PALACE CAPITAL plc

Annual Report and Accounts 2021

Experts in
Regional Property

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

OUR PURPOSE

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

OUR VALUES

We are ACTIVE asset managers, focused on unlocking value and applying the highest standards in everything we do.

We are ASTUTE in our approach to business, identifying opportunities and applying our expertise to outperform the market.

We set AMBITIOUS goals in order to deliver our total return strategy.

OUR CULTURE

Within Palace Capital we promote a culture of inclusivity whereby all our people contribute to the 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.

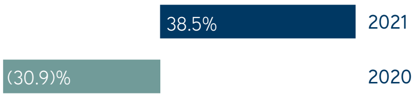
Highlights

Total Property Return[1]

Adjusted Profit Before Tax[2]

IFRS NAV

Total Shareholder Return[3]



IFRS Loss Before Tax

EPRA NTA per Share[4]

1. For more information see page 22.
2. For more information see note 6 on page 113.
3. For more information see page 23.
4. For more information see note 7 on page 114.

2020/21 SUMMARY

Covid-19 continued to disrupt the UK economy with the government enforcing multiple lockdowns since March 2020. We prioritised the safety and wellbeing of our employees and tenants whilst enhancing our communication and providing the necessary support when it was needed. We have performed resiliently whilst adapting quickly to ensure business continuity is maintained in this challenging environment.

Operational Highlights

- Completed our flagship development at Hudson Quarter, York on budget on 20 April. As at 7 June, 33 residential sales have completed, ten contracts are exchanged with a further seven under offer, to the value of £14.9m
- Collected 95% of rents excluding rent concessions and deferrals to 31 March 2021.
- Disposed of five non-core assets for £5.4m with a further £9.4m exchanged or completed since year end.
- Completed 31 lease events in the year including 11 lease renewals, six rent reviews and 14 new leases.

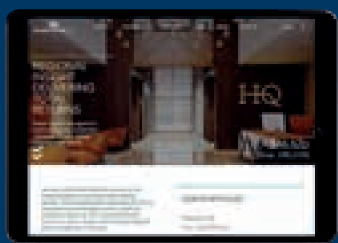
Stakeholders and Responsibility

- No employees were furloughed, and the health and wellbeing of our people remained the priority during the year.
- We agreed rent concessions and deferrals of £1.1m and provided additional rent-free periods and payment plans so tenants could better manage their cash flow.
- Prioritised ESG initiatives and incorporated energy efficiency measures into our capital expenditure projects.

GOVERNANCE

FINANCIAL STATEMENTS

VISIT OUR WEBSITE AT WWW.PALACECAPITALPLC.COM

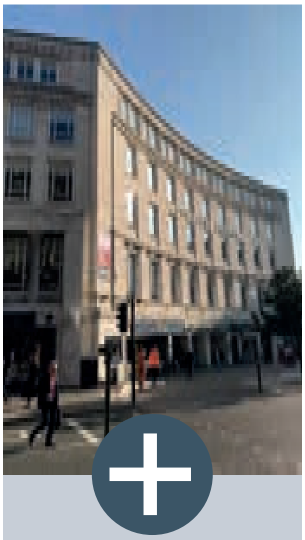


FOR REPORTS AND PRESENTATIONS, GO TO WWW.PALACECAPITALPLC.COM/INVESTORS/REPORTS-AND-PRESENTATIONS/

At a Glance

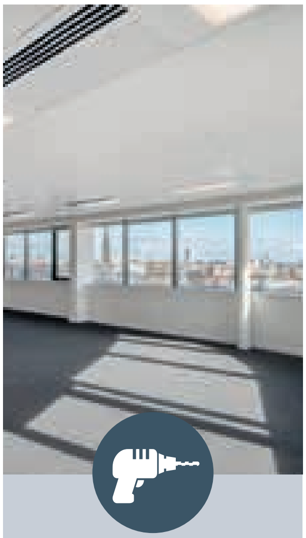
Palace Capital aims to maximise Shareholder value by enhancing income returns, reducing void costs and growing property values through strategic refurbishment and development of assets.

ACQUIRE



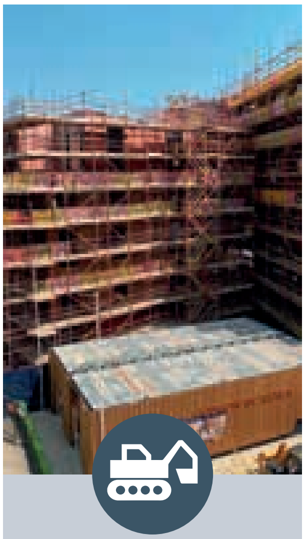
We identify and buy strategically-located real estate outside London that fits our investment criteria.

REFURBISH



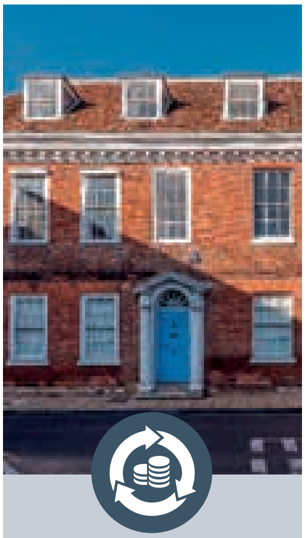
We revitalise assets, creating refurbished space that meets the latest occupational demands.

REDEVELOP



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

RECYCLE



We regularly refresh our portfolio when optimum asset value has been achieved or to capitalise on changes in the investment market.

£282.8m
TOTAL PORTFOLIO VALUE

48
NUMBER OF ASSETS

£17.3m
ANNUALISED RENT

86.4%
TOTAL OCCUPANCY

4.8 years
WAULT

KILN FARM – MILTON KEYNES

Our Portfolio

We operate on a total return basis with a core portfolio of sustainable income-producing assets which enables us to reward investors with an attractive dividend, along with value-add assets which require investment to unlock capital growth.


POINT FOUR – AVONMOUTH

INCOME

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

Financial benefit
Sustainable income used to fund dividends.


BOULTON HOUSE – MANCHESTER

VALUE-ADD

We reinvest surplus capital to adapt our properties to changing occupier demands.

Financial benefit
Rental growth and capital value uplift.


HUDSON HOUSE – YORK

OPPORTUNISTIC DEVELOPMENT

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

Financial benefit
Generate longer term development profits.

TENANT PROFILE

Having a strong tenant profile is critical to our success. We pride ourselves on the quality of our tenants and seek to secure resilient income from strong covenants. During the year we collected 98% of the rent due from our top 20 tenants, excluding rent concessions and deferrals.

98%
RENT COLLECTED FROM OUR TOP 20 TENANTS

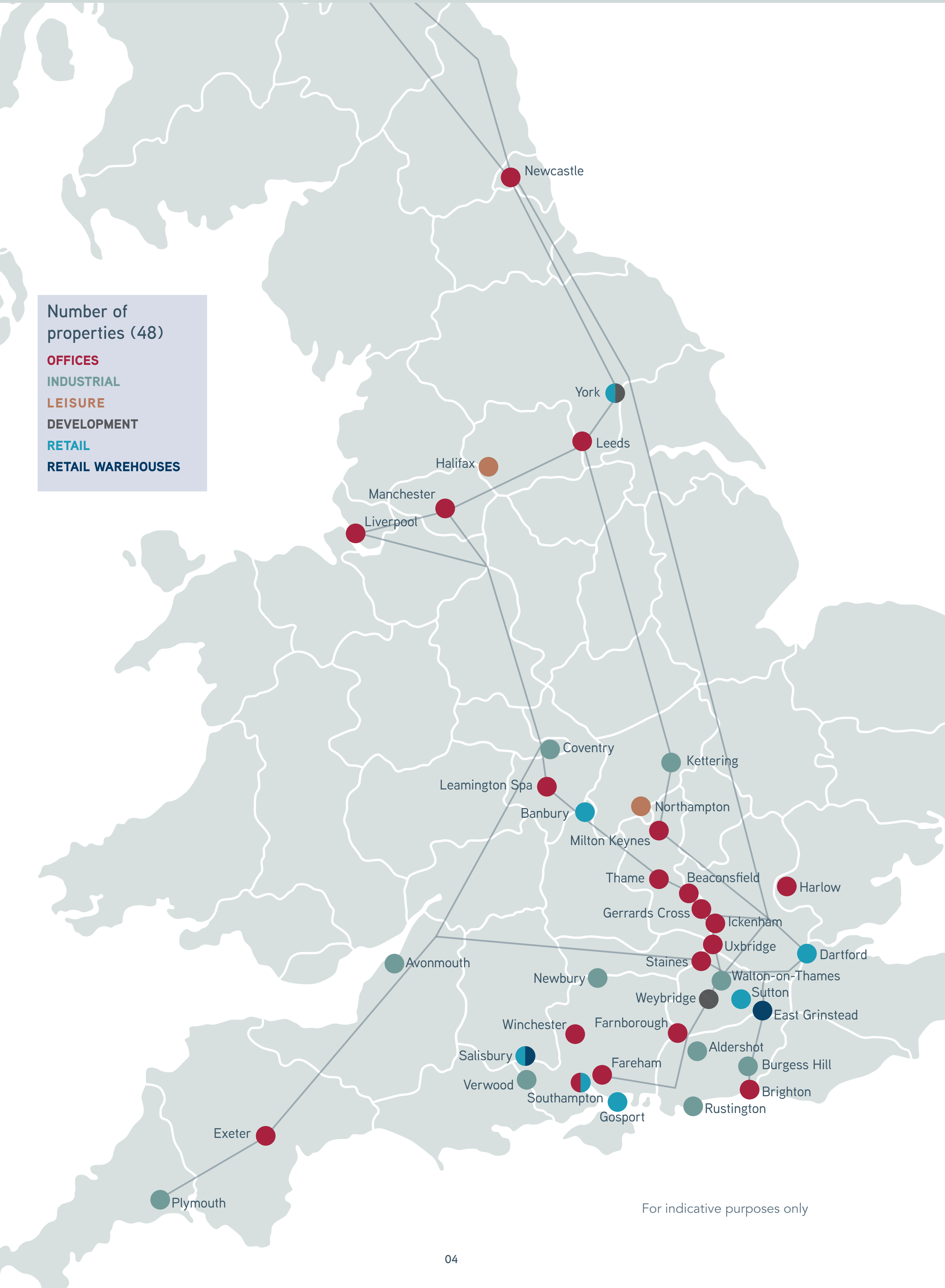
44% of passing rents come from our top 20 tenants. Diversified by industry and location, they provide good exposure in a variety of sectors.

Loss of income from tenant administrations and CVAs in the year totalled £0.2m, which is 1.1% of portfolio contractual income.

READ MORE ABOUT OUR TENANT PROFILE ON PAGE 31

182
TENANTS

Sectors and Locations



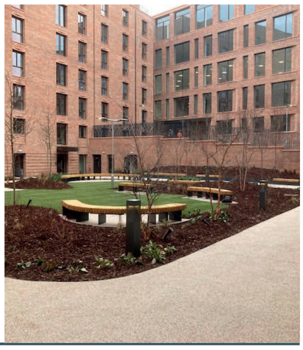
Top 10 Properties by Value

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 39,000 sq ft of grade A office space. Construction was completed in April 2021.

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



Halifax

Area – 117,767 sq ft
Rental income: £1.7m p.a.

Broad Street Plaza is a dominant city centre leisure scheme anchored by a 10-screen Vue cinema, TGI Fridays, Wetherspoons and Pure Gym. Two vacant units were let in the year and a further one was let post-year end.

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.

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

Northampton

Area – 189,203 sq ft
Rental income: £1.7m p.a.

Dominant city centre leisure scheme incorporating a Vue cinema, Ibis hotel and Gravity Fitness.

£1.2m of capital expenditure on the common areas was completed in May 2021.

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

Manchester

Area – 74,648 sq ft
Rental income: £0.9m p.a.

Boulton House is an eight-storey office block in Manchester city centre within walking distance of Piccadilly mainline station.

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

Liverpool

Area – 70,161 sq ft
Rental income: £1.0m p.a.

City centre office and retail property with tenants including Tesco, Pret, Medicash and Exchange Chambers.

100% occupied and let.

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

Leeds

Area – 89,081 sq ft
Rental income: £0.6m p.a.

Multi-let city centre office building let to tenants on short term leases including the Bank of England.

22,000 sq ft of space was let during the year.

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

Milton Keynes

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

Three buildings are let to Rockwell and BMI Redland at low passing rents with potential for rental growth.

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

Avonmouth

Area – 84,748 sq ft
Rental income: £0.5m p.a.

Multi-let industrial estate.

Following refurbishment the estate is now fully let and occupied.

Distance from train station:
1.1m **5min**

Verwood

Area – 65,765 sq ft
Rental income: £0.4m p.a.

Multi-let industrial estate. Following refurbishment the estate is now fully let.

Rental levels have grown 35% since purchase.

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

Investment Case

01

INVESTED IN REGIONAL OFFICE AND INDUSTRIAL SECTORS

We see income and capital growth in the regional office and industrial sectors as a result of higher levels of employment, population growth and major infrastructure investment and development.

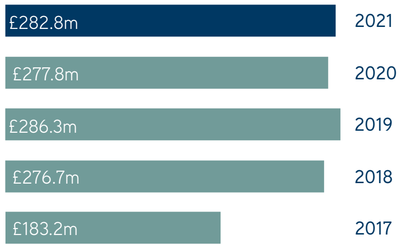
Demand for industrial space continues unabated as the technology revolution continues, whilst the return to the office presents a real opportunity for the business to meet the increasing demand for flexible office space as a result of changing requirements.

02

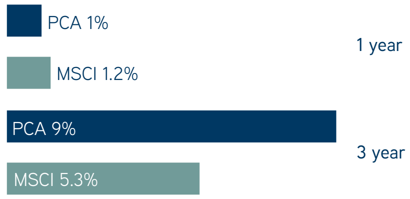
TOTAL RETURN MODEL

We operate on a total return basis, so it is important for us to grow our capital values as well as our income. We maintain a core portfolio of sustainable income-producing assets, which enables us to reward investors with an attractive dividend through the tax-efficient REIT structure. Furthermore, we have the flexibility to reinvest surplus capital to refurbish, reposition and recycle property through value-add and development strategies.

PORTFOLIO VALUATION



TOTAL PROPERTY RETURN VS MSCI INDEX



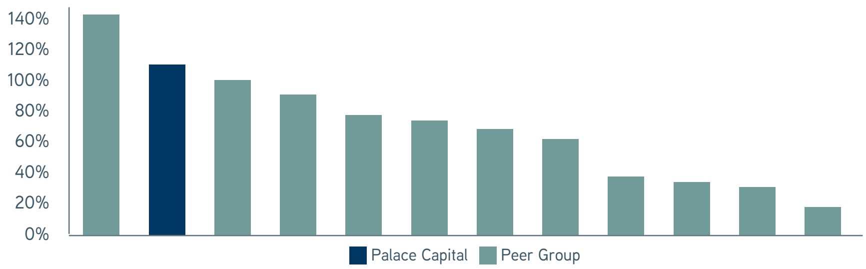
56%

OFFICE AND INDUSTRIAL

(70% once the Hudson Quarter residential apartments have been sold and the HQ office is fully let)

7.5 YEAR TOTAL ACCOUNTING RETURN VS PEERS

(EPRA NTA growth + dividends) now at 110%



Source: Arden Partners plc

DIVIDEND PER SHARE

4.4%

DIVIDEND YIELD

£37m

DIVIDENDS PAID TO SHAREHOLDERS SINCE 2013

1.6x

DIVIDEND COVER

DEVELOPMENT AS A DRIVER FOR GROWTH
Hudson Quarter valuation track record

£3.8m — 2013: Acquisition

£14.9m — 2017: Planning permission secured

£17.3m — 2019: Demolition

£56.1m — 2021: Completion

42% — Forecast cash on cash return once residential units sold and commercial space let

03
ENTREPRENEURIAL APPROACH

We are entrepreneurial in our approach to property investment, evaluating each opportunity on its own merits by combining professional judgment with market evidence and statistical analysis in order to maximise returns for Shareholders.

04
PRO-ACTIVE 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 identify potential development opportunities which, providing they are viable and meet target returns, we will look to unlock over the medium-term to deliver fit for purpose real estate.

05
REGIONAL EXPERTISE AND EXTENSIVE RELATIONSHIP NETWORK

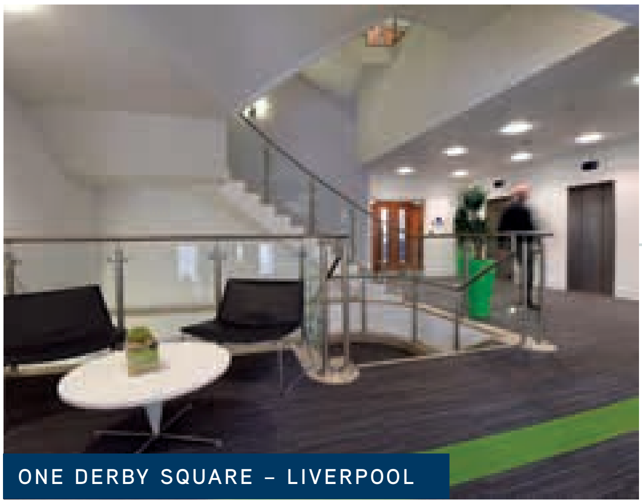
The management team are regional experts with exceptional market penetration through their relationship networks and extensive property and financial backgrounds. They leverage these to source transactions and deliver real estate relevant to urban centres outside London.

Responding to Covid-19

2020

TIMELINE OF KEY EVENTS

KILN FARM – MILTON KEYNES



ONE DERBY SQUARE – LIVERPOOL

March-July

FIRST FULL LOCKDOWN

- Prioritised the health and safety of our employees by moving to a working from home model.
- Directly contacted each one of our tenants to understand the implications for their business.
- Ensured our business continuity and emergency succession plans were communicated to the team.
- Bi-weekly Board calls to review the Group's position, particularly with regard to rent collection.
- Engaged early with our banks and secured covenant waivers on a precautionary basis.

September

SECOND WAVE AND TIER LOCKDOWN

- Continued to engage with all of our tenants, especially those in the leisure and retail sectors.
- Proactive asset management meant we were able to secure good levels of rent collection.
- Secured a range of lease extensions in exchange for rental concessions.

October

SECOND FULL LOCKDOWN

- Continued strong relations with tenants.
- Reviewed the construction programme at our flagship development, Hudson Quarter in York, to take into consideration the restrictions on the movement of people and the supply of materials. The development was completed and handed over to Palace Capital on 20 April 2021.

FOR MORE INFORMATION ON OUR HUDSON QUARTER DEVELOPMENT SEE PAGES 20 AND 21.

December

TIER LOCKDOWN

- Monitored the roll-out of the government's vaccination programme.
- Continued focus on our cash position, rent collection, overheads and the delivery of Hudson Quarter.

January onwards

THIRD FULL LOCKDOWN

- Continued to support our tenants, especially those in the leisure sector where the pandemic has been particularly challenging for their businesses.
- Held a Board strategy day to consider any overarching adjustments that may be needed in the wake of the pandemic and a post-Covid world.

2021

Stakeholder Engagement

How we have engaged with OUR TENANTS throughout the Covid-19 pandemic

Covid-19 has affected every one of our tenants and each required a different approach to ensure the best course of action was secured for them and Palace Capital. In the majority of cases, we moved our tenants from quarterly to monthly payment plans.

Our dedicated in-house asset managers pro-actively engaged with each tenant directly. They sought to understand the ongoing impact on their business and what support may be available to them. We continued to monitor occupancy levels within each asset and engaged with our property managers to ensure every building was safe for occupation.

How we have engaged with OUR INVESTORS throughout the Covid-19 pandemic

The way we interacted with our investors changed considerably during the year. Our investor relations programme was undertaken in an entirely "virtual" setting. We sought to continue our regular roadshows and utilised platforms such as Investor Meet, which allowed us to reach as many investors and potential investors as possible.

We issued more frequent trading updates to ensure our investors were kept up to date with the Group's rent collection and any impact this may have on our income or profitability.

Sadly, our AGM was closed to attendees but we encouraged all our investors to vote by proxy and invited questions in advance.

How we have engaged with OUR LENDERS throughout the Covid-19 pandemic

We have strong relationships with our lenders and kept them regularly updated in respect of our income and the capital value of our assets. The Board kept the Group's banking covenants under regular review and adopted a proactive approach to securing waivers in the event that any covenant was breached.

ONE DERBY SQUARE – LIVERPOOL

HOW OUR RESPONSE REPRESENTS OUR VALUES

Our response to the pandemic has been entirely driven by our underlying values which are to take an active, astute and ambitious approach to business. We have approached every discussion with integrity and every decision has been made with the intention to protect the business during these unprecedented times.

We have pulled together as a team and applied our expertise and relationships to navigate what has been an exceptionally challenging year.

OUR VALUES

ACTIVE

ASTUTE

AMBITIOUS

SEE PAGES 44 AND 45 FOR OUR S172 STATEMENT AND READ WHY AND HOW WE ENGAGE WITH STAKEHOLDERS

HUDSON QUARTER – YORK

2021 Strategic Report

BANK HOUSE - LEEDS

CONTENTS

The Strategic Report for the financial year ended 31 March 2021 as presented on pages 12 to 49 was approved by the Board of Directors on 7 June 2021 and signed on its behalf by:

Neil Sinclair
Chief Executive

Business Model

KEY RESOURCES

Our People

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

Our Portfolio

- Majority of portfolio is income, 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

WHAT WE DO

UNDERPINNING EVERYTHING WE DO

Our Purpose

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

Our Values

Active

Astute

Ambitious

PORTFOLIO EVALUATION AND MARKET INFLUENCES; DISPOSAL AND REINVESTMENT

Characteristics of disposals and reinvestment:

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, to reinvest into growth opportunities

04 Assets that are vacant, requiring significant investment to re-let

05 Changes in the market cycle, external market trends and challenges that could effect our assets

SEE PAGES 14 AND 15 TO FIND OUT ABOUT THE MARKET DRIVERS AND KEY TRENDS THAT AFFECT OUR PORTFOLIO AND HOW WE ARE RESPONDING TO THOSE

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.

1.0%

TOTAL PROPERTY RETURN VERSUS MSCI INDEX: 1.2%

Tenants

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

230,000 sq ft

SPACE LET IN THE YEAR

Communities

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

205

NO. OF COMMERICAL LEASES ACROSS PORTFOLIO

Our Marketplace

THE REGIONS

We have been focused on regional property investment outside of London for over 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. The North West has benefited from the strong growth of Manchester and Liverpool and the West Midlands has moved into one of the top four growth locations in the UK. Cities such as Birmingham and Leicester are quickly becoming the fastest-growing places in the UK, where rents continue to rise, and several key projects are in the pipeline.

We are encouraged by the clear priority the government is giving to 'levelling up'. There is a broad consensus that regional disparities need to be addressed and this is a welcome development.

THE GOVERNMENT'S LEVELLING UP AGENDA

We believe there is an opportunity over the next few years to take advantage of the levelling up agenda from the government to invest in the regions outside London. The drive to improve the economic performance of cities in Northern England will provide rental and capital growth opportunities and we expect these to outperform other areas in the UK.

We are already seeing the government delivering on this with major moves of government Departments announced to cities and towns in the Midlands and North of England. In addition, the National Infrastructure Bank is to be located in Leeds where we already own a significant office building. This is encouraging other companies and organisations to consider moving away from London, ensuring that people across the country have access to new and exciting employment opportunities.

THE COVID-19 PANDEMIC

The short-term issues arising from the pandemic continue to weigh on real estate, though each sector has been affected differently. Reductions in rents and capital values will mostly reflect short-term income loss as a result of national lockdowns, but the major uncertainties are now behind us.

The success of the vaccination programme reduces the likelihood of further government-imposed lockdowns. As a result, we are expecting a strong recovery. This is also the view of the Chief Economist of the Bank of England, and having weathered the storm, we hope that the effects of the pandemic are now behind us.

ACCELERATING TRENDS

Covid-19 has accelerated real estate trends such as working from home and online retail, which were already advancing in the UK. However, companies are missing the opportunity for social connection, the creativity of groups, teamwork and the togetherness generated by physical meetings. We are well connected online but it's not the same and we expect this will drive the return to the office.

Flexibility will be the order of the day, with more flexible working than we have seen in the past and increasing requirements from occupiers to be able to adapt their space. We believe this may be less pronounced outside of London where there has been a far greater return to the office. This might have something to do with the commute, with workers in London generally living further away from their employment than those in the regions. Location and quality will be key and we are prepared and well positioned to take advantage of these trends.

HUDSON QUARTER – YORK

OFFICE AND INDUSTRIAL

"The return to the office presents a real opportunity for the business to be on the front foot in terms of adapting our space to meet changing requirements."

While office investment volumes were down during 2020, we are now seeing a rebound. Offices in both London and the regional cities are becoming relatively stable as major corporations deal with the demand from employees to have flexibility against the need for increased productivity. How people work continues to be the most important question of 2021 and space efficiency will be key. Any shift towards lower office attendance is expected to be countered by requirements for larger space as businesses seek to provide their workforce with a safe and effective workplace. We expect tenants to seek greater flexibility, and this should help to keep overall office occupancy stable. Overall, the lack of development means the demand and supply ratio remains in favour of rental growth, for the right product.

Our office holdings are in prime city centre locations with limited speculative development. These fundamentals continue to underpin our office investment strategy.

Industrial is the sector of choice as the pandemic has accelerated consumer adoption of online commerce. However, the provision of logistics stock is critical to continued rental growth. Demand continues to outstrip supply, and this is expected to intensify as online retailers seek to benefit from the lasting effects of Covid-19 on consumer behaviour.

Our industrial holdings have been secured through our portfolio acquisitions and we intend to increase our holdings in this sector as we see a continuing shortage of space in a recovering economy.

LEISURE AND RETAIL

The already weak high street has suffered further during the pandemic, although supermarkets, retail parks and warehouses have proved more resilient. The closure of non-essential retail has put severe pressure on certain businesses, and this will continue to affect performance in 2021. Those retailers that have invested in online platforms will have better success.

The resulting shift towards shorter, more flexible leases and turnover leases will fundamentally change retail real estate. However, we have very limited exposure to this sector and expect to further reduce it.

Leisure has had a very challenging year. However, we are social animals and as hospitality returns to normal, we expect to see a strong rebound.

MARKET DISTRESS

The negative effect on the economy during 2020 has been profound. However, the decline in UK GDP is forecast to reverse during 2021 and predictions suggest a positive bounce back once the effects of the vaccines are seen. The global economy is also projected to grow at record speed in 2021 but this is also dependent on the ongoing deployment of vaccines and continued supportive fiscal policies.

Whilst pre-pandemic levels of activity may not be reached until 2022, the "distress" predicted a few months ago is unlikely to manifest. Government policy to protect companies from failure and ensure employment is safeguarded will mean only the highly-leveraged landlords will be under pressure.

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 22 AND 23

KPIs key

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

Principal risks key

1. Covid-19/Pandemics
2. Economic and Political
3. Development
4. Tenant
5. Portfolio
6. Financing and Cash Flow
7. Accounting, Tax, Legal and Regulatory
8. Operational
9. People

"We have a clear strategy and with the continuing relaxation of Covid-19 related restrictions, we can be very confident about the Company's future growth prospects."

Stanley Davis
Chairman

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

- Maintained a conservative capital structure
- Observed the market intently and built relationships with new and existing investors
- Enhanced our close relationships with the banks

Future Focus

- Recycle capital from non-core assets into core income enhancing acquisitions focused on the office and industrial sectors
- Expand and maintain our relationships with our main stakeholder groups
- Maintain conservative capital structure to support potential investment
- Reduce the share price discount to NAV through our investor relations programme and engagement with retail investors and wealth managers as well as institutions

Link to KPIs

1 2 4 7 8

Link to risks

1 2 3 6 7 9

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 our strategy we acquire assets across a range of risk/return strategies from income to value-add, through to opportunistic developments.

Progress during the year

- Delivered a total shareholder return of 39%
- Total Property Return of 1.0% compared to the MCSI benchmark of 1.2%.
- Exchanged contracts for the sale of a further ten residential apartments at Hudson Quarter, York. As at 7 June, 33 residential sales have completed with 17 contracts exchanged or under offer
- Secured new lettings 16% above the estimated rental value

Future Focus

- Secure lettings of the newly completed office space at our flagship development, Hudson Quarter, York
- Sell at least 50% of the remaining residential apartments at Hudson Quarter, York by 31 March 2022
- Grow recurring income through lease renewals and re-gears and reduce void costs
- Maintain the sustainability of our dividend

Link to KPIs

1 2 3 4 5 6

Link to risks

1 3 5 6 8

03 MANAGE OUR ASSETS EFFECTIVELY

We apply pro-active asset management strategies balancing income generation and capital expenditure value enhancement activity.

By recycling equity out of underperforming 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

- Collected 95% of rent in the year, completed 31 lease events
- Disposed of five non-core assets for £0.9m profit on disposal
- Reduced our void costs by 42.5%
- Undertook £2.2m of capital expenditure across the portfolio to improve the rental and capital value potential of our assets

Future Focus

- Execute our disposal programme prioritising non-core assets that do not fit our regional office and industrial strategy
- Build on the engagement with our tenants to further improve relationships
- Identify assets where we can grow rental and capital values through asset management initiatives

Link to KPIs

4 6

Link to risks

1 3 4 5 8 9

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

- Appointed an external consultant to assist in formulating our ESG strategy
- Liaised with tenants throughout the Covid-19 pandemic, ensuring we offered support to their business needs
- Implemented ESG principles within our asset management initiatives

Future Focus

- Ensure ESG principles are considered on all our major capital expenditure projects and asset management initiatives
- Retain, develop and support our talented workforce
- Continue to work with our tenants to support their businesses where necessary

Link to KPIs

2 6 7 8

Link to risks

1 2 3 4 5 6 7 8 9

Rent Collection
and Asset Management during the year

RICHARD STARR MRICS
Executive Property Director

PRIORITISING INCOME

In difficult circumstances our team has worked extremely hard to ensure we continue to function effectively, respond quickly to support our tenants and sustain high levels of rent collection.

