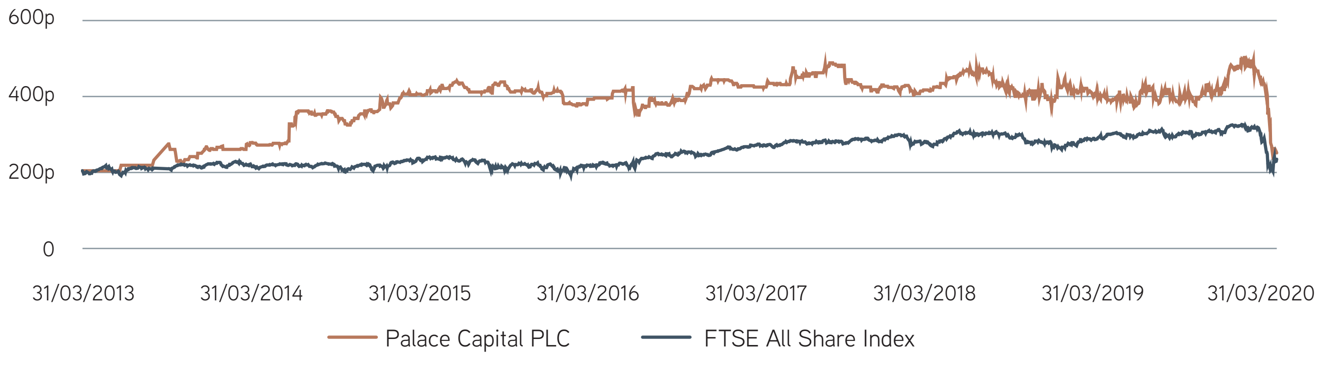
STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

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

	Ordinary shares of 10p each 31 March 2020	Ordinary shares of 10p each 31 March 2019	Outstanding Ordinary share options of 10p each 31 March 2020	Outstanding Ordinary share options of 10p each 31 March 2019
Stanley Davis	1,665,287	1,665,287	–	–
Neil Sinclair	253,066	229,279	265,987	255,679
Stephen Silvester	29,915	12,184	172,739	141,127
Richard Starr	194,014	149,921	200,418	177,914
Anthony Dove	91,000	91,000	–	–
Kim Taylor-Smith	10,000	10,000	–	–
Mickola Wilson	10,000	–	–	–
Paula Dillon	–	–	–	–

REVIEW OF PAST PERFORMANCE

The following graph shows the Group's Total Shareholder Return (TSR) for the period to 31 March 2020 as compared with the FTSE All Share Index. The Committee has chosen the FTSE All Share Index as the Company's shares are a constituent of this index and it will provide a baseline for future years. Total Shareholder Return measures share price growth with dividends deemed to be reinvested on the ex-dividend date.



PERCENTAGE CHANGES IN CHIEF EXECUTIVE'S REMUNERATION

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

	Salary	Taxable benefit	Annual bonus
Chief Executive	3.5%	9.4%	60.4%
Other employees (excl. Chief Executive)	10.3%	–7.3%	56.3%

HISTORICAL CHIEF EXECUTIVE'S REMUNERATION

Year to 31 March	Total remuneration £'000	Annual bonus (as a % of the maximum payout)	LTIP vesting (as a % of the maximum possible)
2020	598,406	62	50.00
2019	479,432	40	32.75
2018	683,379	95	16.66
2017	412,975	63	–
2016	362,629	**	–
2015	262,007	**	–
2014*	125,467	**	–

* Fourteen month period ended 31 March 2014

** No policy for annual bonuses in place

RELATIVE IMPORTANCE OF SPEND ON PAY

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

	2020 £'000	2019 £'000	% change
Employee costs	2,593,000	2,202,000	17.8%
Dividends	8,742,646	8,718,896	0.3%

IMPLEMENTATION OF REMUNERATION POLICY IN 2020/21

In respect of the year ending 31 March 2021, the Committee intends to implement the Executive and Non-Executive Director remuneration policies as follows:

SALARY

Executive Directors

Executive Director salaries for the period commencing 1 April 2020 were increased in line with RPI, except Stephen Silvester who will receive an additional increase to maintain his salary as compared with peer group companies.

The average salary increase across the workforce from 1 April 2020 was 6% of salary.

	Salary	Change
Neil Sinclair	303,000	2.7%
Stephen Silvester	222,500	5.6%
Richard Starr	229,500	2.7%

Non-Executive Directors

Anthony Dove will not be standing for re-election at the AGM on 7 August 2020. Mickola Wilson, if re-elected at the AGM, will become Chair of the Remuneration Committee from that date and will receive an additional fee of £5,000 for this role. Paula Dillon will assume the position of Chair of the Corporate Social Responsibility Committee and will receive an additional fee of £5,000 for this role.

Non-Executive Director fees for the year ending 31 March 2021 will be as follows:

	Role	2021 fee	Change
Stanley Davis	Non-Executive Chairman	50,000	–
Anthony Dove	Non-Executive Director • Chair of Remuneration Committee to 7 August 2020 • Senior Independent Director to 31 March 2020	15,904[1]	–
Kim Taylor-Smith	Non-Executive Director • Chair of Audit and Risk Committee	45,000	–
Mickola Wilson	Non-Executive Director • Chair of Remuneration Committee from 7 August 2020 • Chair of the Nominations Committee • Senior Independent Director from 1 April 2020	48,233	7.18%
Paula Dillon	Non-Executive Director • Chair of CSR Committee from 1 April 2020	45,000	12.5%

1 45,000 prorated to 7 August 2020

ANNUAL REMUNERATION REPORT

PENSION AND BENEFITS

The Company will make pension contributions into a defined contribution scheme on behalf of Directors at a rate of 5% of basic salary, and will continue to make provision for other health benefits and cash alternatives as set out in the Remuneration Policy.

ANNUAL BONUS

Due to the ongoing Covid-19 pandemic, the Committee has not set performance targets for the period ending 31 March 2021.

These will be set as soon as reasonably practicable and will be disclosed in full in next year's report.

In accordance with the existing policy, the maximum bonus opportunity will be 100% of salary and the Committee will review the measures and weightings considering updated forecasts, and will ensure targets are aligned to the business strategy and are sufficiently stretching.

LONG-TERM INCENTIVE PLAN

Awards under the Long-Term Incentive Plan are typically made following the publication of the Company's full year results, unless the Company is in a closed period. As a result of the ongoing Covid-19 pandemic, the Committee expects to defer the grant of the 2020 LTIP until later in the year.

STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The table below sets out the results of the voting in respect of the Directors' Remuneration Report at the 2019 AGM and Remuneration Policy at the 2018 AGM.

	Percentage of votes cast		Number of votes cast		
	For and discretion	Against	For and discretion	Against	Withheld*
Remuneration Report	89.67%	10.31%	31,768,016	3,653,080	5,222
Remuneration Policy	99.47%	0.53%	32,300,663	173,706	13,570

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

APPROVAL

This report and policy were approved by the Board of Directors on 6 July 2020 and signed on its behalf by:

Anthony Dove
Chair of the Remuneration Committee

DIRECTORS' REPORT AND ADDITIONAL DISCLOSURES

The Directors present their Annual Report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2020.

STATUTORY INFORMATION CONTAINED ELSEWHERE IN THE ANNUAL REPORT

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

In accordance with the UK Financial Conduct Authority's Listing Rules LR 9.8.4c, the information to be included within the Annual Report, where applicable, is set out in the Directors' Report.

STRATEGIC REPORT

The principal activity of the Group is property investment, predominately in key regional towns and cities within the UK. A review of the Group's business strategy, operations, future prospects and key performance indicators are included in the Strategic Report on pages 6 to 49, and is incorporated by reference.

GOVERNANCE

The Governance Report (pages 52 to 80 of this Annual Report and Accounts 2020) is incorporated by reference into this Directors' Report.

RESULTS AND DIVIDENDS

The results for the year are set out in the financial statements. The Company paid interim dividends of 4.75p per Ordinary share on 18 October 2019 and 5 December 2019. In response to the Covid-19 pandemic, the interim dividend that was due to be paid on 9 April 2020, was cancelled. The Directors recommend the payment of a final dividend in respect of the year ending 31 March 2020 of 2.5p per Ordinary share to be paid on 14 August 2020 to the Shareholders on the register on 24 July 2020 (2019: 19 October 2018 4.75p; 28 December 2018 4.75p; 13 April 2019 4.75p and 31 July 2019 4.75p).

SHARE CAPITAL

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

PURCHASE OF OWN SHARES BY THE COMPANY

At the Annual General Meeting of the Company, held on 12 July 2019, authority was granted to the Directors to purchase, in the market, the Company's own shares, up to the limit of 10% of the issued share capital. The authority was expressed to run until the conclusion of the next Annual General Meeting of the Company. No share purchases were made pursuant to this authority during the year. Renewal of this authority will be proposed at the forthcoming Annual General Meeting.

DIRECTORS

The Directors' powers, including the rules relating to the appointment and replacement of Directors, are conferred on them by UK legislation and by the Company's Articles of Association. Changes to the Articles of Association are only permitted in accordance with legislation and must be approved by a special resolution of Shareholders.

Details of the Directors of the Company who served during the year ended 31 March 2020 and up to the date of the financial statements, are set out on pages 52 and 53, and their interests in the Ordinary share capital of the Company and details of options granted under the Group's share schemes are set out in the Annual Remuneration Report on pages 69 to 80. No member of the Board had a material interest in any contract of significance with the Company, or any of its subsidiaries, at any time during the year.

In accordance with the Articles of Association, Paula Dillon who was appointed during the year, retires at the forthcoming Annual General Meeting and being eligible offers herself for election. All of the other Directors offer themselves for re-election, except Anthony Dove, who will retire from the Board following the conclusion of the AGM. The Directors' service contract terms are set out in the Annual Remuneration Report on page 73.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are provided in note 25 on page 124 of the financial statements.

FUTURE DEVELOPMENTS

Details of future developments are provided in the Strategic Report on pages 16 and 17.

GOING CONCERN

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

SUBSTANTIAL SHAREHOLDINGS

As at 3 July 2020, being the latest practicable date before the issue of these financial statements, the Company had been notified of the following shareholdings, which constitute 3% or more of the total issued shares of the Company.

	Ordinary 10p shares No.	Shareholding %
AXA Investment Managers	3,542,633	7.73
Miton Group plc	3,397,806	7.41
JO Hambro	3,356,810	7.32
Allianz	2,342,973	5.08
Stanley Davis	1,665,287	3.63

DIRECTORS' REPORT AND ADDITIONAL DISCLOSURES

DIRECTORS' INDEMNITIES AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

FINANCIAL RISK MANAGEMENT

The Group is exposed to market risk (including interest rate risk and real estate market risk), credit risk and liquidity risk. The Group's senior management oversee the management of these risks, and the Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies, and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out in note 26 and the Risk Management section of the Annual Report and Accounts.

AUTHORISATION OF CONFLICTS OF INTEREST

Under the Articles of Association of the Company and in accordance with the provisions of the Companies Act 2006, a Director must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. However, the Directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only Directors who have no interest in the matter being considered will be able to make the relevant decision, and the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial year ended 31 March 2020, the Directors have authorised no such conflicts or potential conflicts.

