

Palace Capital plc
(“Palace Capital”, the “Company” or the “Group”)

Interim Results for the 6 months ended 30 September 2018

Continued delivery of income and capital growth through active asset management

Palace Capital (LSE: PCA), the Main Market listed property investment company that has a diversified portfolio of UK regional commercial real estate in carefully selected locations outside of London, is pleased to announce its unaudited half yearly results for the six months ended 30 September 2018.

Highlights

Financial Highlights

- Joined FTSE SmallCap and FTSE All-Share Index in May 2018 following the premium listing on the Main Market in March 2018
- EPRA NAV per share up 1.4% to 421p (Mar-18: 415p)
- Total accounting return for the period of 4.0% (NAV growth plus dividends paid)
- Portfolio valuation £283.3m, up 2.4% from 31 March 2018 (Mar-18: £276.7m)
- Gross rental income £9.2m, up 29.0% (Sep-17: £7.1m)
- IFRS Profit after Tax of £7.3m, up 67.1% (Sep-17: £4.4m)
- Quarterly Dividends maintained at 4.75p per quarter
- Adjusted EPS of 8.0p, 0.84x covering dividends of 9.5p for the 6 months (uncovered due to increased equity base following £70m raise in October 2017 and patient strategy on acquisitions)
- Net debt £84.0m, maintaining conservative net LTV of 30.3% (Mar-18: 29.9%)
- Average cost of debt 3.5% with 70% fixed (Mar-18: 3.4% and 70% fixed)

Operational Highlights

- Total property return of 5.3%, outperforming the MSCI IPD Quarterly Benchmark of 3.3%
- Like-for-like valuation increase of 1.7%, driven by industrial and office sectors
- Annualised contracted rental income £17.4m per annum with significant reversionary potential (ERV: £21.1m per annum)
- Demolition due to be completed next month of 2-acre Hudson Quarter site in York, ready for construction to start in first quarter of 2019
- One disposal for £0.95m, 30.1% above 31 March 2018 book valuation
- 22 lease events in the period across 140,000 sq ft 9% ahead of ERV
- Overall EPRA occupancy remains high at 88% (Mar-18: 90%) to a sustainable tenant base
- WAULT of 5.5 years to break and 7.3 years to expiry

Neil Sinclair, CEO of Palace Capital, said:

“Today’s results are further evidence of the continued success of our focus on total returns, driving both income and capital growth.

“Following a busy 12 months to 31 March 2018, where we added significantly to our portfolio with the £68 million RT Warren portfolio acquisition, this period has very much been one of consolidation. We have been actively assessing the investment market, but remain resolute in our adherence to our investment strategy and have found it difficult to find value, where an appropriate return can be delivered to our shareholders, in the current market. However, in these somewhat uncertain times we believe there will be opportunities over the coming six months and, with a strong balance sheet, we are well positioned to act when the right opportunity arises.”

Stanley Davis, Chairman of Palace Capital, said:

“I am very pleased to report that the Company is delivering increasing growth both in income and capital value. While our EPRA NAV per share was diluted somewhat last year with the successful £70 million equity raise, notwithstanding this we have virtually doubled our NAV since listing five years ago and we have outperformed the sector over that period on a total accounting return basis of 128%.

The acquisition of the RT Warren portfolio will in due course be earnings and value enhancing for the company and, with momentum building in our asset management progress, the signs of this are beginning to show. Our strategy of selectively investing in the best towns and cities in the UK outside of London is delivering and with a positive outlook for regional fundamentals, we believe we are well positioned for the year ahead.”

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About Palace Capital PLC:

Palace Capital plc (LSE: PCA) is a Main Market listed property company that has a £283.3 million diversified portfolio of UK regional commercial property. The Company maintains a disciplined investment strategy focused on towns and cities outside of London that are characterised by thriving local economies and strengthening fundamentals. Within those locations, the highly experienced management team selects assets that provide opportunity to drive both capital value and long term rental income through tailored active asset management programmes, ultimately delivering attractive shareholder returns.