Rent Collection	Quarter starting Mar 2020	Quarter starting June 2020	Quarter starting Sep 2020	Quarter starting Dec 2020	Total
Office	95%	93%	96%	94%	95%
Industrial	100%	100%	96%	98%	98%
Leisure	91%	93%	94%	86%	91%
Retail Warehouse	100%	100%	100%	100%	100%
Retail	99%	97%	92%	90%	94%

Our high levels of rent collection are a direct result of our proactive asset management approach and positive tenant engagement. In addition, our strong tenant profile has meant we have consistently collected 100% of the rent for most of our buildings. Though our leisure schemes have been closed most of the year due to multiple lockdowns, we have managed to collect 93% and 89% (excluding concessions and deferrals) at Halifax and Northampton respectively.

“We have demonstrated proactive asset management by engaging with our tenants to assist them with short-term cash flow during Covid-19 restrictions, as well as implementing measures to improve asset value.”

Richard Starr
Executive Property Director

ST JAMES GATE, NEWCASTLE UPON TYNE

- Core office asset with strong tenant base.
- 100% rent collection throughout the financial year.
- Invested in a fully-managed network infrastructure providing pre-installed fibre infrastructure to ensure ultra-fast building connectivity and uptime (supported and monitored by Backbone Connect).
- Settled Flex-e-card rent review at a 13% increase despite the pandemic, demonstrating continued rental growth.
- Contractor appointed to undertake major capital expenditure of £1.4 million converting two vacant retail units to office space plus courtyard enhancement works. These works, which are due to complete in August 2021, are expected to add £0.2m per annum to the total rent once the units are let, as well as improve the building’s status in the market.

RENTAL INCOME	AREA	OCCUPANCY LEVEL
£1.3m p.a.	99,125 sq ft	70.4%

BROAD STREET PLAZA, HALIFAX

- Let two vacant units during the year and one post-year end, totalling 13,464 sq ft and generating a headline rent of £0.2m per annum. The new tenants include the Department for Work and Pensions (Job Centre), Los Pampas (tapas-style restaurant) and post the year end, Pad Leisure (sports bar).
- The break option in 2027 with TGI Fridays was moved to 2030 in return for seven months rent free.

RENTAL INCOME	AREA	OCCUPANCY LEVEL
£1.7m p.a.	117,767 sq ft	91.2%

SOL, NORTHAMPTON

- The break option in 2029 with Gravity Entertainment was removed providing 14 years' term certain in return for nine months of half rent.
- Reversionary lease for five years with Accor to provide 12 years' term certain in return for a six-month rent-free period. In addition, the service charge cap was halved saving the company £0.01m per annum in cost.
- Agreement for lease to a local operator (15 other sites) for £0.02m per annum.
- £1.1m of common area refurbishment to be completed in the year ending 31 March 2022.

RENTAL INCOME	AREA	OCCUPANCY LEVEL
£1.7m p.a.	189,203 sq ft	88.2%

BANK HOUSE, LEEDS

- 100% rent collection throughout the financial year.
- Refurbished the vacant space to create office suites on flexible terms.
- Short-term lettings of 22,000 sq ft completed, aligned to our plans for an accretive refurbishment over the medium term.
- Headline passing rent increased by £0.17m and cost savings of £0.1m per annum.

RENTAL INCOME	AREA	OCCUPANCY LEVEL
£0.6m p.a.	89,081 sq ft	84.8%

Hudson Quarter
delivering the development

HUDSON QUARTER – YORK 2021

Our flagship development in York was completed and handed over to us on 20 April 2021.

The development comprises 127 residential units and 39,000 sq ft of offices. The blocks are all set within landscaped gardens close to the historic city wall. Delivery of the development is set to be transformational for the Company.

The pace of sales was impacted by the government restrictions during the year. However, construction was able to continue as planned with only a slight adjustment to the programme towards the end of the development. Practical completion was achieved on 20 April 2021 and the project was delivered on budget.

Sales have progressed as lockdown restrictions have eased. As at 7 June 2021, 43 apartments have been sold or exchanged at an aggregate value of £11.6 million, with a further seven under offer at a total of £3.3 million.

The main office building, known as HQ, is a prestigious, sustainably-built, Grade A office building and an integral part of this exceptional mixed-use development. HQ is the only newly-developed office building in the City of York, positioning it for the flight to quality that is expected in the office market.

The building has secured BREEAM excellent and WiredScore Platinum ratings and is within two minutes' walk from York Station.

We were particularly pleased to have set a new record rent for office space in York when Knights LLP, part of Knights plc, completed their new lease of 4,781 sq ft for 10 years at £25 per sq ft exclusive.

This is the first time in more than 10 years that new, Grade A speculative office space is being offered into the York market, where supply is very tight alongside growing demand. We are seeing strong appetite for the remainder of the office space and expect to announce further lettings over the coming months.

This two-acre property was very much the "jewel in the crown" from the Sequel portfolio, acquired in September 2013.

NO. OF APARTMENTS:

127

OFFICES:

39,000 sq ft

APARTMENTS EXCHANGED AT 31 MARCH 2021:

39

OFFICE SPACE LET AT 31 MARCH 2021

4,781 sq ft

SECTOR:

Office/ Residential

1841

The site has an interesting history, having served as the home to York's first railway station between 1841 and 1877. The tracks into the old station remained in use until 1965 as carriage storage space when the railway station buildings were converted into office space.

1970

With the old York railway station replaced by the current one just outside the City walls, a new office building, Hudson House, was developed and opened in 1970. It was the British Rail Eastern Division head office and later housed various companies, many in the rail sector.

2013

The Company acquired Hudson House as part of the Sequel Portfolio in 2013 and in August 2017, planning permission was unanimously granted by City of York Council to allow full redevelopment of the site into Hudson Quarter. Demolition of Hudson House was completed in December 2018 to create a cleared, level site.

2019

Construction commenced in January 2019 and throughout 2020 the vision of Hudson Quarter came to life.

2021

Key Performance Indicators

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

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.

Strategic aims

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

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 over the last 2 years

1.0%	1.1%
2021: (MSCI: 1.2%)	2020: (MSCI: (0.5)%)

2021/22 ambition

Outperform the MSCI IPD UK Quarterly Index

Link to strategy 1 2

Link to remuneration

Annual Bonus and LTIP

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 (see note 6 on page 113)

Why we use this measure

To demonstrate the sustainability of dividends paid

Performance over the last 2 years

£7.5m	£8.0m
2021	2020

2021/22 ambition

To ensure we drive recurring income and maintain our dividend cover

Link to strategy 3

Link to remuneration

Annual Bonus

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
To demonstrate the actual market-based returns achieved by an investor

Performance over the last 2 years
38.5% 2021 | (30.9)% 2020

2021/22 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 over the last 2 years
(1.2)% 2021 | (7.5)% 2020

2021/22 ambition
Deliver superior underlying shareholder value as measured by TAR

Link to strategy 2

Link to remuneration
LTIP

04 RENTS ACHIEVED 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 over the last 2 years
14% 2021 | 6% 2020

2021/22 ambition
Deliver like-for-like income growth ahead of inflation and ERV

Link to strategy 1 2 3

06 EPRA VACANCY RATE %

Vacancy rate of investment portfolio measured against portfolio ERV

Why we use this measure
To maintain strong occupier contentment and retention

Performance over the last 2 years
14% 2021 | 13% 2020

2021/22 ambition
Maintain high occupancy across the investment portfolio in order to maximise income and minimise costs

Link to strategy 2 3 4

07 LTV OF GROUP DEBT

Debt drawn less cash held as a fraction of portfolio valuation (see note 18 on page 124)

Why we use this measure
To demonstrate our commitment to a conservative level of gearing.

Performance over the last 2 years
42% 2021 | 38% 2020

2021/22 ambition
Restore LTV to 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 over the last 2 years
3.0% 2021 | 3.1% 2020

2021/22 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

ST JAMES GATE – NEWCASTLE UPON TYNE

"A major milestone was achieved for the Company with the completion of our flagship development at Hudson Quarter, York. We are proud to have developed an exemplary product which we are confident will deliver strong returns for our investors."

Neil Sinclair
Chief Executive

OVERVIEW

Our financial year started just one week after the first lockdown in the UK. Therefore, over the last 12 months we have been focused on the consolidation and active management of our current portfolio, with a view to ensuring that we are well positioned once we emerge from this extraordinary pandemic.

When the government directed us to work from home last March, our team responded extremely well and remote working enabled us to conduct our business seamlessly. I am pleased, however, that as I write we are now slowly returning to the office. Real estate investment companies like ours, as with many other industries, thrive on face-to-face collaboration and information sharing, and the office is a major facilitator of this. There is absolutely a place for flexible working, which was already happening pre Covid-19, but the office continues to retain a critical role in the future of workspace.

HIGHLIGHTS

Our immediate focus as we entered the first lockdown in March 2020 was direct and proactive engagement with our tenants, which enabled us to work with them to maximise rent collection and agree payment plans as required. As a result, over the year, we collected an average of 95% of rents due.

Our second priority was to prudently maintain a healthy cash position, to which end we curtailed all non-essential capital expenditure, and to ensure a continuing close relationship with our lenders. Despite the pandemic, we have also managed to undertake five strategic disposals, all at a premium to book value, contributing to our cash reserves which stand at £9.4 million as at 31 March 2021.

While we took the prudent decision to cancel the dividend payment at the height of the disruption brought about by the pandemic in April 2020, this was reinstated in August 2020 with consistently high rent collection levels enabling the payment of successive quarterly dividends since then, including the recent quarterly dividend of 2.5p, paid in April 2021.

A major milestone was achieved for the Company just after the period end with the completion of Hudson Quarter, which we were able to progress despite the challenges of the government-imposed restrictions. Having appointed a first-class Yorkshire contractor in Caddick Construction, we were able to complete the project on budget and only three months later than first envisaged. The original decision to move forward with the development was underpinned by a firm conviction in the positive fundamentals of the location and local economy, as well as our ambitious and entrepreneurial ethos. We are proud to have delivered an exemplary product that is already receiving accolades, not only for the standard of the construction, but also the quality of the

finish, and which is now beginning to deliver strong returns for our investors.

Elsewhere in the portfolio, our active asset management strategy is focused on maximising the full potential of all our properties and has resulted in positive letting activity at our leisure assets while work on our development and refurbishment pipeline has continued in anticipation of the recovery.

The pandemic has unsurprisingly had an effect on portfolio valuations, but our property team have worked tirelessly to deliver additional income and increase our NAV slightly compared to the results at our half year. I expect this to improve further as lockdown finally ends later this month, people return to the office and hospitality recovers, plus the benefit from increasing sales at Hudson Quarter.

Our EPRA earnings for the year were £7.2m resulting in EPRA earnings per share of 15.7p (2020: 23.4p). However, our IFRS loss before tax was £5.5m, driven by a reduction in fair value of our investment properties, a reduction in surrender income (2020: £2.9m) in the year and a further £0.9m provision against rental income and service charge arrears under the expected credit loss model.

Our independent valuations show a decrease of 4.0% compared to the like-for-like values as at 31 March 2020.

Our EPRA Net Tangible Asset per share on 31 March 2021 was 350p which is 3.8% below that as at 31 March 2020, but 1% ahead of that as at 30 September 2020 (347p). This is partly due to the impact of Covid-19. However, with the completion of Hudson Quarter and the road map out of lockdown in full swing we are very confident that we have turned the tide.

STRATEGY

Palace Capital is focused on creating and maximising value from carefully-selected assets in those regional towns and cities that display the right growth fundamentals that, in tandem with our tailored asset management strategies, can support value creation. We are highly disciplined in our investment approach and acquire strategically-located properties that have the potential to become sustainable assets that deliver attractive total returns. With the regions increasingly enjoying the benefit of investment from government and business along with the predicted economic growth, we are now, more than ever, excited for the prospects and the potential to generate both income and capital returns for Shareholders.

Collectively, our team has a long and established track record in the real estate sector, with deep-seated relationships and an unparalleled understanding of the dynamics of the UK commercial property market throughout multiple cycles. This puts us in a real position of strength as we move into the next phase of the current cycle and investment opportunities, which we are actively tracking, arise. The majority of our portfolio to date has been assembled through the acquisition of corporate entities, which has resulted in SDLT savings and, prior to REIT conversion, secured capital losses as well. This continues to be our favoured approach and we envisage corporate opportunities emerging later this year and early next year when government support for companies is expected to be less marked.

Chief Executive's Review CONTINUED

According to Savills, the regions have lost a significant amount of Grade B & C office space since 2015. With limited speculative development, there will continue to be an underlying shortage of offices to meet the continuing demand that we are seeing, in particular for high-quality space. This dynamic will be exacerbated by the government taking considerable space in Manchester, Leeds, Liverpool, Wolverhampton, Birmingham and Darlington as part of its levelling up agenda, which will also further stimulate demand in those local economies. We believe that this will underpin the value of our portfolio alongside the resumption of growth in the years ahead.

Through active asset management we create value, often through the refurbishment or redevelopment of well-located assets in areas of demographic and economic growth, with the Company ultimately benefiting from value crystallisation achieved through sales or sustainable income through leasing. I am very hopeful that Shareholders will see the tangible benefits of this strategy at Hudson Quarter.

At least 15 assets, valued in excess of £30 million, have been identified for sale this year as they are either non-core or their business plans have reached a conclusion. The net gains from these disposals will ultimately be reinvested in regional commercial investment property that conforms with our strict criteria. £9.4m of sales have already been exchanged or completed.

41.1% of our portfolio is in offices and in major city centres that are easily accessible with good transport links. We have avoided out-of-town business parks as most lack the amenities that today's more discerning workforce favours. As the blend between work and life increases, workers prefer the vibrancy and social benefits of city centres, where they can go out to lunch or the pub and meet friends at the end of the day. Moreover, as the spotlight on ESG becomes more pronounced, among our investors and critically our occupiers, city centre locations discourage car travel, unlike business parks which are reliant upon it.

As we move forward, our intention is to focus the majority of the portfolio towards the offices and logistics sectors. We currently own two leisure assets in Halifax and Northampton (12.5% of the portfolio), which have delivered a positive income performance and where three new lettings have been secured in the year. However, we do not intend to hold these long-term and we will exit them at the appropriate time.

OUR PORTFOLIO

We are very pleased with the resilience our portfolio has shown over what has been an incredibly challenging 12 months across the globe. During this period, the momentum behind businesses choosing to locate operations outside of London, which we were seeing pre-pandemic, has grown. HM Government and the Bank of England are moving their departments to the regions, while the BBC has confirmed that 65% of its staff will relocate to Birmingham and Salford by 2027. Goldman Sachs also announced in April that it will move an engineering division to Birmingham. These trends, which have formed a part of our investment thesis, further validate our decision to invest in city centre office buildings in Manchester, Liverpool, Leeds and Newcastle. Here, rental commitments on a pounds per sq ft basis are considerably lower than in London, as are business rates, while organisations can access expanding talent pools, with graduate retention in these university towns at historically high levels.

Transport is a critical element and approval has been obtained for HS2 to be extended to Crewe as part of the next phase. We expect to see further support for the Northern Powerhouse Rail programme with a high-speed connection between Manchester and Leeds.

Against all of this, our portfolio is now valued at £282.2m with a contracted rental of £16.4m per annum. Our net rental income after the deduction of property operating expenses is £14.9m per annum for the year ended 31 March 2021.

During the year, despite the difficulties faced by the market, we concluded 14 new lettings at an average 16% premium to ERV. One of the major challenges that we faced at the beginning of the financial year related to our two leisure assets, Sol, Northampton and Broad Street Plaza, Halifax. With hospitality venues ordered to close and the government legislating for a moratorium in respect of collecting unpaid rent, we were faced with a very difficult situation. However, by pro-actively engaging with our tenants and advocating mutual support, our year finished far better than first envisaged. We achieved strong rent collection and where we granted rent free periods, we extended leases or removed breaks. In addition, while we lost three tenants to CVAs at Halifax, we have already re-let two of the units. We have also let 5,952 sq ft of offices to the Secretary of State for Housing, Communities and Local Government, as well as a restaurant unit at Northampton. This activity together with anecdotal evidence we have come across indicates that the leisure sector is now in recovery mode, which is encouraging for our future exit plans for these assets.

Tackling our vacant office space when government advice has been to work from home has not been easy. However, we have re-let the majority of the vacant space at Bank House, King Street, Leeds which is now 84.8% occupied. We have tactically opted for short leases pending a planned accretive refurbishment of the property in 2025.

The exposure we have to retail is limited, though we have two retail warehouses let to Booker, Wickes and Pets at Home, all with strong covenants which have been standout performers during the pandemic and from whom we have collected 100% of rent. The investment market for retail warehouses, given its alternative use potential as a proxy for urban logistics, has outperformed the rest of the sub-sector.

Throughout the year, within the parameters of government guidelines, we continued to progress plans for those of our strategic properties identified for refurbishment or redevelopment. The completion of Hudson Quarter just after the period end is an accomplishment we are particularly proud of. Judging by the level of sales and interest we have in the residential element; the pre-lease secured on 4,781sq ft of offices at a record rent; and discussions we are having on the remaining office space, we firmly believe that this scheme will produce above average returns for Shareholders.

We expect to complete the refurbishment of the vacant floors at St James Gate, Newcastle upon Tyne in August 2021, as well as upgrading the exterior. Demand is strong and we are confident that this space will be let before the end of our financial year.

We have plans to redevelop or refurbish our assets in Leamington Spa and Leeds, which are both in prime locations, with commencement envisaged sometime in 2025, assuming satisfactory planning consent is granted.

LISTED INVESTMENT

We hold 1,592,500 ordinary shares representing a 5.6% stake in Circle Property plc, an AIM listed property investment company with a similar investment objective to our own. This investment remains under continuous review.

POSITIONED FOR SUSTAINABLE LONG TERM PERFORMANCE

Having shown resilience over the past 12 months, supported by the hard work and expertise of our team, our portfolio and balance sheet are well positioned to continue to deliver sustainable returns for our Shareholders.

Our future focus will be on offices and industrial property which already comprise 55.5% of the portfolio. This is expected to rise to over 70% of the portfolio once all the Hudson Quarter residential apartments have been sold and the HQ office is fully let.

As indicated, at least 15 properties have been identified for sale during the course of the financial year. Coupled with our expected sales at Hudson Quarter we are looking to further supplement our cash balance to take advantage of the opportunities, particularly corporate acquisitions, which we believe will become available later this year and early in 2022.

The outlook for the UK's regional economy is encouraging as businesses and people alike seek a more affordable and better quality of life outside the capital. While there has been considerable debate over the future of the office, it is becoming increasingly clear that high quality office space will win out among occupiers. Affordability will continue to be a critical factor among our target base and with the average rent across our office portfolio at £20.00 per sq ft, and with London rents at over £100.00 per sq ft, we provide a very attractive alternative option.

We have a first class team at Palace Capital who are highly experienced and who have enabled us to weather the storm with strong rent collection figures. In addition, we have an unparalleled network, particularly in the areas we operate, and this will assist us in securing the relevant buying opportunities.

As you would expect, the Board constantly assesses the options for delivering maximum value for Shareholders, including the merits or otherwise of undertaking a share buyback programme to manage any persistent share price discount. The Board's view to date has been that any positive impact of a buyback programme would be marginal and any benefits would be substantially countered by the resultant increase in net LTV, reduced liquidity and constraints it would put on the Company's ability to take advantage of accretive investment opportunities. This remains under regular review but would likely only be completed where there is a surplus of capital.

We reinstated our dividend in July last year on the back of strong rent collection figures for the March 2020 quarter, at a minimum of 10.0p per annum ensuring it is fully covered. I am pleased to report that in light of the continued strong rent collection figures, coupled with cautious optimism underpinned by the successful rollout of the vaccination programme, the Board has proposed a final dividend of 3.0p bringing total dividends for the year to 10.5p per share. We expect the final dividend to be the minimum level of dividend to be paid to shareholders each quarter for the year ending 31 March 2022.

OUTLOOK

In what has been one of the most challenging years in my career, we have weathered the storm and the signs are positive for the future of the Company. We are emerging in fine shape and with our dedicated Board, team and loyal Shareholders to whom we are grateful, we can look forward together to an exceptionally bright future for Palace Capital.

Neil Sinclair
Chief Executive

7 June 2021

HUDSON QUARTER – YORK

Property Review

RICHARD STARR MRICS
Executive Property Director

Last year we highlighted the challenge of Brexit and the impact of Covid-19, which was in its infancy. A year on and we can be very proud of how we balanced the demands of our tenants to keep them in business and collected enough rent to meet our financial obligations and provide returns to shareholders.

"14 lettings were agreed during the year, including three at our two leisure assets in Northampton and Halifax where the Covid-19 restrictions had a particularly profound impact. Nevertheless, by working with our tenants and considering their needs, we were able to extend leases or remove breaks in exchange for rent-free periods."

Richard Starr
Executive Property Director

From the onset of the Covid-19 pandemic, every one of the asset managers in our tight-knit team worked tirelessly to engage personally with all the requests for support we received from our tenants. This active approach has been at the core of our strategy since our inception, with the pandemic making our tenant relationships even stronger.

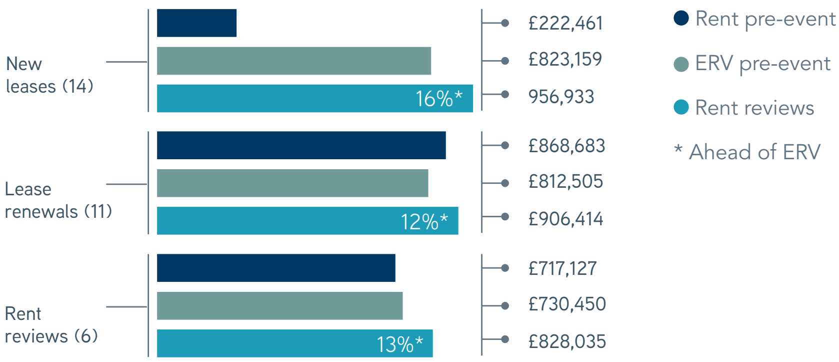
Our focus during the year was on rent collection. Most of our 182 tenants met their contractual rent obligations, with agreements made with some to spread payments over longer periods of time. Where appropriate, we provided additional support with rent free periods. As a result of our active tenant outreach, over the financial year we collected 95% of rent due. We ensured our tenants were able to use our buildings throughout the pandemic by ensuring that the necessary alignment with government requirements was applied, including putting social distancing measures in place.

As a result of the pandemic, we took the prudent decision to review our capital expenditure projects and prioritised those projects which would have the most impact on value or tenants use.

During the financial year, we completed 31 lease events representing a floor area of 230,000 sq ft. This included 14 new lettings at 16% above the independent ERV, which generated an additional £0.9m of income per annum. New lettings represented 67,000 sq ft and as a result, reduced our void costs by £0.12m per annum.

In a year where the leisure sector has really taken the brunt of the effects of the pandemic, we are pleased to have let two vacant units at Broad Street Plaza in Halifax as well as securing an agreement to lease a vacant unit at Sol, Northampton. While these assets may not be long-term holds, this activity is testament to our ability to add value to our assets even in the most challenging of markets.

LETTING ACTIVITY



PORTFOLIO OVERVIEW

We own 48 buildings (2020: 53) and have a long-term focus on the office and industrial sectors. We consider that both of these sectors will continue to outperform. These sectors make up 55.5% of our total holdings (increasing to over 70% once the Hudson Quarter residential apartments have been sold and the HQ office is fully let). The remainder of our holdings comprises 12.5% leisure and 10.9% retail and retail warehousing. The balance of our holdings at year end was in development, notably the signature mixed-use scheme, Hudson Quarter, which has since completed.

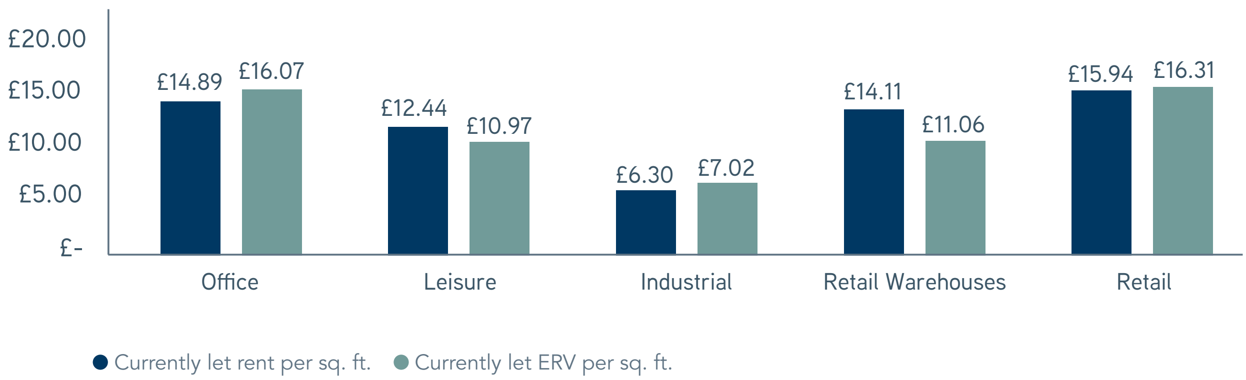
Cushman and Wakefield independently valued the portfolio as at 31 March 2021 at £282.8m, which is 1.8% higher than at 31 March 2020 but a 4.0% decrease on a like-for-like basis.

PORTFOLIO OVERVIEW

	FY21	FY20
Portfolio value (£m)	£282.8m	£277.8m
Net initial yield (%)	5.6%	6.0%
Reversionary yield (%)	7.3%	6.6%
Contractual rental income (£m)	£16.4m	£17.6m
Estimated rental value (£m)	£20.6m	£20.6m
WAULT to break (years)	4.8 years	4.8 years
Void rate (%)	13.6%	12.7%

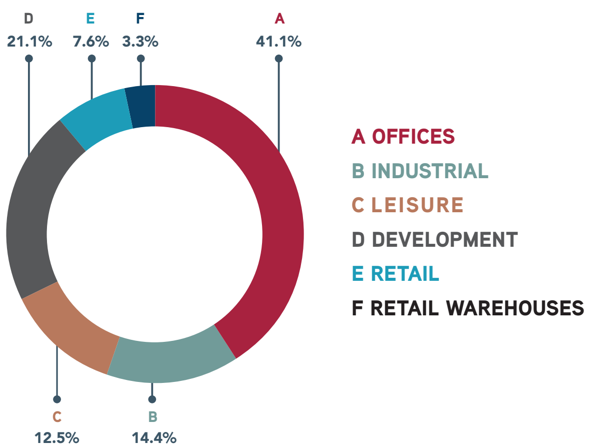
FUTURE INCOME UPSIDE

Rent vs ERV (psf)



Rents are at sustainable levels across the portfolio with reversionary potential in the office and industrial sectors, the majority of which can be captured through letting vacant space. This will be a priority over the course of the next year. Supply-demand dynamics support current regional rental levels which we are well positioned to take advantage of, as evidenced by our track record.

Sector Split



AVONMOUTH - POINT FOUR INDUSTRIAL ESTATE

Property Review CONTINUED

HUDSON QUARTER, YORK

In April 2021, we reached practical completion of this mixed-use development. The decision to commence construction over two years ago for 127 high-end residential apartments as well as 39,000 sq ft of Grade A speculative offices was not taken lightly. We were confident in the market and chose a high quality design and specification. The contractor, Caddick Construction, managed to continue throughout the lockdown/restrictions and implemented a full socially-distanced programme to ensure workers were fully protected. Feedback from prospective buyers is very positive, especially highlighting the quality of the build and the overall design and its compatibility to York heritage. The buyers range from first time buyers to downsizers and investors who are both domestic and international.

Following the onset of the pandemic we adapted the development to ensure it met the demands for people to be able to work remotely, and as part of this we have now incorporated an external shelter with benches and a wi-fi hotspot in the manicured gardens.

In February 2020 we announced a pre-let to a subsidiary of Knights plc of the ground floor self-contained suite of 4,781 sq ft. This was for a 10-year unbroken term at a record rent for York of £25 per sq ft. The lease has now completed, and the tenant has commenced their fit out. Interest in the remainder of the office space has increased as restrictions have eased. We anticipate that occupiers will have a clearer idea of future working habits for their employees in the coming months and this will inevitably result in further lettings.

THE FUTURE OF THE OFFICE

Covid-19 has caused some to question the validity of the office and during the year there have been various studies and surveys reporting a wide spectrum of opinions. Our conclusion is that working from an office in the standard way (every day from 9.00am to 5.00pm) is likely to evolve. The last year highlighted that "working from home" is an option but not a replacement for an office environment. Collaboration is key in any industry and the office will likely remain the common space necessary to produce peak performance.

We continue to invest in our office holdings. During the year seven new lettings were secured at our assets in Manchester, Newcastle, Leeds, Liverpool and Brighton. These lettings were at 11.1% above the independent ERV and generated an additional £0.5m per annum. We believe that the amount of space that will be required in the future is unlikely to fall but how the space will be used is under review. As businesses return to the office, evolved working practices will become the norm. We believe there will be three key considerations that new and existing tenants will prioritise: connectivity, adaptability and flexibility.


VERWOOD (BEFORE)
VERWOOD (AFTER)

CONNECTIVITY, ADAPTABILITY AND FLEXIBILITY

Occupiers require flexible leasing, a trend that was underway prior to the pandemic but which is now much more relevant. Occupiers are currently wary of long-term commitments when further restrictions cannot be ruled out and while the balance between open-plan collaborative space and cellular offices remains in flux. Reflecting this demand and also taking into consideration our medium-term refurbishment and redevelopment plans, over 50% of the office lettings agreed during the year, were granted on flexible lease terms.