CHANGE OF CONTROL

The Group has in place a number of agreements with its lending banks, which contain certain termination rights that would have an effect on a change of control. In addition, the Group's share schemes contain provisions that, in the event of a change of control, would result in outstanding options and awards becoming exercisable, subject to the rules of the relevant schemes. The Directors service contracts contain a provision for the payment of compensation for loss of office or employment that occurs directly as a result of a takeover bid.

GREENHOUSE GAS EMISSIONS

The Group's GHG emission report can be found in the Governance section on page 65.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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 Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

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

2020 ANNUAL GENERAL MEETING

The 2020 AGM will be held remotely on 7 August 2020 at 10.00 a.m. The resolutions are set out in the Notice of Meeting, together with explanatory notes.

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

Nicola Grinham

Company Secretary

Palace Capital plc Incorporated, registered and domiciled in England and Wales number 5332938 4th Floor, 25 Bury Street London SW1Y 6AL

6 July 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the parent Company financial statements, state whether they have been prepared in accordance with UK GAAP, subject to any material departure disclosed and explained in the parent company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business; and
- under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulations.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

DIRECTORS' RESPONSIBILITIES STATEMENT

We confirm to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by The European Union and Article 4 of the IAS regulation, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

NICOLA GRINHAM

Company Secretary

6 July 2020

INDEPENDENT AUDITOR'S REPORT
to the members of Palace Capital plc

OPINION

We have audited the financial statements of Palace Capital plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and the notes to the consolidated and company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparing the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

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

- the Directors' confirmation set out on page 40 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement set out on page 81 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 42 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

EMPHASIS OF MATTER: PROPERTY VALUATIONS

We draw attention to the disclosures made in the Properties Estimates note on page 102. As described in the note, due to the impact of the Novel Coronavirus outbreak, the valuers have attached less weight to previous market evidence for comparison purposes and property valuations are therefore reported on the basis of 'material valuation uncertainty' per VGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty should be attached to the valuation of the Investment Properties than would normally be the case. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of property portfolio *Refer to accounting policies on investment properties on page 99 and trading properties on page 100.* *Refer to note 9 in relation to the property portfolio.* The valuation of property portfolio requires significant judgement and estimates by the Directors and the independent external valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The Group's property portfolio includes: • Standing investment properties: these are completed properties that are currently let. They are valued using the income capitalisation method. • Investment properties under construction: these are properties being developed. Such assets have a different risk and investment profile to standing assets. They are valued using the residual method (ie by estimating the fair value of the completed asset less estimated costs to completion and an appropriate developer's margin). • Trading properties: these are properties being developed with the view to sell. They are measured at the lower of the cost and estimated net realisable value. The valuation of each property requires consideration of the individual nature of the asset, its location, cash flows and comparable market transactions. The valuation of the investment properties under construction also requires the forecasting of gross development value with deductions for projected costs to complete and an appropriate developer's margin. Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and net yield applied and estimated costs to complete for assets under construction) could result in a material misstatement of the Consolidated Statement of Comprehensive Income or the Consolidated Statement of Financial Position. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations or bonus and LTIP targets.	**Experience of external valuer and relevance of its work** We obtained the valuation report prepared by the independent external valuer and discussed the basis of the valuations with them, confirming that the approach was consistent with the requirements of accounting standards. We assessed the competency, independence and objectivity of the valuer which included making enquiries regarding interests and relationships that may create a threat to the valuer's objectivity. We obtained a copy of the instructions provided to the valuer and reviewed for any limitations in scope or for evidence of Management bias. **Data provided to the valuer** We checked that the underlying data provided to the valuer by Management was consistent with the data provided to us for our audit work. This data included inputs such as current rent and lease terms, which we agreed to executed lease agreements as part of our audit work. **Assumptions and estimates used by the valuer** We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the unobservable inputs used in the valuation of the properties. This included establishing our own range of expectations for the valuation of all of the properties based on externally available metrics, comparable organisations and wider economic and commercial factors. We assessed the valuation of the properties against our own expectations and met with the valuer via video-conference to challenge those valuations which fell outside of our range of expectations. We also challenged the valuer regarding their views on the expected impact of COVID-19 on the valuation of these assets. For properties under construction, we assessed the gross development values and developers' margin based on market data. We also verified the forecast cost to complete included in the valuations to third party cost to complete information. **Key observation:** Our testing indicated that the estimates and assumptions used in the property valuations were appropriate in the context of the Group's property portfolio. The emphasis of matter paragraph above draws attention to the material valuation uncertainty highlighted by the valuer in relation to the property valuations.

INDEPENDENT AUDITOR'S REPORT
to the members of Palace Capital plc

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition – rental income *Refer to accounting policy on revenue on page 97.* *Refer to note 1 in relation to Revenue.* The Group has several property managers and multiple tenants across its property portfolio. Rental income revenue recognition has a significant impact on the allocation of resources and directing the efforts of the audit team. Rental income is recognised on a straight line basis over the lease term for the Group's properties based upon rental agreements that are in place. Management judgement is required to determine the term over which incentives should be recognised. There is a risk that rental income is not supported by underlying tenancy agreements or is inappropriately recognised.	We obtained the tenancy schedule and Management's analysis of revenue recognised for each tenant and the reconciliation of this analysis to the financial statements and performed the following: • We analysed the current year tenancy schedule compared to prior year to highlight changes in the year. • We analysed the amount of rent recognised in respect of each tenant in the financial statements and compared this to our expectations for the year based on the prior year tenancy schedule. This highlighted changes which were investigated and agreed to the underlying lease documentation and rent review memoranda. • We checked the integrity of the formulae used in Managements reconciliation to the financial statements. • We reviewed the list of rent concessions agreed with tenants around year end as a result of COVID-19 and confirmed that no agreements had been finalised prior to the year-end. We obtained management's schedule of lease incentive adjustments, including rent free periods, and, for a sample, we recalculated the adjustment and agreed the inputs to the underlying lease documentation. We considered the completeness of the schedule based on information included in the tenancy schedule and the underlying lease information obtained. We obtained a breakdown of other revenue recognised in the year including surrender premiums and car park income and for a sample of transactions we agreed the revenue recognised to supporting documentation and bank statements to confirm existence and accuracy. **Key observations:** We did not identify any indicators to suggest that rental income has been recognised inappropriately.
Going concern and loan covenants Refer to accounting policy on going concern accounting policy on page 96. Management have prepared the viability statement for the period of 3 years from the reporting date, refer to page 42. As set out in the accounting policy on going concern, management have carried out a detailed assessment of the Group's ability to continue as a going concern, including considering a number of scenarios and stress testing incorporating potential adverse effects of COVID-19. There are a number of loans across the Group that have financial covenants. A breach of covenant on any of the loans, either during the year or In the future, could also impact the Group's ability to operate as a going concern. The risk is increased by the impact of COVID-19 on the business and industry.	We have examined the forecasting and viability model provided by Management. We tested the integrity of the model by checking the formulas, the arithmetic accuracy and any hard coding. We have also assessed the appropriateness of assumptions made within this model and challenged the term used by the Directors for the long term viability. In particular, but not limited to, we have considered the ability of the Group to continue to meet its obligations as well as the risk of covenant breach on any of the loans across the Group and the impact on the Group if it was unable to cure a covenant breach and had to relinquish control of one or more of its property assets. We analysed the stress testing and sensitivities in the model. We checked the financial covenants and the headroom on these covenants when key inputs were stressed. We have considered the impact COVID-19 has had on the Group's tenants. We obtained details of ongoing negotiations between the Group and tenants that had not paid their March quarters rent and considered the risk around remaining un-negotiated amounts. We have considered the risk around non collection of future rental income from tenants that have been impacted by COVID-19 and assessed the impact this may have on the Group's future cash flows. We made enquiries of management and those charged with governance as to any future events or conditions, outside of those associated with the pandemic, that may affect the Group's ability to continue as a going concern. **Key observations:** Our key observations are set out in the conclusions related to principal risks, going concern and viability section of our audit report.

OUR APPLICATION OF MATERIALITY

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

	Financial statement materiality	Specific materiality – EPRA earnings
Materiality	£3,000,000	£500,000
Performance materiality	£2,250,000	£375,000
Reporting threshold	£60,000	£10,000

MATERIALITY

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

We determined materiality for the Group financial statements as a whole to be £3,000,000 (2019: £3,100,000) which was set at 1% of Group total assets (2019: 1%). This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

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

We determined that for other account balances, classes of transactions and disclosures not related to investment properties a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We determined that materiality for these areas should be £500,000 (2019: £348,000), which was set at 5% (2019: 5%) of EPRA earnings. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, equity investments and interest rate derivatives, realised gains and losses on disposal of investment properties and related tax movements.

We determined that the same measure as the Group was appropriate for the Parent Company, and the materiality and specific materiality applied were £1,515,000 (2019: £1,356,000) and £478,800 (2019: £330,600) respectively. Component materiality has been set on the same basis as for the Group.

PERFORMANCE MATERIALITY

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

In determining this in both the current and prior year, we based our assessment on a level of 75% (2019: 75%) of materiality, namely £2,250,000 (2019: £2,325,500). In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments. We have used a similar basis for specific materiality impacting EPRA earnings, namely £375,000 (2019: £261,000).

We determined that the same measure as the Group was appropriate for the Parent Company, and the performance materiality and specific performance materiality applied were £1,136,000 (2019: £1,017,000) and £359,000 (2019: £248,000) respectively. Component performance materiality has been set on the same basis as for the Group.

REPORTING THRESHOLD

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

We agreed with the Audit Committee that we would report all individual audit differences in excess of £60,000 (2019: £62,000) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds. We have also agreed to report differences impacting EPRA earnings in excess of £10,000 (2019: £7,000).

We determined that the same the same measure as the Group was appropriate for the Parent Company and the reporting threshold applied for overall materiality and specific materiality were £30,300 (2019: £27,120) and £9,600 (2019: £6,600) respectively.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

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

INDEPENDENT AUDITOR'S REPORT
to the members of Palace Capital plc

We undertook audit procedures to respond to the risk of non-compliance with laws and regulations, focussing on those that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules, the REIT regime requirements and legislation relevant to the rental of properties. We made enquiries of management to obtain further understanding of risks of non-compliance. We used a BDO tax specialist to consider compliance with the REIT regime requirements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We addressed the risk of management override of internal controls, by undertaking procedures to review journal entries processed during and subsequent to the year end and evaluate whether there was evidence of bias that represented a risk of material misstatement due to fraud. We identified the valuation of the property portfolio as a key audit matter related to the potential risk of fraud. Further details of our response to this fraud risk are given in the key audit matter section above.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information set out in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 83** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 66 to 68** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 54** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement set out on page 83, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 1 April 2015 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. In respect of the year ended 31 March 2020 we were reappointed by the members on 12 July 2019. The period of total uninterrupted engagement is 6 years, covering the years ending 31 March 2015 to 31 March 2020.