Chairman’s Statement

I am pleased to report our interim results for the six months ended 30 September 2018, which shows that the Group has made a profit before tax of £8.4 million, up 71.9% from £4.9 million in the comparative period. We continue to exercise our brand of active management with successful lettings, rent reviews, lease renewals and one asset sale at 30.1% above 31 March 2018 book value. Reference has already been made to the fact that it is difficult to buy in the current market but we were successful in purchasing a small vacant office building in Fareham, Hampshire, for £0.75 million. This property immediately adjoins one of our existing holdings in our portfolio. We are evaluating our long-term options for this property which is part let until March 2020.

As at 30 September 2018, our portfolio was valued by Cushman and Wakefield and the directors at £283.3 million, with an annual contracted rent roll of £17.4 million and a net income after property costs of £15.8 million per annum. We are very conservatively geared at only 29.7% LTV net of cash. Our EPRA NAV per share has increased by 1.4% to 421p per share (March 2018: 415p). At 30 September 2018, the Group had a net asset value of £186.6 million (March 2018: £183.3 million).

We continue to look to grow our recurring income but maintain a parallel focus on increasing capital values. This will enable us to maintain our dividend policy and grow NAV. For the six months to 30 September 2018, rental income, net of non-recoverable costs, totalled £8.1 million (up 25.5% from £6.5 million in the comparative period).

Our second quarterly dividend of 4.75p will be payable on 28 December 2018 to shareholders on the register as at 7 December 2018. As we have not made a significant acquisition for over a year this has caused a drag on our dividend cover which was 84% covered in the first six months of the year. However, we consider that this will resolve through a combination of earnings enhancing lettings through our active asset management within the

existing portfolio and off the back of deploying resources in suitable acquisitions. In the meantime, we have every intention of maintaining the dividend.

We consider that we are different from most of our peer group. Firstly, we believe that we have created considerable shareholder value by making mainly corporate acquisitions rather than direct purchases. This has provided us with considerable savings in SDLT and often tangible benefits with inherent tax losses and capital allowances. Secondly, we are a property company and while we keep REIT status under review as a matter of course, the Board takes the view that this is the right vehicle through which to deliver on our objectives.

While it has been a challenge to find the right assets that meet our strict investment criteria in the current market, our highly regarded management team has been working hard in actively assessing investment opportunities throughout the period. Notwithstanding the positive activity in HY19 growing both income and capital, our prudent approach to acquisitions will likely have a marginal impact on our adjusted profit before tax for this financial year. However, we remain confident in our disciplined approach to making acquisitions that will deliver value for the portfolio. We are in a strong position to act swiftly when the right investment opportunities are identified as we have the cash and bank facilities available to deploy and we hope to make an announcement in in this regard the coming weeks.

ACQUISITIONS AND DISPOSALS

We continue to grow the Company by our entrepreneurial brand of active management, which requires a level of cash on the balance sheet, to ensure that we are able to carry out our development and refurbishment plans, and can opportunistically act on investment opportunities that meet our criteria.

We stated last year that we would sell the residential element of the RT Warren portfolio which, on acquisition, comprised 65 units. We sold three earlier this year and we will retain two for strategic reasons. We have now exchanged contracts to sell 50 units all of which are uncharged. The sale of the units will provide further flexibility for new acquisitions as well as our active management programme, which includes development and refurbishment.

In April we acquired a small vacant office building in Fareham in Hampshire for £0.75 million which immediately adjoins one of our holdings in our portfolio. We have medium term development plans for these two properties.

Our investment strategy has always been to focus on economically vibrant towns and cities which are being positively affected by strengthening fundamentals such as urbanisation and infrastructure improvements. In many of these locations there has been a significant reduction in space, be it offices or industrial assets, as a result of either permitted development, allowing change of use to residential, or the lack of speculative development. This is holding us in good stead, particularly in locations such as Southampton, Winchester, Newcastle and York.

PORTFOLIO ACTIVITY

Hudson Quarter, Toft Green, York

As shareholders are aware, we secured planning consent in August last year to redevelop this two-acre site only one minute's walk from York Railway Station with 127 flats, 5,000 sq ft of retail/restaurant space, 34,500 sq ft of offices and car parking. We also took the decision to undertake the development of this scheme ourselves, which we believe will deliver the best returns.

I am pleased to report that the demolition of the site is nearly complete and our Project Managers are in discussion with a major contractor who has submitted the most favourable tender with a view to work starting in February of next year.

We have agreed Heads of Terms with a leading bank to finance the construction element. We will be making a relatively small contribution to this element and we have the necessary cash resources to do so.