With changing working habits as well as unknown long-term social distancing requirements, occupiers will lease high quality, well located space that they can adapt at the right cost. This relates to desk organisation, breakout areas, quiet spaces and even areas where connectivity is limited to prevent interruption. In Newcastle, where we have completed the refurbishment of 20,000 sq ft, we have worked closely with our local advisors to show how spaces can be adapted to changing occupier requirements.

Connectivity has never been more in demand. Over four years ago we started working with WiredScore to show potential occupiers our offices could be accessed quickly. In 2019 we engaged with Backbone Connect and began installing the infrastructure required, as well as providing tenants with a cost-effective option for connectivity. We continue to improve the IT infrastructure across our portfolio and are always looking for new ways to separate our buildings from the competition.

It is worth noting that regardless of the above, the fundamental aspect of any property investment is its location. Maintaining a focus on well-located offices in university towns and city centres with good transport links will remain the notable parameter in achieving benchmark beating returns.

INDUSTRIAL AS THE SECTOR OF CHOICE

The industrial sector continues to be the sector of choice having consistently performed better than any other sector over recent years. Over the longer term, the outlook remains promising with demand continuing to outstrip supply and the pandemic having added further momentum to prevailing structural trends. 14.4% of our holdings are in this sector and where possible we will seek to increase our exposure as part of realigning the portfolio to a more core focus. During the year we have extended our income by 30.7% on previous rents through a combination of lease renewals and rent reviews. Overall, like-for-like valuations for this sector delivered 4.8% growth.

We have invested £0.15m at Saxon House in Kettering. The refurbishment of this 15,000 sq ft unit following a tenant vacating has improved the offering and since the year end we have agreed terms with a new occupier. In addition, following the refurbishment at Blackmoor Road Industrial Estate in Verwood, we have fully let the estate where the rental value for the units has increased from £5.25 per sq ft at acquisition in October 2017 to £8.10 per sq ft.

DISPOSAL PROGRAMME

As our Shareholders would expect, our portfolio is under constant review with assets that no longer meet our return requirement being identified for recycling. During the year we sold five assets for a total of £5.4m. These properties were sold at or above book value.

At least a further 15 properties with an aggregate value of more than £30m have been identified for potential disposal during this financial year. As a total return focused company, when the value of a property has been maximised through asset management, it is appropriate to consider its place in relation to the whole portfolio.

Since the year end the sale of 249 Midsummer Boulevard, Milton Keynes has completed for the sum of £5.7m which is a premium to book value. Contracts have also been exchanged for the sale of 43-45 High Street, Weybridge for £3.7m, also ahead of book value, with completion due by 1 July 2021.

Both of these properties were predominantly vacant and this is expected to provide savings of £0.35m per annum. Historically, we highlighted that Milton Keynes was a potential development opportunity. However, following extensive feasibility investigations we concluded the returns available were not in Shareholders' best interests. The sale of High Street, Weybridge concluded the process of obtaining planning permission for a new-build development.

ADAPTING OUR INVESTMENT STRATEGY

As we continue the disposal programme and the sales of the apartments in Hudson Quarter complete, we expect to recycle this equity into opportunities in the office and industrial sectors. We have adapted our strategy to reposition the portfolio towards a core focus, which we believe will deliver improving returns. Increasing the core portfolio and average lot size will further improve our income and the resilience of our dividend. The balance of the portfolio will then be focused on generating sector leading returns through value-add strategies.

As part of our continued focus on the office and industrial sectors we will be looking to exit from our holdings in the other sectors at an opportune time.

Since 2013, we have sold 31 commercial properties for £42.7m, of which 28 were completed at or in excess of book value, further improving the portfolio quality and income profile.

ACQUISITIONS

Due to the pandemic and in the interests of prudence, the Board and management took the decision to prioritise our cash position and therefore no acquisitions have been made during the year.

We are currently tracking investment opportunities and as equity is released from our disposal programme and Hudson Quarter, we will redeploy this, by applying our highly disciplined investment strategy, into regional commercial property.

SUSTAINABILITY

The increasing importance of identifying, monitoring and reporting relevant environmental, social and governance (ESG) information is critical to our ability to create future value and maintain a sustainable business. It is important that we are continuously reviewing our assets to see where positive changes can be made. It is also prevalent in any capital expenditure decision. Over the year we have collected data on how each building performs in relation to energy and water supply and use, waste collection and EPC rating. We have engaged with an external advisor and together with our managing agents this provides the basis on which we can improve our buildings performance over the longer term and future-proof the portfolio. Further information is provided on pages 48 and 49.

TOP 20 OCCUPIERS

Maintaining a relationship with all our tenants is fundamental to our core values. This ensures that our strategies for each property are current and adapt to changing tenant demands.

Our top 20 tenants contribute 44% of our total passing rent and over the period we collected 98% of their rent.

Tenant	Industry	Contracted Rent pa (£'000)
vue	Leisure	913
Rockwell Automation	Auto	544
ACCOR HOTELS	Hotel	510
LOTTERY FUNDED	Charity	444
brose	Auto	432
SOMERSET BRIDGE	Insurance	409
Wickes	Retail	401
exela TECHNOLOGIES	Technology	355
APCOA PARKING	Car Parking	345
D YOUNG & CO INTELLECTUAL PROPERTY	Legal	310
BRAVISSIMO	Retail	294
	Retail	291
Sutton	Local Authority	283
QUADRANT SYSTEMS	Aviation	280
	Health	262
BOOKER	Retail	246
serco	Public Services	246
	Construction	240*
	Central Bank	232
	Auto repair	227
	TOTAL:	7,264

*Headline rent payable from September 2021

RECOGNITION

In a fast-changing environment our asset managers, together with our external advisors, have risen to the occasion to ensure the Group continues to operate as seamlessly as possible.

Richard Starr
Executive Property Director
7 June 2021

Property Review CONTINUED

We are focused on the office and industrial sectors outside of London

We look to invest in regional commercial property where we can grow rental and capital values over the long term by actively managing our assets, and carefully deploying capital to deliver attractive total returns.

OFFICE

Overview

41.1% of our portfolio is in this sector and accounts for £7.9m p.a. in rent from 90 tenants in 25 buildings.

Investment summary

We continue to see rental growth in university towns and city centre locations close to public transport links and local amenities.

Top holdings by valuation at 31 March 2021

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

INDUSTRIAL

Overview

14.4% of our portfolio is in this sector and accounts for £2.5m p.a. in rent from 27 tenants in 10 buildings.

Investment summary

Last mile logistics continues to drive this sector. Customers want their products delivered quickly and this is leading many suppliers to seek distribution close to city centres. We see a continuation of this trend.

Top holdings by valuation at 31 March 2021

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

BOULTON HOUSE – MANCHESTER

LEISURE

Overview

12.5% of our portfolio is in this sector and accounts for £3.4m p.a. in rent from 20 tenants in two buildings.

Investment summary

Negative sentiment about structural changes to entertainment may be overstated. As Covid-19 related restrictions ease, most are eager to socialise with others and new concepts are replacing those brands that did not adapt. We predict this sector is over the worst.

Top holdings by valuation at 31 March 2021

- Broad Street Plaza, Halifax
- Sol, Northampton

RETAIL

Overview

7.6% of our portfolio is in this sector and accounts for £1.9m p.a. in rent from 42 tenants in seven buildings.

Investment summary

Our units are in good locations with a mix of local and national brands. We continue to work closely with our tenants to ensure that their businesses are able to trade.

Top holdings by valuation at 31 March 2021

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

RETAIL WAREHOUSE

Overview

3.3% of our portfolio is in this sector and accounts for £0.8m p.a. in rent from three tenants in two buildings.

Investment summary

A more resilient sector than had been anticipated during the pandemic.

Increased demand for everything other than fashion will drive improved returns for this sector.

Our holdings are located in the South East and we expect to see continued rental growth in the medium term.

Top holdings by valuation at 31 March 2021

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

CLAYTON INDUSTRIAL ESTATE – BURGESS HILL

Financial Review

TOTAL PROPERTY RETURN

1.0%

MSCI BENCHMARK: 1.2%

TOTAL SHAREHOLDER RETURN

38.5%

STEPHEN SILVESTER FCA
Chief Financial Officer

The Board is proposing a final dividend of 3.0p per share (2020: 2.5p)."

Stephen Silvester
Chief Financial Officer

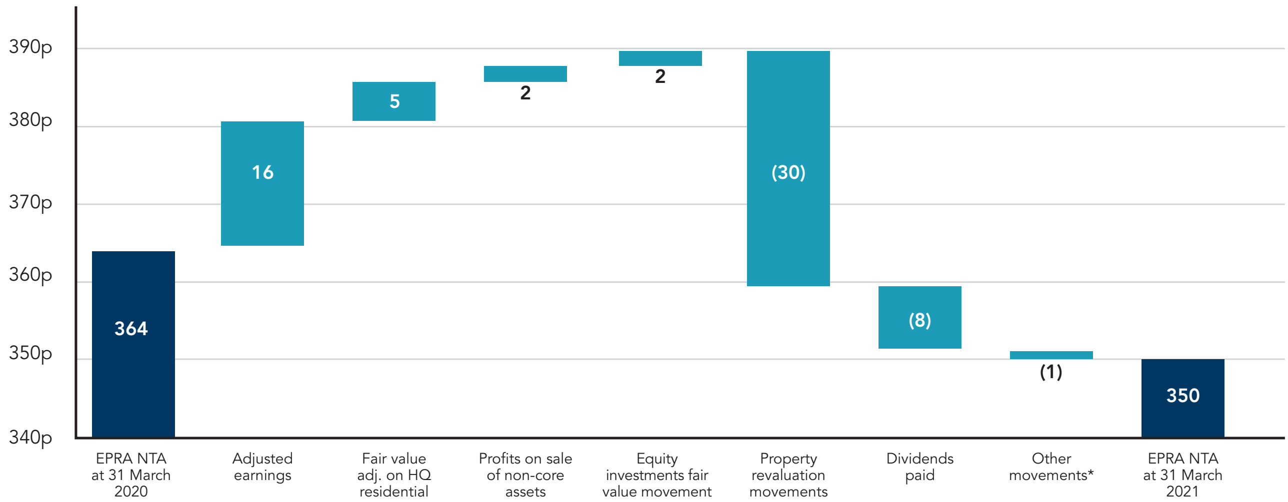
FINANCIAL HIGHLIGHTS

	2021	2020
Income growth		
IFRS loss after tax	(£5.5m)	(£5.4m)
Adjusted profit before tax	£7.5m	£8.0m
EPRA earnings	£7.2m	£10.8m
Basic EPS	(12.0p)	(11.8p)
EPRA EPS	15.7p	23.4p
Adjusted EPS	16.4p	17.5p
Dividend per share	10.5p	12.0p
Dividend cover	1.6×	1.5×
Capital growth		
Portfolio like-for-like value	(4.0%)	(5.7%)
Net Asset Value	£157.8m	£166.3m
Basic NAV per share	343p	361p
EPRA NTA per share	350p	364p
Total accounting return	(1.2%)	(7.5%)
Total property return	1.0%	1.1%
Total shareholder return	38.5%	(30.9%)
Debt finance		
Debt drawn	£128.3m	£120.8m
Average cost of debt	3.0%	3.1%
Average debt maturity	2.6yrs	3.9yrs
Loan to Value Ratio	42%	38%
Net interest cover	2.7x	3.5x
NAV gearing (see note 18)	74%	63%

HEADLINE FY21 RESULTS

In the year ended 31 March 2021, the Group generated recurring earnings of £7.5m (2020: £8.0m). The Group made a loss before tax of £5.5m (2020: £5.4m loss) with the unrealised decline in portfolio fair value of £14.0m being the main contributing factor, which offset the recurring earnings and also impacted the IFRS net asset value of the Group which was reduced by 5.1% to £157.8m (2020: £166.3m). This equated to a decrease in net asset value per share from 361p to 343p and EPRA NTA[1] per share of 350p (2020: 364p).

NET TANGIBLE ASSET BRIDGING CHART
EPRA NTA PER SHARE MOVEMENTS IN THE YEAR



* Other movements includes movement in treasury shares, cost of derivatives, debt termination costs, and the effect of increased number of shares in the year.

RENT COLLECTION AND CASH COVERED DIVIDEND

In the year to 31 March 2021, the Group was able to collect over 95% of rents due. This was despite the economic impact of Covid-19 on businesses across the country and the resultant Government moratorium limiting landlord's ability to enforce rent collection from tenants. In addition, there was significant support provided to tenants totalling £1.1m via rent concessions and rent deferrals, regearing leases to provide rent-free periods to tenants and payment plans to help tenants manage their cashflow.

	Quarter starting Mar-20 £m	Quarter starting Jun-20 £m	Quarter starting Sep-20 £m	Quarter starting Dec-20 £m	Year ended 31 March 2021 £m
Total Demanded	4.3	4.3	4.3	4.2	17.1
Total Collected	3.9	3.8	3.8	3.7	15.2
Concessions/Deferrals	0.3	0.3	0.2	0.3	1.1
Outstanding excl. payment plans	0.1	0.2	0.3	0.2	0.8
Current collection rates	96%	95%	95%	93%	95%

As a result of strong cash collection, we recommenced dividend payments from August 2020 and cash-covered quarterly dividends have continued to be paid throughout the year since. The final dividend of 3.0p has been proposed and once approved at the Annual General Meeting on 29 July 2021, will mean total dividends paid for FY21 of 10.5p, cash-covered and at a sustainable level.

TOTAL RETURN OUTPERFORMANCE VS MSCI BENCHMARK

Notwithstanding the Covid-19 pandemic causing significant economic disruption in the past year, the Group has fallen only slightly behind the MSCI benchmark on a total property return basis by 0.2% for the year. This is largely a result of the benchmark's higher exposure to the industrial sector. The total return was 1.0% versus the benchmark performance of 1.2%, made up of an income return of 6.9% for the year and capital return of -5.7%. This is a key performance indicator for the Group and over a three-year period we continue to outperform the benchmark by 4%. As with any property cycle, property valuations can rise and fall; however, the Group's business model, focused on the regions outside London, continues to deliver relative outperformance over the longer term.

COVID-19 IMPACT ON UNREALISED PROPERTY VALUATIONS

The movement in the values of 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 based on an arm's length transaction. The investment portfolio valuation was not immune to the challenges posed by the Covid-19 pandemic, with the overall value of the portfolio reducing by £14.0m. The like-for-like valuations at year end were down 4.0% as a result.

DEBT FINANCING

It has been critical that in the current environment the Group continued to be in a strong financial position and well placed for the economic uncertainty to be encountered during the year. We have maintained a conservative capital structure with a loan to value (LTV) of 42% (2020: 38%). The increase in LTV was expected as progress at our flagship development Hudson Quarter, York entered the final year, and the Group increased the monthly drawdowns on the development facility. We expect to reduce our LTV over the next few months as we continue to complete further sales at Hudson Quarter and repay the development loan.

Our total cost of debt reduced to 3.0% (2020: 3.1%) in the year. There have been no new debt facilities in the year. There is the capacity to draw an additional £5m from the RCF and beyond that the facility to charge additional assets and access funds on a 50% LTV basis.

The Group's debt facilities at year-end total £128.3m (2020: £120.8m) The only loan to mature within one year is the development loan with Barclays, this was extended post year end to July 2022 and will be reduced to a maximum of £2.0m by 31 March 2022, if not repaid earlier. The average debt maturity on the investment facilities has decreased to 2.6 years (2020: 3.9 years) and there are no investment facilities due for refinancing in the next 12 months. We continue to monitor swap rates and as at year end held £62.6m of fixed or hedged debt which was approximately 49% of overall debt drawn.

DEBT

	Fixed	Floating	Total drawn	Years to maturity
Barclays	34.3	3.7	38.0	3.2
NatWest	–	28.6	28.6	3.4
Santander	19.0	6.3	25.3	1.3
Lloyds	–	6.8	6.8	1.9
Scottish Widows	9.3	–	9.3	5.3
Barclays development	–	20.3	20.3	0.8
	62.6	65.7	128.3	2.6

DEBT COVENANT MANAGEMENT

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.

The Covid-19 pandemic has continued to have a major impact on business operations over the past 12 months, especially with rent collection challenges and debt covenants, particularly the interest cover ratio (ICR) and debt service ratio (DSC) coming under pressure on facilities charged to the two leisure schemes. As a result, we obtained covenant waivers from our lenders to manage through the periods where concessions or rent deferrals have been agreed with tenants.

Additionally, during the year the Group made a one-off repayment of £4.1m to reduce the Scottish Widows loan balance in order to cure the LTV covenant following an updated bank valuation in January 2021. The lender has continued to provide a covenant waiver with an expectation that as lockdown eases and tenants return to premises and recommence contractual rent payments, the facility will return to covenant compliance.

There was also an adjustment to the Barclays development facility after the year end to extend the termination of the loan until July 2022 and convert the sales milestones into a debt repayment schedule, given the slower progress made on sales at Hudson Quarter than originally forecast prior to Covid-19. This builds flexibility to repay the loan through both sales proceeds and equity into the facility.

SHARE PRICE RECOVERY

Since the significant reduction in the share price in March 2020 as a result of Covid-19, the stock market has rallied and specifically the Palace Capital share price has recovered from a low of 170.5p to a 31 March 2021 year-end share price of 236p, an increase of 38%. This has contributed to a total shareholder return for the year of 38.5% (FY20: (30.9)%), however there remains a significant share price discount of 33% to EPRA NTA as at the year end and given the conservative capital structure and strong rent collection during the year, it remains a key focus for the Company to exercise those opportunities available to us which can support a narrowing of the discount.

EARNINGS

The gross income for the Group totalled £17.3m in the year ended 31 March 2021 (2020: £21.1m) and net rental income was £14.9m (2020: £18.8m). The reduction in income was a result of some vacancy within the portfolio and we provided £0.9m in addition to last year's provision against rental income and service charge arrears under the expected credit loss model, as required by accounting standard IFRS 9. Due to Covid-19 we adopted a prudent approach based on a risk analysis of collecting outstanding rent due from tenants. This was carefully reviewed by our management team and the Audit & Risk Committee due to its judgemental nature. However, as the economy recovers, any subsequent collection of these arrears we would write back to the income statement and recognise as reversal of expected credit loss in the next financial period.

Void property costs were £1.3m in the year (2020: £2.2m), with the reduction due to business rates refunds of £0.4m being received, as well as letting of vacant space, disposal of assets with vacant space and general reduction in costs throughout the year. Administrative expenses (excluding share-based payments) decreased by 2.6% to £4.0m (2020: £4.2m). This was largely due to a reduction in costs as part of management's response to Covid-19. The employee numbers remained stable throughout the year and, including the Board, totalled 16 people (2020: 17) at the balance sheet date. Finance costs reduced 13% to £3.3m (2020: £3.8m) driven mainly by the LIBOR rate reducing in the year. There were £0.1m of debt termination costs resulting from writing off loan arrangement fees in the period. Average cost of debt reduced to 3.0% (2020: 3.1%).

DIVIDENDS

Despite the uncertain economic environment, the Board made the decision to reinstate continuous quarterly dividends in the year as a result of the strong rent collection and the strength of the Group's balance sheet. Subsequently, the Board is recommending a final quarterly dividend of 3.0p per share to be paid 5 August 2021 to shareholders registered at the close of business on 2 July 2021. The full year dividend, when taking account of the quarterly dividends paid in October 2020, December 2020 and April 2021, will total 10.5p, representing a 4.4% yield on the share price at 31 March 2021 and ensuring the dividend is covered by earnings by 1.6x. We expect the final dividend to be the minimum level of dividend to be paid to Shareholders each quarter for the year ending 31 March 2022.

INCOME STATEMENT SUMMARY

	FY21 £m	FY20 £m
INCOME STATEMENT		
Adjusted profit after tax	7.5	8.0
Surrender premium & share based payments	(0.3)	2.8
EPRA earnings	7.2	10.8
Revaluation losses	(14.0)	(17.9)
Equity investment revaluation profits/(losses)	0.7	(0.4)
Profits/(losses) on disposals	0.9	(0.2)
Hedging and derivative losses	(0.2)	(0.9)
Debt termination costs	(0.1)	(0.5)
Deferred tax REIT adjustment	–	3.7
IFRS loss for the year	(5.5)	(5.4)

The Group generated an overall IFRS loss after tax of £5.5m (2020: £5.4m loss) for the year ended 31 March 2021. EPRA earnings is the industry measure of underlying profit excluding revaluation gains, profits on disposals and exceptional items. EPRA earnings for the year totalled £7.2m (2020: £10.8m), a reduction of 8.6% when stripping out a one-off £2.9m surrender premium received last year. The Group also reports an adjusted profit before tax to track recurring earnings and to form a basis for calculating dividend cover. This totalled £7.5m for the year (2020: £8.0m), down 6.3% with adjusted earnings per share decreasing to 16.4p from 17.5p.

5 YEAR DIVIDEND RECORD

	FY17	FY18	FY19	FY20	FY21
DIVIDENDS					
Adjusted EPS	22.2p	21.2p	17.3p	17.5p	16.4p
DPS	18.5p	19.0p	19.0p	12.0p	10.5p
Dividend cover	1.2×	1.1×	0.9×	1.5×	1.6x

HUDSON QUARTER YORK DEVELOPMENT

The flagship development at Hudson Quarter, York was completed on 20 April and on budget. Since then 33 unit sales have been completed totalling £9.3m, the proceeds of which have been utilised to pay down part of the development loan which was standing at a balance of £20.3m at year end. We now have brand new Grade A office space totalling 34,000 sq ft available to let, which is expected to have a significant positive impact on income and capital returns for the business.

WORKING CAPITAL

The Group continues to execute a conservative approach to cashflow and managing debt covenants. Rent collection has been prioritised and dividends maintained at a cash covered level to ensure surplus capital is available to support capital expenditure projects such as property refurbishments to let vacant space, which will deliver future income and capital growth for the business. Gearing levels have risen to 42% (2020: 38%) as a result of Coronavirus-related property valuation declines and more specifically, debt drawdown to fund the Hudson Quarter, York development. LTV will reduce as residential apartments continue to be sold, having reached practical completion in April 2021.

There were sufficient cash reserves of £9.4m at year end, with a further £5m available to drawdown from the revolving credit facility. Our disposal programme currently in progress is also expected to release further funds into working capital as the new financial year progresses. Please see the going concern note on pages 39 and 40 for further details.

NON-CORE DISPOSALS

We continue to recycle capital out of non-core and vacant properties with limited growth potential which do not support our business strategy. Five properties were disposed of in the period for a total consideration of £5.4m, representing a profit on disposal of £0.9m (2020: £0.2m loss). Post-year end we have agreed the sale and exchange of a further £9.4m of disposals.

ALTERNATIVE PERFORMANCE MEASURES

The Group's financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative performance measures ("APMs"), being financial measures which are not specified under IFRS, are also used by the Directors to assess the Group's performance, and 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.

TAXATION & REIT STATUS

The Group entered the UK REIT regime on 1 August 2019 and all the Group's property rental operations became exempt from UK corporation tax from that date. The exemption is subject to the Group continuing to comply with the UK REIT rules, which was the case all year. During the period, the Group did not recognise any corporation tax, as all income fell within the tax-exempt business.

OUTLOOK

As we continue to progress with the government roadmap out of lockdown, we expect most of our tenants to resume full trading and our rent collection to return to pre-pandemic levels. As sales of residential flats at our flagship Hudson Quarter development continue, this will further support our conservative capital base and release surplus funds for redeployment once the debt has been repaid. We have sufficient liquidity to support the growth of the business and deliver on its objective to drive income and capital growth, and to outperform the MSCI benchmark on a Total Property Return basis.

We have proposed a final dividend of 3.0p on a cash-covered basis and, all things being equal, we expect to maintain a minimum level of 3.0p per quarter going forward.

Stephen Silvester
Chief Financial Officer

7 June 2021

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 and uncertainties.

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 review, at least annually, the effectiveness of the Company's system of risk management and internal control.

COVID-19

A number of risks are heightened as a result of the Covid-19 pandemic. As the uncertainty surrounding the pandemic increased during the year, we paid particularly close attention to our tenant exposure and the macroeconomic environment. The Board held a conference call every two weeks during the initial stages of the pandemic where it discussed rent collection, compliance with banking covenants and its overall approach to tenant engagement.

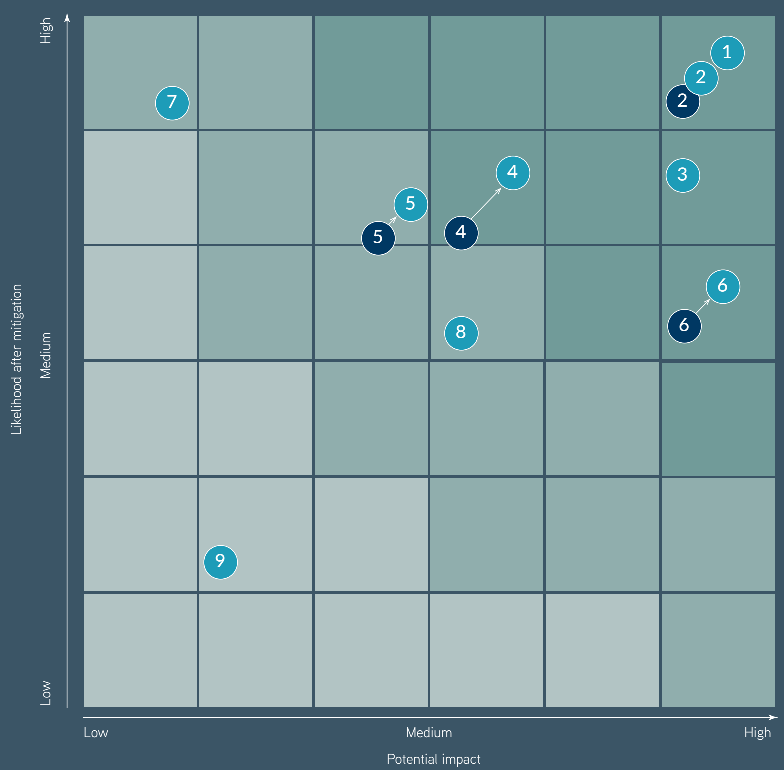
All sectors of the commercial property market were impacted in one way or another, not only affecting our business, but those of our tenants and suppliers. In most cases Covid-19 has increased either the impact or the probability of risks already identified on the Risk Register, as well as being a risk in its own right. The Board has therefore added Covid-19 and Future Pandemics as a new principal risk. More information on our response to the pandemic can be found on pages 8 and 9 and we continue to monitor the rate of infections and / or new variants as an emerging risk.

EMERGING RISKS

A prolonged fall-out from Covid-19, new variants or further pandemics may lead to further imposition of controls on the movement of people and interruption of large parts of the economy for a significant period. This could result in further economic disruption with continued uncertainty, reduced market confidence, volatile market valuations and pressure on our rental income.

Cyber threats, technological advancements and the potential impact on operations are increasing for all businesses and were further heightened as working from home became 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. Demand for sustainable buildings is increasing across all stakeholder groups with evolving regulation in the built environment. The Board's ESG Committee is tasked with overseeing the Group's response to climate change and further information can be found on pages 46 to 49.



RISKS	CHANGE
1 Covid-19/Pandemics	New
2 Economic and Political	↑
3 Development	→
4 Tenant	↑
5 Portfolio	↑
6 Financing and Cash Flow	↑
7 Accounting, Tax, Legal and Regulatory	→
8 Operational	→
9 People	→

March 2020 March 2021

GOING CONCERN STATEMENT

The Directors regularly assess the Group's ability to continue as a going concern. The Strategic report sets out in detail the Group's financial position, cash flows, liquidity position, borrowing facilities and the factors which will affect future performance. Given the ongoing economic disruption caused by the Covid-19 pandemic, the assessment of the Group's ability to continue in operation has been undertaken, with due consideration given to the Group's cash resources, borrowing facilities, rental income, acquisitions and disposals of investment properties, committed capital expenditure and dividend distributions.

DOWNSIDE SCENARIO

The Directors have considered various downside scenarios in assessing the Groups' ability to continue as a going concern. Sensitivity analysis and reverse stress testing were undertaken on all these scenarios, to assess the impact on the business and in particular the loan covenants.

The downside scenario assumptions used in the assessment included:

- Further government intervention and a subsequent reduction in rent collection.
- Sales progression at our completed Hudson Quarter development in York is significantly reduced.
- We are unable to execute our disposal strategy.
- Cash reserves are used to repay debt/cure bank facilities covenants.

LIQUIDITY

At 31 March 2021 the Group had £9.4m of cash and cash equivalents with a further £5m available to drawdown from the NatWest RCF. The fair value of our property portfolio is £282.8m, with £128.3m debt drawn at the 31 March 2021 with net assets of £157.8m. The Group restored quarterly dividends in the year, fully covered from rental income. The Group maintains a conservative level of gearing, albeit at year-end Group loan to value (LTV) totalled 42% due to being in the final stage of construction at our Hudson Quarter development and prior to receiving proceeds from residential apartment sales. There is a clear sales strategy at Hudson Quarter, York which is expected to deliver significant cash into the Group above and beyond repayment of the development loan with Barclays. Along with the portfolio-wide strategic disposal programme for assets which we have completed asset management initiatives on, we expect to significantly reduce Group LTV and enhance cash reserves.

RENT COLLECTION

We collected on average 95% of rent (excluding concessions and deferrals) for the period to 31 March 2021. This was extremely positive, and the Directors are confident this will improve as lockdown restrictions are eased and our tenants become fully operational and all resume paying rent when it falls due. We have offered £1.1m of rent concessions and deferrals in the year, showcasing how we have supported our tenants, and often in return we have extended leases, adding more certainty to future cash flows. Payment plans have been agreed with tenants largely focused in our two leisure schemes which were closed for much of the year in order to support tenants through a challenging time, but with timing agreed for the recovery of arrears.

DEBT COVENANTS / STRESS TESTING

Our lenders have remained supportive during the past year, remaining pragmatic and sympathetic of the current economic climate. We continually assess our rent receipts and outstanding arrears. We engage with our lenders ahead of potential breaches in covenants based on our continuous review of our covenant headroom.