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

Our audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

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

RICHARD LEVY
(Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor
London
United Kingdom

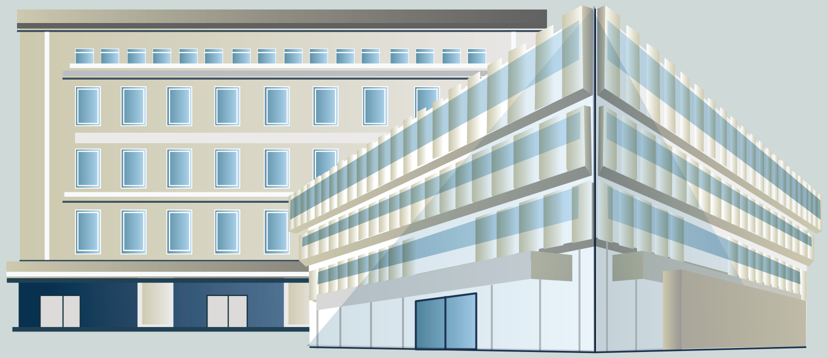
6 July 2020

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

Financials

THE FORUM – EXETER

We acquire regional properties and unlock value to create sustainable assets through our proactive management approach to property investment.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Rental and other income	1	21,147	18,750
Property operating expenses	3b	(2,392)	(2,318)
Net rental income		18,755	16,432
Dividend income from listed equity investments		105	43
Administrative expenses	3c	(4,284)	(4,122)
Operating profit before gains and losses on property assets, listed equity investments and cost of acquisitions		14,576	12,353
Profit on disposal of investment properties		138	218
Loss on revaluation of investment property portfolio	9	(17,154)	(382)
Impairment of trading properties	10	(763)	–
Loss on disposal of assets held for sale		(269)	(579)
Impairment on assets held for sale	9	–	(291)
Loss on revaluation of listed equity investments	11	(425)	(214)
Operating (loss)/profit		(3,897)	11,105
Finance income		18	20
Finance expense	2	(3,845)	(3,763)
Debt termination costs		(501)	–
Changes in fair value of interest rate derivatives		(846)	(929)
(Loss)/profit before taxation		(9,071)	6,433
Taxation	5	3,632	(1,263)
(Loss)/profit after taxation for the year and total comprehensive income attributable to owners of the Parent		(5,439)	5,170
Earnings per ordinary share			
Basic	6	(11.8p)	11.3p
Diluted	6	(11.8p)	11.3p

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investment properties	9	248,699	258,331
Listed equity investments at fair value	11	2,540	2,636
Right of use asset	12	313	–
Property, plant and equipment	12	101	97
		251,653	261,064
Current assets			
Assets held for sale	9	–	11,756
Trading property	10	27,557	14,367
Trade and other receivables	13	9,323	6,243
Cash and cash equivalents	14	14,919	22,890
		51,799	55,256
Total assets		303,452	316,320
Current liabilities			
Trade and other payables	15	(14,053)	(10,001)
Borrowings	17	(1,836)	(5,999)
Lease liabilities for right of use asset	20	(164)	–
Creditors: amounts falling due within one year		(16,053)	(16,000)
Net current assets		35,746	39,256
Non-current liabilities			
Borrowings	17	(117,520)	(112,017)
Deferred tax liability	5	(228)	(5,580)
Lease liabilities for investment properties	20	(1,806)	(1,585)
Lease liabilities for right of use asset	20	(154)	–
Derivative financial instruments	16	(1,343)	(815)
Net assets		166,348	180,323
Equity			
Called up share capital	21	4,639	4,639
Share premium account		125,019	125,019
Treasury shares		(1,349)	(1,771)
Merger reserve		3,503	3,503
Capital redemption reserve		340	340
Retained earnings		34,196	48,593
Equity – attributable to the owners of the Parent		166,348	180,323
Basic NAV per ordinary share	7	361p	393p
Diluted NAV per ordinary share	7	361p	392p

These financial statements were approved by the Board of Directors and authorised for issue on 6 July 2020 and are signed on its behalf by:

STEPHEN SILVESTER
Finance Director

NEIL SINCLAIR
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Note	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2018		4,639	125,036	(2,011)	3,843	51,792	183,299
Total comprehensive income for the year		–	–	–	–	5,170	5,170
Transactions with Equity Holders:							
Cost of issue of new shares		–	(17)	–	–	–	(17)
Share-based payments	22	–	–	–	–	332	332
Exercise of share options	22	–	–	240	–	(240)	–
Issue of deferred bonus share options		–	–	–	–	257	257
Dividends paid	8	–	–	–	–	(8,718)	(8,718)
At 31 March 2019		4,639	125,019	(1,771)	3,843	48,593	180,323
Total comprehensive income for the year		–	–	–	–	(5,439)	(5,439)
Transactions with Equity Holders:							
Share-based payments	22	–	–	–	–	130	130
Exercise of share options	22	–	–	422	–	(422)	–
Issue of deferred bonus share options		–	–	–	–	77	77
Dividends paid	8	–	–	–	–	(8,743)	(8,743)
At 31 March 2020		**4,639**	**125,019**	**(1,349)**	**3,843**	**34,196**	**166,348**

The share capital represents the nominal value of the issued share capital of Palace Capital plc.

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

Treasury shares represents the consideration paid for shares bought back from the market. Other reserves comprise the merger reserve and the capital redemption reserve.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Operating activities			
(Loss)/profit before taxation		(9,071)	6,433
Finance income		(18)	(20)
Finance expense	2	3,845	3,763
Changes in fair value of interest rate derivatives		846	929
Loss on revaluation of investment property portfolio	9	17,154	382
Impairment on assets held for sale	9	–	291
Profit on disposal of investment properties	9	(138)	(218)
Loss on disposal of assets held for sale		269	579
Impairment of trading properties	10	763	–
Loss on revaluation of listed equity investments	11	425	214
Debt termination costs		501	–
Depreciation of tangible fixed assets	12	32	31
Amortisation of right of use asset	12	148	–
Share-based payments	22	130	332
Increase in receivables		(481)	(734)
Increase/(decrease) in payables		1,341	(105)
Net cash generated from operations		15,746	11,877
Interest received		18	20
Interest and other finance charges paid		(3,680)	(3,405)
Corporation tax paid in respect of operating activities		(2,173)	(1,639)
Net cash flows from operating activities		9,911	6,853
Investing activities			
Purchase of investment property and acquisition costs capitalised	9	–	(15,505)
Capital expenditure on refurbishment of investment property	9	(5,667)	(2,453)
Capital expenditure on developments	9	(3,925)	(1,923)
Capital expenditure on trading property	9	(13,915)	(535)
Proceeds from disposal of investment property		2,708	2,078
Proceeds from assets held for sale		11,487	9,082
Amounts transferred from restricted cash deposits	14	(525)	553
Purchase of non-current asset – equity investment	11	(329)	(2,850)
Dividends from listed equity investments		105	43
Purchase of property, plant and equipment	12	(36)	(7)
Net cash flow used in investing activities		(10,097)	(11,517)
Financing activities			
Bank loans repaid	19	(18,325)	(8,037)
Proceeds from new bank loans	19	19,736	25,991
Loan issue costs paid	19	(978)	(145)
Costs from issue of Ordinary Share capital		–	(17)
Dividends paid	8	(8,743)	(8,718)
Net cash flow from financing activities		(8,310)	9,074
Net (decrease)/increase in cash and cash equivalents		(8,496)	4,410
Cash and cash equivalents at beginning of the year		22,395	17,985
Cash and cash equivalents at the end of the year	14	13,899	22,395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF ACCOUNTING

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

The Company is quoted on the Main Market of the London Stock Exchange and is domiciled and registered in England and Wales and incorporated under the Companies Act. The address of its registered office is 4th Floor, 25 Bury Street, St James's, London, United Kingdom, SW1Y 6AL.

BASIS OF PREPARATION

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

GOING CONCERN

The Directors have made an assessment of the Group's ability to continue as a going concern which included the current uncertainties created by Covid-19, coupled with the Group's cash resources, borrowing facilities, rental income, acquisitions and disposals of investment properties, committed capital and other expenditure and dividend distributions.

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

As at 31 March 2020 the Group had £14.9m of cash and cash equivalents, of which £13.9m was unrestricted cash, a low gearing level of 38% and a fair value property portfolio of £277.8m. The directors have reviewed the forecasts for the Group taking into account the impact of Covid-19 on trading over the twelve months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income in line with the possible effects of the pandemic. See Going Concern and Viability on pages 40 to 42 for further details.

The Directors have a reasonable expectation that the Group have adequate resources to continue in operation for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

NEW STANDARDS ADOPTED DURING THE YEAR

The following new standards are effective and have been adopted for the year ended 31 March 2020.

STANDARDS IN ISSUE AND EFFECTIVE FROM 1 JANUARY 2019

IFRS 16 Leases (Effective 1 January 2019)

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. The Group adopted IFRS 16 on 1 April 2019, using the modified retrospective approach under which comparatives are not restated.

In applying IFRS 16 for the first time, the Group has used the following practical expedients, for transition only, permitted by the standard:

- Excluding initial direct costs for the measurement of the right of use asset at the date of initial application.

The Group has leased its head office at 25 Bury Street, London, SW1Y 6AL, which has been accounted for in accordance with IFRS 16 since 1 April 2019. As a result, the Group has recognised a lease liability, which was initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 April 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 3.2%.

A right of use asset has also been recognised on the balance sheet and measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

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

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls an entity when the following three elements are present: power to direct the activities of the entity, exposure to variable returns from the entity and the ability of the Company to use its power to affect those variable returns. Where necessary, adjustments have been made to the financial statements of subsidiaries and associates to bring the accounting policies used and accounting periods into line with those of the Group. Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

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

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

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

Where an acquired subsidiary does not meet the definition of a business, it is accounted for as an asset acquisition rather than a business combination. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

REVENUE

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

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

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

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

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

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

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

Surrender premium income are payments received from tenants to surrender their lease obligations and are recognised immediately in the Group's Consolidated Statement of Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DEFERRED INCOME

Where invoices to customers have been raised which relate to a period after the Group year end, being 31 March 2020, the Group will recognise deferred income for the difference between revenue recognised and amounts billed for that contract.

BORROWING COSTS

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

Borrowing costs directly attributable to development properties are capitalised and not recognised in profit or loss in the Consolidated Statement of Comprehensive Income. The capitalisation of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

When the Group refinances a loan facility, the Group considers whether the new terms are substantially different from a quantitative and a qualitative perspective. From a quantitative perspective, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Modifications that would be considered substantial from a qualitative perspective are those that result in a significant value transfer and/or a new underwriting/pricing assessment of the financial instrument.

If it is deemed to be a modification of terms, this is accounted for as an extinguishment, and any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

FINANCIAL ASSETS

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

Fair value through profit or loss

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

Amortised cost

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

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

LISTED EQUITY INVESTMENTS

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

Fair value hierarchy

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES

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

Fair value through profit or loss

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

Amortised cost

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

OTHER FINANCIAL LIABILITIES

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

CONTRIBUTIONS TO PENSION SCHEMES

The Company operates a defined contribution pension scheme. The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

INVESTMENT PROPERTIES

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

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

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

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

Investment properties cease to be recognised on completion of the disposal or when the property is withdrawn permanently from use and no future economic benefit is expected from disposal.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASSETS HELD FOR SALE

Assets are classified as held for sale when:

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

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

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

TRANSFERS BETWEEN INVESTMENT PROPERTIES AND TRADING PROPERTIES

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

TRADING PROPERTIES

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

RIGHT OF USE ASSET

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease.

The rate of amortisation generally applicable is:

Right of use asset 33% straight-line

LEASE LIABILITIES FOR INVESTMENT PROPERTIES

Lease obligations include lease obligations relating to investment properties and lease obligations relating to right of use assets.