We do not intend to offer any of the residential units until the marketing suite has been completed in early June 2019. However, we formally launched the scheme as "Hudson Quarter" in October and we are already receiving strong interest through the website www.hudsonquarteryork.com

We are very excited about this scheme which is due to be completed in January 2021.

2&3 St James Gate, Newcastle-upon-Tyne

We are delighted with this acquisition which comprises 82,500 sq ft of multi-let offices plus 16,500 sq ft of retail.

We will shortly commence a limited refurbishment of this property involving an outlay of £2 million which includes giving it a more prominent identity and improving a 11,000 sq ft office floor which has become vacant. Comparable properties in the area are letting at 15-20% more than what we are currently securing and with very limited development and shrinking office supply in Newcastle, we are optimistic about the prospects for this asset.

Sol, Northampton

While the challenges faced in the leisure sector have somewhat hindered our progress here, we continue to deliver a very satisfactory return from key tenants including Vue, Accor and Fitness for Less. In addition, with letting and managing agents having been appointed, we are seeing increased interest in the vacant space. I hope to be able to report some positive news in due course.

Boulton House, Chorlton Street, Manchester

We bought this 75,000 sq ft property for £10.45 million just before the result of the Referendum on the EU was announced and it is a good example of our ability to realise value potential. We have spent about £800,000 on the property to date and it was recently valued at £14.5 million. In 2016 the building was commanding rents at £12.50-£13.00 per sq ft, but we recently let about 2,000 sq ft of offices at £18.95 per sq ft. Manchester is a thriving city and we are very pleased with this investment.

249 Midsummer Boulevard, Milton Keynes

Milton Keynes is part of the growth corridor between Oxford and Cambridge. We have a vacant unit of 14,500 sq ft at this office building situated only a few minutes' walk from the railway station and we are hopeful of securing rents well in excess of what was being achieved when we bought it in 2016.

Bridge House, 41-45 High Street Weybridge

We have made a planning application for 4,000 sq ft of retail and 28 apartments in this affluent Surrey town. A decision on this is anticipated in Q1 of the next financial year.

Museum Street/Lendal, York

This retail and office building was acquired as part of the RT Warren Portfolio. There is a major shortage of offices in York and the vacancy rate has fallen to 3%. We have 5,500 sq ft, most of which had been vacant for some time but in urgent need of refurbishment. We have now placed a contract to refurbish the offices and this is due for completion in February 2019.

Regency House, High Street, Winchester

This building is partly let to a firm of solicitors but 4,600 sq ft is vacant and we have just placed a contract to refurbish it. Again, there is a severe shortage of office space in Winchester and we are very hopeful of growing the value considerably.

Aldi Supermarket, Mumby Road, Gosport, Hants

Post the end of the half year we announced that we had concluded a letting to Aldi on our Gosport property and to include a small adjoining site for a term of 20 years at an increased rental of £291,000 per annum with annual increases.

Summary

In the upcoming period, there are a raft of new opportunities for us to address, ranging from lease expiries and redevelopments. A case in point is our property in Royal Leamington Spa, which currently comprises two office buildings of 40,000 sq ft producing £600,000 per annum. It sits on a 1.5 acre site in the town centre, just over an hour by train to Marylebone, and has very considerable potential that we will look to unlock in the future.

BALANCE SHEET

At the half year we had borrowings of £99.2 million at an average cost of 3.5% per annum, of which 70% is hedged. We continue to maintain positive working relationships with our banks and we see their contribution as key to enhancing the performance of our business.

Our second quarterly dividend of 4.75p will be payable on 28 December 2018 to shareholders on the register as at 7 December 2018. Our adherence to our investment criteria in the current market - which is absolutely the right approach for shareholders - means we have not made a significant acquisition for over a year. While this has resulted in a drag on our dividend cover, which was 84% covered in the first six months of the year, I firmly believe that, in time, this will resolve itself through a combination of earnings enhancing lettings, active asset management within the existing portfolio and off the back of deploying resources in suitable acquisitions.

CONCLUSION AND OUTLOOK

Our active management strategy is bearing fruit, and having sold or in the process of selling those properties with limited or no growth potential, we are focusing on our core sectors where we see the greatest opportunity in the coming years to grow both our income and capital returns: City centre offices close to railway stations in growth locations, and the industrial and distribution sector. We have had another successful period of growing both the income and capital and with a strong balance sheet we remain primed and ready to make further acquisitions which will be accretive to earnings.