All non-leisure assets remained covenant compliant in the year with significant headroom. However, Covid-19 and multiple government-enforced lockdowns had the most significant effect on our two leisure schemes in Halifax and Northampton. Tenants in these schemes have been unable to operate for much of the year which led to rental payments being withheld. The result was the Group required debt covenant waivers with both Scottish Widows and Santander during the year due to not satisfying the ICR and DSC covenants. In addition, the Company agreed to repay £4.1m of debt owed to Scottish Widows following an updated bank valuation in order to rectify the LTV. Looking forward, we expect to remain compliant on all our debt covenants over the next 12 months, based on our base case cash flow forecast.

As at 30 April 2021, the Group owed £20.4m on the Barclays facility relating to our Hudson Quarter development. Lockdown and closures of the marketing suite slowed the rate of residential sales at Hudson Quarter, York in the year and subsequently the debt repayment plan has been amended with Barclays to allow for the delayed timetable. It was agreed that the facility be reduced to £9.5m at 26 May 2021. The Group had £10.1m of agreed completions and exchanges on account, excluding deposits and reservation fees already received and paid to Barclays. The subsequent debt balance stood at £10.3m, the Group therefore funded £0.8m of the repayment from cash reserves to meet the £9.5m milestone. At 26 May we had £3.6m of residential units under offer, of which £0.3m have exchanged as at 7 June. When the remaining units have exchanged, we will meet the September 2021 milestone to reduce debt by a further £2.5m. Interest has picked up as lockdown eases, which will ensure we remain on track to repay the debt in line with the agreement which amounts to £2.5m at each quarter end date from September 2021 until it is fully repaid in June 2022. Under the downside scenario, we modelled a reduction in forecasted sales, and we should still meet our debt obligations. However, we have sufficient capital within the Group to fund any shortfall if required.

The going concern assessment of debt covenants considered the prospect of the downside scenarios stated above. The Directors undertook reverse stress testing to confirm the resilience of the covenants, including a significant reduction in rental income and 75% of tenants vacating on break clauses and 85% vacating on lease expiry. Given the two leisure schemes have had covenant issues in the past 12 months, two scenarios were modelled to assess the impact on the covenants, especially ICR. We considered the credit rating and financial position of key tenants as part of the exercise and the potential impact they could have on the loan covenants. We stress tested a 25% reduction in rental income but assumed our largest tenants at each scheme would continue to pay under their payment plans. We also stress tested if the largest tenant did not pay rent for 12 months and other tenants paid their rent and what impact this would have. The resulting covenant forecast reduces the ICR headroom but the Directors' forecasts continue to show sufficient headroom to meet the loan covenants.

Risk Management CONTINUED

We have significant headroom on our LTV covenants tests, meaning if values fell 20% we would only need £3.5m to cure any breaches across the debt portfolio. The Lloyds facility has the lowest headroom of 7.6%, which means the value would need to fall by £0.9m. Under the downside scenario, we have modelled a disposal of the assets within the Santander and Lloyds facilities to repay the bank. The debt is due to be repaid within the viability period though outside the going concern period. The Directors' note that excess capital would be released into the Group working capital as the current asset values are 96% higher than the related debt of £32.0m. This was based on both facilities maturing within the viability period and a refinance from both banks not forthcoming.

Should we breach any of our loan covenants, our working capital model provides evidence that the Group has sufficient capital to cure any loan breach without lender support through covenant waivers. The Group can also access additional capital through liquidating various assets which are not secured to lenders though this remedy is not required in the stress test sensitivities undertaken.

The material uncertainty related to property values has been removed from valuers in this valuation period. This gives the Board reasonable comfort that there will not be a significant short-term outward yield shift which will adversely affect property valuations. However, if the economy does not respond positively as we come out of lockdown, adverse market sentiment could have an impact on market values.

GOING CONCERN STATEMENT

Based on the analysis undertaken of the reasonable downside scenarios and the subsequent sensitivity analysis and stress testing, the Group has sufficient liquidity to meet its ongoing liabilities that fall due over the assessment period. Great consideration has been given to the impact on our liquidity, loan covenants and the mitigating actions available to the Group to ensure that the Company has adequate resources to continue in operational existence for a period of at least 12 months. Given the market information available, the Directors are not aware of any material uncertainty that exists that may cast doubt upon the Group's ability to continue as a going concern. As a result, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code and taking into consideration the continued impact of 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's assessment of the Group's viability for the next three years has been made with reference to:

- The impact on the Group of the Covid-19 pandemic and the mitigation strategies used to contain the pandemic including the use of restrictions, the success of the vaccination programme and resulting impact on the economies in which the Group operates and our tenants' ability to operate and meet their rental obligations.
- The key principal risks of the business and its risk appetite.
- The Group's long-term strategy.
- The impact on business operations, mainly rent collection and progress on residential sales at Hudson Quarter, in the event of a downturn in the economy.
- The Group's current position and its ability to meet future financial obligations to remain covenant compliant.

ASSESSMENT OF REVIEW PERIOD

The Board considers a period of three years to be appropriate over which to assess the long-term viability of the Company 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.
- This is the period in which the investment team assesses individual asset performance.
- Office refurbishments completed to date have taken less than 12 months.
- The Group's weighted average debt maturity at 31 March 2021 was 2.6 years.
- The Group's WAULT at 31 March 2021 was 4.8 years.

STRESS TESTS & DOWNSIDE

The Directors have undertaken a robust scenario assessment of the principal risks which could threaten the viability or the operational existence of the Group. As part of the downside modelling, we reverse stress-tested our working capital model and cash flows to understand the impact of our principal risks including the continuation of Covid-19 affecting the ability of our tenants to pay rent, meet our debt covenants, execute our sales strategy at our completed development and refinance our debt facilities.

The Group's downside forecasts and projections took into consideration a) reasonable potential reduction in rent collection from tenants with increased number of tenants vacating at lease break and expiry; b) a reduction in forecasted residential sales at our completed developments; c) reverse stress testing of the Group's debt facilities and liquidity headroom; and d) our ability to refinance our Santander and Lloyds facilities during the viability period.

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 based on the scenarios above. If there was an economic downturn, ICR, DSC and LTV covenants could come under pressure. If covenant waivers were not obtained for a covenant breach, we would utilise cure rights and use additional liquidity if available. The Directors have considered further actions that could be taken to mitigate any negative cash flow impact and ensure additional liquidity. The Directors have assumed we would be unable to refinance the Santander and Lloyds facilities due to mature within the viability period. We would therefore dispose of the assets modelled at a 20% discount, repay the bank debt which would release substantial capital into the Group to help mitigate against other downside scenario impacts. As a result, the Company will continue to operate in accordance with its existing bank covenants with a smaller property portfolio.

CONFIRMATION OF VIABILITY

Having assessed the current position of the Group, its prospects and principal risks and taking into consideration the assumptions stated above, the Board 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.

KEY

L Low M Medium H High ↑ Increase ↓ Decrease ↔ Stable

01 (NEW RISK) COVID-19 / FUTURE PANDEMICS

Risk description

The Covid-19 pandemic has created economic disruption and continued uncertainty, which could have a prolonged impact on collecting rental income and property valuations.

The acceleration of recent trends, changing occupier needs and the impact of Covid-19 on our tenants' businesses will affect our ability to retain tenants and let our vacant space, and may require further investment and capital expenditure into the portfolio.

Mitigation

- Ability to mobilise quickly and proactively to any new outbreak.
- Can reduce or pause all but essential capital expenditure.
- Undertake regular risk reviews of each one of our tenants.
- Dispose of or charge assets in order to increase the Group's cash reserves.
- Monitor market trends and the impact on the sectors where we have significant holdings.

Progress 2020/2021

- 95% rent collected over the 12 months ending 31 March 2021.
- Stress tested our budgets and cashflows and updated our scenario modelling to include the potential impact of the pandemic.
- Hudson Quarter development re-programmed to manage supply chain issues and labour delays.
- Capital expenditure projects recommencing in light of cashflows available and sufficient working capital.
- Identified a significant number of lower performing assets with reduced growth prospects which will inform our longer-term disposal strategy.

Risk Rating & change in the period

Probability	Impact	Change
H	H	↔

02 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 2020/2021

- Our budgets reflect the current trading conditions, and the Board continues to closely monitor the ongoing pandemic situation.
- The trade agreement with the EU has alleviated some of the concerns associated with Brexit.
- Underlying government support for regional development initiatives bodes well for the markets in which we operate.

Risk Rating & change in the period

Probability	Impact	Change
H	H	↑

03 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.

Health, safety and environmental events that may cause injury to persons and damage or disruption to development operations.

Mitigation

- The Group's Capital Risk Management Policy limits development expenditure to <25% of Gross Asset Value.
- Core portfolio generates sustainable cash flows.
- All developments require Board approval and are modelled and financed appropriately to minimise risk and maximise return.
- A competitive tender process is undertaken, and contractors are assessed for financial stability. Design and build contracts are utilised where possible.
- Project managers are utilised to closely monitor the design, construction and delivery of the project in a safe and secure manner.

Progress 2020/2021

- Completed £33.6m construction contract in respect of Hudson Quarter.
- Principal contractor appointed with proven track record and strong safety credentials.
- Development pipeline continuously assessed to ensure exposure is limited at any one time.
- Working capital utilised where sales milestones were not achieved.

Risk Rating & change in the period

Probability	Impact	Change
M	H	↔

Risk Management CONTINUED

KEY

L Low M Medium H High ↑ Increase ↓ Decrease ↔ Stable

04 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.

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 2020/2021
- Total number of tenants across portfolio: 182 making up contractual rent roll of £16.4m.
- Loss of income from tenant administrations and CVAs totals £0.2m, which is 1.1% of portfolio contractual income.
- Portfolio weighted average lease length is 4.8 years providing reasonable longevity of income.
- Rent concessions have been agreed with those tenants who have needed the most support during the pandemic, usually in return for a lease extension.

Risk Rating & change in the period

Probability	Impact	Change
M	M	↑

05 PORTFOLIO

Risk description
Decreases in portfolio valuation, volatile rental values and general underperformance of assets through inappropriate investment strategies, failure to implement asset business plans and failure to respond to climate change will adversely impact profitability, our ability to attract new tenants and may render assets obsolete.

Mitigation
- Diversification of portfolio minimising exposure to any one geography or sector with no exposure to London.
- All major investment decisions require Board approval.
- Experienced management team with vast experience, networks and use of advisors to support the assessment of investment opportunities.
- Sustainability and ESG considerations are embedded within asset management business plans.
- Independent valuations are undertaken for all assets at the year end and half-year end.
- Property returns are benchmarked against MSCI IPD index and performance against the benchmark is reviewed formally at the year end and half-year end.

2020/2021
- 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.
- Valuations are down on a like-for-like basis.
- New ESG strategy seeks to further embed ESG considerations within the Group's business with a clear set of process improvements.

Risk Rating & change in the period

Probability	Impact	Change
M	M	↑

06 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.

Mitigation
- Close relationships with 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 adequate cash balances and where necessary we will defer capital expenditure projects in order to reduce loan balances if LTV covenants come under pressure.

Progress 2020/2021
- Charged Bank House to the NatWest RCF, providing £5m additional capacity.
- The Group's weighted average debt maturity is currently 2.6 years.
- The Group's LTV has increased from 38% to 42% during the last 12 months but is expected to return to the Company's target range of 30-40% in the next financial year as the York development is sold down and debt repaid.
- Repaid £4.1m of Scottish Widows loan against the Broad Street Plaza, Halifax leisure scheme.

Risk Rating & change in the period

Probability	Impact	Change
M	H	↑

KEY

(L) Low (M) Medium (H) High (↑) Increase (↓) Decrease (↔) Stable

07 ACCOUNTING, TAX, 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

- Key advisors including Auditors, Solicitors and Brokers are engaged on key regulatory, accounting and tax issues.
- 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 2020/2021

- Greater level of scrutiny from the Board covering corporate governance and reporting requirements of a premium listed company.
- 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.

Risk Rating & change in the period

Probability	Impact	Change
H	L	↔

08 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.

2020/2021

- Business interruption processes well tested following the move to working from home.
- Continued to keep under review the internal control environment and ensure good governance practices are adopted throughout the business.
- Cyber security arrangements kept under review 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 ESG Committee.

Risk Rating & change in the period

Probability	Impact	Change
M	M	↔

09 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 Nominations 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.

2020/2021

- Headcount stabilised with sufficient cover if any key personnel are unavailable.
- Workforce Advisory Panel continues to enhance employee engagement and ensure the Board understands the views of the whole workforce.
- The health, safety and wellbeing of our staff has been a priority in our response to the pandemic. We have supported employees as they worked away from the office and put in place processes for a safe and orderly return.

Risk Rating & change in the period

Probability	Impact	Change
L to M	L to M	↔

Section 172 Statement

01 INVESTORS

Why we engage

Our investors rely on us to allocate their capital wisely, grow the business and deliver attractive returns. We rely on their continued support.

How we engage

- Established investor relations programme with bi-annual presentations conducted virtually this year.
- Shareholders are able to attend the Company's AGM where they can question Directors and vote on matters put to the meeting.
- Regular trading updates and announcements to the market regarding performance.
- Capital markets days coupled with opportunities to visit our properties.
- Continuous monitoring of holdings with regular Shareholder analysis and review.

Key interests

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. They are increasingly holding companies to account in relation to ESG matters.

02 TENANTS

Why we engage

Our business is focused on our tenants, we must understand how their needs are changing and ensure we continually adapt to meet their demands.

How we engage

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.

Key interests

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

Why we engage

Our employees are vital to our continued success and as a small team we encourage a positive contribution from each and every individual.

How we engage

- Weekly team meetings.
- Regular internal communications.
- Team strategy days.
- Formal Workforce Advisory Panel.
- Team-building events.
- Participation in employee share schemes.
- Annual performance appraisals.

Key interests

Our employees value an open and positive working environment. They want work that is both challenging and interesting and provides continual professional development, as well as a package that provides valuable benefits and reward coupled with a work environment that is modern and fit-for-purpose.

04 SUPPLIERS, AGENTS AND CONSULTANTS

Why we engage

We rely on a number of key partnerships to support our property and facilities management and help deliver our overall strategy.

How we engage

We actively engage with our suppliers and work closely with them:

- Weekly meetings 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.

Key interests

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

Why we engage

We must be mindful of the impact our operations have on local communities and the environment.

How we engage

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.

Key interests

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.

HOW STAKEHOLDER INTERESTS HAVE BEEN CONSIDERED WITHIN KEY STRATEGIC DECISIONS

The most significant issue that the Board has had to consider over the past 12 months has been the impact of Covid-19 on the business and our response to it. This has led to a range of discussions and decisions which may affect our stakeholders and the need to balance their interests while promoting the success of the Company for the benefit of its Shareholders.

The following summaries demonstrate how the Board has had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006 as part of its significant strategic decisions.

READ MORE ABOUT THE BOARD'S ACTIVITIES AND SIGNIFICANT DECISIONS ON PAGES 60 AND 61

SUSPENSION AND REINSTATEMENT OF DIVIDEND

On 2 April 2020, the Board announced its decision to cancel the third quarter dividend for the year ending 31 March 2020. Following this, and having carefully considered the Company's liquidity position and positive rent collection in the first quarter of the year, the Board proposed a final dividend of 2.5p, bringing the total dividends for the year ended 31 March 2020 to 12p. The Company has continued to pay a prudent quarterly dividend of 2.5p which has been fully covered by earnings. Having regard to the Company's financial position and balancing the need to provide attractive returns to our Shareholders whilst promoting the long-term success of the Company, the Board is proposing to pay a final dividend of 3.0p, bringing the total dividends for the year ended 31 March 2021 to 10.5p. The Board expects the final dividend to be the minimum level of dividend to be paid each quarter for the year ending 31 March 2022.

WESTMINSTER HOUSE - GERRARDS CROSS

RENT CONCESSIONS

As part of the Company's response to the pandemic, the Board has been mindful of the need to ensure healthy relations with our tenants. The Board approved the overall approach to working with tenants, particularly small and independent brands who needed support through the challenging period. Requests from tenants experiencing financial difficulties were considered on a case-by-case basis and a range of concession agreements were reached. Each arrangement sought to balance the interests of our tenants with those of the Company, its overall financial position and in particular its arrangements with its lenders, to ensure the Group continues to comply with its financial covenants.

APPROACH TO CAPITAL EXPENDITURE

The Board decided early in the year to defer all non-essential capital expenditure whilst it reviewed the impact of the pandemic on the Group's rental income and overall financial position. As a result of the resilient rental collection and proactive response by management, capital expenditure projects are now being reviewed with a focus on prioritising those projects which will support our tenants and have the greatest impact on an assets capital value over the longer term, particularly where they also support our ESG principle of future-proofing our portfolio.

A Responsible Business

OUR MAIN FOCUSES:

ESG STRATEGY

During the year we have taken steps to further embed Environmental, Social and Governance (ESG) aspects into our business model. We have developed a new ESG strategy which aims to mitigate the potential risks and explore opportunities to reduce the negative impacts of our business on the environment, our communities, and our people.

As part of this process, we undertook a materiality assessment to identify the ESG issues most relevant to Palace Capital. As a result, we have established three key objectives which will be a focal point for the business going forward:

- Future-proofing the portfolio – by understanding the environmental performance of our assets and actively seeking to reduce energy use and greenhouse gas emissions.
- Fostering a culture of inclusivity and consideration of stakeholders' interests – by promoting collaboration and input across all levels of the business and engaging with our suppliers and stakeholders.
- Being a responsible business – by ensuring ethical business practices and sound risk management.

OUR PEOPLE

Everyone within the business rose to the occasion during this difficult year.

Ensuring our people felt safe and supported has been a key priority. Our people remain vital to our success and we are committed to attracting and retaining those of the highest calibre.

We are proud to be able to say that we have not furloughed any of our employees throughout the pandemic, nor have we taken up any other government support measures.

READ MORE ON PAGE 47

OUR ENVIRONMENT

The pandemic has accelerated pre-existing trends towards greater integration of environmental, social and governance issues.

As a responsible landlord we have a duty to consider the impact of our assets on the environment. During the year we have made great progress assessing and understanding the environmental performance of our portfolio.

READ MORE ON PAGES 48 AND 49

IMPLEMENTING THE TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

The first stage of our TCFD journey was to ensure that the Board understood its disclosure responsibilities and that an appropriate amount of resource was allocated to assessing climate related risks and opportunities.	October 2020
The Board's ESG Committee carefully considered the required TCFD disclosures and reviewed the existing governance framework that ensures the appropriate amount of Board and management attention is given to understanding climate related issues. It identified the appropriate people within the business to assess the relevant risks and opportunities and agreed that an external consultant should be engaged to provide ongoing support in this area.	February 2021
In March 2021, Palace Capital engaged an external consultant to support the implementation of its wider ESG strategy, including the development of a climate resilience strategy.	March 2021

NEXT STEPS

Over the next year we will seek to:

- Evolve our risk assessment processes to ensure the material climate-related risks have been identified and understood.
- Define our climate aims and ensure climate resilience is appropriately integrated into the Company's strategy.
- Identify appropriate metrics and targets to measure climate related risks and opportunities in line with the Company's strategy and risk management processes.

The Board's ESG Committee will oversee the work in this area.

Our People

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.

EMPLOYEE ENGAGEMENT

Employee wellbeing has been a key theme during the year as the workforce adapted to a working from home model. We have taken a proactive approach to communication and attempted to sustain as many of our engagement methods as possible. Virtual weekly team meetings are now the norm and in January 2021, all employees participated in a virtual strategy session which fed directly into the Board's annual strategy day.

The Workforce Advisory Panel continues to meet quarterly to discuss matters from across the business. A number of business process improvements have been implemented as a result of these sessions and the panel has played an important role in the development of our ESG strategy. Feedback from the panel is provided directly to the Board of Directors and during the year the Non-Executive Directors attended one of the panel meetings to receive a debrief directly from employees.

TRAINING AND DEVELOPMENT

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

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. Our core values set 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.

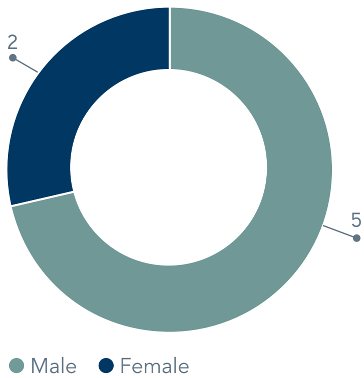
ACTIVE, ASTUTE, AMBITIOUS

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

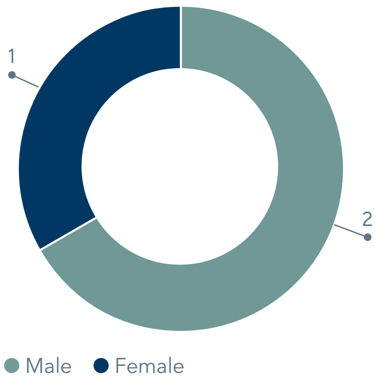
We continue to promote inclusivity and will ensure that no person is discriminated against on grounds of religion, race, gender, pregnancy, marital status, age, sexual orientation, or any other attribute which does not speak to a person's ability to perform. We believe that a diverse workforce is key to maximising business effectiveness and with this in mind we aim to select, recruit, develop and promote the very best people. Whilst diversity is much wider than gender balance, this area continues to be a key area of focus within our small team:

GENDER SPLIT OF WORKFORCE AND BOARD

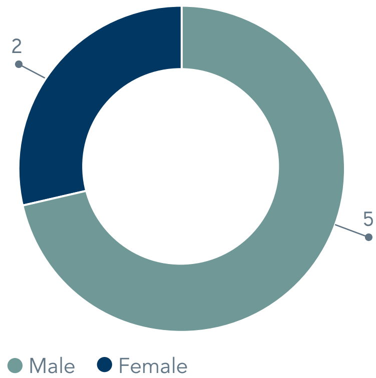
BOARD



SENIOR MANAGERS:



REST OF THE WORKFORCE



For further information on the Board's approach to diversity, please refer to page 65 in the Nominations Committee report.

Our Communities and Our Environment

CHARITY AND LOCAL COMMUNITIES

Our ability to engage with local communities and participate in charitable activities has been restricted this year. Our team members have not been able to engage directly in events that they would have liked to.

Despite this, we continue to engage with local authorities to seek to understand their priorities and attempt to support these with our own plans. This focus on building strong relationships with local stakeholders is at the heart of our business model.

As part of our ESG strategy we seek to partner with local charities that have a common thread of supporting young children, homelessness, and poverty in the areas within which we invest. In order to do this, we engage with our local stakeholders to better understand the community and how we can contribute positively to its growth and development.

For the year ended 31 March 2021, our charitable donations totalled £8,000.

During the year we were delighted to donate to Safe and Sound Homes (SASH), a very deserving youth homelessness charity that works across York, North and East Yorkshire.

We have a significant presence in York where we have our flagship development, Hudson Quarter. As a property investor, it is important to us to support groups for whom accommodation is a challenge. The Covid-19 pandemic has posed unprecedented risks to all, but those experiencing or at risk of homelessness are especially vulnerable during these difficult times.

SASH help young people aged 16 to 25 who are facing homelessness by providing 'Nightstop' and 'Supported Lodgings' services. They change the lives of hundreds of people every year.

ENVIRONMENT

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 recognise 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.

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 existing assets and new purchases and implement improvement plans for any asset with an "E" rating or below.

During the year we have:

- Ensured our asset level business plans incorporate ESG considerations and where material risks are identified, a strategy to manage and reduce these is put in place.
- Documented an environmental brief for our teams to work to on major refurbishment and redevelopment projects.
- Evolved our data collection processes to ensure we have a holistic view of the performance of our assets.

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.

We will keep our ESG strategy under continuous review and intend to participate in either the GRESB or EPRA sustainability benchmark in the coming years.

CLIMATE CHANGE AND ENERGY USE

Climate Change and Energy use ranked top in our ESG risk and materiality assessment. As owners of commercial properties we are focused on improving our energy data collection and reporting in accordance with best practice. We presently disclose our Scope 1 and Scope 2 emissions and are pleased to report a 18.3% reduction in our Total Scope 1 and 2 emissions compared to the prior year. Our Scope 2 emissions are the largest contributor to this reduction as a result of our energy efficiency projects and drive towards 100% of landlord controlled electricity supplies coming from renewal sources (currently 97.9%). Over the next year we will seek to improve data collection of Scope 3 emissions, which largely compromise occupier-controlled energy sources. This will provide us with greater coverage of our portfolio and help us understand where to focus our efforts to reduce our carbon footprint in the years to come.

READ MORE ABOUT OUR
GHG EMISSIONS ON PAGE 67

EPCs/MEES

Current Minimum Energy Efficiency Standards ('MEES') stipulate that leases cannot be renewed or a new lease granted to an occupier if a building has an F or G rating. This will apply to all existing leases from April 2023. Our current priority is to remove all EPC F and G ratings (presently 7.45% of EPC certifications). However, in light of the government's recent consultation to implement tighter MEES we are proactively reviewing our asset management plans in anticipation of the requirement to have an EPC of B by 2030.

WATER CONSUMPTION

We continue to improve the quality of our water data and consider measures to improve water efficiency year on year.

Naturally as you might expect, in a year where occupancy levels have been lower than usual because of the pandemic, like-for-like landlord purchase water consumption reduced by 20.5%. This resulted in a 34.1% reduction in average building water intensity.

As part of our focus on delivering sustainable refurbishments we will seek to maximise opportunities for water recycling and consider a variety of water conservation measures, including low-flow taps and shower heads and low-flush WCs. This is particularly important where we are upgrading our assets to improve shower facilities as part of our wider occupier health and well-being initiatives.

18.3%

REDUCTION IN TOTAL SCOPE 1 AND 2 GHG EMISSIONS COMPARED TO PRIOR YEAR

97.9%

LANDLORD CONTROLLED ELECTRICITY FROM RENEWABLE SOURCES

20.5%

REDUCTION IN ABSOLUTE LANDLORD PURCHASED WATER CONSUMPTION

34.1%

REDUCTION IN AVERAGE BUILDING WATER INTENSITY

ST JAMES' GATE, NEWCASTLE UPON TYNE

Our multi-let office block in Newcastle city centre is a prime example of how we are focussing our efforts on future-proofing our buildings by improving their sustainability performance.

As part of a recent energy efficient refurbishment of the office areas we have installed LED lighting on Levels 3 and 7, upgraded the toilet and shower facilities and works are underway to introduce a new energy efficient HVAC system and enhance the external courtyard for our 330 building occupants.

52%

REDUCTION IN TOTAL SCOPE 1 AND 2 GHG EMISSIONS COMPARED TO PRIOR YEAR

2021 Governance

SOL – NORTHAMPTON

CONTENTS

Governance Overview

HUDSON QUARTER - YORK

MONITORING AND MITIGATING OUR RISKS

Managing risk has been a key theme throughout the year. The Board has continuously reviewed the impact of the pandemic on the business, including the Group's sector and tenant exposure and its ability to meet its banking covenants and commitments.

The Board has debated the significant and emerging risks, including the addition of a new principal risk, "Covid-19 and Future Pandemics".

Our risk management plays an important role in the effective delivery of our strategy. The key activities of the Board during the year, including its role in determining the strategic objectives of the Company, can be found on pages 60 and 61.

CONSIDERING OUR STAKEHOLDERS

The Board has had regard to a range of interests during the year as it has sought to navigate the impact of the pandemic, not only on the Group, but all our stakeholders.

These themes are reflected throughout this Annual Report and include decisions in relation to our dividend policy, the need to maintain positive dialogue with our investors, and the support provided to our tenants throughout this challenging time.

READ MORE ON PAGES 44 AND 45 ABOUT HOW WE CONSIDERED OUR STAKEHOLDERS THIS YEAR.

HIGH STREET - SUTTON

OLD POST HOUSE - BEACONSFIELD

ENGAGING WITH OUR WORKFORCE

The Workforce Advisory Panel continues to provide an effective means to engage with our employees and ensures the Board has a proper understanding of their views and interests.

READ MORE ON PAGES 44 AND 45 ABOUT HOW WE CONSIDERED OUR STAKEHOLDERS THIS YEAR.

Statement by the Directors on compliance with the UK Corporate Governance Code

The UK Corporate Governance Code 2018 (the Code) applied to the Group for the financial year ended 31 March 2021. 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 Code, other than the provisions relating to the tenure and independence of the Chairman. This is expanded upon further in the Nominations Committee Report.

The Code is publicly available at www.frc.org.uk.