Lease obligations relating to investment properties are capitalised at the lease's commencement and are measured at the present value of the remaining lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the Consolidated Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Investment properties classified as held under lease liabilities are subsequently carried at their fair value.

LEASE LIABILITIES FOR RIGHT OF USE ASSETS

Lease obligations relating to right of use assets are measured at the present value of the contractual payments due to the lessor over the lease term, discounted at the Group's incremental borrowing rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

CURRENT TAXATION

Current tax assets and liabilities for the period not under UK REIT regulations are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

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

As a result of the Company's conversion to a REIT on 1 August 2019, the Group is no longer required to pay UK corporation tax in respect of property rental income and capital gains relating to its property rental business. Consequently a £3,700,000 credit on the profit and loss account and debit to the balance sheet has been recognised for the reversal of deferred tax provided for capital gains tax due to revaluation of investment properties to fair value and the capital allowances that have been claimed on improvements to investment properties.

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

The Government announced in the summer 2015 Budget the reduction in the corporation tax rate from 20% main rate in the tax year 2016 to 19% with effect from 1 April 2017.

DIVIDENDS TO EQUITY HOLDERS OF THE PARENT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SHARE-BASED PAYMENTS

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

COMMITMENTS AND CONTINGENCIES

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

EQUITY

The share capital represents the nominal value of the issued share capital of Palace Capital plc.

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

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

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

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

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

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

Estimates

Properties

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Consolidated Statement of Financial Position. The investment property portfolio and assets held for sale are carried at fair value, which requires a number of judgements and estimates in assessing the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in the accounting policies and note 9.

Trading properties are held at the lower of cost and net realisable value. Net realisable value is the value of an asset that can be realised upon the sale of the asset, less a reasonable estimate of the costs associated with the eventual sale or disposal of the asset.

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

Due to Covid-19, March 2020 valuations have been issued by Cushman & Wakefield subject to a material uncertainty disclosure as follows:

The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of these Properties under frequent review.

Expected credit loss model

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's tenants. In times of heightened uncertainty these estimations become more difficult.

The severity of the economic impact of Covid-19 has raised a significant challenge in identifying relevant forward looking information. However, the Group has made estimates based on reasonable and supportable information that is available at the reporting date.

ESTIMATES AND JUDGEMENTS

Share-based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life, and is expensed over the vesting period. Some of the inputs used are not market observable and are based on estimates derived from available data. The models utilised are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. The variables used to measure the fair value of share-based payments could have a significant impact on that valuation, and the determination of these variables requires a significant amount of professional judgement. A minor change in a variable which requires professional judgement, such as volatility or expected life of an instrument, could have a quantitatively material impact on the fair value of the share-based payments granted, and therefore will also result in the recognition of a higher or lower expense in the Consolidated Statement of Comprehensive Income.

Judgement is also exercised in assessing the number of options subject to non-market vesting conditions that will vest.

1. RENTAL AND OTHER INCOME

The chief operating decision maker ("CODM") takes the form of the three Executive Directors (the Group's Executive Committee). The Group's Executive Committee are of the opinion that the principal activity of the Group is to invest in commercial real estate in the UK.

Operating segments are identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the CODM.

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

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

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

Revenue – type	2020 £'000	2019 £'000
Rents received from investment properties	17,717	17,960
Dilapidations and other property related income	439	589
Priory House surrender premium	2,850	–
Insurance commission	141	201
Total Revenue	**21,147**	18,750

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £'000	2019 £'000
Interest on bank loans	3,351	3,291
Loan arrangement fees	358	364
Interest on lease liabilities	123	108
Other finance charges	13	–
	3,845	3,763

3. PROFIT FOR THE YEAR

A) THE GROUP'S PROFIT FOR THE YEAR IS STATED AFTER CHARGING THE FOLLOWING:

	2020 £'000	2019 £'000
Depreciation of tangible fixed assets and amortisation of right of use assets:	180	31
Auditor's remuneration:		
Fees payable to the Auditor for the audit of the Group's annual accounts	124	109
Fees payable to the Auditor for the audit of the subsidiaries' annual accounts	26	25
Additional fees payable to the Auditor in respect of the 2018 audit	–	20
Fees payable to the Auditor and its related entities for other services:		
Audit related assurance services	9	8
Tax services	–	3
	159	165

B) THE GROUP'S PROPERTY OPERATING EXPENSES COMPRISE THE FOLLOWING:

	2020 £'000	2019 £'000
Void, investment and development property costs	2,218	1,844
Legal, lettings and consultancy costs	174	474
	2,392	2,318

C) THE GROUP'S ADMINISTRATIVE EXPENSES COMPRISE THE FOLLOWING:

	2020 £'000	2019 £'000
Staff costs	2,593	2,202
Other overheads	273	264
Accounting and audit fees	267	225
Stock Exchange costs	207	176
PR and marketing costs	193	169
Consultancy and recruitment fees	164	213
Amortisation of right of use asset	148	–
Legal and professional fees	143	143
Rent, rates and other office costs	134	363
Share-based payments	130	332
Depreciation of tangible fixed assets	32	31
Property management fees	–	4
	4,284	4,122

3. PROFIT FOR THE YEAR CONTINUED

D) EPRA COST RATIOS ARE CALCULATED AS FOLLOWS:

	2020 £'000	2019 £'000
Gross property income	21,147	18,750
Administrative expenses	4,284	4,122
Property operating expenses	2,392	2,318
EPRA costs (including property operating expenses)	6,676	6,440
EPRA Cost Ratio (including property operating expenses)	31.6%	34.3%
Less property operating expenses	(2,392)	(2,318)
EPRA costs (excluding property operating expenses)	4,284	4,122
EPRA Cost Ratio (excluding property operating expenses)	20.3%	22.0%

4. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows:

	2020 £'000	2019 £'000
Non-Executive Directors' fees	188	152
Wages and salaries	2,054	1,696
Pensions	91	98
Social security costs	260	256
	2,593	2,202
Share-based payments	130	332
	2,723	2,534

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

	2020 Number	2019 Number
Directors	8	7
Senior management and other employees	9	9
	17	16

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

	2020 £'000	2019 £'000
Emoluments for qualifying services	1,423	1,127
Social security costs	196	156
Pension	34	33
	1,653	1,316
Share-based payments	100	291
	1,753	1,607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TAXATION

	2020 £'000	2019 £'000
Current income tax charge	198	1,008
Capital gains charge in period	1,744	1,194
Tax (over)/underprovided in prior year	(222)	12
Deferred tax	(5,352)	(951)
Tax charge	(3,632)	1,263

	2020 £'000	2019 £'000
(Loss)/profit on ordinary activities before tax	(9,071)	6,433
Based on profit for the period: Theoretical Tax at 19% (2019: 19%)	(1,724)	1,222
Effect of:		
Utilisation of tax losses not previously recognised in deferred tax	–	(5)
Net expenses not deductible for tax purposes	28	75
Chargeable gain in excess of/(lower than) profit or loss on investment property	197	(126)
Tax (over)/underprovided in prior years	(222)	12
Movement on sale and revaluation not recognised through deferred tax	(371)	85
Deferred tax released to profit and loss on REIT conversion	(3,699)	–
REIT exempt income	(993)	–
Non-taxable items	3,152	–
Tax (credit)/charge for the period	(3,632)	1,263

As a result of the Company's conversion to a REIT on 1 August 2019, the Group is no longer required to pay UK corporation tax in respect of property rental income and capital gains relating to its property rental business. Consequently a £3,727,000 credit on the profit and loss account and debit to the balance sheet has been recognised for the reversal of deferred tax provided for capital gains tax due to revaluation of investment properties to fair value and the capital allowances that have been claimed on improvements to investment properties. UK corporation tax was payable for the first four months of the period up to 31 July 2019 before entry to the REIT "regime". Taxable profits from 1 August 2019 are not subject to UK corporation tax.

Deferred taxes relate to the following:

	2020 £'000	2019 £'000
Deferred tax liability – brought forward	(5,580)	(6,531)
Deferred tax release to profit and loss on REIT conversion	3,699	–
Deferred tax liability on accredited capital allowances	–	(647)
Deferred tax on fair value of investment property	1,653	1,598
Deferred tax liability – carried forward	(228)	(5,580)

	2020 £'000	2019 £'000
Accelerated capital allowances	–	(3,241)
Investment property unrealised valuation gains	(228)	(2,339)
Deferred tax liability – carried forward	(228)	(5,580)

Capital allowances have been claimed on improvements to investment properties amounting to £Nil (2019: £19,065,000). A deferred tax liability amounting to £Nil (2019: £3,241,000) has been recognised in the financial statements, although the Directors do not expect that the capital allowances will reverse when the properties are disposed of as a result of section 198 elections being agreed with purchasers.

5. TAXATION CONTINUED

A deferred tax liability on the revaluation of investment properties to fair value has been provided totalling £228,000 (2019: £2,339,000) as once the availability of capital losses, indexation allowances and the 1982 valuations for certain properties have been taken into account, it is anticipated that capital gains tax would be payable if the properties were disposed of at their fair value. The deferred tax liability relates to investment properties transferred into trading stock, prior to the Group becoming a REIT. As at 31 March 2020 the Group had approximately £6,848,000 (2019: £6,328,000) of realised capital losses to carry forward. There has been no deferred tax asset recognised as the Directors do not consider it probable that future taxable profits will be available to utilise these losses.

Finance Act 2015 sets the main rate of UK corporation tax at 20% with effect on 1 April 2015. The enactment of Finance (No. 2) Act 2015 and Finance Act 2016 reduces the main rate of corporation tax to 19% from April 2017. The deferred tax liability has been calculated on the basis of 19% due to the expectation that all properties are retained through April 2021.

6. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

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

	2020 £'000	2019 £'000
(Loss)/profit after tax attributable to ordinary shareholders for the year	(5,439)	5,170

	2020 No. of shares	2019 No. of shares
Weighted average number of shares for basic earnings per share	45,988,353	45,834,436
Dilutive effect of share options	–	63,690
Weighted average number of shares for diluted earnings per share	45,988,353	45,898,126
Earnings per ordinary share		
Basic	(11.8p)	11.3p
Diluted	(11.8p)	11.3p

KEY PERFORMANCE MEASURES

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ("APMs"), being financial measures which are not specified under IFRS, are also used by management to assess the Group's performance. These include a number of European Public Real Estate Association ("EPRA") measures, prepared in accordance with the EPRA Best Practice Recommendations reporting framework the latest update of which was issued in November 2019. The Group reports a number of these measures (detailed in the glossary of terms) because the Directors consider them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

EPRA EPS AND EPRA DILUTED EPS

EPRA Earnings is a measure of operational performance and represents the net income generated from the operational activities. It is intended to provide an indicator of the underlying income performance generated from the leasing and management of the property portfolio. EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains and losses on disposals, changes in fair value of financial instruments, associated close-out costs, one-off finance termination costs, share-based payments and other one-off exceptional items. EPRA earnings is calculated on the basis of the basic number of shares in line with IFRS earnings as the dividends to which they give rise accrue to current shareholders. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised. There are 32,108 options that are exercisable but these are not included in the earnings as these would be anti-dilutive.