The market has been somewhat uncertain, which was to be expected as we entered uncharted waters in negotiating our exit from the European Union, but the momentum behind the fundamentals that underpin our investment case continues to take a positive trajectory. We are a strong country full of talent and I am in no doubt that we have the resilience to weather every storm. Palace Capital is an exciting company with a growth strategy and we have built a quality portfolio full of potential with a management team second to none. I am very optimistic about our future.

STANLEY DAVIS, CHAIRMAN

23 November 2018

Palace Capital plc

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2018

	Notes	Unaudited 6 months to 30 September 2018 £000	Unaudited 6 months to 30 September 2017 £000	Audited Year to 31 March 2018 £000
Rental and other income	3	9,210	7,138	16,733
Property operating expenses		(1,101)	(675)	(1,824)
Net property income		8,109	6,463	14,909
Administrative costs		(1,985)	(1,487)	(4,185)
Operating profit before gains on investment properties		6,124	4,976	10,724
Gains on revaluation of investment properties	8	3,880	1,396	5,738
Profit/(loss) on disposal of investment properties		211	(159)	274
Operating profit		10,215	6,213	16,736
Finance income		88	-	10
Finance costs		(1,953)	(1,354)	(3,442)
Profit before taxation		8,350	4,859	13,304
Taxation	4	(1,078)	(507)	(773)
Profit for the period and total comprehensive income		7,272	4,352	12,531
Earnings per ordinary share				
Basic	6	15.9p	17.3p	35.9p
Diluted	6	15.8p	17.3p	35.8p

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Palace Capital plc

Condensed consolidated statement of financial position

30 September 2018

	Notes	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Non-current assets				
Investment properties	8	260,178	202,832	253,863
Tangible fixed assets		103	129	121
		260,281	202,961	253,984
Current assets				
Assets held for sale		21,708	-	21,708
Trade and other receivables	9	5,702	5,018	5,551
Cash and cash equivalents	10	13,818	8,733	19,033
Total current assets		41,228	13,751	46,292
Total assets		301,509	216,712	300,276
Current liabilities				
Trade and other payables	11	(8,460)	(8,353)	(8,834)
Borrowings	12	(6,124)	(2,186)	(2,686)
Total current liabilities		(14,584)	(10,539)	(11,520)
Net current assets		26,644	3,212	34,772
Non-current liabilities				
Borrowings	12	(91,692)	(90,464)	(97,157)
Deferred tax		(6,972)	(2,499)	(6,531)
Obligations under finance leases		(1,587)	(1,588)	(1,588)
Derivative Financial Instruments		(104)	-	(181)
Total non-current liabilities		(100,355)	(94,551)	(105,457)
Net Assets		186,570	111,622	183,299
Equity				
Share capital	13	4,639	2,580	4,639
Share premium account		125,019	59,444	125,036
Merger reserve		3,503	3,503	3,503
Capital redemption reserve		340	340	340
Treasury share reserve		(1,893)	(2,250)	(2,011)
Retained earnings		54,962	48,005	51,792
Equity shareholders' funds		186,570	111,622	183,299
Basic NAV per ordinary share	7	407p	442p	400p
Diluted NAV per ordinary share	7	406p	441p	400p
EPRA NAV per ordinary share	7	421p	451p	415p

The accompanying notes form an integral part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board of Directors on 23 November 2018.