Applying the Principles of the Code

Section of the Code	How we have applied the Code	Further information
Board leadership and Company purpose The Board is responsible for leading the business in a way which promotes the long-term sustainable success of the Company, generating value for Shareholders and contributing to wider society.	• The Board establishes the Company's purpose, values and strategy and reviews these regularly • The Board assesses and monitors culture • There is a regular programme of meetings for the Board and its Committees • A formal schedule of matters is reserved for Board approval • The Board has oversight of stakeholder engagement, including the Workforce Advisory Panel	READ ABOUT OUR GOVERNANCE FRAMEWORK ON PAGE 58 READ ABOUT BOARD AND COMMITTEE ATTENDANCE ON PAGE 62 READ ABOUT BOARD ACTIVITIES ON PAGES 60 AND 61 READ ABOUT ASSESSING AND MONITORING CULTURE ON PAGE 62 READ ABOUT STAKEHOLDER RELATIONS ON PAGES 44 AND 45
Division of responsibilities The Board includes an appropriate combination of executive and independent Non-Executive Directors, such that no one individual or small group of individuals dominates the Board's decision-making.	• There is a clear division of responsibilities between the leadership of the Board and the executive leadership of the business • The roles of Chair and Chief Executive are not exercised by the same individual • The Senior Independent Director provides a sounding board for the Chair	READ ABOUT KEY RESPONSIBILITIES ON PAGE 59
Composition, succession and evaluation The Nominations Committee ensures all Board appointments are subject to a formal, rigorous and transparent process.	• All Directors submit themselves for annual re-election to the Board • The Nominations Committee leads the process for appointments • There is a formal and rigorous annual evaluation of the performance of the Board • There is a formal policy for Board diversity	READ ABOUT BOARD DIVERSITY ON PAGE 59 READ ABOUT THE BOARD'S PERFORMANCE EVALUATION ON PAGE 63 READ THE NOMINATIONS COMMITTEE REPORT ON PAGES 64 AND 65
Audit, risk and internal control The Audit and Risk Committee monitors the integrity of the Financial Statements and oversees the risk management process and internal control environment.	• The Audit and Risk Committee advises the Board on whether the Annual Report and Accounts is fair, balanced and understandable • There is a robust assessment of the Company's emerging and principal risks • There are clear policies and processes to ensure the independence and effectiveness of the external audit	READ ABOUT RISK MANAGEMENT ON PAGE 38 READ THE AUDIT AND RISK COMMITTEE REPORT ON PAGES 68 TO 70
Remuneration Our remuneration policies and practices are designed to support the business strategy and promote the long-term sustainable success of the Group.	• The Remuneration Committee determines the policy for Executive Director remuneration • No Director is involved in deciding their own remuneration • Long-term incentive awards are subject to a total vesting and holding period of five years • Pension contribution rates for Executive Directors are aligned with those available to the workforce	READ THE DIRECTORS' REMUNERATION REPORT ON PAGES 71 TO 84 READ OUR REMUNERATION POLICY ON PAGES 74 TO 78

Board of Directors

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. In 1999, Neil was appointed Non-Executive Chairman of Baker Lorenz surveyors, 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

Chief Financial Officer

COMMITTEE MEMBERSHIP

●

DATE OF APPOINTMENT

Joined the Group in 2015

EXPERTISE

Stephen is a Chartered Accountant and brings 15 years' experience in finance including 10 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 Property 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

MICKOLA WILSON
INDEPENDENT
Non-Executive Director

COMMITTEE MEMBERSHIP
Audit and Risk Committee, Remuneration Committee, Nomination Committee, CSR Committee

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 until 2013 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

Mailbox REIT plc

KIM TAYLOR-SMITH
INDEPENDENT
Non-Executive Director

COMMITTEE MEMBERSHIP
Audit and Risk Committee, Remuneration Committee, Nomination Committee, CSR Committee

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

PAULA DILLON
INDEPENDENT
Non-Executive Director

COMMITTEE MEMBERSHIP
Audit and Risk Committee, Remuneration Committee, Nomination Committee, CSR Committee

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

ANTHONY DOVE
INDEPENDENT
Non-Executive Director

COMMITTEE MEMBERSHIP
Audit and Risk Committee, Remuneration Committee, Nomination Committee

DATE OF APPOINTMENT
Joined the Group in 2011

Retired 7 August 2020

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.

Anthony retired on 7 August 2020

EXTERNAL APPOINTMENTS
None

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

Chairman's Governance Introduction

STANLEY DAVIS
Chairman

“

We have demonstrated further resilience during the ongoing period of disruption and uncertainty that has dominated this financial year.”

Stanley Davis
Chairman

2020 was challenging on many fronts and very much dictated by the unprecedented disruption from the Covid-19 pandemic.

Despite this, we have continued to sustain high levels of rent collection, deliver our asset management initiatives and embed our ESG strategy. The resilience in our income and the successful active portfolio management are a testament to our team's experience and hard work.

Naturally, our response to the Covid-19 pandemic is reflected throughout this Annual Report as it has played such a significant role in how the Group and the Board has operated during the year.

The Board has adapted to working and meeting remotely and technology now forms a fundamental part of the way we operate.

BRIDGE HOUSE – WEYBRIDGE

Our governance framework stood us in good stead for dealing with the increased workload and managing decision-making virtually, as well as navigating our way through these very challenging times.

STRATEGY

The Board has focused on maintaining maximum liquidity, ensuring strong rent collection, and pursuing the disposal of non-core assets, while balancing the needs of all our stakeholders.

We did not need to rely on any Government subsidies or loans, nor have we furloughed any employees during the pandemic.

Our strength in the regional office and industrial sectors and the quality of our portfolio and tenants are reflected in our high rent collection figures. We have ensured compliance with our banking covenants with very limited reliance on waivers from our lenders, while the continuation of our strategic disposal of non-core assets has further supplemented our cash reserves.

Our balance sheet remains in good shape, but our shares continue to trade at a significant discount to their net asset value. As a Board, we see strong prospects of capital growth within the portfolio and have adjusted our strategy with a view to accelerating earnings and improving rental income through new lettings and asset management.

Over the longer term, our strategy is to improve the quality of our investment portfolio, through the refurbishment of some existing assets, the disposal of other assets with limited growth and by acquiring multi-let office and industrial properties with growth potential. We will also look to take advantage of planning gains and redevelopment opportunities within our existing portfolio, to grow the underlying capital values in order to complement the income-focused properties. We believe this to be in the best interests of our Shareholders and all our stakeholders.

BOARD COMPOSITION

As reported in last year's Annual Report, Anthony Dove retired from the Board in August 2020. There have been no other changes to the Board during the year.

Paula Dillon has now completed her first full year on the Board and although we have had very little opportunity to meet face-to-face, Paula has made a remarkable contribution to our strategy and decision-making during the year.

We continue to keep the composition of the Board under 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.

BOARD EVALUATION

Following an externally facilitated Board evaluation in 2019, the Board participated in an internal Board evaluation during 2020. The process sought to build upon the previous evaluation and the process and outcomes are set out on page 63.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As a Board, we recognise our responsibility to work together with all our stakeholders and to make a positive contribution to wider society. During the year, the Board reviewed and approved the Group's overall ESG strategy which centres around three key objectives:

- Future-proofing the portfolio
- Fostering a culture of inclusivity and consideration of stakeholders' interests
- Being a responsible business

The Board's ESG Committee will oversee the implementation of this strategy and ensure that our social, environmental and economic activities are aligned.

We have reported on our compliance with Section 172 of the Companies Act 2006 on pages 44 and 45 of the Strategic Report where we explain how the Directors have had regard to the following as part of its significant strategic decisions:

a. the likely consequences of any decision in the long-term
b. the interests of the Company's employees
c. the need to foster the Company's business relationships with suppliers, customers and others
d. the impact of the Company's operations on the community and the environment
e. the desirability of the Company maintaining a reputation for high standards of business conduct
f. the need to act fairly as between members of the Company.

The Board is committed to engaging pro-actively and constructively with our stakeholders and devotes sufficient time and effort to considering the interests of all stakeholders impacted by our activities. Board proceedings are conducted in such a manner so as to ensure due regard is given to all the Group's stakeholders.

OUTLOOK

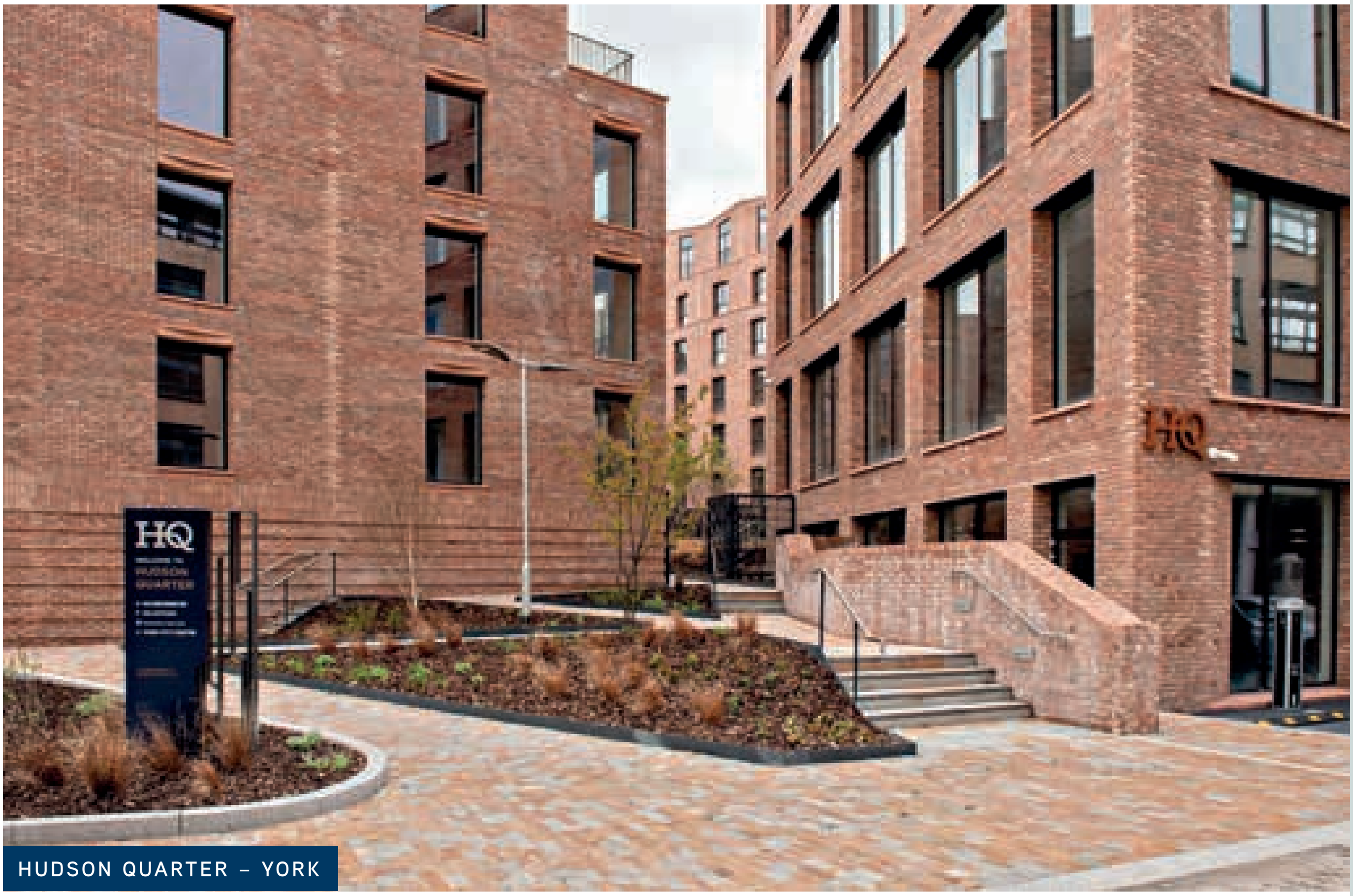
With the successful roll-out of the Government's vaccination programme and a clear road map to reduce the restrictions that have regulated our lives for so long, there is some welcome hope that we are moving towards the end of this Covid-19 related uncertainty.

The outlook is now more positive and our strategy and governance have proven resilient over the past 12 months.

We have a strong Board, which is supported by a strong team who are keen to drive forward the successful delivery of our strategy.

We are hopeful that we can meet with Shareholders in person at the AGM on 29 July 2021. On behalf of all my colleagues, I would like to thank our Shareholders for their continued support.

Stanley Davis
Chairman



HUDSON QUARTER – YORK

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 four 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	REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE	ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE
Chair: KIM TAYLOR-SMITH	Chair: MICKOLA WILSON	Chair: MICKOLA WILSON	Chair: PAULA DILLON
Comprises: Three independent Non-Executive Directors	**Comprises:** Three independent Non-Executive Directors	**Comprises:** Three independent Non-Executive Directors	**Comprises additionally:** Three Independent Non-Executive Directors, the Chief Financial Officer, the Property Director and the Head of Finance and Operations
Role: • Financial reporting • Monitor risk management and internal controls • Monitor external auditors and the audit process	**Role:** • Set Remuneration policy • Review Directors' remuneration packages and incentives • Approve bonus and LTIP targets	**Role:** • Recommend Board appointments • Succession planning • Board composition skills and diversity • Board performance evaluation	**Role:** • Stakeholder engagement • Monitor social and environmental impacts and initiatives

Board Composition and Division of Responsibilities

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 with 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

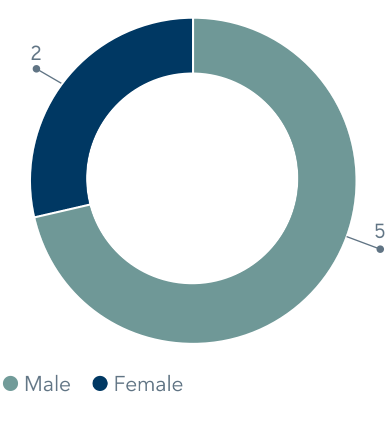
- Provides a sounding board for the Chairman and serves as an intermediary for the other Directors.
- Available to discuss concerns with Shareholders that cannot be resolved through the normal channels of communication with the Chairman or the Chief Executive.
- Responsible for leading the annual appraisal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

NON-EXECUTIVE DIRECTORS

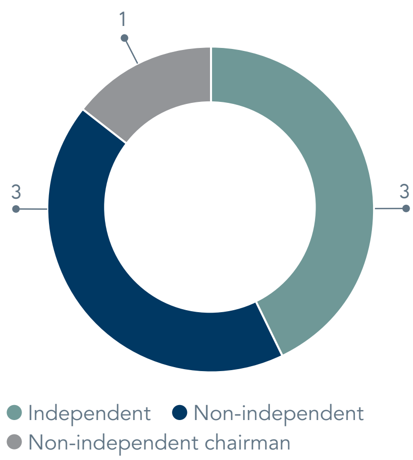
- Bring an external perspective, independent judgement and objectivity to the Board's deliberations and decision making.
- Scrutinise and hold to account the performance of management and individual Executive Directors against agreed performance objectives.
- Have a prime role in appointing and removing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

BOARD COMPOSITION

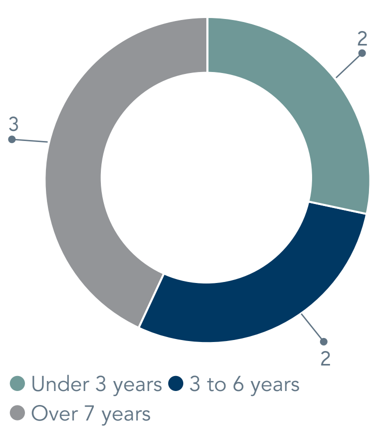
GENDER DIVERSITY



INDEPENDENCE



BOARD TENURE



Board Activities

How the Covid-19 pandemic affected our activities

The impact of Covid-19 on the business and our response to it has dominated Board proceedings.

The Board has met remotely since March 2020, with the brief exception of a socially-distanced meeting towards the end of summer 2020.

The number of meetings increased significantly, reflecting the need to keep the Board apprised of the changing situation.

STRATEGIC AIMS

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

STRATEGIC AND GOVERNANCE

Key priorities for 2020/2021

- Promote the long-term sustainable success of the Company.
- Generate value for Shareholders.
- Ensure compliance with requirements of the UK Code.

Key activities and discussions during 2020/2021

Held detailed strategy sessions throughout the year to set and further develop future strategy, with a focus on appropriate capital allocation.

Reviewed and approved an extensive disposal strategy.

Monitored the wider economic environment and market outlook.

Monitored trading performance throughout the year, and management's response to the Covid-19 pandemic.

Monitored the performance of the portfolio and individual asset valuations.

Reviewed and approved the Group's ESG strategy.

Performed an internally-facilitated evaluation of the Board and its Committees.

Ensured compliance with requirements of the UK Code and received updates on corporate and regulatory changes and reporting requirements.

Link to Strategy

1 2 3 4

FINANCIAL

Key priorities for 2020/2021

- Competent and prudent financial management.
- Maximise liquidity.
- Ensure the Integrity of the financial statements.

Key activities and discussions during 2020/2021

Regularly reviewed the Group's financial position and rolling forecasts.

Approved the amendment and reinstatement of the Natwest RCF in April 2020.

Reviewed and approved half-yearly and annual results, viability statement and going concern matters.

Approved the budget for 2020/21.

Monitored rent collection.

Monitored capital expenditure and managed this in the context of the ongoing pandemic.

Agreed the amendment and reinstatement of the Barclays development loan to extend the repayment date by six months to July 2022 and adjust the sales milestones in light of the impact of Covid-19 on residential sales at Hudson Quarter.

Link to Strategy

2 3

ENGAGING WITH OUR INVESTORS AND OUR LENDERS

Key priorities for 2020/2021

- Meet the Company's responsibilities to Shareholders and banks.
- Ensure a robust programme of investor relations.
- Continue our pro-active engagement.

Key activities and discussions during 2020/2021

Approved the suspension and reinstatement of dividends and the Company's ongoing dividend policy to pay a cash covered dividend.

Approved more frequent trading updates and the publication of rent collection statistics.

Received updates from management following virtual presentations to investors at the half and full year.

Received input from the Company's brokers in relation to Shareholder attitudes to the Company and investor feedback.

Monitored quarterly debt compliance and kept the Group's banking covenants under regular review adopting a proactive approach to securing waivers in the event that any covenant was breached.

Reviewed and approved the repayment of £4.1m to Scottish Widows during the year to rectify a potential LTV breach.

Kept our lenders regularly updated in respect of income and capital values.

Link to Strategy

1 2 4

ENGAGING WITH OUR TENANTS

Key priorities for 2020/2021

- Maintain positive dialogue.
- Support our tenants as they navigate the pandemic.

Key activities and discussions during 2020/2021

Approved the overall approach to consider each rent concession request on a case-by-case basis, having due regard to the nature of the tenant's business, their size and overall financial position.

Monitored our tenant risk profile.

Approved capital expenditure projects in relation to Sol, Northampton and St James' Gate, Newcastle.

Received regular reports from the Property Director in relation to rent collection and Covid-19 engagement responses.

READ MORE ABOUT THE GROUP'S APPROACH TO STAKEHOLDER ENGAGEMENT, INCLUDING THE BOARD'S SECTION 172 STATEMENT, ON PAGES 44 AND 45

Link to Strategy

3 4

LOOKING AFTER OUR WORKFORCE

Key priorities for 2020/2021

- Ensure workforce policies and practices are consistent with the Company's values.
- Ensure a safe working environment and compliance with government social distancing guidelines.

Key activities and discussions during 2020/2021

Approved the group's working from home policy.

Monitored employee engagement, training and development.

Monitored the Group's approach to employee remuneration and investing in and rewarding the workforce.

Received updates in respect of the Workforce Advisory Panel, including a dedicated session with the Non-Executive Directors.

Following feedback from the Workforce Advisory Panel the Board approved an enhanced Maternity and Paternity policy.

Continued to monitor key indicators in relation to the Group's culture, purpose and values.

Link to Strategy

3 4

Board and Committee Attendance

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 the organisation and is an essential part of the delivery of our strategy.

During the year, the Board consisted of a Non-Executive Chairman, Chief Executive, Chief Financial Officer, Executive Property Director and three further Non-Executive Directors.

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.

The profiles of the Board members can be found on pages 54 and 55 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 82. The Board met eight times during the financial year in accordance with its usual meeting programme. A further 11 meetings were convened to deal with specific matters relating to the Group's response to the pandemic or which otherwise required approval.

The Board has a schedule of matters reserved for its approval 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	ESG
Stanley Davis	8/8				
Neil Sinclair	8/8				
Richard Starr	8/8				1/1
Stephen Silvester	8/8				1/1
Kim Taylor-Smith	8/8	4/4	6/6	1/1	1/1
Mickola Wilson	8/8	3/4	6/6	1/1	1/1
Paula Dillon	8/8	4/4	6/6	1/1	1/1
Anthony Dove*	2/2	2/2	1/1		

*retired from the board 7 August 2020

ASSESSING AND MONITORING 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.

The Executive management team drives the embedding of the desired culture throughout the organisation and ensures that the expected values and beliefs are sufficiently understood.

During the year, the Board kept the values, beliefs, policies and practices that characterise the Group's culture under review. In doing so, it assessed 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, from weekly team meetings through to the workforces annual strategy meeting, which feeds directly into the Board's annual strategy day.

Ensuring our highly professional and skilled team continue to develop and excel is a core focus for the Board. During the year there has been a greater emphasis on individual training requirements and driving forward the continuing development of all employees and Directors.

For further information regarding the Company's approach to investing in and rewarding its workforce, please see page 47.

Board Performance Evaluation

BOARD PERFORMANCE EVALUATION

During the year, the Board conducted an internal evaluation of its performance following an external evaluation conducted by ICSA Board Evaluation Services in 2019.

The 2020 review process took place throughout December 2020 and was led by the Chairman and the Senior Independent Director with support from the Company Secretary.

As part of the review, the Board considered progress against the previously agreed actions as well as its response to Covid-19 and any other areas for development in relation to key aspects of the Board's performance.

Overall, there was strong agreement across all the areas, which demonstrates that the Board is performing well.

PROCESS

The evaluation was conducted via a questionnaire following a set of predetermined questions agreed with the Chairman and Senior Independent Director, having regard to the provisions of the UK Code.

Once agreed, a questionnaire was sent to each Board member to obtain their feedback. The questionnaire covered eight key aspects of the Board's performance:

- Board responsibilities
- Oversight
- Board meetings
- Support for the Board
- Board composition
- Working together
- Outcome and achievements
- Responding to Covid-19

The questionnaire was completed by all Directors during December and a report was compiled based on the findings. This was initially shared with the Chairman and the Chief Executive 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.

STAGE 1

The Board agreed the format of the evaluation and following this the Chairman and the Senior Independent Director met with the Company Secretary to devise a list of questions and areas that the evaluation should cover.

The process included a review of the effectiveness of the Board's main committees.

STAGE 2

Each Director completed a questionnaire in relation to eight key aspects of the Board's performance. Committee members and other attendees received tailored questionnaires which considered the effectiveness of each one of the Board's committees.

STAGE 3

A final report was compiled and shared with the Board ahead of the annual strategy session in February 2021.

FINDINGS

Board responsibilities and oversight

Board members fully understand their duties and collective responsibilities. The balance of operational and strategic discussions at Board level has improved during the year, but could be enhanced further.

Board members have sufficient oversight and ability to hold to account the performance of the Chief Executive and other Executive Directors (in their management roles).

The Board's discussions of risk are appropriate and effective, and the Board's risk appetite and tolerance are understood. However, considering the ongoing pandemic, there was a view that more time should be devoted to risk, and this became a key feature of the Board's strategy session in February 2021.

Board composition and working together

The Board has the skills and experience required to meet the needs of the business and Board composition is reviewed regularly. Succession planning remains a key area of focus.

The Non-Executive Directors spend sufficient time overall on Company issues to understand the business, the principal risks and the external environment within which it operates.

Stakeholder engagement has improved in various respects with dedicated broker input at Board meetings and attendance by the Non-Executive Directors at the Workforce Advisory Panel. It was agreed that more could be done to ensure the Board understands the views of our suppliers, agents and consultants and the impact this has on performance.

Each of the Board's Committees was considered to be effective and an important feature of the Company's governance structure.

The Board's response to Covid-19

The Board was alert to most contingencies and the regular updates on the Group's rent collection and cashflows worked well. Tenant engagement has been very effective and the Board places great emphasis on relations with all key stakeholders. Ensuring the business has sufficient understanding of the structural issues accelerated by Covid-19 and is prepared for potentially fundamental changes in the market will be a key priority throughout 2021.

Nominations Committee Report

Members

- Mickola Wilson (Chair)
- Kim Taylor-Smith
- Anthony Dove (retired 7 August 2020)
- Paula Dillon (joined 26 March 2020)

Meetings held: 1

2020/21 Key achievements

- Onboarding new Non-Executive Director
- Succession Planning
- Board Evaluation

MICKOLA WILSON
Chair of Nominations Committee

The Nominations Committee leads the process for appointments to the Board and ensures plans are in place for orderly succession to both the Board and senior management positions.

The Committee has kept 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 oversaw the induction of Paula Dillon, who joined the Board on 1 March 2020. Paula's distinguished legal career, extensive network and deep understanding of the real estate sector is a valued addition to the Board.

The Committee continued to monitor the Company's succession plans and considered specific training requirements in this regard. In the context of the pandemic, the Committee ensured contingency plans were in place to respond to sudden and unexpected loss or non-availability of key Directors and that these were properly communicated to the workforce.

A formal and rigorous internal evaluation of the Board's performance was carried out during the year, the process and findings of which are set out on page 63. The Committee oversaw the evaluation process ensuring that a clear action plan was put in place.

The Committee is satisfied that the Board has a strong and balanced skill set, which provides for robust debate and effective decision making.

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 once during the year (details of attendance are set out on page 62) and several informal meetings, conference calls and general discussions were held between Committee members in relation to induction and internal performance evaluation processes.

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

Paula Dillon was appointed to the Board on 1 March 2020. The selection and recruitment process was described in detail in last year's report.

Paula's induction process was led by the Committee Chair and supported by the Company Secretary. The process commenced shortly after Paula's appointment was confirmed and comprised a number of one-to-one meetings with the other Directors and the Company Secretary. A range of reading and reference material was provided, tailored to the Group and its business.

At its most recent review, the Committee concluded that the Board was currently a suitable size with the appropriate range of skills and experience to lead the Company. It further concluded that the Directors worked well together. The Committee will continue to monitor the tenure of Directors to ensure that it plans sufficiently in advance of retirements from the Board.

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 pro-actively 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. 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.

The Committee continues to monitor the specific training and development needs of each Director and the wider workforce as part of its succession planning.

DIVERSITY

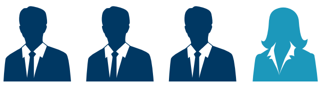
The Board recognises the benefits of diversity in its broadest sense, both in the boardroom and throughout the business. Whilst appointments will always be made on merit, the Company is committed to considering all aspects of diversity, and will promote diversity of gender, social and ethnic backgrounds, 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 47 in the strategic report.

Gender Diversity as at 31 March 2021

BOARD:

SENIOR MANAGEMENT AND
THEIR DIRECT REPORTS:



Male Female

INDEPENDENCE AND RE-ELECTION

The Committee considers each of the Non-Executive Directors to be independent, in accordance with the criteria set out in the Code. The Chairman of the Board is not considered to be independent, as explained earlier in the report.

In accordance with the Code, each of the Directors will submit themselves for re-election at the 2021 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. Furthermore, the Board has the appropriate balance of skills, experience, independence and knowledge and Shareholders should support the re-election of all Directors

Mickola Wilson
Chair of Nominations Committee

7 June 2021

ESG Committee Report

Members

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

Meetings held: 1

2020/21 Key achievements

- Reviewed ESG Risk and Materiality assessment
- Monitored progress against the agreed ESG strategy
- Reviewed the TCFD disclosure framework
- Agreed the appointment of an external consultant

PAULA DILLON
Chair of ESG Committee

The primary responsibility of the Environmental, Social and Governance Committee (previously the Corporate Social Responsibility Committee) is 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, following the consideration and approval by the Board of the Group's ESG strategy. At this meeting the Committee reviewed the Group's ESG risk and materiality assessment and received updates from management in relation to the progress against the Board's ESG strategy and its three fundamental objectives, which are to:

- Future-proof the portfolio
- Foster a culture of inclusivity and consideration of stakeholders' interests
- Be a responsible business

During the year, the Committee was renamed the Environmental, Social and Governance Committee to better reflect its remit and the evolving environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Palace Capital Group.

The following pages set out the key responsibilities and activities of the Committee in its oversight role. For more information on the Group's activities in this area, please see the 'Responsible Business' section in the Strategic Report.

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 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.

ESG RISKS AND MATERIALITY

During the year, the Committee reviewed the Group's risk and materiality assessment which identifies those ESG matters that are most relevant to Palace Capital. A total of 14 ESG risks have been identified and seven of those are deemed to be material and inform the basis of the Group's ESG strategy.

ESG STRATEGY

Climate change and energy use pose one of the highest ESG risks to the Palace Capital Group. A key aspect of the ESG strategy is therefore centred on the environmental performance of the Group's assets and future-proofing the portfolio to ensure the business is able to adapt to changing occupier demands.

The Committee has reviewed the processes for collecting data in relation to the environmental performance of the Group's assets, which have been enhanced further during the year. A key priority for the Committee over the next year is to ensure that clear and measurable targets are set, particularly in the context of the recommendations made by the Task Force on Climate-related Financial Disclosures framework (TCFD).

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES FRAMEWORK (TCFD)

The TCFD framework provides a set of comparable and consistent disclosures that companies can use to demonstrate climate change resilience to their capital providers. In its 2019 Green Finance Strategy, the Government set out its expectation for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022. This has now been enshrined in the Financial Conduct Authority's listing rules in the form of a new Listing Rule 9.8.6(8).

The Committee will play an important role in ensuring the Company is able to prepare climate-related financial disclosures, which are consistent with the four recommendations and 11 recommended disclosures of the 2017 final report of the Taskforce for Climate-Related Financial Disclosures.

STAKEHOLDER ENGAGEMENT

Stakeholder engagement has been a significant theme throughout the year. The Committee has received updates in relation to the Group's culture and engagement with the workforce and has monitored the approach to tenants in response to the Covid-19 pandemic. During 2019, a tenant satisfaction survey was undertaken. This is a process we seek to undertake biennially and therefore a further survey will be conducted during 2021.

The Workforce Advisory Panel forms a significant part of the Group's ESG strategy. Specific actions and initiatives are channelled through the panel for employees to input and develop. This not only helps embed our ESG practices, but it also provides the Board with further insight into the views and interests of the workforce.

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 landlord-controlled electricity supplies.

The Company does not own any vehicles and emissions from sources such as 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. 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 continues to be a priority and the Company is currently reviewing its processes to collect further Scope 3 emission data.

This is the fourth year that Palace Capital has been required to disclose CO_2 emissions. Total Scope 1 and 2 emissions have decreased 18.3% during the year. This is a result of reduced energy consumption, the purchase of renewable energy at several controlled assets and improved energy reporting processes.

GHG emissions	2021	2020[1]
Emissions type (tonnes of CO_2 equivalents)		
Scope 1	846	616
Scope 2	27	451
Total	873	1,067
Average GHG Intensity ($tCO_2e/sqft^2$)		
Scope 1 and 2 combined	0.0012	0.0015
Total energy use (kWh)	9,992,543	9,543,492

1. Data in respect of the period ending 31 March 2020 has been restated due to further improvements to our data collection processes during the year.