ADJUSTED PROFIT BEFORE TAX AND ADJUSTED EPS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. EARNINGS PER SHARE CONTINUED

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

	2020 £'000	2019 £'000
(Loss)/profit for the year	(5,439)	5,170
Adjustments:		
Loss on revaluation of investment property portfolio	17,154	382
Impairment on assets held for sale	–	291
Write-down of trading stock	763	–
Profit on disposal of investment properties	(138)	(218)
Loss on disposal of assets held for sale	269	579
Loss on revaluation of listed equity investments	425	214
Debt termination costs	501	–
Fair value loss on derivatives	846	929
Deferred tax relating to EPRA adjustments and capital gain charged	(3,608)	243
EPRA earnings for the year	10,773	7,590
Share-based payments	130	332
Priory House surrender premium	(2,850)	–
Adjusted profit after tax for the year	8,053	7,922
Tax excluding deferred tax on EPRA adjustments and capital gain charged	(25)	1,020
Adjusted profit before tax for the year	8,028	8,942
EPRA and adjusted earnings per ordinary share		
EPRA Basic	23.4p	16.6p
EPRA Diluted	23.4p	16.5p
Adjusted EPS	17.5p	17.3p

7. NET ASSET VALUE PER SHARE

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

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

Net asset value is calculated using the following information:

	2020 £'000	2019 £'000
Net assets at the end of the year	166,348	180,323
Diluted net assets at end of the year	166,348	180,323
Include fair value adjustment of trading properties	–	250
Exclude fair value of derivatives	1,343	815
Exclude deferred tax on latent capital gains and capital allowances	228	5,580
EPRA NAV	167,919	186,968
Include fair value of derivatives	(1,343)	(815)
Include deferred tax on latent capital gains and capital allowances	(228)	(5,580)
EPRA NNNAV	166,348	180,573

7. NET ASSET VALUE PER SHARE CONTINUED

	2020 No of shares	2019 No of shares
Number of ordinary shares issued at the end of the year (excluding treasury shares)	46,036,508	45,883,249
Dilutive effect of share options	32,108	63,690
Number of ordinary shares issued for diluted and EPRA net assets per share	46,068,616	45,946,939
Net assets per ordinary share		
Basic	361p	393p
Diluted	361p	392p
EPRA NAV	364p	407p
EPRA NNNAV	361p	393p

8. DIVIDENDS

	Payment date	Dividend per share	2020 £'000	2019 £'000
2020				
Interim dividend	27 December 2019	4.75	2,189	–
Interim dividend	18 October 2019	4.75	2,189	–
		9.50	4,378	–
2019				
Final dividend	13 July 2019	4.75	2,183	–
Interim dividend	12 April 2019	4.75	2,182	–
Interim dividend	28 December 2018	4.75	–	2,182
Interim dividend	19 October 2018	4.75	–	2,182
		19.00	4,365	4,364
2018				
Final dividend	31 July 2018	4.75	–	2,177
Interim dividend	13 April 2018	4.75	–	2,177
		9.50	–	4,354
Dividends reported in the Group Statement of Changes in Equity			8,743	8,718

PROPOSED DIVIDENDS

	2020 £'000	2019 £'000
August 2020 final dividend in respect of year end 31 March 2020: 2.5p (2019 final dividend: 4.75p)	1,152	2,182
April 2020 interim dividend in respect of year end 31 March 2020: 0.00p (2019 interim dividend: 4.75p)	–	2,182
	1,152	4,364

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY PORTFOLIO

	Freehold investment properties £'000	Leasehold investment properties £'000	Total investment properties £'000
At 1 April 2018	232,742	21,121	253,863
Additions – refurbishments	2,521	179	2,700
Additions – new properties	15,505	–	15,505
Capital expenditure on assets under construction	2,014	–	2,014
Transfer to trading property	(13,509)	–	(13,509)
Loss on revaluation of investment properties	(122)	(260)	(382)
Disposals	(1,860)	–	(1,860)
At 1 April 2019	237,291	21,040	258,331
Additions – refurbishments	5,495	661	6,156
Capital expenditure on assets under construction	3,936	–	3,936
Loss on revaluation of investment properties	(13,756)	(3,398)	(17,154)
Disposals	(2,570)	–	(2,570)
At 31 March 2020	230,396	18,303	248,699

	Standing investment properties £'000	Investment properties under construction £'000	Total investment properties £'000	Trading properties £'000	Assets held for sale £'000	Total property portfolio £'000
At 1 April 2018	253,863	–	253,863	–	21,708	275,571
Additions – refurbishments	2,700	–	2,700	–	–	2,700
Additions – new properties	15,505	–	15,505	–	–	15,505
Transfer to investment property under construction	(3,810)	3,810	–	–	–	–
Capital expenditure on developments	1,772	242	2,014	–	–	2,014
Transfer to trading property	(13,509)	–	(13,509)	13,509	–	–
Additions – trading property	–	–	–	858	–	858
Loss/(gain) on revaluation of properties	(452)	70	(382)	–	–	(382)
Loss on revaluation of assets held for sale	–	–	–	–	(291)	(291)
Disposals	(1,860)	–	(1,860)	–	(9,661)	(11,521)
At 1 April 2019	254,209	4,122	258,331	14,367	11,756	284,454
Additions – refurbishments	6,156	–	6,156	–	–	6,156
Capital expenditure on developments	–	3,936	3,936	–	–	3,936
Additions – trading property	–	–	–	13,953	–	13,953
Loss on revaluation of properties	(16,868)	(286)	(17,154)	(763)	–	(17,917)
Disposals	(2,570)	–	(2,570)	–	(11,756)	(14,326)
At 31 March 2020	240,927	7,772	248,699	27,557	–	276,256

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

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

9. PROPERTY PORTFOLIO CONTINUED

In addition to the loss on revaluation of investment properties included in the table above, realised gains of £138,000 (2019: £218,000) relating to investment properties disposed of during the year were recognised in profit or loss.

The Group is developing a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of commercial units which the Group holds for leasing. As a result, the commercial element of the scheme is classified as investment properties under construction.

For investment properties under construction, £474,558 (2019: £Nil) of borrowing costs have been capitalised in the year.

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

	2020 £'000	2019 £'000
Cushman & Wakefield LLP (property portfolio)	277,770	274,560
Assets held for sale	–	11,756
Fair value of property portfolio	277,770	286,316
Adjustment in respect of minimum payment under head leases	1,806	1,600
Less assets held for sale	–	(11,756)
Less trading properties at lower of cost and net realisable value	(27,557)	(14,367)
Less lease incentive balance included in accrued income	(3,320)	(2,752)
Less rent top-up adjustment	–	(460)
Less fair value uplift on trading properties	–	(250)
Carrying value of investment properties	248,699	258,331

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

VALUATION PROCESS – INVESTMENT PROPERTIES

The valuation reports produced by the independent valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment.

In addition, the valuation reports are based on assumptions and valuation models used by the independent valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

Due to Covid-19, March 2020 valuations have been issued by Cushman & Wakefield subject to a material uncertainty disclosure as stated on page 102, critical accounting judgements and key sources of estimation and uncertainty.

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

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

- The amount and timing of future income streams;
- Anticipated maintenance costs and other landlord's liabilities;
- An appropriate yield; and
- For investment properties under construction: gross development value, estimated cost to complete and an appropriate developer's margin.

VALUATION TECHNIQUE – STANDING INVESTMENT PROPERTIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY PORTFOLIO CONTINUED

				Significant unobservable inputs	
31 March 2020	Office	Industrial	Leisure	Other	Total
Fair value of property portfolio	£128,495,000	£38,805,000	£37,850,000	£72,620,000	£277,770,000
Area (sq ft)	778,218	409,593	306,970	196,309	1,691,090
Gross Estimated Rental Value	£11,480,070	£2,795,890	£3,295,049	£3,047,761	£20,618,770
Net Initial Yield					
Minimum	(4.6%)	1.3%	6.8%	(0.5%)	(4.6%)
Maximum	9.4%	8.3%	8.7%	30.7%	30.7%
Weighted average	5.4%	5.8%	7.7%	6.6%	6.0%
Reversionary Yield					
Minimum	4.7%	5.6%	7.2%	4.5%	4.5%
Maximum	13.8%	8.1%	7.9%	34.5%	34.5%
Weighted average	8.1%	5.0%	7.5%	5.5%	6.6%
Equivalent Yield					
Minimum	4.1%	5.4%	7.8%	4.3%	4.1%
Maximum	11.4%	7.8%	8.7%	14.2%	14.2%
Weighted average	7.7%	6.5%	8.6%	3.3%	7.1%

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

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

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining fair values:

MARKET COMPARABLE METHOD

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

UNOBSERVABLE INPUT: ESTIMATED RENTAL VALUE

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £47,900–£1,901,463 per annum).

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

9. PROPERTY PORTFOLIO CONTINUED

UNOBSERVABLE INPUT: NET INITIAL YIELD

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

SENSITIVITIES OF MEASUREMENT OF SIGNIFICANT UNOBSERVABLE INPUTS

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

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

	-5% in passing rent (£m)	+5% in passing rent (£m)	+0.25% in net initial yield (£m)	-0.25% in net initial yield (£m)
(Decrease)/increase in the fair value of investment properties as at 31 March 2020	(13.36)	13.36	(12.21)	8.48
(Decrease)/increase in the fair value of investment properties as at 31 March 2019	(12.95)	12.95	(10.16)	12.63

VALUATION TECHNIQUE: PROPERTIES UNDER CONSTRUCTION

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

10. TRADING PROPERTY

	Total £'000
At 1 April 2018	–
Transfer from standing investment properties	13,509
Costs capitalised	858
At 1 April 2019	14,367
Costs capitalised	**13,953**
Impairment of trading properties	**(763)**
At 31 March 2020	**27,557**

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

11. LISTED EQUITY INVESTMENTS

	Total £'000
At 1 April 2018	–
Additions	2,850
Loss on revaluation of equity investment shown in Consolidated Statement of Comprehensive Income	(214)
At 1 April 2019	2,636
Additions	**329**
Loss on revaluation of equity investment shown in Consolidated Statement of Comprehensive Income	**(425)**
At 31 March 2020	**2,540**

During the year the Group purchased listed equity investments to the value of £329,000. The investment has subsequently been revalued using level 1 inputs, the quoted market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000	Head office lease £'000
At 1 April 2018	215	–
Additions	7	–
At 1 April 2019	222	–
Additions	**36**	**461**
At 31 March 2020	**258**	**461**
Depreciation		
At 1 April 2018	94	–
Provided during the year	31	–
At 1 April 2019	125	–
Provided during the year	**32**	**148**
At 31 March 2020	**157**	**148**
Net book value at 31 March 2020	**101**	**313**
Net book value at 31 March 2019	97	–

13. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Current		
Gross amounts receivable from tenants	**2,963**	2,006
Less: expected credit loss provision	**(391)**	(71)
Net amount receivable from tenants	**2,572**	1,935
Other taxes	**625**	177
Other debtors	**2,378**	604
Accrued income	**3,320**	2,752
Prepayments	**428**	775
	9,323	6,243

Accrued income amounting to £3,320,000 (2019: £2,752,000) relates to rents recognised in advance of receipt as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases.