Palace Capital plc

Condensed consolidated statement of cash flows

For the six months ended 30 September 2018

	Notes	Unaudited 6 months to 30 September 2018 £000	Unaudited 6 months to 30 September 2017 £000	Audited Year to 31 March 2018 £000
Operating activities				
Profit before tax		8,350	4,859	13,304
Adjustments for non-cash items:				
Loss/(Profit) on sale of investment properties		(211)	159	(274)
Gain on revaluation of investment properties		(3,880)	(1,396)	(5,738)
Depreciation		16	30	45
Share-based payment		113	100	174
Net finance costs		1,865	1,354	3,432
Cash generated by operations		6,253	5,106	10,943
Changes in working capital		(1,070)	(847)	(1,044)
Cash flows from operations		5,183	4,259	9,899
Corporation tax received/(paid)		9	(111)	(395)
Interest and other finance costs paid		(1,620)	(913)	(2,714)
Interest received		11	-	10
Cash flows from operating activities		3,583	3,235	6,800
Investing activities				
Purchase of property, plant and equipment		-	(117)	(123)
Capital expenditure on refurbishments and new developments		(2,368)	(925)	(2,754)
Purchase of investment property		(797)	(20,000)	(72,808)
Proceeds from disposal of investment properties		948	3,246	8,765
Amounts transferred out of/(into) restricted cash deposits		336	-	(805)
Cash flows from investing activities		(1,881)	(17,796)	(67,725)
Financing activities				
Proceeds from issue of Ordinary Share capital		-	-	70,000
Costs from issue of Ordinary Share capital		(17)	-	(2,349)
Dividends paid	5	(4,355)	(2,389)	(6,744)
Bank loan received		4,146	17,545	53,393
Bank loan repaid		(6,343)	(2,682)	(46,327)
Capital element of finance lease rental payments		-	(361)	-
Loan issue costs		(13)	-	-
Cash flows from financing activities		(6,582)	12,113	67,973
Net (decrease)/increase in cash		(4,880)	(2,448)	7,048
Opening cash and cash equivalents	10	17,985	11,181	10,937
Closing cash and cash equivalents	10	13,105	8,733	17,985

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Palace Capital plc

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2018

	Share Capital £000	Share Premium £000	Treasury Shares Reserve £000	Other Reserves £000	Retained Earnings £000	Total equity £000
As at 31 March 2017	2,580	59,444	(2,250)	3,843	45,942	109,559
Total comprehensive income for the period	-	-	-	-	4,352	4,352
Share based payments	-	-	-	-	100	100
Dividends	-	-	-	-	(2,389)	(2,389)
As at 30 September 2017	2,580	59,444	(2,250)	3,843	48,005	111,622
Total comprehensive income for the period	-	-	-	-	8,179	8,179
Share based payments	-	-	-	-	74	74
Gross proceeds from issue of new shares	2,059	67,941	-	-	-	70,000
Costs from issue of new shares	-	(2,349)	-	-	-	(2,349)
Exercise of share options	-	-	239	-	(239)	-
Issue of deferred bonus share options	-	-	-	-	128	128
Dividends	-	-	-	-	(4,355)	(4,355)
As at 31 March 2018	4,639	125,036	(2,011)	3,843	51,792	183,299
Total comprehensive income for the period	-	-	-	-	7,272	7,272
Share based payments	-	-	-	-	113	113
Costs from issue of new shares	-	(17)	-	-	-	(17)
Exercise of share options	-	-	118	-	(118)	-
Issue of deferred bonus share options	-	-	-	-	257	257
Dividends	-	-	-	-	(4,354)	(4,354)
As at 30 September 2018	4,639	125,019	(1,893)	3,843	54,962	186,570

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Palace Capital plc

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2018

1 General information

These financial statements are for Palace Capital plc (“the Company”) and its subsidiary undertakings (together “the Group”).

The Company’s shares are admitted to trading on the Main Market of the London Stock Exchange. The Company is domiciled and registered in England and Wales and incorporated under the Companies Act 2006. The address of its registered office is Lower Ground Floor, One George Yard, London, EC3V 9DF.

The nature of the Company’s operations and its principal activities are that of property investment in the UK mainly through corporate acquisitions.

Basis of preparation

The condensed consolidated financial information included in this half yearly report has been prepared in accordance with the IAS 34 “Interim Financial Reporting”, as adopted by the European Union. The current period information presented in this document is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The interim results have been prepared in accordance with applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). These standards are collectively referred to as “IFRS”.

The accounting policies and methods of computations used are consistent with those as reported in the Group’s Annual Report for the year ended 31 March 2018 and are expected to be used in the Group’s Annual Report for the year ended 31 March 2019.

The financial information for the year ended 31 March 2018 presented in these unaudited condensed Group interim financial statements does not constitute the Company’s statutory accounts for that period but has been derived from them. The Report and Accounts for the year ended 31 March 2018 were audited and have been filed with the Registrar of Companies. The Independent Auditor’s Report on the Report and Accounts for the year ended 31 March 2018 was unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. The financial information for the periods ended 30 September 2017 and 30 September 2018 are unaudited and have not been subject to a review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board.