Paula Dillon
Chair of ESG Committee

7 June 2021

Audit and Risk Committee Report

Members

- Kim Taylor-Smith (Chair)
- Mickola Wilson
- Paula Dillon
- Anthony Dove (retired 7 August 2020)

Meetings held: 4

2020/21 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
- Full and mid-year risk reviews
- Considered the appointment of the external Auditor, their reports to the Committee and their independence

KIM TAYLOR-SMITH
Chair of Audit and Risk Committee

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 by monitoring 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.

Following the outbreak of the Covid-19 pandemic the Committee monitored management's response and the impact on the financial performance of the Group, ensuring it maintained a robust financial position during the period of uncertainty. It has continued to do so throughout the 12 months ending 31 March 2021.

The review of the audit in respect of the financial year ending 31 March 2020 was undertaken at the peak of the pandemic, with significant uncertainty surrounding the longer-term impact on the Company and wider economy. A significant amount of work was undertaken in respect of the going concern model prepared by management, which assessed the potential impact of Covid-19 on the Group. The Directors concluded that they had a reasonable expectation that the Group had adequate resources to continue in operation for at least 12 months from the date of approval of the financial statements and continued to adopt the going concern basis in preparing the financial statements.

As a result of Covid-19, the valuations issued by Cushman & Wakefield in March 2020 were subject to a material uncertainty disclosure and therefore BDO included an emphasis of matter in relation to the value of the Group's property estimates. The emphasis of matter was carefully considered by the Committee and management, who both recognised that it was reflective of the uncertain environment that existed at the time. I am pleased to report that no material uncertainty disclosure has been included in the valuations issued by Cushman & Wakefield in March 2021 and BDO have not included any emphasis of matter in their audit report this year.

In accordance with the UK Code, all members of the Committee are Independent Non-Executive Directors. The Non-Executive Chairman, Chief Executive and Chief Financial Officer 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 and considers that all members have the necessary competence relevant to the sector in which the Company operates, as required by the UK Corporate Governance Code.

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 statements.
- The Company's system of internal controls and risk management.
- The identification and management of the Group's principal risks.
- The external audit process and relations with Auditors.

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 Group's 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 management's 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 is set out below.

Property valuations

The valuation of the Group's properties and the determination of their fair value 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 judgements applied by management and the independent 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 our tenants has been significant and this has led to some tenants falling into arrears. 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.

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 Group's 12-month cashflow 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 the going concern basis of preparation.

READ MORE ABOUT GOING CONCERN
ON PAGES 39 AND 40

HUDSON QUARTER – YORK

Audit and Risk Committee Report CONTINUED

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 40.

Fair, balanced and understandable

At the request of the Board, the Committee has considered whether the Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance. 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 and had been written in straightforward language without unnecessary repetition. The Committee was satisfied that, taken as a whole, the Annual Report 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. During the year, Richard Levy, the lead audit partner, was replaced by Charles Ellis as Richard had completed his five-year term.

The Committee has assessed BDO's performance, independence, objectivity and fees, as well as the effectiveness of the audit process. 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, their own interaction with the audit team and assurances provided by the Auditor in relation to their independence.

In the year ended 31 March 2021, the only non-audit services provided to the Group related to the independent review of the half-year results. The Committee 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 112. Total fees related to non-audit services represented 5.6% of the total fees for audit services (2020: 5.7%).

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.

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

7 June 2021

Directors' Remuneration Report

Members

- Mickola Wilson (Chair from 7 August 2020)
- Kim Taylor-Smith
- Paula Dillon
- Anthony Dove (Chair retired 7 August 2020)

Meetings held: 6

2020/21 Key achievements

- Considered the operation of the 2021 annual bonus and grant of 2020 Long Term Incentive Plan (LTIP) awards to ensure they remain appropriate given the difficult trading environment
- Continued to keep wider workforce remuneration arrangements under review
- Reviewed the Directors' Remuneration Policy ahead of its triennial shareholder vote.

MICKOLA WILSON
Chair of Remuneration Committee

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 six times during the year (details of attendance are set out on page 62).

Advisors
The Company has been advised by MM&K during the year ended 31 March 2021. MM&K Limited were paid £8,640 (2020: £6,120) and do not have any other connection with the Company.

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 supports the Group's strategy and 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. The Directors' Remuneration Policy will therefore be subject to a binding Shareholder vote at the Company's AGM in July 2021 and a full copy of the proposed policy can be found on pages 74 to 78.

The Remuneration Policy is designed to be simple and transparent and is aligned to the Group's strategic KPIs.

The Committee undertook a review of the policy during the year and considered whether any adjustments were necessary and whether any alternative incentive structures would work better. The Committee concluded that in the current environment, the existing policy is appropriate and continues to operate as intended. The Committee was particularly mindful of the ongoing uncertainty and economic disruption caused by Covid-19 and considered that significant changes to the current structure would not be appropriate at this time. Accordingly, the enclosed policy has only been updated to reflect best practice including the introduction of formal guidance in relation to Directors' minimum shareholdings and post-employment requirements, as well as the introduction of a formal discretionary override to the annual bonus and Long-Term Incentive Plan. Further details can be found on pages 74 to 78. The Committee will continue to keep the policy under review.

PERFORMANCE OUTCOMES FOR FY21

The 12 months to 31 March 2021 were exceptionally challenging. Covid-19 had a significant impact on our business and the businesses of all our tenants. Despite this, the Group achieved over 95% rent collection, an adjusted profit before tax ahead of budget as well as seeing some share price recovery.

In April 2020, the Board took the difficult decision to cancel the third-quarter dividend in respect of the year ending 31 March 2020. Following the Group's better than expected rent collection, the Board reinstated its regular programme of paying quarterly dividends in August 2020, ensuring a minimum level of return is provided to Shareholders. Against this backdrop, and as referenced in last year's report, the Directors bonus in respect of the year ending 31 March 2020 was reduced by 10%.

Directors' Remuneration Report CONTINUED

In light of the uncertainty that existed at the time, the Committee delayed setting the targets for the Directors' annual bonus for the year ending 31 March 2021 and has disclosed these details in full on pages 79 and 80. The financial and operational targets reflect the adjustment to our strategy in the year, which was to focus on rent collection and maximise liquidity. A total of 35.2% of the maximum potential target was achieved.

The Long Term Incentive awards that were granted in November 2017 had a normal vesting date of 1 November 2020. The performance conditions related 50% to Total Shareholder Return and 50% to Net Asset Growth versus a selected peer group. The performance criteria over a three-year period were not achieved and the awards lapsed in full. Full details can be found on page 80.

Like the bonus, the Committee delayed the grant of awards under the Long Term Incentive Plan until after the half-year results. Having seem some share price recovery during the first half of the year, on 14 October 2020 awards were granted to the Executive Directors over 396,846 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.

The business continues to focus on delivering attractive total returns to its Shareholders. Total Shareholder Return for the year was 38.5% and the Board has proposed a final dividend of 3.00p bringing total dividends for the year to 10.5p per share.

IMPLEMENTATION IN FY22

There will be no salary or fee increases for Directors for the period commencing 1 April 2021.

In accordance with the UK Code, Directors' pension rates align to the rate applicable to the majority of the workforce.

The Committee has not set bonus performance targets for the period ending 31 March 2022 as it continues to monitor the re-opening of the economy and the effect of the relaxation of restrictions that have been in force for most of the past year. The targets will be set as soon as reasonably practicable and will be disclosed in full in next year's report. In accordance with the proposed Remuneration 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.

Awards under the Long-Term Incentive Plan are typically made following the publication of the Company's full year results and will be announced via a regulated information service at the relevant time.

CONCLUDING REMARKS

The remuneration arrangements provide alignment with shareholders through the use of financial and operational objectives. The framework applies in a very similar way across the Group in terms of types of benefits and variable pay. All members of the team participate in the LTIP, not just the Executive Directors and there is a consistent level of pension provision across our workforce. The Committee will take into consideration a range of stakeholders' interests when making reward decisions for Directors, especially those of our Shareholders.

On behalf of the Committee, I would like to thank all our Shareholders for their continued support. We believe that the decisions taken with respect to FY21 pay outcomes and the pay structures for FY22 are aligned with the Group's strategy, reflect the market environment and are in the best interests of Shareholders.

We look forward to receiving your support at the 2021 AGM in respect of the binding vote on the Remuneration Policy and the advisory vote on the Annual Report on Remuneration.

Mickola Wilson
Chair of Remuneration Committee

7 June 2021

STAPLE HOUSE – WINCHESTER

Remuneration at a Glance

SALARY

BENEFITS

PENSION

Fixed pay

+

ANNUAL BONUS

LTIP

Performance related pay

=

TOTAL REMUNERATION

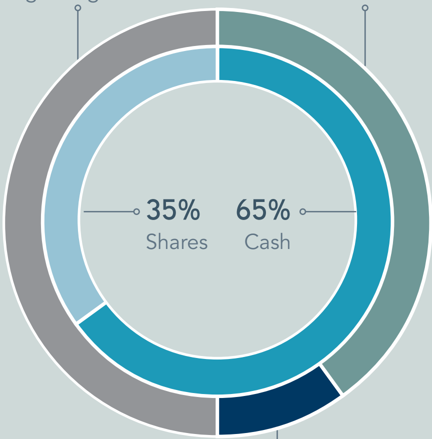
PERFORMANCE-RELATED PAY FRAMEWORK (2021 AWARDS)

ANNUAL BONUS

Up to 100% of annual salary

50%
Strategic Targets

40%
TPR outperformance of the MSCI index

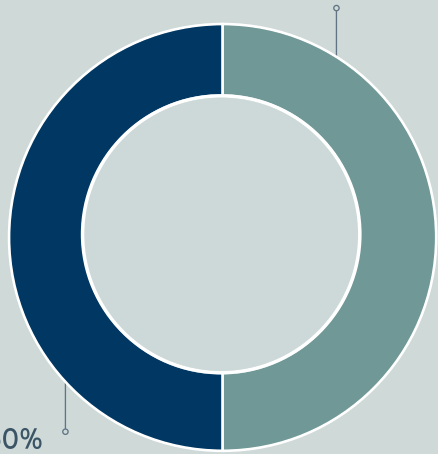


10%
Adjusted PBT

LTIP

Maximum award of 100% of salary

50%
Total Property Return compared to TPR of the MSCI IPD Index



50%
Total Shareholder Return (TSR)

ADJUSTED PBT

£7.5m

TPR PERFORMANCE VS TPR MSCI IPD INDEX

(0.2)%

TOTAL SHAREHOLDER RETURN

38.5%

STRATEGIC TARGETS

SEE PAGE 80

Our Remuneration Policy

This policy report sets out the Directors' Remuneration Policy that guides the Remuneration Committee's decision-making. Subject to receiving Shareholder approval at the Company's AGM on 29 July 2021, this policy will become effective for a period of up to three years.

No significant changes have been made compared to the previous policy and the policy has only been updated to reflect best practice including the introduction of formal guidance in relation to Directors' minimum shareholdings and post-employment requirements, as well as the introduction of a formal discretionary override to the annual bonus and Long-Term Incentive Plan.

EXECUTIVE DIRECTORS' POLICY TABLE

Element and link with strategy	Operation and maximum potential value	Performance framework
Salary – Fixed amount at a level appropriate to the skills and experience needed to fulfil the role.	Salaries are reviewed annually with effect from 1 April each year. Any increases are made having regard to inflation, personal performance, and the need to retain and motivate. A review of the salaries in the Company's peer group in conjunction with the Group's remuneration advisors may be undertaken to ensure comparable salaries are being paid. The Remuneration Committee seeks to ensure that salaries are set at levels that are reasonable, with an emphasis on total remuneration being achieved from performance-based rewards. The Committee does not specify a maximum salary or maximum salary increase.	Salary is not linked to specific financial or non-financial performance measures.
Annual bonus – To incentivise performance which is measured against targets set at the beginning of the financial year. Paying part of the bonus in shares aligns the interests of the Directors with those of Shareholders.	Performance targets are set by the Remuneration Committee at the beginning of each financial year. At the end of the financial year, the Committee reviews performance against the targets and also takes into account the overall financial performance and future prospects. The maximum bonus opportunity is capped at 100% of salary. The bonus is paid as 65% in cash and 35% by way of an option over shares pursuant to the Deferred Bonus Plan. The ability to exercise the option granted under the Deferred Bonus Plan is deferred for a year and there is a period of a further year during which the options may be exercised. The Committee has discretion for 100% to be paid in cash. The Committee may, in exceptional circumstances, use its discretion to amend the bonus outcome if it believes that it does not properly reflect overall underlying business performance, an individual's contribution or some other factor. Malus and clawback provisions apply to all elements of the bonus. See page 76 for more detail.	Performance is assessed against a range of financial, non-financial and strategic targets which vary each year.

LTIP – To incentivise and reward performance over the long-term, aligning Directors' interests with those of Shareholders.	Awards are proposed to be granted in the form of nil cost options and will be subject to challenging performance conditions in line with business KPIs, measured over a three-year period. Award levels are capped at a maximum value of 100% of salary. At the end of the three-year performance period a review is undertaken and a comparison made with the performance targets which will determine the percentage of the award that will vest. Vested shares are subject to a further two-year holding period. The Committee may, in exceptional circumstances, use its discretion to adjust the level of vesting of LTIP awards if it believes it does not properly reflect overall underlying business performance, Shareholders' experience, an individual's contribution or any combination thereof. Malus and clawback provisions apply to LTIPs. See page 76 for more detail.	Performance measures are aligned to the key objectives of the Company and the creation of Shareholder value. The Committee reviews the measures, their relative weightings and targets prior to each award and makes changes as is deemed appropriate.
Pension – As part of their overall package, Executive Directors are provided with retirement benefits.	Executive Directors, below retirement age receive a contribution in line with the rate applying to the majority of the workforce of 5% of salary paid into a pension scheme.	None
Other Benefits – As part of their overall package, Executive Directors are provided with a competitive level of benefits that encourage wellbeing and engagement.	Travel or car allowance – Travel allowances are fixed in the Executive Directors service contracts. Private medical cover - Private medical cover is at a level which the Committee determines is fair and reasonable. Life assurance - Life assurance is fixed at £1.5m for the Executive Directors below retirement age. 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.	None
Shareholding Requirements – Encourages long-term commitment and alignment with Shareholder interests.	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.	None

Our Remuneration Policy CONTINUED

DIVIDEND EQUIVALENTS FOR SHARE-BASED AWARDS

Awards granted under the Deferred Bonus Plan and Long Term Incentive Plan incorporate the right to receive amounts equivalent to any dividends or Shareholder distributions which would have been paid between the date of grant and the date of the delivery of shares in respect of which an option has been exercised.

MALUS AND CLAWBACK

Where an option has been granted based on any incorrect information including, without limitation, a material misstatement in any published results of the Group, the number of shares subject to the option shall be reduced or eliminated. In the event that an option has already been exercised the Remuneration Committee may decide that the recipient should make a repayment of some or all of the benefit received. Malus and clawback also applies to the cash element of the bonus and in the circumstances described above, a repayment of some or all of the cash may be required.

HOW THE COMMITTEE WILL USE ITS DISCRETION

The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition. The Committee may adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. The Committee also retains discretion to make downward or upward adjustments resulting from the application of the performance measures if it considers that the outcomes are not a fair and accurate reflection of business performance. In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.

NON-EXECUTIVE DIRECTORS AND CHAIRMAN POLICY TABLE

Element and link with strategy	Operation and maximum potential value	Performance framework
Fees – To provide competitive fees to attract the right Non-Executives.	Fees are normally reviewed every two years following the advice of the Company's remuneration advisors. Additional fees are payable for the chairing of Board Committees. No maximum is specified.	Not applicable.

APPROACH TO RECRUITMENT REMUNERATION

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

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

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

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

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

SERVICE CONTRACTS AND POLICY ON 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.

Element	Operation
Salary	Service contracts may be terminated immediately by making a payment in lieu of notice. An immediate payment of 50% of salary will be made followed by monthly payments after six months in the event that alternative employment has not been secured.
Annual Bonus	In the event of termination for a reason other than resignation or gross misconduct for material performance or conduct concerns, a Director may be eligible, at the discretion of the Remuneration Committee to receive an award based on the achievement of the performance targets. If the Director has not been employed throughout the year, a reduced pro-rata amount may be paid in specific circumstances or at the discretion of the Remuneration Committee.
Deferred Bonus Plan	In relation to Deferred Bonus awards, individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement, redundancy, ill health, death or disability (proved to the satisfaction of the Committee), or those deemed by the Committee in its absolute discretion to be good leavers given the circumstances surrounding termination. All other leavers would be bad leavers. If an individual is categorised as a good leaver the award will vest on the normal vesting date unless the Committee determines the award should vest following cessation of employment or a change of control. If an individual is considered by the Committee to be a bad leaver, their awards will lapse in full.
LTIP	Individuals would be defined as good or bad leavers, with good leavers being those leaving under predetermined circumstances such as retirement, redundancy, ill health, death or disability (proved to the satisfaction of the Board), or those deemed by the Committee in its absolute discretion to be good leavers given the circumstances surrounding termination. All other leavers would be bad leavers. If an individual is categorised as a good leaver then, other than in exceptional circumstances, the award will vest on the normal vesting date reflecting the extent to which performance targets have been met and the number of shares would normally be pro-rated to reflect the reduced service period. The post vest holding period would also apply, other than in exceptional circumstances. If an individual is determined to be a bad leaver, their awards will lapse in full.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

Remuneration throughout the Group is considered when setting the Directors' remuneration policy. The Policy framework applies in a very similar way across the Group in terms of types of benefits and variable pay relative to roles and disciplines. This ensures alignment across the workforce and encourages shared goals and objectives.

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. The Committee will carefully consider the broader employee salary increase budget when making reward decisions for Directors.

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.

DECISION MAKING PROCESS FOR DETERMINATION, REVIEW AND IMPLEMENTATION OF DIRECTORS' REMUNERATION POLICY

The Committee keeps the operation of the Policy under regular review to ensure it continues to operate as intended and support the Group's strategy over the longer-term. The Committee will review the structure and quantum and consider the UK Corporate Governance Code 2018, market practice, institutional investor and investor representative body views generally as well as those of its own Shareholders. The Committee will also have regard to the remuneration arrangements, policies and practices of the wider workforce. If the Committee determines that changes are required, it will engage with its largest Shareholders to ensure their feedback is taken into consideration when finalising any policy changes.

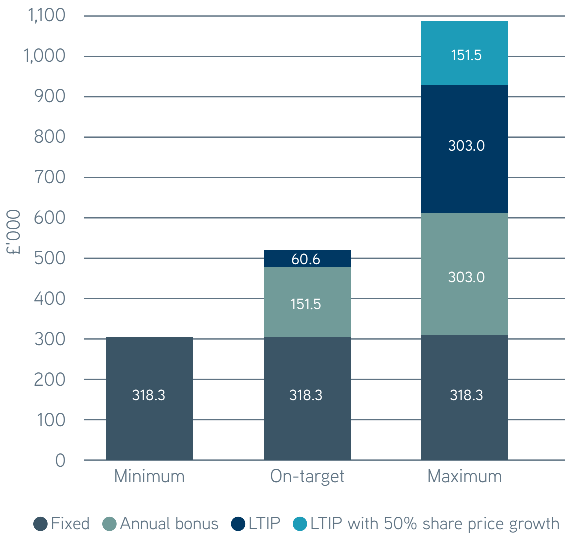
The Committee manages conflicts of interest by ensuring that the relevant member of management or the Committee are not present when their own remuneration is determined or discussed. The Committee will receive input from the Chief Executive and Chief Financial Officer on remuneration related matters. The Company Secretary acts as Secretary to the Committee. None are present when their own remuneration is determined. In addition, the Committee is satisfied that the advice received by MM&K in relation to Executive remuneration matters is objective and independent.

Our Remuneration Policy CONTINUED

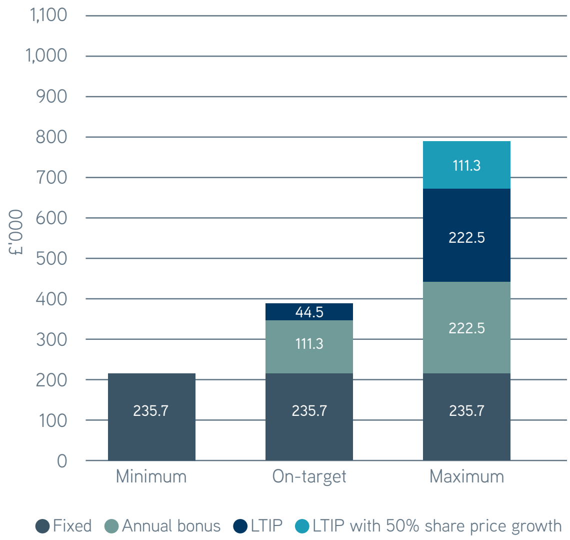
ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY

The graphs below illustrate the remuneration opportunity provided to each Executive Director in line with the Remuneration Policy. Three scenarios have been illustrated for each Executive Director:

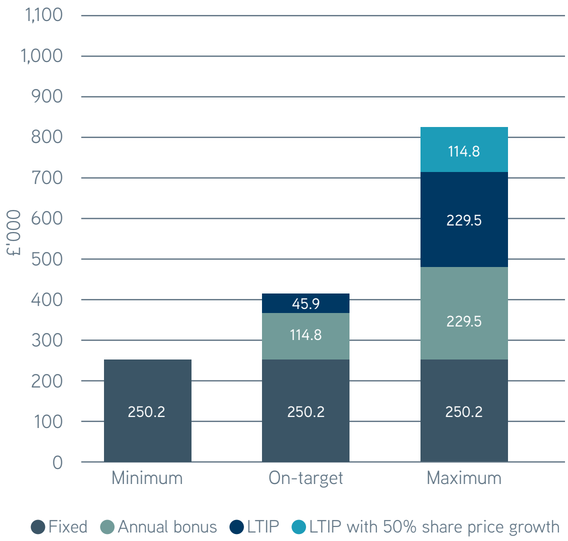
Neil Sinclair



Stephen Silvester



Richard Starr



Key and assumptions:

The minimum reflects salary, pension and benefits which are based on the remuneration as at 1 April 2021.

The on-target includes the remuneration above plus bonus payout 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.

Annual Remuneration Report

This report was prepared by the Remuneration Committee and approved by the Board for the financial year ended 31 March 2021.

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 2021, 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 Fixed pay	Total Variable pay	Total
Neil Sinclair	**2021**	**303,000**	**15,340**	**69,326**	**37,330**	**–**	**–**	**318,340**	**106,656**	**424,996**
	2020	295,000	16,192	118,885	64,015	104,314	–	311,192	287,214	598,406
Stephen Silvester	**2021**	**222,500**	**2,076**	**50,908**	**27,412**	**–**	**11,125**	**235,701**	**78,320**	**314,021**
	2020	210,000	8,905	84,630	45,570	42,579	10,500	229,405	172,779	402,184
Richard Starr	**2021**	**218,025**	**7,594**	**52,510**	**28,274**	**–**	**24,534**	**250,153**	**80,784**	**330,937**
	2020	211,850[2]	8,461	89,869	48,391	58,956	23,839	244,150	197,216	441,366

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 2021	Fees to 31 March 2020
Stanley Davis	50,000	50,000
Anthony Dove	15,865[1]	45,000
Kim Taylor-Smith	45,000	45,000
Mickola Wilson	45,000	45,000
Paula Dillon	40,000	3,333[2]

[1]Retired from the Board 7 August 2020
[2]Joined the Board on 1 March 2020

ANNUAL BONUS

The Group's remuneration policy for the year ended 31 March 2021 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 2021, the specific criteria comprised Total Property Return compared to the MSCI IPD Index (40%), Budgeted Profit (10%) and Strategic Targets (50%) linked to key deliverables for the year. The assessment of actual performance achieved is set out below and on the next page.

For the 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 2020 based on the Cushman & Wakefield valuations as at that date. MSCI measured the increase in value as at 30 September 2020 and again on 31 March 2021 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 2021 on a total return basis of 1% compared with the MSCI IPD Index, which showed a total return of 1.2%. The total return achieved by the Company did not exceed the benchmark index and therefore this portion of the bonus was not met.

Adjusted Profit Before Tax comprised 10% of the potential bonus. In the year ended 31 March 2021 the Group generated recurring earnings of £7.5m which met the minimum threshold resulting in 2.5% of the bonus being satisfied.

The remaining bonus criteria comprised specific strategic targets that reflected key deliverables for the year. This included rent collection and progress at Hudson Quarter, York.

Based on the performance criteria, the Executive Directors achieved 35.2% of the maximum award.

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 2021, 35% will be deferred in accordance with the terms of the Deferred Bonus Plan.

Annual Remuneration Report CONTINUED

ANNUAL BONUS TARGETS FOR YEAR ENDED 31 MARCH 2021 AND OUTCOMES

Measure		Weighting	Target	Achievement	Awarded (% of maximum)
Increase in Total Property Return		40%	Outperform MSCI Index by 1–3%	(0.2)%	0%
Profit		10%	Adjusted PBT between £7.5m–£9.5m	£7.5m	2.5%
Strategic targets	Hudson Quarter residential sales	15%	Exchange contracts for the sale of residential apartments	39	2.1%
	Hudson Quarter commercial lettings	5%	Pre-let the commercial offices	4,781 sq ft	0.6%
	Rent Collection	30%	Achieve rent collections in excess of 85%	95%	30%
Total		100%			35.2%

LONG-TERM INCENTIVE PLAN

Executives have been able to participate in the Group's Long Term Incentive Plan. 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.

The LTIP awards that were granted in November 2017 had a normal vesting date of 1 November 2020. The performance criteria over a three-year period were not achieved and the awards lapsed in full.

Measure	Performance condition	Threshold	Maximum	Actual	Weighting	Awarded (% of maximum)
Total Shareholder Return	Annualised and Total TSR over the performance period. 33.33% vests for achieving threshold performance increasing on a straight-line basis to full vesting.	Annualised TSR 8.0% Total TSR 26.0%	Annualised TSR 13.0% Total TSR 44.3%	Below Threshold	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	Below Threshold	50%	0%

SCHEME INTERESTS AWARDED DURING THE YEAR

The following awards under the Long-Term Incentive Plan were granted to the Executive Directors on 14 October 2020:

	Number of shares	% of salary	Face value of award*	Performance period end	Threshold vesting
Neil Sinclair	159,264	100	303,000	14 October 2023	20%
Stephen Silvester	116,951	100	222,500	14 October 2023	20%
Richard Starr	120,631	100	229,500	14 October 2023	20%

* Face value calculated based on the mid-market closing average price for the five days ended on 14 October 2020 of 190.25 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 2020	Granted	Vested and exercised	Lapsed	As at 31 March 2021	Share price at date of award	Grant date	Vesting date
Neil Sinclair	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
	–	159,264	–	–	159,264	£1.90	14/10/2020	14/10/2023
Stephen Silvester	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
	–	116,951	–	–	116,951	£1.90	14/10/2020	14/10/2023
Richard Starr	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
	–	120,631	–	–	120,631	£1.90	14/10/2020	14/10/2023

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 2020, 35% of the bonuses due to the Executive Directors were deferred and the details of the outstanding awards are as follows:

	At 31 March 2020	Granted	Vested and exercised	Lapsed	As at 31 March 2021	Share price at date of award	Grant date	Vesting date
Neil Sinclair	13,457	450[1]	13,907	–	–	£2.97[2]	24/06/19	24/06/20
	–	34,417	–	–	34,417	£1.86	14/07/20	14/07/21
Stephen Silvester	8,499	284[1]	8,783	–	–	£2.97[2]	24/06/19	24/06/20
	–	24,500	–	–	24,500	£1.86	14/07/20	14/07/21
Richard Starr	10,152	340[1]	10,492	–	–	£2.97[2]	24/06/19	24/06/20
	–	26,017	–	–	26,017	£1.86	14/07/20	14/07/21

1. Dividend equivalents
2. The share price at the grant of the award was higher than the £1.84 share price at vesting and therefore no growth in share price between grant and vesting is attributable to the award

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 2021, 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 2021.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office in the year ended 31 March 2021.