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

As at 31 March 2020 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 90 days past due £'000	Total £'000
Expected loss rate	9%	1%	100%	61%	
Gross carrying amount	2,651	43	2	267	**2,963**
Loss provision	226	1	2	162	**391**

13. TRADE AND OTHER RECEIVABLES CONTINUED

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

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

Movement in the expected credit loss provision was as follows:

	2020 £'000	2019 £'000
Brought forward	**71**	163
Receivable written off during the year as uncollectable	**(4)**	(154)
Provisions increased	**324**	62
	391	71

14. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2020 and 31 March 2019 are in sterling and held at floating interest rates.

	2020 £'000	2019 £'000
Cash and cash equivalents – unrestricted	**13,899**	22,395
Restricted cash	**1,020**	495
	14,919	22,890

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

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

15. TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Trade payables	**2,911**	1,229
Corporation tax	**1,173**	1,626
Other taxes	**912**	914
Other payables	**2,344**	503
Deferred rental income	**3,567**	3,457
Accruals	**3,146**	2,272
	14,053	10,001

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

Included within other payables are deposits on pre sales of apartments at Hudson Quarter, York totalling £600k. These amounts will be recognised as revenue when the development is completed and title is transferred to the buyer, which is expected to take place in early 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. DERIVATIVES

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

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

The valuation rate is the variable LIBOR and bank base rate the banks are paying for the interest rate swaps. Details of the interest rate swaps the Group has entered can be found in the table below.

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

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

Bank	Notional principal	Expiry date	Contract rate %	Valuation rate %	2020 Fair value £'000	2019 Fair value £'000
Barclays Bank plc	34,847,900	25/01/2023	1.3420	0.3932	(909)	(526)
Santander plc	19,342,723	03/08/2022	1.3730	0.3751	(434)	(289)
	54,190,623				(1,343)	(815)

17. BORROWINGS

	2020 £'000	2019 £'000
Current liabilities		
Bank loans	1,836	5,999
Non-current liabilities		
Bank loans	117,520	112,017
Total borrowings	119,356	118,016

	2020 £'000	2019 £'000
Non-current liabilities		
Secured bank loans drawn	118,925	113,351
Unamortised lending costs	(1,405)	(1,334)
	117,520	112,017

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

	2020 £'000	2019 £'000
Within one year	1,836	5,999
From one to two years	6,792	29,825
From two to five years	100,589	71,546
After five years	11,544	11,980
	120,761	119,350

17. BORROWINGS CONTINUED

FACILITY AND ARRANGEMENT FEES

As at 31 March 2020

Secured Borrowings	All in cost	Maturity date	Loan Balance £'000	Unamortised facility fees £'000	Facility drawn £'000
Santander Bank plc	3.68%	August 2022	25,563	(187)	25,750
Lloyds Bank plc	2.55%	March 2023	6,748	(97)	6,845
National Westminster Bank plc	2.70%	August 2024	28,225	(395)	28,620
Barclays	3.18%	June 2024	40,611	(255)	40,866
Barclays	3.48%	October 2021	4,649	(307)	4,956
Scottish Widows	2.90%	July 2026	13,560	(164)	13,724
			119,356	(1,405)	120,761

As at 31 March 2019

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

Investment properties with a carrying value of £232,023,000 (2019: £236,592,000) and trading properties with a carrying value of £27,557,000 (2019: £14,368,000) are subject to a first charge to secure the Group's bank loans amounting to £120,761,000 (2019: £119,350,000).

The Group has unused loan facilities amounting to £32,924,000 (2019: £26,500,000). A facility fee is changed on £11,380,000 of these facilities at a rate of 1.05% p.a. and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited an Palace Capital (Properties) Limited as part of the NatWest loan. The £21,544,000 balance of the unused facilities relates to the Barclays development loan. This facility is secured on the Hudson Quarter, York development held by Palace Capital (Developments) Limited.

The Group constantly monitors its approach to managing interest rate risk. The Group has fixed £67,915,000 (2019: £69,226,000) of its debt in order to provide surety of its interest cost and to mitigate interest rate risk. The remaining debt in place at year end is subject to floating rate in order to take advantage of the historically low interest rate environment.

The Group has a loan with Scottish Widows for £13,724,000 (2019: £14,160,000) which is fully fixed at a rate of 2.9%.

The Group has a loan with Barclays Bank plc for £40,866,000 (2019: £39,143,000), of which £34,848,000 (2019: £35,348,000) is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at three-month LIBOR plus 1.95%.

The Group has a loan with Santander plc for £25,750,000 (2019: £26,250,000), of which £19,343,000 (2019: £19,718,000) is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at three-month LIBOR plus 2.5%.

The Group has a loan with Lloyds Bank plc for £6,845,000 (2019: £6,845,000) which is fully charged at floating rate of three-month LIBOR plus 1.95%.

The Group has a loan with National Westminster Bank plc for £28,620,000 (2019: £29,389,000) which is fully charged at floating rate of three-month LIBOR plus 2.1%.

The fair value of borrowings held at amortised cost at 31 March 2020 was £119,356,000 (2019: £118,016,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. GEARING AND LOAN TO VALUE RATIO

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

	2020 £'000	2019 £'000
EPRA net asset value (note 7)	167,919	186,968
Borrowings (net of unamortised issue costs)	119,356	118,016
Lease liabilities for investment properties	1,806	1,585
Cash and cash equivalents	(14,919)	(22,890)
Net debt	106,243	96,711
NAV gearing	63%	52%

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

	2020 £'000	2019 £'000
Fair value of investment properties	250,213	259,943
Fair value of trading properties	27,557	14,617
Fair value per Cushmans valuation	277,770	274,560
Fair value of assets held for sale	–	11,756
Fair value of property portfolio	277,770	286,316
Borrowings	120,761	119,350
Cash at bank	(14,919)	(22,890)
Net bank borrowings	105,842	96,460
Loan to value ratio	38%	34%

19. RECONCILIATION OF LIABILITIES TO CASH FLOWS FROM FINANCING ACTIVITIES

	Bank borrowings £'000	Total £'000
Balance at 1 April 2018	99,843	99,843
Cash flows from financing activities:		
Bank borrowings drawn	25,991	25,991
Bank borrowings repaid	(8,037)	(8,037)
Loan arrangement fees paid	(145)	(145)
Non-cash movements:		
Amortisation of loan arrangement fees	364	364
Balance at 1 April 2019	118,016	118,016
Cash flows from financing activities:		
Bank borrowings drawn	19,736	19,736
Bank borrowings repaid	(18,325)	(18,325)
Loan arrangement fees paid	(978)	(978)
Non-cash movements:		
Amortisation of loan arrangement fees	358	358
Capitalised loan arrangement fees	48	48
Debt termination costs	501	501
Balance at 31 March 2020	119,356	119,356

20. LEASES

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

	2020 £'000	2019 £'000
Within one year	16,794	16,118
From one to two years	15,239	14,803
From two to three years	14,079	12,890
From three to four years	12,102	11,872
From four to five years	10,317	10,277
From five to 25 years	53,108	59,685
	121,639	125,645

The following table reconciles the minimum lease commitments payable disclosed in the 31 March 2019 financial statements to the amount of lease liabilities recognised on 1 April 2019:

	Total £'000
Minimum operating lease commitment as at 31 March 2019	553
Less: effect of discounting using the incremental borrowing rate as at date of initial application	(92)
Lease liability for right of use asset as at 1 April 2019	461

Lease liabilities are classified as follows:

	2020 £'000	2019 £'000
Lease liabilities for investment properties	1,806	1,585
Lease liabilities for right of use asset	318	–
	2,124	1,585

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

	2020			2019
	Lease payments £'000	Interest £'000	Present value of lease payments £'000	Present value of lease payments £'000
Within one year	107	(105)	2	2
From one to two years	108	(105)	3	2
From two to five years	323	(314)	9	8
From five to 25 years	1,600	(1,550)	50	56
After 25 years	9,307	(7,565)	1,742	1,517
	11,445	(9,639)	1,806	1,585

Lease obligations in respect of rents payable on right of use assets were payable as follows:

	2020			2019
	Lease payments £'000	Interest £'000	Present value of lease payments £'000	Present value of lease payments £'000
Within one year	172	(8)	164	–
From one to two years	156	(2)	154	–
	328	(10)	318	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. LEASES CONTINUED

The Group has over 220 leases granted to its tenants. These vary depending on the individual tenant and the respective property and demise and vary considerably from short-term leases of less than one year to longer-term leases of over ten years.

A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs. All investment properties in the Group's portfolio generated rental income during both the current and prior periods, with the exception of Hudson Quarter, York held in Palace Capital (Developments) Limited which commenced development in February 2018. Direct operating costs of £Nil were incurred on the property.

21. SHARE CAPITAL

Authorised, issued and fully paid share capital is as follows:	2020 £'000	2019 £'000
46,388,515 ordinary shares of 10p each (2019: 46,388,515)	4,639	4,639
	4,639	4,639

Reconciliation of movement in ordinary share capital	2020 £'000	2019 £'000
At start of year	4,639	4,639
Issued in the year	–	–
At end of year	**4,639**	4,639

Movement in ordinary authorised share capital	Price per share pence	Number of ordinary shares issued	Total number of shares
As at 31 March 2018, 31 March 2019 and 31 March 2020	–	–	**46,388,515**

Movement in treasury shares		Number of ordinary shares issued	Total number of shares
As at 31 March 2018			583,235
Shares issued under deferred bonus share scheme	27 September 2018	(38,586)	
Share options exercised under employee LTIP scheme	14 January 2019	(39,383)	
As at 31 March 2019			505,266
Shares issued under deferred bonus share scheme	24 July 2019	(67,798)	
Share options exercised under employee LTIP scheme	24 July 2019	(85,461)	
As at 31 March 2020			**352,007**
Total number of shares excluding the number held in treasury at 31 March 2020			**46,036,508**

YEAR ENDED 31 MARCH 2020

On 24 July 2019, 67,798 share options were exercised under the deferred bonus share scheme.

On 24 July 2019, 85,461 share options were exercised under the 2016 employee LTIP scheme.