The interim report was approved by the Board of Directors on 23 November 2018.

Copies of this statement are available to the public for collection at the Company’s Registered Office at Lower Ground Floor, One George Yard, London, EC3V 9DF and on the Company’s website, www.palacecapitalplc.com.

Going Concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman’s Statement. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements.

The Directors have reviewed the current and projected financial position of the Group, making reasonable assumptions about future trading performance. As part of the review the Directors have considered the Group’s cash balances, debt maturity profile of its undrawn facilities, and the long-term nature of tenant leases. On the basis of this review, and after making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operational existence for

the foreseeable future. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully.

Accordingly, they continue to adopt the going concern basis in preparing the Half Year Report.

Changes in accounting policies and disclosures

IFRS 9 Financial Instruments (became effective for accounting periods commencing on or after 1 January 2018)

This standard deals with the classification, measurement and recognition of financial assets and liabilities. The Group does not apply hedge accounting on the financial derivatives held, and as such there is no material impact on the financial statements relating to such items. Derivative financial instruments continue to qualify for designation as at fair value through profit and loss.

IFRS 9 requires the Group to make an assessment of Expected Credit Losses ('ECLs') on its debtors based on tenant payment history and the Directors' assessment of the future credit risk relating to its trade receivables at reporting dates. The Directors assessment resulted in no material differences and there has been no adjustment to opening balances as a result of IFRS 9.

IFRS 15 Revenue from Contracts with Customers (became effective for accounting periods commencing on or after 1 January 2018)

This standard is applicable to management fees and other income but excludes rent receivable. The majority of the Group's income is from tenant leases and is outside the scope of the new standard. The financial impact of the new standard is considered immaterial and does not materially impact the financial statements.

IFRS 16 Leases (became effective for accounting periods commencing on or after 1 January 2019)

This standard requires lessees to recognise a right-of-use asset and related lease liability representing the obligation to make lease payments. Interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in the statement of comprehensive income. Lessor accounting is substantially unchanged from current accounting. As the Group is primarily a lessor, the Directors do not anticipate that the adoption of this will have a material impact on the Group's financial statements as the Group only holds one operating lease, being the head office. The Directors will continue to assess the impact of the new standard going forward.

2 Segmental reporting

During the period the Group operated in one business segment, being property investment in the UK and as such no further information is provided.

3 Net property income

	Unaudited 6 months to 30 September 2018 £000	Unaudited 6 months to 30 September 2017 £000	Audited Year to 31 March 2018 £000
Rent receivable	8,750	7,138	16,360
Management fees & other income	460	-	373
Total revenue	9,210	7,138	16,733
Service charge & vacant rates	(600)	(675)	(1,445)
Other property costs	(501)	-	(379)
Property operating expenses	(1,101)	(675)	(1,824)
Net property income	8,109	6,463	14,909

4 Taxation

	Unaudited 6 months to 30 September 2018 £000	Unaudited 6 months to 30 September 2017 £000	Audited Year to 31 March 2018 £000
Current income tax charge	637	490	1,062
Tax underprovided in prior year	-	-	10
Capital gains charged in period	-	-	31
Deferred tax	441	17	(330)
Tax charge	1,078	507	773

5 Dividends

	Unaudited 6 months to 30 September 2018 £000	Unaudited 6 months to 30 September 2017 £000	Audited Year to 31 March 2018 £000
Ordinary dividends paid			
2017 Final dividend: 9.50p per share	-	2,389	2,389
2018 Interim dividend: 9.50p per share	-	-	4,355
2018 Interim dividend: 4.75p per share	2,177	-	-
2018 Final dividend: 4.75p per share	2,177	-	-
	4,354	2,389	6,744

Proposed dividend

2019 Q1 interim dividend: 4.75p per share paid on 19 October 2018.

2019 Q2 interim dividend: 4.75p per share payable on 28 December 2018.

6 Earnings per share

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and nonrecurring items. Alternative Performance Measures ('APMs'), being financial measures which are not specified under IFRS, are also used by 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 (BPR) reporting framework the latest update of which was issued in November 2016. We report a number of these measures (detailed in the glossary of terms) because the Directors considers them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

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 closeout 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.