Annual Remuneration Report CONTINUED

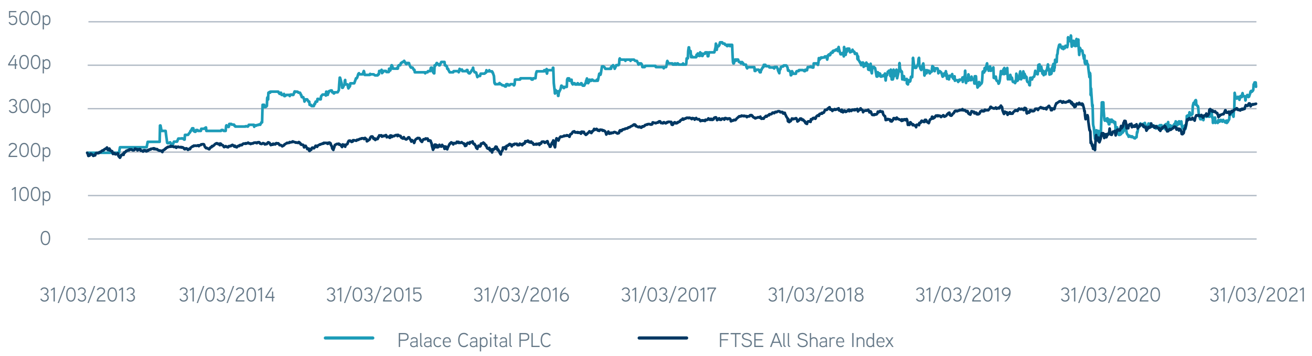
STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

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

	Ordinary shares of 10p each 31 March 2021	Ordinary shares of 10p each 31 March 2020	Outstanding Ordinary share options of 10p each 31 March 2021	Outstanding Ordinary share options of 10p each 31 March 2020
Stanley Davis	1,665,287	1,665,287	–	–
Neil Sinclair	260,715	253,066	373,457	265,987
Stephen Silvester	34,570	29,915	282,422	172,739
Richard Starr	199,575	194,014	262,981	200,418
Anthony Dove	N/A	91,000	–	–
Kim Taylor-Smith	10,000	10,000	–	–
Mickola Wilson	10,000	10,000	–	–
Paula Dillon	10,000	–	–	–

REVIEW OF PAST PERFORMANCE

The following graph shows the Group's Total Shareholder Return (TSR) for the period to 31 March 2021 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	2.7%	–5.3%	–41.7%
Other employees (excl. Chief Executive)	5.9%	–25.5%	–31.9%

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)
2021	424,996	35.2	–
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):

	2021 £'000	2020 £'000	% change
Employee costs	2,642,016	2,593,000	1.9%
Dividends	3,455,227	8,742,646	–60.5%

Percentage Change in Directors' Remuneration

	Executive Directors (% change)				Non-Executive Directors (% change)				
(% change)	Average per employee[1]	Neil Sinclair	Stephen Silvester	Richard Starr	Stanley Davis	Kim Taylor-Smith	Anthony Dove	Mickola Wilson	Paula Dillon
Salary/Fees[2]	10%	3%	6%	3%	0%	0%	0%	0%	0%
Taxable Benefits	0%	–5%	–77%	–10%	N/A	N/A	N/A	N/A	N/A
Annual variable pay	9%	–42%	–40%	–42%	N/A	N/A	N/A	N/A	N/A

1. The annual percentage change of the average remuneration of the Company's employees.
2. The Directors remuneration used to calculate the percentage change is taken from the 'single figure' table on page 79.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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
Kim Taylor-Smith	6 October 2020	5 October 2023
Mickola Wilson	14 January 2019	31 January 2022
Paula Dillon	30 January 2020	28 February 2023

Annual Remuneration Report CONTINUED

IMPLEMENTATION OF REMUNERATION POLICY IN 2021/22

In respect of the year ending 31 March 2022, the Committee intends to implement the Executive and Non-Executive Director remuneration policies as follows:

Salary

EXECUTIVE DIRECTORS

There will be no changes to the Executive Director salaries for the period commencing 1 April 2021.

The average salary increase across the workforce from 1 April 2021 was 1% of salary.

	Salary	Change
Neil Sinclair	303,000	0%
Stephen Silvester	222,500	0%
Richard Starr	229,500	0%

NON-EXECUTIVE DIRECTORS

Non-Executive Director fees for the year ending 31 March 2022 will be as follows:

	Role	2021 fee	Change
Stanley Davis	Non-Executive Chairman	50,000	–
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	45,000	0%
Paula Dillon	Non-Executive Director • Chair of ESG Committee from 1 April 2020	40,000	0%

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 2022.

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.

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 2020 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	92.91%	7.09%	30,085,568	2,297,378	1,987,001
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 7 June 2021 and signed on its behalf by:

Mickola Wilson
Chair of Remuneration Committee

Directors' Report and Additional Disclosures

The Directors present their report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2021.

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, predominantly 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 12 to 49, and is incorporated by reference.

GOVERNANCE

The Governance Report (pages 52 to 84 of this Annual Report and Accounts 2021) 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 2.50p per Ordinary share on 16 October 2020, 10 December 2020 and 9 April 2021. The Directors recommend the payment of a final dividend in respect of the year ending 31 March 2021 of 3.00p per Ordinary share to be paid on 5 August 2021 to the Shareholders on the register on 2 July 2021 (2020: 18 October 2019 4.75p; 27 December 2019 4.75p; and 14 August 2020 2.50p).

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 7 August 2020, 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 2021 and up to the date of the financial statements, are set out on pages 54 and 55, 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 79 to 84. 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 UK Code, all Directors offer themselves for re-election at the AGM on 29 July 2021. The Directors' service contract terms are set out in the Annual Remuneration Report on page 83.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are provided in note 25 on page 130 of the financial statements.

FUTURE DEVELOPMENTS

Details of future developments are provided in the Strategic Report on pages 12 and 49.

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 4 June 2021, being the latest practicable date before the issue of these financial statements, the Company had been notified of the following shareholdings, pursuant to the Disclosure Guidance and Transparency Rules:

	Ordinary 10p shares No.	Shareholding %
Premier Miton Group plc	4,330,808	9.40
AXA Investment Managers	3,542,633	7.73
JO Hambro	3,356,810	7.32
Peter Gyllenhammar AB	2,366,807	5.14
Allianz	2,342,973	5.08
Stanley Davis	1,665,287	3.61

Directors' Report and Additional Disclosures CONTINUED

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 2021, the Directors authorised a potential conflict in relation to Mickola Wilson's appointment as a Non-Executive director of Mailbox REIT plc.

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 67.

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.

2021 ANNUAL GENERAL MEETING

The 2021 AGM will be held on 29 July 2021 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

7 June 2021

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and 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 pursuant to Regulation (EC) No 1606/2002 as it applies to 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 the Company and of the profit or loss of the Group and the Company for the period. In preparing each of the Group and 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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

The Directors confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 Group's and Company's performance, business model and strategy.

On behalf of the Board

Nicola Grinham
Company Secretary

7 June 2021

Independent Auditor's Report

TO THE MEMBERS OF PALACE CAPITAL PLC

OPINION ON THE FINANCIAL STATEMENTS

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

We have audited the financial statements of Palace Capital plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

Independence

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors on 1 April 2015 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 7 years, covering the years ending 31 March 2015 to 31 March 2021.

We remain 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. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

As set out in the accounting policy on going concern (on page 102), 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 and accordingly we considered going concern to be a key audit matter.

Our response to this key audit matter and our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's going concern paper and supporting projections and testing the integrity of this model reviewing its arithmetic accuracy and testing the formulas within the model.
- Assessing the appropriateness of assumptions made within this model and challenged the term used by the Directors for the long term viability.
- Comparing forecast results to our expectations based on our knowledge of the business, most recent performance, current economic factors including latest government lockdown guidance and vaccine rollout and the risk of non-collection of future rental income from tenants that have been impacted by Covid-19.
- Considering the appropriateness of the sensitivities applied in the model, namely through assessing the impact of 'stress tests' scenarios such as rent reductions as well as fall in investment property values. This included considering the impact of these on covenants or cash flow deficits to determine the likelihood of those scenarios occurring.
- Where bank loans mature in the 12 month period from the date of our audit report, we have discussed with management their plans to repay or refinance the debt and assessed whether the assumptions made are appropriate. This included a review of the loan repayments on the Barclays Development Loan subsequent to the year end.
- Reviewing the disclosures to ensure that they are in line with the detailed assessment undertaken by the Board, including that it is clear, understandable and complete.

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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OVERVIEW

Coverage[1]	100% (2020: 100%) of Group revenue 100% (2020: 100%) of Group investment property 99.9% (2020: 99.9%) of Group total assets 99.9% (2020: 99.9%) of Group profit before tax		
Key audit matters		2021	2020
	KAM 1	Valuation of property portfolio	Valuation of property portfolio
	KAM 2	Revenue recognition	Revenue recognition
	KAM 3	Going concern and loan covenants	Going concern and loan covenants
Materiality	**Group financial statements as a whole** We determined materiality for the Group financial statements as a whole to be £3,000,000 (2020: £3,000,000), which was set at 1% of Group total assets (2020: 1%).		

1. These are areas which have been subject to a full scope audit by the Group engagement team

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates solely in the United Kingdom, and all audit procedures are performed by the Group audit team. We identified three significant components, in addition to the Parent Company:

- Palace Capital (Developments) Limited
- Palace Capital (Signal) Limited
- Property Investment Holdings Limited

All significant components were subject to full scope audits.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. In addition to the matter set out in the Conclusions relating to going concern section above, we identified the following key audit 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 pages 105 to 106 and trading properties on page 106.* *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 (i.e. by estimating the fair value of the completed asset less estimated costs to completion and an appropriate developer's margin). • Trading properties: these are properties being developed with the view to sell. They are measured at the lower of the cost and estimated net realisable value. 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 a sample to executed lease agreements as part of our audit work. We checked the completeness of the data by agreeing a sample of data from the tenancy schedule, which we obtained as part of our revenue work, to the data provided to the valuer. **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 each of the Group's 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. We also reviewed the appropriateness of the valuer's approach to value the Hudson Quarter asset based on capital values less cost to complete on the basis of the practical completion in April 2021. 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.

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 103.* *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. A number of rent concessions have been agreed with tenants as a result of COVID-19 and judgement is involved in assessing whether these qualify as lease modifications. 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 Management's reconciliation to the financial statements. • We obtained Management's schedule of lease incentive adjustments, including rent-free periods and Covid-19 rent concessions, 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. Where applicable, we assessed management's judgements and assertions for these not being a lease modification. • We obtained a breakdown of other revenue recognised in the year including 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.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2021 £m	2020 £m	2021 £m	2020 £m
Materiality	3.00	3.00	1.63	1.52
Basis for determining materiality	Materiality for the Group and Parent Company's financial statement was set at 1% of total assets (2020: 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.			
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for the users of the financial statements in assessing the financial performance of the Group.			
Performance materiality	2.25	2.25	1.22	1.14
Basis for determining performance materiality	Performance materiality is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75% (2020: 75%) of materiality. 75% reflects the risk associated with the audit due to the limited number of audit adjustments identified in previous audits. We determined that the same measure as the Group was appropriate for the Parent Company.			

Independent Auditor's Report CONTINUED

TO THE MEMBERS OF PALACE CAPITAL PLC

Specific materiality

We also 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, specific materiality, could influence the economic decisions of users. As a result, we determined that specific materiality for these areas should be £360,000 (2020: £478,800). This was set at 5% (2020: 5%) of European Public Real Estate Association ("EPRA") earnings. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties. We further applied a performance materiality level of 75% of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

The specific materiality for the Parent Company was £172,000 based on 5% of EPRA earnings (2020: 90% of Group specific materiality being £478,800).

Component materiality

Whilst materiality for the financial statements as a whole was as outlined above, each significant component of the Group was audited to a lower level of materiality which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit. Significant component materiality ranged from £384,000 to £802,000 (2020: range from £359,000 to £938,000), which was based on 1% (2020: 1%) of the total assets of that component. These components were deemed significant as they exceeded 10% of the benchmarks mentioned above with regards to financial statement and specific materiality.

In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £60,000 (2020: £60,000) for items audited to financial statement materiality, and £7,000 (2020: £10,000) for items audited to specific materiality. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 39 to 40; and • The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate set out on page 40.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 87; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 38; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 70; and • The section describing the work of the audit committee set out on pages 68 to 70.

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and 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.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	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 Statement of Directors' Responsibilities, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. These matters were discussed with the entire audit team at both planning and throughout the audit. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We addressed the risk of management override of internal controls, including testing journals processed during and subsequent to the year and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. This included evaluating any management bias within the valuation of investment property, as mentioned under the key audit matters subheading, which we consider is the greatest risk of management manipulation. The valuations were agreed directly to external valuations.

The fraud risk around revenue recognition was addressed by inspecting signed lease agreements to recalculate the annual turnover, and agreeing cash receipts to bank statement to check customers exist and that the management information did agree for a sample of tenants.

We agreed all bank balances and loans to direct bank confirmations and agreements. We looked at the charges lodged at Companies House and ensured there were no unexpected charges linked to bank loans.

Independent Auditor's Report CONTINUED

TO THE MEMBERS OF PALACE CAPITAL PLC

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We performed our own checks of compliance with relevant requirements including, but not limited to, the Companies Act 2006, the UK Listing Rules, the REIT tax regime requirements and legislation relevant to the rental of properties. We considered compliance by the entity by obtaining their papers on compliance, in addition to performing our own review.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation where relevant, review of Board and Committee meeting minutes, and enquiries with management and the Audit Committee as to their identification of any non-compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

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

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.

Charles Ellis
(Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London
United Kingdom

7 June 2021

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

HUDSON QUARTER – YORK

2021 Financials

ONE DERBY SQUARE - LIVERPOOL

CONTENTS

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £'000	2020 £'000
Rental and other income	1	17,316	21,147
Property operating expenses	3b	(1,500)	(2,392)
Movement in expected credit loss	13	(949)	–
Net rental income		14,867	18,755
Dividend income from listed equity investments		72	105
Administrative expenses	3c	(4,347)	(4,284)
Operating profit before gains and losses on property assets, listed equity investments and cost of acquisitions		10,592	14,576
Profit on disposal of investment properties		905	138
Loss on revaluation of investment property portfolio	9	(14,750)	(17,154)
Reversal of impairment/(impairment)	10	763	(763)
Loss on disposal of assets held for sale		–	(269)
Gain/(loss) on revaluation of listed equity investments	11	709	(425)
Operating loss		(1,781)	(3,897)
Finance income		1	18
Finance expense	2	(3,347)	(3,845)
Debt termination costs		(140)	(501)
Changes in fair value of interest rate derivatives		(265)	(846)
Loss before taxation		(5,532)	(9,071)
Taxation	5	(1)	3,632
Loss after taxation for the year and total comprehensive income attributable to owners of the Parent		(5,533)	(5,439)
Earnings per ordinary share			
Basic	6	(12.0p)	(11.8p)
Diluted	6	(12.0p)	(11.8p)

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

Consolidated Statement of Financial Position

AS AT 31 MARCH 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Investment properties	9	235,854	248,699
Listed equity investments at fair value	11	3,249	2,540
Right of use asset	12	165	313
Property, plant and equipment	12	71	101
		239,339	251,653
Current assets			
Trading property	10	42,719	27,557
Trade and other receivables	13	9,764	9,323
Cash and cash equivalents	14	9,417	14,919
		61,900	51,799
Total assets		301,239	303,452
Current liabilities			
Trade and other payables	15	(12,908)	(14,053)
Borrowings	17	(21,853)	(1,836)
Lease liabilities for right of use asset	20	(154)	(164)
Creditors: amounts falling due within one year		(34,915)	(16,053)
Net current assets		26,985	35,746
Non-current liabilities			
Borrowings	17	(105,432)	(117,520)
Deferred tax liability	5	(228)	(228)
Lease liabilities for investment properties	20	(1,804)	(1,806)
Lease liabilities for right of use asset	20	–	(154)
Derivative financial instruments	16	(1,029)	(1,343)
Net assets		157,831	166,348
Equity			
Called up share capital	21	4,639	4,639
Share premium account		–	125,019
Treasury shares		(1,288)	(1,349)
Merger reserve		3,503	3,503
Capital redemption reserve		340	340
Capital reduction reserve		125,019	–
Retained earnings		25,618	34,196
Equity – attributable to the owners of the Parent		157,831	166,348
Basic NAV per ordinary share	7	343p	361p
Diluted NAV per ordinary share	7	342p	361p

These financial statements were approved by the Board of Directors and authorised for issue on 7 June 2021 and are signed on its behalf by:

Stephen Silvester
Chief Financial Officer

Neil Sinclair
Chief Executive

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2021

	Note	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Capital Reduction Reserve £'000	Retained Earnings £'000	Total Equity £'000
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)
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
Total comprehensive income for the year		–	–	–	–	–	(5,533)	(5,533)
Share-based payments	22	–	–	–	–	–	300	300
Exercise of share options	22	–	–	61	–	–	(61)	–
Issue of deferred bonus share options		–	–	–	–	–	171	171
Dividends paid	8	–	–	–	–	–	(3,455)	(3,455)
Transfer to capital reduction reserve account		–	(125,019)	–	–	125,019	–	–
At 31 March 2021		**4,639**	**–**	**(1,288)**	**3,843**	**125,019**	**25,618**	**157,831**

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.

The capital reduction reserve represents distributable profits generated as a result of the share premium reduction.

During the year, the Group made an order to reduce the Group's share premium account and the crediting of the relevant sum to distributable profits. The Court order approving the Share Premium Reduction and a statement of capital were registered with the Registrar of Companies on 29 September 2020. The Share Premium Reduction is now effective, and the amount that had been standing to the credit of the Company's share premium account (£125,018,886) has been credited to the Company's distributable profits and sits within the capital reduction reserve.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Loss before taxation		(5,532)	(9,071)
Finance income		(1)	(18)
Finance expense	2	3,347	3,845
Changes in fair value of interest rate derivatives		265	846
Loss on revaluation of investment property portfolio	9	14,750	17,154
Profit on disposal of investment properties	9	(905)	(138)
Loss on disposal of assets held for sale		–	269
Reversal/(impairment) of trading properties	10	(763)	763
(Gain)/loss on revaluation of listed equity investments	11	(709)	425
Debt termination costs		140	501
Depreciation of tangible fixed assets	12	46	32
Amortisation of right of use asset	12	148	148
Share-based payments	22	300	130
Decrease/(increase) in receivables		491	(481)
(Decrease)/increase in payables		(291)	1,341
Net cash generated from operations		11,286	15,746
Interest received		1	18
Interest and other finance charges paid		(3,575)	(3,680)
Corporation tax paid in respect of operating activities		(1,174)	(2,173)
Net cash flows from operating activities		6,538	9,911
Investing activities			
Capital expenditure on refurbishment of investment property	9	(2,425)	(5,667)
Capital expenditure on developments	9	(4,131)	(3,925)
Capital expenditure on trading property	9	(14,646)	(13,915)
Proceeds from disposal of investment property		5,290	2,708
Proceeds from assets held for sale		–	11,487
Amounts transferred from/(to) restricted cash deposits	14	1,020	(525)
Purchase of non-current asset – equity investment	11	–	(329)
Dividends from listed equity investments		72	105
Purchase of property, plant and equipment	12	(16)	(36)
Net cash flow used in investing activities		(14,836)	(10,097)
Financing activities			
Bank loans repaid	19	(11,363)	(18,325)
Proceeds from new bank loans	19	18,916	19,736
Loan issue costs paid	19	(282)	(978)
Dividends paid	8	(3,455)	(8,743)
Net cash flow from financing activities		3,816	(8,310)
Net decrease in cash and cash equivalents		(4,482)	(8,496)
Cash and cash equivalents at beginning of the year		13,899	22,395
Cash and cash equivalents at the end of the year	14	9,417	13,899

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 accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 2021 the Group had £9.4m of cash and cash equivalents, of which £9.4m was unrestricted cash, a low gearing level of 42% and a fair value property portfolio of £282.8m. The Directors have reviewed the forecasts for the Group taking into account the impact of Covid-19 on trading over the 12 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 ongoing effects of the pandemic. See Going Concern and Viability on pages 39 to 40 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

New standards effective for the year ended 31 March 2021 did not have a material impact on the financial statements and were not adopted.

New standards issued but not yet effective

IFRS Phase 2 amendments for interest rate benchmark (IBOR) reform provide a practical expedient to account for changes in the basis for determining contractual cash flows of financial assets and financial liabilities as a result of IBOR reform. Under the practical expedient, qualifying entities will account for these changes by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9 without the recognition of an immediate gain or loss. This practical expedient applies only to such a change and only to the extent that it is necessary as a direct consequence of interest rate benchmark reform, and the new basis is economically equivalent to the previous basis. This is not expected to be material.

There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on the foreseeable future transactions.

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, rent concessions 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.

Deferred income

Where invoices to customers have been raised which relate to a period after the Group year end, being 31 March 2021, 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 substantial 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.

Where the modification is not considered to be substantial, the loan continues to be measured at amortised cost using the original effective interest rate. Where the modification is substantial, the new effective interest rate is used,

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, and 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 CONTINUED

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.

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.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This is subject to the Finance Bill 2021 being enacted.

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 CONTINUED

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.

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

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.

The capital reduction reserve represents distributable profits generated as a result of the share premium reduction.

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 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.

Expected credit loss model

The Group applies the IFRS 9 simplified approach to the expected credit loss model, using 12 months of historic rental payment information for tenants, and adjusting risk profile rates based on forward-looking information. Covid-19 and the resulting economic and social disruption has brought unforeseen challenges to the UK and the wider global economy; therefore in general our overall risk profile is elevated.

Due to the restrictions arising from the Covid-19 pandemic there is an increased risk of certain tenants defaulting on their rents, particularly in those in the leisure and retail sectors. The impact of Covid-19 has given rise to higher estimated probabilities of default for some of our tenants, so the ECL provisions calculated at 31 March 2021 are higher than in previous periods (refer to note 13).

In arriving at our estimates, we have considered the tenants at higher risk, particularly in the leisure and retail sectors, those in administration or CVA, and those tenants who have been impacted financially by the lockdown who are not necessarily in high-risk sectors.

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 (see note 22 on page 128 for further details). 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	2021 £'000	2020 £'000
Rents received from investment properties	17,150	17,717
Dilapidations and other property related income	56	439
Priory House surrender premium	–	2,850
Insurance commission	110	141
Total Revenue	17,316	21,147

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

Notes to the Consolidated Financial Statements CONTINUED

2. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £'000	2020 £'000
Interest on bank loans	2,898	3,351
Amortisation of loan arrangement fees	300	358
Interest on lease liabilities	105	123
Other finance charges	44	13
	3,347	3,845

3. PROFIT FOR THE YEAR

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

	2021 £'000	2020 £'000
Depreciation of tangible fixed assets and amortisation of right of use assets:	194	180
Auditor's remuneration:		
Fees payable to the Auditor for the audit of the Group's annual accounts	143	124
Fees payable to the Auditor for the audit of the subsidiaries' annual accounts	27	26
Additional fees payable to the Auditor in respect of the 2020 audit	23	–
Fees payable to the Auditor and its related entities for other services:		
Audit related assurance services	10	9
	203	159

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

	2021 £'000	2020 £'000
Void, investment and development property costs	1,275	2,218
Legal, lettings and consultancy costs	225	174
	1,500	2,392

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

	2021 £'000	2020 £'000
Staff costs	2,642	2,593
Share-based payments	300	130
Accounting and audit fees	297	267
Other overheads	244	273
Stock Exchange costs	208	207
Amortisation of right of use asset	148	148
Rent, rates and other office costs	125	134
PR and marketing costs	118	193
Consultancy and recruitment fees	110	164
Legal and professional fees	109	143
Depreciation of tangible fixed assets	46	32
	4,347	4,284

3. PROFIT FOR THE YEAR CONTINUED

d) EPRA cost ratios are calculated as follows:

	2021 £'000	2020 £'000
Gross property income	17,316	21,147
Administrative expenses	4,347	4,284
Property operating expenses	1,500	2,392
Movement in expected credit loss	949	–
EPRA costs (including property operating expenses)	6,796	6,676
EPRA Cost Ratio (including property operating expenses)	39.2%	31.6%
Less property operating expenses	(1,500)	(2,392)
EPRA costs (excluding property operating expenses)	5,296	4,284
EPRA Cost Ratio (excluding property operating expenses)	30.6%	20.3%

4. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows:

	2021 £'000	2020 £'000
Non-Executive Directors' fees	196	188
Wages and salaries	2,119	2,054
Pensions	102	91
Social security costs	225	260
	2,642	2,593
Share-based payments	300	130
	2,942	2,723

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

	2021 Number	2020 Number
Directors	7	8
Senior management and other employees	9	9
	16	17

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

	2021 £'000	2020 £'000
Emoluments for qualifying services	1,218	1,423
Social security costs	167	196
Pension	36	34
	1,421	1,653
Share-based payments	241	100
	1,662	1,753

Notes to the Consolidated Financial Statements CONTINUED

5. TAXATION

	2021 £'000	2020 £'000
Current income tax charge	–	198
Capital gains charge in period	–	1,744
Tax under/(overprovided) in prior year	1	(222)
Deferred tax	–	(5,352)
Tax charge/(credit)	1	(3,632)

	2021 £'000	2020 £'000
Loss on ordinary activities before tax	(5,532)	(9,071)
Based on loss for the period: Theoretical Tax at 19% (2020: 19%)	(1,051)	(1,724)
Effect of:		
Net expenses not deductible for tax purposes	(32)	28
Chargeable gain in excess of profit or loss on investment property	–	197
Tax under/(overprovided) in prior years	1	(222)
Movement on sale and revaluation not recognised through deferred tax	(145)	(371)
Deferred tax released to profit and loss on REIT conversion	–	(3,699)
REIT exempt income	(1,622)	(993)
Non-taxable items	2,850	3,152
Tax charge/(credit) for the period	1	(3,632)

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.

Deferred taxes relate to the following:

	2021 £'000	2020 £'000
Deferred tax liability – brought forward	(228)	(5,580)
Deferred tax release to profit and loss on REIT conversion	–	3,699
Deferred tax on fair value of investment property	–	1,653
Deferred tax liability – carried forward	(228)	(228)

	2021 £'000	2020 £'000
Investment property unrealised valuation gains	(228)	(228)
Deferred tax liability – carried forward	(228)	(228)

5. TAXATION CONTINUED

A deferred tax liability on the revaluation of investment properties to fair value has been provided totalling £228,000 (2020: £228,000) 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 2021 the Group had approximately £9,694,000 (2020: £6,848,000) 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 2022. The Government announced a proposal in March 2021 for an increase in the corporation tax rate 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This is subject to the Finance Bill 2021 being enacted and as such the rate of 25% has not been used currently.

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).

	2021 £'000	2020 £'000
Loss after tax attributable to ordinary Shareholders for the year	(5,533)	(5,439)

	2021 No. of shares	2020 No. of shares
Weighted average number of shares for basic earnings per share	46,061,417	45,988,353
Dilutive effect of share options	–	–
Weighted average number of shares for diluted earnings per share	46,061,417	45,988,353
Earnings per ordinary share		
Basic	(12.0p)	(11.8p)
Diluted	(12.0p)	(11.8p)

Key Performance Measures

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ("APMs"), being financial measures which are not specified under IFRS, are also used by management to assess the Group's performance. These include a number of European Public Real Estate Association ("EPRA") measures, prepared in accordance with the EPRA Best Practice Recommendations reporting framework the latest update of which was issued in November 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 84,934 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 CONTINUED

6. EARNINGS PER SHARE CONTINUED

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

	2021 £'000	2020 £'000
Loss for the year	(5,533)	(5,439)
Adjustments:		
Loss on revaluation of investment property portfolio	14,750	17,154
(Reversal)/impairment of trading properties	(763)	763
Profit on disposal of investment properties	(905)	(138)
Loss on disposal of assets held for sale	–	269
(Gain)/loss on revaluation of listed equity investments	(709)	425
Debt termination costs	140	501
Fair value loss on derivatives	265	846
Deferred tax relating to EPRA adjustments and capital gain charged	–	(3,608)
EPRA earnings for the year	7,245	10,773
Share-based payments	300	130
Priory House surrender premium	–	(2,850)
Adjusted profit after tax for the year	7,545	8,053
Tax excluding deferred tax on EPRA adjustments and capital gain charged	1	(25)
Adjusted profit before tax for the year	7,546	8,028
EPRA and adjusted earnings per ordinary share		
Weighted average number of shares for basic and diluted earnings per share	46,061,417	45,988,353
EPRA Basic	15.7p	23.4p
EPRA Diluted	15.7p	23.4p
Adjusted EPS	16.4p	17.5p

7. NET ASSET VALUE PER SHARE

The Group has adopted the new EPRA NAV measures which came into effect for accounting periods starting 1 January 2020. EPRA issued new best practice recommendations (BPR) for financial guidelines on its definitions of NAV measures. The new NAV measures as outlined in the BPR are EPRA net tangible assets (NTA), EPRA net reinvestment value (NRV) and EPRA net disposal value (NDV). The Group has adopted these new guidelines and applies them in the 31 March 2021 Annual Report

The Group considered EPRA Net Tangible Assets (NTA) to be the most relevant NAV measure for the Group and we are now reporting this as our primary NAV measure, replacing our previously reported EPRA NAV and EPRA NNNAV per share metrics. EPRA NTA excludes the intangible assets and the cumulative fair value adjustments for debt-related derivatives which are unlikely to be realised.

As at 31 March 2021

	EPRA NTA £'000	EPRA NRV £'000	ERPA NDV £'000
Net assets attributable to Shareholders	157,831	157,831	157,831
Include:			
Fair value adjustment of trading properties	2,247	2,247	2,247
Real estate transfer tax	–	18,365	–
Fair value of fixed interest rate debt	–	–	(59)
Exclude:			
Fair value of derivatives	1,029	1,029	–
Deferred tax on latent capital gains and capital allowances	228	228	–
EPRA NAV	161,335	179,700	160,019
Number of ordinary shares issued for diluted and EPRA net assets per share	46,154,624	46,154,624	46,154,624
EPRA NAV per share	350p	389p	347p

The adjustments made to get to the EPRA NAV measures above are as follows:

- Fair value adjustment of trading properties: Difference between development property held on the balance sheet at cost and fair value of that development property.
- Real estate transfer tax: Gross value of property portfolio as provided in the Valuation Certificate (i.e. the value prior to any deduction of purchasers' costs).
- Fair value of fixed interest rate debt: Difference between any financial liability and asset held on the balance sheet of the Group and the fair value of that financial liability or asset.
- Fair value of derivatives: Exclude fair value financial instruments that are used for hedging purposes where the company has the intention of keeping the hedge position until the end of the contractual duration.

7. NET ASSET VALUE PER SHARE CONTINUED

• Deferred tax on latent capital gains and capital allowances: Exclude the deferred tax as per IFRS balance sheet in respect of the difference between the fair value and the tax book value of investment property, development property held for investment, intangible assets, or other non-current investments as this would only become payable if the assets were sold.