YEAR ENDED 31 MARCH 2019

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

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

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

21. SHARE CAPITAL CONTINUED

SHARES HELD IN EMPLOYEE BENEFIT TRUST

Authorised, issued and fully paid share capital is as follows:	2020 No. of options	2019 No. of options
Brought forward	55,679	33,648
Transferred under scheme of arrangement	150,000	100,000
Shares exercised under deferred bonus share scheme	(67,798)	(38,586)
Shares exercised under employee LTIP scheme	(85,461)	(39,383)
At end of year	**52,420**	55,679

SHARE OPTIONS:

Reconciliation of movement in outstanding share options	2020 No. of options	2019 No. of options
At start of year	651,730	536,827
Issued in the year	329,848	265,774
Exercised in the year	(85,461)	(39,383)
Lapsed in the year	(90,204)	(138,856)
Deferred bonus share options issued	32,108	63,690
Deferred bonus share options exercised	(67,798)	(36,322)
At end of year	**770,223**	651,730

As at 31 March 2020, the Company had the following outstanding unexpired options:

	2020		2019	
Description of unexpired share options	No. of options	Weighted average option price	No. of options	Weighted average option price
Employee benefit plan (note 22)	738,115	0p	588,040	0p
Deferred bonus share scheme issued	32,108	0p	63,690	0p
Total	**770,223**	**0p**	651,730	0p
Exercisable	–	0p	–	0p
Not exercisable	770,223	0p	651,730	0p

The weighted average remaining contractual life of share options at 31 March 2020 is 1.5 years (2019: 1.4 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS

EMPLOYEE BENEFIT PLAN

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

	Number of options	Exercise price	Average share price at date of exercise	Grant date	Vesting date
Outstanding at 31 March 2018	536,827	0p			
Exercised during the year (LTIP 2015)	(39,383)	0p	309p		
Issued during the year (LTIP 2018)	265,774	0p		13 July 2018	13 July 2021
Deferred bonus share options issued	63,690	0p		13 July 2018	13 July 2021
Deferred bonus share options exercised	(36,322)	0p	306p	25 September 2017	25 September 2018
Lapsed during year (LTIP 2015)	(80,885)	0p			
Lapsed during year (LTIP 2017)	(21,000)	0p			
Lapsed during year (LTIP 2018)	(36,971)	0p			
Outstanding at 31 March 2019	651,730	0p			
Exercised during the year (LTIP 2016)	(85,461)	0p	276p		
Issued during the year (LTIP 2019)	329,848	0p		25 June 2019	25 June 2022
Deferred bonus share options issued	32,108	0p		25 June 2019	25 June 2020
Deferred bonus share options exercised	(67,798)	0p	276p	13 July 2018	13 July 2019
Lapsed during year (LTIP 2016)	(85,820)	0p			
Lapsed during year (LTIP 2019)	(4,384)	0p			
Outstanding at 31 March 2020	770,223	0p			

LTIP 2017

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

Net asset value per share (NAV) growth is based on the Company's EPRA NAV value per share as at 31 March 2017. This target will measure the annualised growth in NAV over the three-year period ending 31 March 2020, and comparing this with the annualised Net Asset Value Growth of a group of comparable companies. The base NAV per share is £3.89.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 1 November 2017 to 31 October 2020. The base price is £3.40 per share which was the market price at the grant date.

Annualised TSR over the TSR performance period	Vesting %	NAV growth over the NAV performance period	Vesting %
<8%	0	Below median	0
Equal to 8%	33.33	At median	20
Between 8% and 13%	33.33–100	Between median and upper quartile	20–100
Equal to 13%	100	Upper quartile and above	100

LTIP 2018

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

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

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

22. SHARE-BASED PAYMENTS CONTINUED

Annualised TSR over the TSR performance period	Vesting %	PV growth over the PV performance period	Vesting %
<8%	0	<1%	0
Equal to 8%	33.33	Equal to 1%	33.33
Between 8% and 13%	33.33–100	Equal to 2%	66.67
Equal to 13%	100	Equal to 3%	100

LTIP 2019

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

Total property return growth is based on the increase in the total property return of the Company compared with an increase in the MSCI IPD UK Quarterly Index (PV growth) as at 31 March 2019. This target will measure the annualised growth in total property return over the three-year period ending 31 March 2022 (PV performance period), and comparing this with the annualised total property return growth of the MSCI IPD UK Quarterly Index.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 25 June 2019 to 24 June 2022. The base price is £2.85 per share which was the market price at the grant date.

Annualised TSR over the TSR performance period	Vesting %	PV growth over the PV performance period	Vesting %
<5%	0	<0.5%	0
Equal to 5%	20	Equal to 0.5%	20
Between 5% and 9%	20–100	Between 0.5% and 2.5%	20–100
Equal to 9%	100	Equal to 2.5%	100

The fair value of grants was measured at the grant date using a Black–Scholes pricing model for the Portfolio Value (PV) tranche and using a Monte Carlo pricing model for the TSR tranche, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of both the Black–Scholes and Monte Carlo pricing models are as follows:

	Monte Carlo TSR Tranche	Black-Scholes PV Tranche
Grant date	25 June 2019	25 June 2019
Share price	£2.85	£2.85
Exercise price	0p	0p
Term	5 years	5 years
Expected volatility	21.77%	21.77%
Expected dividend yield	0.00%	0.00%
Risk free rate	0.53%	0.53%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£1.11	£2.85

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. SHARE-BASED PAYMENTS CONTINUED

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

	2020 £'000	2019 £'000
LTIP 2015	–	46
LTIP 2016	25	171
LTIP 2017	(48)	67
LTIP 2018	67	48
LTIP 2019	86	–
Total expense arising from share-based payment transactions	130	332

23. RELATED PARTY TRANSACTIONS

Accounting services amounting to £2,783 (2019: £1,960) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a Director and shareholder.

Charitable donations amounting to £19,335 (2019: £13,757) have been made by the Group to Variety, the Children's Charity, a charity where Neil Sinclair is a Trustee.

Dividend payments made to Directors amounted to £416,056 (2019: £404,734) during the year.

24. CAPITAL COMMITMENTS

The obligation for capital expenditure relating to the construction, development or enhancement of investment properties entered into by the Group amounted to £19,234,661 (2019: £35,412,295).

25. POST BALANCE SHEET EVENTS

On 22 April 2020, the Group signed an amend and restate for the NatWest Bank facility. The amend and restate charged Bank House in Leeds, providing an additional £5,000,000 to the revolving credit facility that can be drawn. The balance is treated as a floating rate loan and is charged at three-month LIBOR plus 1.05%.

Post year end, two of the Groups facilities have breached ICR covenants as part of the quarterly April 2020 test due to the non-payment of rent. Both banks have provided covenant waivers and the Group expects to return to compliance once tenants recommence rental payments.

26. FINANCIAL RISK MANAGEMENT

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

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

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

CAPITAL RISK MANAGEMENT

The Group considers its capital to comprise its share capital, share premium, other reserves and retained earnings which amounted to £166,348,000 at 31 March 2020 (2019: £180,323,000). The Group's capital management objectives are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

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

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions.

26. FINANCIAL RISK MANAGEMENT CONTINUED

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

MARKET RISK

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

INTEREST RATE RISK

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2020 and 31 March 2019 were:

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2020					
Trade and other receivables	4,950	–	–	–	4,950
Cash and cash equivalents	–	14,919	–	–	14,919
Trade and other payables	(8,400)	–	–	–	(8,400)
Equity investments	2,540	–	–	–	2,540
Interest rate swaps	–	–	(1,343)	–	(1,343)
Bank borrowings	–	–	(67,915)	(51,441)	(119,356)
Lease liabilities	–	–	(2,124)	–	(2,124)
	(910)	14,919	(71,382)	(51,441)	(108,814)

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2019					
Trade and other receivables	2,539	–	–	–	2,539
Cash and cash equivalents	–	22,890	–	–	22,890
Trade and other payables	(4,004)	–	–	–	(4,004)
Equity investments	2,636	–	–	–	2,636
Interest rate swaps	–	–	(815)	–	(815)
Bank borrowings	–	–	(69,226)	(48,790)	(118,016)
Lease liabilities	–	–	(1,585)	–	(1,585)
	1,171	22,890	(71,626)	(48,790)	(96,355)

The Group's interest rate risk arises from borrowings issued at floating interest rates. The Group's interest rate risk is reviewed throughout the year by the Directors. The Group manages its exposure to interest rate risk on borrowings through the use of interest rate derivatives (see note 16). Interest rate swaps are used to mitigate the risk of an increase in interest rates but also to allow the Group to benefit from a fall in interest rates. 57% of the Group's interest rate exposure is fixed and the remainder held on a floating rate. The Group has employed an external adviser when contracting hedging to advise on the structure of the hedging.

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. The cash balances of the Group at the year end were £14,919,000 (2019: £22,890,000). Interest receivable in the income statement would be affected by £149,000 (2019: £229,000) by a one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £51,441,000 (2019: £48,790,000) which have interest payable at rates linked to the three-month LIBOR interest rates or bank base rates. A 1% increase in the LIBOR or base rate will have the effect of increasing interest payable by £514,000 (2019: £488,000).

The Group has interest rate swaps with a nominal value of £54,190,623 (2019: £55,066,210). If the LIBOR or base rate was to increase above the fixed contract rate then the Group will benefit from a fair value increase of the interest rate swap. If, however, the LIBOR or base rate was to decrease, then the Group would incur a decrease in the fair value of the interest rate swap.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT CONTINUED

Change in interest rate	-1% £'000	+1% £'000
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2020	(1,418)	1,359
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2019	(1,947)	1,869

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

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

CREDIT RISK MANAGEMENT

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 its cash held on deposit with four large banks in the United Kingdom. At 31 March 2020 the cash balances of the Group were £14,919,000 (2019: £22,890,000). The concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £10,552,000 (2019: £16,964,000). Credit risk on liquid funds is limited because the counterparty is a UK bank with a high credit rating assigned by international credit rating agencies.

Credit risk also results from the possibility of a tenant in the Group's property portfolio defaulting on a lease. The largest tenant by contractual income amounts to 5.2% (2019: 5.2%) of the Group's anticipated income. The Directors assess a tenant's creditworthiness prior to granting leases and employ professional firms of property management consultants to manage the portfolio to ensure that tenants debts are collected promptly and the Directors in conjunction with the property managers take appropriate actions when payment is not made on time.

The carrying amount of financial assets (excluding cash balances) recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. The carrying amount of these assets at 31 March 2020 was £2,572,000 (2019: £1,935,000). The details of the provision for expected credit loss are shown in note 13.

LIQUIDITY RISK MANAGEMENT

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

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

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

26. FINANCIAL RISK MANAGEMENT CONTINUED

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	On demand £'000	0–1 years £'000	1–2 years £'000	2–5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2020						
Interest bearing loans	–	6,062	10,264	107,093	12,973	136,392
Lease liabilities	–	107	108	323	10,907	11,445
Derivative financial instruments	–	–	–	1,343	–	1,343
Trade and other payables	8,400	–	–	–	–	8,400
	8,400	6,169	10,372	108,759	23,880	157,580

	On demand £'000	0–1 years £'000	1–2 years £'000	2–5 years £,000	> 5 years £'000	Total £'000
As at 31 March 2019						
Interest bearing loans	–	9,484	32,323	76,132	12,767	130,706
Lease liabilities	–	96	96	289	9,722	10,203
Derivative financial instruments	–	–	–	815	–	815
Trade and other payables	4,004	–	–	–	–	4,004
	4,004	9,580	32,419	77,236	22,489	145,728

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investments in subsidiaries	2	**127,417**	77,671
Loans to subsidiary undertakings	2	**40**	53,823
Listed equity investments	3	**2,540**	2,636
Property, plant and equipment	4	**96**	92
		130,093	134,222
Current assets			
Trade and other receivables	5	**23,643**	22,042
Cash at bank and in hand		**4,887**	12,176
		28,530	34,218
Total assets		**158,623**	168,440
Current liabilities			
Creditors: amounts falling due within one year	6	**(8,923)**	(5,862)
Net current assets		**19,607**	28,356
Net assets		**149,700**	162,578
Equity			
Called up share capital	7	**4,639**	4,639
Share premium account		**125,019**	125,019
Treasury shares		**(1,349)**	(1,771)
Merger reserve		**3,503**	3,503
Capital redemption reserve		**340**	340
Retained earnings		**17,548**	30,848
Equity – attributable to the owners of the Parent		**149,700**	162,578

The Company's loss after tax for the year was £4,342,000 (2019: £16,126,000 profit).

The Company has applied the S408 exemption for company accounts.

The financial statements were approved by the Board of Directors and authorised for issue on 6 July 2020 and are signed on its behalf by:

STEPHEN SILVESTER
Finance Director

NEIL SINCLAIR
Chief Executive

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share Capital £'000	Share Premium £'000	Treasury shares £'000	Other Reserves £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018	4,639	125,036	(2,011)	3,843	23,091	154,598
Total comprehensive income for the year	–	–	–	–	16,126	16,126
Transactions with Equity Holders						
Costs of issue of new shares	–	(17)	–	–	–	(17)
Share-based payments	–	–	–	–	332	332
Exercise of share options	–	–	240	–	(240)	–
Issue of deferred bonus share options	–	–	–	–	257	257
Dividends	–	–	–	–	(8,718)	(8,718)
At 31 March 2019	4,639	125,019	(1,771)	3,843	30,848	162,578
Total comprehensive income for the year	–	–	–	–	**(4,342)**	**(4,342)**
Transactions with Equity Holders						
Costs of issue of new shares	–	–	–	–	–	–
Share-based payments	–	–	–	–	130	130
Exercise of share options	–	–	422	–	(422)	–
Issue of deferred bonus share options	–	–	–	–	77	77
Dividends	–	–	–	–	(8,743)	(8,743)
At 31 March 2020	4,639	125,019	**(1,349)**	**3,843**	**17,548**	**149,700**

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

Treasury shares represents the consideration paid for shares bought back from the market. Other reserves comprise the merger reserve and the capital redemption reserve.

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES

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

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

DIVIDENDS REVENUE

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

VALUATION OF INVESTMENTS

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

LISTED EQUITY INVESTMENTS

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

CURRENT TAXATION

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

DEFERRED TAXATION

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

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

Deferred tax balances are recognised in respect of timing differences that have originated but not reversed on the balance sheet date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

The Government announced in the summer 2015 Budget the reduction in the corporation tax rate from 20% main rate in the tax year 2016 to 19% with effect from 1 April 2017.

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL LIABILITIES AND EQUITY

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

TRADE PAYABLES

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

EQUITY INSTRUMENTS

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

PARENT COMPANY DISCLOSURE EXEMPTIONS

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

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

JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Investments and loans to subsidiary undertakings (see note 3)

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. PROFIT FOR THE FINANCIAL PERIOD

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

2. INVESTMENTS IN SUBSIDIARIES

Cost:	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
At 1 April 2018	127,861	26,569	154,430
Additions	3,743	27,254	30,997
Write-down of investments	(9,360)	–	(9,360)
At 1 April 2019	122,244	53,823	176,067
Additions – capitalisation of loans to subsidiaries	**61,370**	**(53,717)**	**7,653**
Additions – capitalisation of loan interest	**–**	**(66)**	**(66)**
At 31 March 2020	**183,614**	**40**	**183,654**
Provision for impairment:			
At 1 April 2018	1,530	–	1,530
Provided during the year	43,043	–	43,043
At 1 April 2019	44,573	–	44,573
Provided during the year	11,624	–	11,624
At 31 March 2020	**56,197**	**–**	**56,197**
Net book value at 31 March 2020	**127,417**	**40**	**127,457**
Net book value at 31 March 2019	77,671	53,823	131,494

LOANS TO SUBSIDIARIES

A loan amounting to £25,000 remains outstanding at 31 March 2020 (2019: £2,566,660) from Palace Capital (Northampton) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 14 June 2020. Prior to the year end a loan of £4,511,438 was capitalised as an investment in the subsidiary.

A loan amounting to £Nil remains outstanding at 31 March 2020 (2019: £13,711,448) from Palace Capital (Properties) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 11 March 2021. Prior to the year end a loan of £15,842,510 was capitalised as an investment in the subsidiary.

A loan amounting to £Nil remains outstanding at 31 March 2020 (2019: £944,025) from Palace Capital (Halifax) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 11 March 2021. Prior to the year end a loan of £1,609,633 was capitalised as an investment in the subsidiary.

A loan amounting to £15,000 remains outstanding at 31 March 2020 (2019: £3,067,963) from Palace Capital (Manchester) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 December 2020. Prior to the year end a loan of £3,427,624 was capitalised as an investment in the subsidiary.

A loan amounting to £Nil remains outstanding at 31 March 2020 (2019: £4,328,294) from Palace Capital (Liverpool) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 7 March 2023. Prior to the year end a loan of £4,308,517 was capitalised as an investment in the subsidiary.

A loan amounting to £Nil remains outstanding at 31 March 2020 (2019: £29,204,796) from Palace Capital (Signal) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 31 October 2023. Prior to the year end a loan of £24,017,272 was capitalised as an investment in the subsidiary.

INVESTMENT IN SUBSIDIARIES

Year ended 31 March 2020

On 25 March 2020 the Company purchased an additional 7,652,636 ordinary £1 shares at par in Palace Capital (Leeds) Limited in order to refinance the subsidiary.

On 26 March 2020 the Company purchased an additional 4,308,517 ordinary £1 shares at par in Palace Capital (Liverpool) Limited in order to refinance the subsidiary.

On 26 March 2020 the Company purchased an additional 1,609,633 ordinary £1 shares at par in Palace Capital (Halifax) Limited in order to refinance the subsidiary.

On 31 March 2020 the Company purchased an additional 4,511,348 ordinary £1 shares at par in Palace Capital (Northampton) Limited in order to refinance the subsidiary.

On 31 March 2020 the Company purchased an additional 3,427,624 ordinary £1 shares at par in Palace Capital (Manchester) Limited in order to refinance the subsidiary.

On 31 March 2020 the Company purchased an additional 15,842,510 ordinary £1 shares at par in Palace Capital (Properties) Limited in order to refinance the subsidiary.

On 31 March 2020 the Company purchased an additional 24,017,272 ordinary £1 shares at par in Palace Capital (Signal) Limited in order to refinance the subsidiary.

Year ended 31 March 2019

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

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

Subsidiary undertaking:	Class of share held	% shareholding	Principal activity
Palace Capital (Leeds) Limited	Ordinary	100	Property Investments
Palace Capital (Northampton) Limited	Ordinary	100	Property Investments
Palace Capital (Properties) Limited	Ordinary	100	Property Investments
Palace Capital (Developments) Limited	Ordinary	100	Property Investments
Palace Capital (Halifax) Limited	Ordinary	100	Property Investments
Palace Capital (Manchester) Limited	Ordinary	100	Property Investments
Palace Capital (Liverpool) Limited	Ordinary	100	Property Investments
Palace Capital (Signal) Limited	Ordinary	100	Property Investments
Quintain (Signal) Member B Limited*	Ordinary	100	Holding
Signal Property Investments LLP*	Member	100	Property Investments
Signal Investments LLP*	Member	100	Holding
Property Investment Holdings Limited	Ordinary	100	Property Investments
Palace Capital (Dartford) Limited	Ordinary	100	Property Management
Palace Capital (Newcastle) Limited	Ordinary	100	Property Investments
R.T. Warren (Investments) Limited	Ordinary	100	Property Investments
Palace Capital (York) Limited	Ordinary	100	Property Management
Associate Company:			
HBP Services Limited*	Ordinary	21.4	Property Management
Meadowcourt Management (Meadowhall) Limited*	Ordinary	30	Property Management
Clubcourt Limited*	Ordinary	40	Property Management

* Held indirectly

The results of the associates are immaterial to the Group.

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

- UK entities: 4th Floor, 25 Bury Street, St James's, London, SW1Y 6AL.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

3. LISTED EQUITY INVESTMENTS

	Total £'000
At 1 April 2018	–
Additions	2,850
Loss on revaluation of listed equity investment shown in statement of comprehensive income	(214)
At 1 April 2019	2,636
Additions	329
Loss on revaluation of listed equity investment shown in statement of comprehensive income	(425)
At 31 March 2020	**2,540**

During the year the Company purchased listed equity investments to the value of £329,000. The investment has subsequently been revalued using level 1 inputs, the quoted market price.

4. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2018	215
Additions	2
At 1 April 2019	217
Additions	**36**
At 31 March 2020	**253**
Depreciation	
At 1 April 2018	94
Provided during the period	31
At 1 April 2019	125
Provided during the period	**32**
At 31 March 2020	**157**
Net book value at 31 March 2020	**96**
Net book value at 31 March 2019	92

5. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Amounts owed by subsidiary undertakings	**22,965**	14,250
Trade debtors	**414**	720
Other debtors	**30**	48
Other taxes and social security	**25**	34
Accrued interest on amounts owed by subsidiary undertakings	–	6,882
Prepayments	**209**	108
	23,643	22,042

A loan amounting to £22,965,362 remains outstanding at 31 March 2020 (2019: £10,160,251) from Palace Capital (Developments) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £Nil remains outstanding at 31 March 2020 (2019: £4,090,165) from Palace Capital (Leeds) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 8 May 2019. Prior to the year end a loan of £7,652,636 was capitalised as an investment in the subsidiary.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	2019 £'000
Trade creditors	**223**	57
Amount owed to subsidiary undertaking	**7,697**	5,104
Corporation tax payable	**57**	–
Other taxes	**75**	55
Other creditors	**5**	–
Accruals and deferred income	**866**	646
	8,923	5,862

A loan amounting to £43,012 remains outstanding at 31 March 2020 (2019: £1,538,132) to Palace Capital (Newcastle) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £3,317,480 remains outstanding at 31 March 2020 (2019: £Nil) to R.T. Warren Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £4,336,489 remains outstanding at 31 March 2020 (2019: £3,566,350) to Property Investment Holdings Limited. No interest is charged on this loan. This loan is repayable on demand.

7. SHARE CAPITAL

The details of the Company's share capital are provided in note 21 of the notes to the Consolidated Financial Statements.

8. LEASES

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

	2020 £'000	2019 £'000
Within one year	**178**	178
From one to two years	**178**	178
From two to five years	**19**	197
	375	553

9. POST BALANCE SHEET EVENT

There are no post balance sheet events.

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

SECRETARY

Nicola Grinham ACG

REGISTERED OFFICE

25 Bury Street
London
SW1Y 6AL

REGISTERED NUMBER

05332938 (England and Wales)

AUDITOR

BDO LLP
55 Baker Street
London
W1U 7EU

REGISTRAR

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TA

JOINT BROKER

Arden Partners plc
125 Old Broad Street
London
EC2N 1AR

JOINT BROKER

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

SOLICITORS

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

CMS Cameron McKenna Nabarro Olswang LLP
1 South Quay
Victoria Quays
Sheffield
S2 5SY

Walker Morris LLP
33 Wellington Street
Leeds
LS1 4DL

INVESTOR & PUBLIC RELATIONS

FTI Consulting
200 Aldersgate
Aldersgate Street
London
EC1A 4HD

BANKERS

Barclays Bank plc
69 Albion Street
Leeds
LS1 5AA

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

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

Santander UK plc
Bridle Road
Merseyside
L30 4GB

GLOSSARY

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

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

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

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

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

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

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

EPRA: Is the European Public Real Estate Association.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Like-for-like valuation: Is the change in the carrying value of properties owned throughout the entire year.

This excludes properties acquired during the year and disposed of during the year.

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

GLOSSARY

MSCI Inc. (MSCI IPD): Is a company that produces independent benchmarks of property returns.

The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consultancy, design and production by:
jonesandpalmer.co.uk

PALACE CAPITAL plc

CONTACT

25 Bury Street, St James's London, SW1Y 6AL

palacecapitalplc.com

T: +44 (0)20 3301 8330

E: info@palacecapitalplc.com