As at 31 March 2020

	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000
Net assets attributable to Shareholders	166,348	166,348	166,348
Include:			
Fair value adjustment of trading properties	–	–	–
Real estate transfer tax	–	15,771	–
Fair value of fixed interest rate debt	–	–	(191)
Exclude:			
Fair value of derivatives	1,343	1,343	–
Deferred tax on latent capital gains and capital allowances	228	228	–
EPRA NAV	167,919	183,690	166,157
Number of ordinary shares issued for diluted and EPRA net assets per share	46,068,616	46,068,616	46,068,616
EPRA NAV per share	364p	398p	360p

	2021 No of shares	2020 No of shares
Number of ordinary shares issued at the end of the year (excluding treasury shares)	46,069,690	46,036,508
Dilutive effect of share options	84,934	32,108
Number of ordinary shares issued for diluted and EPRA net assets per share	46,154,624	46,068,616
Net assets per ordinary share		
Basic	343p	361p
Diluted	342p	361p
EPRA NTA	350p	364p

8. DIVIDENDS

	Payment date	Dividend per share	2021 £'000	2020 £'000
2021				
Interim dividend	31 December 2020	2.50	1,152	–
Interim dividend	16 October 2020	2.50	1,152	–
		5.00	2,304	–
2020				
Final dividend	14 August 2020	2.50	1,151	–
Interim dividend	27 December 2019	4.75	–	2,189
Interim dividend	18 October 2019	4.75	–	2,189
		12.00	1,151	4,378
2019				
Final dividend	13 July 2019	4.75	–	2,183
Interim dividend	12 April 2019	4.75	–	2,182
		9.50	–	4,365
Dividends reported in the Group Statement of Changes in Equity			3,455	8,743

Proposed Dividends

	2021 £'000	2020 £'000
July 2021 final dividend in respect of year end 31 March 2021: 3.00p (2020 final dividend: 2.50p)	1,392	1,152
April 2021 interim dividend in respect of year end 31 March 2021: 2.50p (2020 interim dividend: 0.00p)	1,152	–
	2,544	1,152

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 2021.

9. PROPERTY PORTFOLIO

	Freehold investment properties £'000	Leasehold investment properties £'000	Total investment properties £'000
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 1 April 2020	230,396	18,303	248,699
Additions – refurbishments	2,273	(44)	2,229
Capital expenditure on assets under construction	4,061	–	4,061
Loss on revaluation of investment properties	(13,614)	(1,136)	(14,750)
Disposals	(3,975)	(410)	(4,385)
At 31 March 2021	219,141	16,713	235,854

	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 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 1 April 2020	240,927	7,772	248,699	27,557	–	276,256
Additions – refurbishments	2,229	–	2,229	–	–	2,229
Capital expenditure on developments	–	4,061	4,061	–	–	4,061
Additions – trading property	–	–	–	14,399	–	14,399
(Loss)/gain on revaluation of properties	(14,867)	117	(14,750)	763	–	(13,987)
Disposals	(4,385)	–	(4,385)	–	–	(4,385)
At 31 March 2021	223,904	11,950	235,854	42,719	–	278,573

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 £905,000 (2020: £138,000) 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 and trading properties, £859,543 (2020: £474,558) of borrowing costs have been capitalised in the year including 100% of the interest due on the development loan.

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:

	2021 £'000	2020 £'000
Cushman & Wakefield LLP (property portfolio)	282,820	277,770
Adjustment in respect of minimum payment under head leases	1,804	1,806
Less trading properties at lower of cost and net realisable value	(42,719)	(27,557)
Less lease incentive balance included in accrued income	(3,804)	(3,320)
Less fair value uplift on trading properties	(2,247)	–
Carrying value of investment properties	235,854	248,699

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.

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.

9. PROPERTY PORTFOLIO CONTINUED

31 March 2021	Office	Industrial	Leisure	Other	Total
				Significant unobservable inputs	
Fair value of property portfolio	£116,280,000	£40,740,000	£35,455,000	£90,345,000	£282,820,000
Area (sq ft)	669,711	409,593	306,970	217,520	1,603,794
Gross Estimated Rental Value	£10,813,496	£2,881,140	£3,226,035	£3,642,711	£20,563,382
Net Initial Yield					
Minimum	(5.1%)	1.4%	7.4%	4.4%	(5.1%)
Maximum	10.0%	7.9%	8.3%	18.5%	18.5%
Weighted average	5.4%	5.4%	7.8%	7.0%	5.6%
Reversionary Yield					
Minimum	6.5%	5.1%	7.4%	4.5%	4.5%
Maximum	10.8%	7.9%	8.6%	24.3%	24.3%
Weighted average	8.1%	4.7%	7.9%	6.5%	7.3%
Equivalent Yield					
Minimum	6.1%	5.2%	8.3%	5.0%	5.0%
Maximum	8.1%	7.4%	9.5%	14.1%	14.1%
Weighted average	7.8%	6.3%	9.2%	6.5%	7.6%

The "other" sector includes Development, Retail and Warehousing sectors.

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

31 March 2020	Office	Industrial	Leisure	Other	Total
				Significant unobservable inputs	
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%

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: £46,000–£2,006,763 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 2021	**(10.87)**	**10.87**	**(11.29)**	**12.35**
(Decrease)/increase in the fair value of investment properties as at 31 March 2020	(13.36)	13.36	(12.21)	8.48

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 2019	**14,367**
Costs capitalised	13,953
Impairment of trading properties	(763)
At 1 April 2020	27,557
Costs capitalised	**14,399**
Reversal of impairment of trading properties	**763**
At 31 March 2021	**42,719**

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 2019	2,636
Additions	329
Loss on revaluation of equity investment shown in Consolidated Statement of Comprehensive Income	(425)
At 1 April 2020	2,540
Gain on revaluation of equity investment shown in Consolidated Statement of Comprehensive Income	**709**
At 31 March 2021	**3,249**

Notes to the Consolidated Financial Statements CONTINUED

12. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000	Right of use asset £'000
At 1 April 2019	222	–
Additions	36	461
At 1 April 2020	258	461
Additions	16	–
At 31 March 2021	**274**	**461**
Depreciation		
At 1 April 2019	125	–
Provided during the year	32	148
At 1 April 2020	157	148
Provided during the year	46	148
At 31 March 2021	**203**	**296**
Net book value at 31 March 2021	**71**	**165**
Net book value at 31 March 2020	101	313

13. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Current		
Gross amounts receivable from tenants	4,115	2,963
Less: expected credit loss provision	(1,340)	(391)
Net amount receivable from tenants	2,775	2,572
Other taxes	143	625
Other debtors	2,461	2,378
Accrued income	3,804	3,320
Prepayments	581	428
	9,764	9,323

Accrued income amounting to £3,804,000 (2020: £3,320,000) 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 2021 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	12%	3%	7%	69%	
Gross carrying amount	2,364	168	45	1,538	**4,115**
Loss provision	278	5	3	1,054	**1,340**

Changes to credit risk management

The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's tenants. As a result, impairment calculations have been carried out on trade receivables using the IFRS 9 simplified approach, using 12 months of historic rental payment information, and adjusting risk profiles based on forward-looking information. In addition, the Group has reviewed its register of tenants at higher risk, particularly in the leisure and retail sectors, those in administration or CVA and the top 42 tenants by size with the remaining tenants considered on a sector by sector basis.

Concentration of credit risk

The credit risk in respect of trade receivables is not concentrated as the Group operates in many different sectors and locations around the UK, and has a wide range of tenants from a broad spectrum of business sectors. The Group predominantly operates in the Office and Industrial sectors, which has largely remained unaffected by Covid-19. 42% of the ECL provision relates to tenants in the leisure and retail sectors, and 21% of the ECL provision relates to tenants in administration or CVA.

13. TRADE AND OTHER RECEIVABLES CONTINUED

How forward looking information was incorporated

In calculating the ECL provision, the Group used forward looking information when assessing the risk profiles of each tenant, most notably around the assessment over the likelihood of tenants having the ability to pay rent as demanded, as well as the likelihood of rent deferrals and rent frees being offered to tenants. The Group has been in close contact with each tenant throughout the pandemic, therefore the Group has information to assess each tenant on its own merit. The Group also considered factors such as the Government's plans for easing of lockdowns and the pace of the vaccine rollout, which will positively impact the Group's tenants.

Key sources of estimation uncertainty

The Group's risk profile rates form a key part when calculating the ECL provision. Default rates were applied to each tenant based on the ageing of the outstanding receivable. Tenants were classified as either low (default range of 0.5% - 8%), medium (default range of 20% - 50%), high (default range of 65% - 80%), or extremely high risk (set default range of 100%), with default rates applied to each risk profile. These rates have been calculated by using historic and forward looking information and is inherently subjective.

A sensitivity analysis performed to determine the impact on the Group Statement of Comprehensive Income from a 10% increase in each of the risk profile rates would result in a decrease in profit by £355,737.

The Group does not hold any material collateral as security.

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

Movement in the expected credit loss provision was as follows:

	2021 £'000	2020 £'000
Brought forward	391	71
Receivable written off during the year as uncollectable	–	(4)
Provisions increased	949	324
	1,340	391

14. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2021 and 31 March 2020 are in sterling and held at floating interest rates.

	2021 £'000	2020 £'000
Cash and cash equivalents – unrestricted	9,417	13,899
Restricted cash	–	1,020
	9,417	14,919

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.

Notes to the Consolidated Financial Statements CONTINUED

15. TRADE AND OTHER PAYABLES

	2021 £'000	2020 £'000
Trade payables	1,143	2,911
Corporation tax	–	1,173
Other taxes	2,100	912
Other payables	2,607	2,344
Deferred rental income	3,347	3,567
Accruals	3,711	3,146
	12,908	14,053

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 £924k (2020: £600k). These amounts will be recognised as revenue when the development is completed and title is transferred to the buyer, which took place post year end on 20 April 2021

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.

Both derivatives mature in more than one year and so have been presented as non-current liabilities but £675,000 of the fair value is expected to unwind over the next 12 months.

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

Bank	Notional principal	Expiry date	Contract rate %	Valuation rate %	2021 Fair value £'000	2020 Fair value £'000
Barclays Bank plc	34,347,900	25/01/2023	1.3420	0.1862	(717)	(909)
Santander plc	18,967,136	03/08/2022	1.3730	0.1326	(312)	(434)
	53,315,036				(1,029)	(1,343)

17. BORROWINGS

	2021 £'000	2020 £'000
Current liabilities		
Bank loans	22,075	1,836
Unamortised lending costs	(222)	–
	21,853	1,836
Non-current liabilities		
Bank loans	105,432	117,520
Total borrowings	127,285	119,356

	2021 £'000	2020 £'000
Non-current liabilities		
Secured bank loans drawn	106,238	118,925
Unamortised lending costs	(806)	(1,405)
	105,432	117,520

17. BORROWINGS CONTINUED

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

	2021 £'000	2020 £'000
Within one year	22,075	1,836
From one to two years	32,813	6,792
From two to five years	65,750	100,589
After five years	7,675	11,544
	128,313	120,761

Facility and arrangement fees

As at 31 March 2021

Secured Borrowings	All in cost	Maturity date	Loan Balance £'000	Unamortised facility fees £'000	Facility drawn £'000
Santander Bank plc	3.55%	August 2022	25,142	(108)	25,250
Lloyds Bank plc	2.04%	March 2023	6,782	(63)	6,845
National Westminster Bank plc	2.19%	August 2024	28,291	(329)	28,620
Barclays	3.17%	June 2024	37,785	(191)	37,976
Barclays	3.34%	January 2022	20,136	(222)	20,358
Scottish Widows	2.90%	July 2026	9,149	(115)	9,264
			127,285	(1,028)	128,313

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

Investment properties with a carrying value of £234,613,000 (2020: £232,023,000) and trading properties with a carrying value of £42,719,000 (2020: £27,557,000) are subject to a first charge to secure the Group's bank loans amounting to £128,313,000 (2020: £120,761,000).

The Group has unused loan facilities amounting to £13,320,000 (2020: £32,924,000). 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, Palace Capital (Properties) Limited and Palace Capital (Leeds) Limited as part of the NatWest loan. The £1,940,000 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 £62,580,000 (2020: £67,915,000) 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 £9,264,000 (2020: £13,724,000) which is fully fixed at a rate of 2.9%.

The Group has a loan with Barclays Bank plc for £37,976,000 (2020: £40,866,000), of which £34,348,000 (2020: £34,848,000) 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 £25,250,000 (2020: £25,750,000), of which £18,967,000 (2020: £19,343,000) 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 (2020: £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 (2020: £28,620,000) 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 2021 was £127,342,000 (2020: £119,328,000).

The Group's bank loans are subject to various covenants including Loan to Value, Interest Cover and Debt Service Cover requirements.

17. BORROWINGS CONTINUED

During the year, the Group did not meet all of its financial covenants due to non-payment of rent and reduction in the fair value of properties, particularly those in the leisure sector. The financial covenants that were not met during the year were the Historical Interest Cover, Historical Debt Service Cover and Projected Debt Service Cover covenants. Covenant waivers were issued for these breaches during the year, and therefore the Group was in full compliance with all banking covenants at 31 March 2021.

18. GEARING AND LOAN TO VALUE RATIO

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

	2021 £'000	2020 £'000
EPRA net asset value (note 7)	161,335	167,919
Borrowings (net of unamortised issue costs)	127,285	119,356
Lease liabilities for investment properties	1,804	1,806
Cash and cash equivalents	(9,417)	(14,919)
Net debt	119,672	106,243
NAV gearing	74%	63%

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

	2021 £'000	2020 £'000
Fair value of investment properties	240,101	250,213
Fair value of trading properties	42,719	27,557
Fair value of property portfolio	282,820	277,770
Borrowings	128,313	120,761
Cash at bank	(9,417)	(14,919)
Net bank borrowings	118,896	105,842
Loan to value ratio	42%	38%

19. RECONCILIATION OF LIABILITIES TO CASH FLOWS FROM FINANCING ACTIVITIES

	Bank borrowings £'000	Total £'000
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 1 April 2020	119,356	119,356
Cash flows from financing activities:		
Bank borrowings drawn	18,916	18,916
Bank borrowings repaid	(11,363)	(11,363)
Loan arrangement fees paid	(282)	(282)
Non-cash movements:		
Amortisation of loan arrangement fees	300	300
Capitalised loan arrangement fees	218	218
Debt termination costs	140	140
Balance at 31 March 2021	127,285	127,285

20. LEASES

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

	2021 £'000	2020 £'000
Within one year	16,170	16,794
From one to two years	14,730	15,239
From two to three years	12,637	14,079
From three to four years	10,502	12,102
From four to five years	9,535	10,317
From five to 25 years	47,005	53,108
	110,579	121,639

Lease liabilities are classified as follows:

	2021 £'000	2020 £'000
Lease liabilities for investment properties	1,804	1,806
Lease liabilities for right of use asset	154	318
	1,958	2,124

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

	2021			2020
	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	3
From two to five years	323	(313)	10	9
From five to 25 years	1,593	(1,546)	47	50
After 25 years	9,206	(7,464)	1,742	1,742
	11,337	(9,533)	1,804	1,806

Lease obligations in respect of rents payable on right of use assets were payable as follows:

	2021			2020
	Lease payments £'000	Interest £'000	Present value of lease payments £'000	Present value of lease payments £'000
Within one year	156	(2)	154	164
From one to two years	–	–	–	154
	156	(2)	154	318

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

20. LEASES CONTINUED

The Group has over 200 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 10 years.

A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs. All investment properties in the Group's portfolio generated rental income during 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 (2020: £Nil) were incurred on the property.

21. SHARE CAPITAL

Authorised, issued and fully paid share capital is as follows:	2021 £'000	2020 £'000
46,388,515 ordinary shares of 10p each (2020: 46,388,515)	4,639	4,639
	4,639	4,639

Reconciliation of movement in ordinary share capital	2021 £'000	2020 £'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 2019, 31 March 2020 and 31 March 2021	–	–	46,388,515

Movement in treasury shares		Number of ordinary shares issued	Total number of shares
As at 31 March 2019			505,266
Shares options exercised 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
Shares options exercised under deferred bonus share scheme	9 July 2020	(33,182)	
As at 31 March 2021			318,825
Total number of shares excluding the number held in treasury at 31 March 2021			46,069,690

Year ended 31 March 2021

On 9 July 2020, 33,182 share options were exercised under the deferred bonus share scheme.

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.

21. SHARE CAPITAL CONTINUED

Shares held in Employee Benefit Trust

Authorised, issued and fully paid share capital is as follows:	2021 No. of options	2020 No. of options
Brought forward	52,420	55,679
Transferred under scheme of arrangement	–	150,000
Shares exercised under deferred bonus share scheme	(33,182)	(67,798)
Shares exercised under employee LTIP scheme	–	(85,461)
At end of year	19,238	52,420

Share options:

Reconciliation of movement in outstanding share options	2021 No. of options	2020 No. of options
At start of year	770,223	651,730
Issued in the year	573,456	329,848
Exercised in the year	–	(85,461)
Lapsed in the year	(201,447)	(90,204)
Deferred bonus share options issued	84,934	32,108
Deferred bonus share options exercised	(33,182)	(67,798)
At end of year	1,193,984	770,223

As at 31 March 2021, the Company had the following outstanding unexpired options:

	2021		2020	
Description of unexpired share options	No. of options	Weighted average option price	No. of options	Weighted average option price
Employee benefit plan (note 22)	1,114,232	0p	738,115	0p
Deferred bonus share scheme issued	84,934	0p	32,108	0p
Total	1,199,166	0p	770,223	0p
Exercisable	–	0p	–	0p
Not exercisable	1,199,166	0p	770,223	0p

The weighted average remaining contractual life of share options at 31 March 2021 is 1.7 years (2020: 1.5 years).

22. SHARE-BASED PAYMENTS

Employee benefit plan

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

	Number of options	Exercise price	Average share price at date of exercise	Grant date	Vesting date
Outstanding at 31 March 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			
Exercised during the year (LTIP 2017)	–	0p			
Issued during the year (LTIP 2020)	573,456	0p		14 October 2020	14 October 2023
Deferred bonus share options issued	84,934	0p		14 July 2020	14 July 2021
Deferred bonus share options exercised	(33,182)	0p	184p	25 June 2019	25 June 2020
Lapsed during year (LTIP 2017)	(187,956)	0p			
Lapsed during year (LTIP 2019)	(13,491)	0p			
Outstanding at 31 March 2021	1,193,984	0p			

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. An employee shall not transfer, assign, charge or otherwise dispose of their beneficial interest in the shares acquired on vesting of an award during the holding period except in order to raise sufficient funds to pay a tax liability. The holding period shall not apply (or shall cease to apply) after the employee has ceased to hold any office or employment with a member of the Group or if there has been a change in control of the Company. 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 value 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 value 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.

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.

22. SHARE-BASED PAYMENTS CONTINUED

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

LTIP 2020

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 2020. This target will measure the annualised growth in total property return over the three-year period ending 31 March 2023 (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 14 October 2020 to 13 October 2023. The base price is £1.88 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	14 October 2020	14 October 2020
Share price	£1.88	£1.88
Exercise price	0p	0p
Term	5 years	5 years
Expected volatility	33.92%	33.92%
Expected dividend yield	0.00%	0.00%
Risk free rate	0.01%	0.01%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£0.91	£1.88

Notes to the Consolidated Financial Statements CONTINUED

22. SHARE-BASED PAYMENTS CONTINUED

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

	2021 £'000	2020 £'000
LTIP 2016	–	25
LTIP 2017	13	(48)
LTIP 2018	86	67
LTIP 2019	135	86
LTIP 2020	66	–
Total expense arising from share-based payment transactions	300	130

23. RELATED PARTY TRANSACTIONS

Accounting services amounting to £3,062 (2020: £2,783) 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 £4,000 (2020: £19,335) 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 £163,511 (2020: £416,056) during the year. See note 4 on page 111 for further details of key management remuneration.

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 £5,575,818 (2020: £19,234,661).

25. POST BALANCE SHEET EVENTS

On 20 April 2021, the Group completed the construction of the Hudson Quarter development.

On 20 April 2021, the Group signed a six-month loan extension with Barclays in respect of the Development facility to extend the loan termination date to 6 July 2022.

On 20 April 2021, the Group completed the disposal of 249 Midsummer Boulevard, for a total consideration of £5.74 million. The property was charged against the loan facility with NatWest plc and as a result, £4.5m of the total consideration was used to repay the NatWest loan facility on 23 April 2021.

Post-year end, one of the Group's facilities breached ICR and Debt Service Cover covenants as part of the quarterly April 2021 test due to the non-payment of rent. A covenant waiver was issued and the Group expects to return to compliance once tenants recommence rental payments.

On 10 May 2021 the Group exchanged on the disposal of Bridge House, Weybridge, for a total consideration of £3.7 million. The property was uncharged against the loan facility with NatWest plc. Completion of the sale is due to take place by 1 July 2021.

Post year end, the Group have completed on 33 residential unit sales at Hudson Quarter for a total consideration of £9.3m.

Post year end, the Group have repaid £8.9m of the Barclays development facility.

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 £157,831,000 at 31 March 2021 (2020: £166,348,000). 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.

The Group is exposed to market risk in terms of the listed equity investment held because changes in the market prices will affect the value of the listed equity investment held. Revaluation of the listed equity investment in the income statement would be affected by £32,500 (2020: £25,400) by a one percentage point change in market prices on a full year basis.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2021 and 31 March 2020 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 2021					
Trade and other receivables	5,236	–	–	–	5,236
Cash and cash equivalents	–	9,417	–	–	9,417
Trade and other payables	(7,461)	–	–	–	(7,461)
Equity investments	3,249	–	–	–	3,249
Interest rate swaps	–	–	(1,029)	–	(1,029)
Bank borrowings	–	–	(62,579)	(64,706)	(127,285)
Lease liabilities	–	–	(1,958)	–	(1,958)
	1,024	9,417	(65,566)	(64,706)	(119,831)

	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)

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. 49% 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 £9,417,000 (2020: £14,919,000). Interest receivable in the income statement would be affected by £94,000 (2020: £149,000) by a one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £64,706,000 (2020: £51,441,000) 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 £647,000 (2020: £514,000).

The Group has interest rate swaps with a nominal value of £53,315,036 (2020: £54,190,623). 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.

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 2021	(859)	840
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2020	(1,418)	1,359

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 2021 the cash balances of the Group were £9,417,000 (2020: £14,919,000). The concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £6,773,000 (2020: £10,552,000). 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 5.6% (2020: 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 2021 was £5,236,000 (2020: £4,950,000). 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.

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 2021						
Interest bearing loans	–	25,678	35,268	68,244	7,735	136,925
Lease liabilities	–	107	108	323	10,799	11,337
Derivative financial instruments	–	–	312	717	–	1,029
Trade and other payables	7,461	–	–	–	–	7,461
	7,461	25,785	35,688	69,284	18,534	156,752

	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

Company Statement of Financial Position

AS AT 31 MARCH 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Investments in subsidiaries	2	125,567	127,417
Loans to subsidiary undertakings	2	–	40
Listed equity investments	3	3,249	2,540
Property, plant and equipment	4	68	96
		128,884	130,093
Current assets			
Trade and other receivables	5	33,899	23,643
Cash at bank and in hand		266	4,887
		34,165	28,530
Total assets		163,049	158,623
Current liabilities			
Creditors: amounts falling due within one year	6	(19,159)	(8,923)
Net current assets		15,006	19,607
Net assets		143,890	149,700
Equity			
Called up share capital	7	4,639	4,639
Share premium account		–	125,019
Treasury shares		(1,288)	(1,349)
Merger reserve		3,503	3,503
Capital redemption reserve		340	340
Capital reduction reserve		125,019	–
Retained earnings		11,677	17,548
Equity – attributable to the owners of the Parent		143,890	149,700

The Company's loss after tax for the year was £2,826,000 (2020: £4,342,000 loss).

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 7 June 2021 and are signed on its behalf by:

Stephen Silvester
Finance Director

Neil Sinclair
Chief Executive

Company Statement of Changes in Equity

AS AT 31 MARCH 2021

	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Capital Reduction Reserve £'000	Retained Earnings £'000	Total Equity £'000
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
Total comprehensive income for the year	–	–	–	–	–	(2,826)	(2,826)
Transactions with Equity Holders							
Share-based payments	–	–	–	–	–	300	300
Exercise of share options	–	–	61	–	–	(61)	–
Issue of deferred bonus share options	–	–	–	–	–	171	171
Dividends	–	–	–	–	–	(3,455)	(3,455)
Transfer to capital reduction reserve account	–	(125,019)	–	–	125,019	–	–
At 31 March 2021	**4,639**	**–**	**(1,288)**	**3,843**	**125,019**	**11,677**	**143,890**

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.

The capital reduction reserve represents distributable profits generated as a result of the share premium reduction.

During the year, the Group made an order to reduce the Group's share premium account and the crediting of the relevant sum to distributable profits. The Court order approving the Share Premium Reduction and a statement of capital were registered with the Registrar of Companies on 29 September 2020. The Share Premium Reduction is now effective, and the amount that had been standing to the credit of the Company's share premium account (£125,018,886) has been credited to the Company's distributable profits and sits within the capital reduction reserve.

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). The Statement of Financial Position heading relating to the Company's investments and property, plant and equipment has been amended to "Fixed assets" from "Non-current assets" to be consistent with the Company's presentation of its statement of financial position in accordance with the balance sheet formats of the Companies Act 2006. Assets are classified in accordance with the definitions of fixed and current assets in the Companies Act instead of the presentation requirements of IAS 1 Presentation of Financial Statements

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.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This is subject to the Finance Bill 2021 being enacted.

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.

Provisions provided in the year reflect the reduction in net asset value of subsidiaries due to the reduction in property values for the year ended 31 March 2021.

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 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 1 April 2020	183,614	40	183,654
Settlement of loans	–	(40)	(40)
At 31 March 2021	183,614	–	183,614
Provision for impairment:			
At 1 April 2019	44,573	–	44,573
Provided during the year	11,624	–	11,624
At 1 April 2020	56,197	–	56,197
Provided during the year	1,850	–	1,850
At 31 March 2021	58,047	–	58,047
Net book value at 31 March 2021	125,567	–	125,567
Net book value at 31 March 2020	127,417	40	127,457

Loans to Subsidiaries

A loan amounting to £Nil remains outstanding at 31 March 2021 (2020: £25,000) from Palace Capital (Northampton) Limited. Interest on this loan is charged at a fixed rate of 5% per year.

A loan amounting to £Nil remains outstanding at 31 March 2021 (2020: £15,000) from Palace Capital (Manchester) Limited. Interest on this loan is charged at a fixed rate of 5% per year.

Notes to the Company Financial Statements CONTINUED

2. INVESTMENTS IN SUBSIDIARIES CONTINUED

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.

These investments were settled via the capitalisation of the loans due from the subsidiaries including amounts owed by subsidiary undertakings in note 5.

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
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
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.

On 3 July 2020 the holding in Meadowcourt Management (Meadowhall) Limited was disposed of.

On 22 September 2020 Signal Property Investments LLP was dissolved.

On 22 December 2020 Quintain (Signal) Member B Limited and Signal Investments LLP were dissolved.

3. LISTED EQUITY INVESTMENTS

	Total £'000
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
Gain on revaluation of listed equity investment shown in statement of comprehensive income	709
At 31 March 2021	**3,249**

4. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 1 April 2019	217
Additions	36
At 31 March 2020	253
Additions	16
At 31 March 2021	**269**
Depreciation	
At 1 April 2019	125
Provided during the period	32
At 31 March 2020	157
Provided during the period	44
At 31 March 2021	**201**
Net book value at 31 March 2021	**68**
Net book value at 31 March 2020	96

5. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Amounts owed by subsidiary undertakings	30,063	22,965
Trade debtors	2,454	414
Other debtors	1,096	30
Other taxes and social security	–	25
Accrued interest on amounts owed by subsidiary undertakings	65	–
Prepayments	221	209
	33,899	23,643

Trade debtors represent amounts owed from subsidiary undertakings in relation to management charges.

All amounts that fall due for repayment within one year and are presented within current assets as required by the Companies Act. The amounts owed by subsidiary undertakings are repayable on demand with no fixed repayment date, although it is noted that a significant proportion of the amounts may not be sought for repayment within one year depending on activity in the subsidiary undertakings.

A loan amounting to £26,375,362 remains outstanding at 31 March 2021 (2020: £22,965,362) from Palace Capital (Developments) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £396,034 remains outstanding at 31 March 2021 (2020: £Nil) from Palace Capital (Leeds) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

A loan amounting to £3,291,417 remains outstanding at 31 March 2021 (2020: £Nil) from Palace Capital (Halifax) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

Notes to the Company Financial Statements CONTINUED

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Trade creditors	206	223
Amount owed to subsidiary undertaking	17,776	7,697
Corporation tax payable	–	57
Other taxes	269	75
Other creditors	66	5
Accruals and deferred income	842	866
	19,159	8,923

A loan amounting to £9,373,143 remains outstanding at 31 March 2021 (2020: £Nil) to Palace Capital (Signal) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £Nil remains outstanding at 31 March 2021 (2020: £43,012) to Palace Capital (Newcastle) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £2,662,519 remains outstanding at 31 March 2021 (2020: £3,317,480) to R.T. Warren Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £4,996,489 remains outstanding at 31 March 2021 (2020: £4,336,489) to Property Investment Holdings Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £743,583 remains outstanding at 31 March 2021 (2020: £Nil) to Palace Capital (Properties) 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:

	2021 £'000	2020 £'000
Within one year	178	178
From one to two years	19	178
From two to five years	–	19
	197	375

9. POST BALANCE SHEET EVENT

There are no post balance sheet events.

Officers and Professional Advisors

Directors

Stanley Davis	Chairman
Neil Sinclair	Chief Executive Officer
Stephen Silvester	Chief Financial Officer
Richard Starr	Executive Property Director
Kim Taylor-Smith	Non-Executive Director
Mickola Wilson	Non-Executive Director
Paula Dillon	Non-Executive Director

Secretary
Nicola Grinham ACG

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Registered number
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Registrar
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Joint broker
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NATIONAL WESTMINSTER BANK PLC
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RH10 1XU

SANTANDER UK PLC
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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 according to the definitions of the various NAV measures defined in the EPRA Best Practice Recommendations that came into effect for accounting periods starting 1 January 2020.

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

EPRA net tangible assets (EPRA NTA): Is the NAV adjusted to reflect the fair value of trading properties and derivatives and to exclude 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, disposed of during the year and capital expenditure

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.

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.

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

Peer Group: A selection of small/medium sized property companies within the listed real estate sector with a diversified portfolio.

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:
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