Palace Capital 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. For Palace Capital this includes share-based payments being a non-cash expense and also one-off surrender premiums received. The corporation tax charge (excluding deferred tax movements, being a non-cash expense) is deducted in order to calculate the adjusted earnings per share. The earnings per ordinary share for the period is calculated based upon the following information:

	Unaudited 6 months to 30 September 2018 £000	Unaudited 6 months to 30 September 2017 £000	Audited Year to 31 March 2018 £000
Profit after tax attributable to ordinary shareholders for the period	7,272	4,352	12,531
Adjustments:			
Gains on revaluation of investment property portfolio	(3,880)	(1,396)	(5,738)
(Profit)/loss on disposal of investment properties	(211)	159	(274)
Debt termination costs	-	-	127
Fair value (loss)/gain on derivatives	(77)	-	181
Deferred tax relating to EPRA adjustments and capital gains charged	441	-	(299)
EPRA earnings for the period	3,545	3,115	6,528
Share-based payments	113	100	174
Costs in respect of move to Main Market	-	-	698
Adjusted profit after tax for the period	3,658	3,215	7,400
Tax excluding deferred tax on EPRA adjustments and capital gain charged	637	490	1,071
Adjusted profit before tax for the period	4,295	3,705	8,471
	Unaudited 6 months to 30 September 2018	Unaudited 6 months to 30 September 2017	Audited Year to 31 March 2018
Weighted average number of shares for basic earnings per share	45,806,334	25,156,703	34,943,855
Dilutive effect of share options	106,695	36,322	36,322
Weighted average number of shares for diluted earnings per share	45,913,029	25,193,025	34,980,177
Earnings per ordinary share			
Basic	15.9p	17.3p	35.9p
Diluted	15.8p	17.3p	35.8p
EPRA and adjusted earnings per ordinary share			
EPRA basic	7.7p	12.4p	18.7p
EPRA diluted	7.7p	12.4p	18.7p
Adjusted EPS	8.0p	12.8p	21.2p

7

Net asset value per share

EPRA NAV calculation makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. EPRA NAV is adjusted to take effect of the exercise of options, convertibles and other equity interests and excludes the fair value of financial instruments and deferred

tax on latent gains. EPRA NNNAV measure is to report net asset value including fair values of financial instruments and deferred tax on latent gains.

The diluted net assets and the number of diluted ordinary issued shares at the end of the period assumes that all the outstanding options that are exercisable at the period end are exercised at the option price.

Net asset value is calculated using the following information:

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Net assets at the end of the period	186,570	111,622	183,299
Diluted net assets	186,570	111,622	183,299
Exclude deferred tax on latent capital gains & capital allowances	6,972	2,499	6,531
Exclude fair value of financial instruments	104	-	181
EPRA NAV	193,646	114,121	190,011
Include deferred tax on latent capital gains & capital allowances	(6,972)	(2,499)	(6,531)
Include fair value of financial instruments	(104)	-	(181)
EPRA NNNAV	186,570	111,622	183,299

	Unaudited 30 September 2018	Unaudited 30 September 2017	Audited 31 March 2018
Number of ordinary shares issued at the end of the period	45,843,866	25,250,692	45,805,280
Dilutive effect of share options	106,695	36,322	36,322
Number of diluted ordinary shares for diluted and EPRA net assets per share	45,950,561	25,287,014	45,841,602

Net assets per ordinary share

Basic NAV	407p	442p	400p
Diluted NAV	406p	441p	400p
EPRA NAV	421p	451p	415p
EPRA NNNAV	406p	441p	400p

8 Investment Properties

	Freehold Investment properties £000	Leasehold Investment properties £000	Total £000
At 1 April 2017	160,228	23,688	183,916
Additions – new properties	92,014	-	92,014
Additions – refurbishments and developments	2,681	73	2,754
Transfer to assets held for sale	(21,708)	-	(21,708)
Gains on revaluation of investment properties	4,888	850	5,738
Disposals	(5,361)	(3,490)	(8,851)
At 31 March 2018	232,742	21,121	253,863
Additions – new properties	797	-	797
Additions – refurbishments and new developments	2,348	20	2,368
Gains on revaluation of investment properties	3,972	(92)	3,880
Disposals	(730)	-	(730)
At 30 September 2018	239,129	21,049	260,178

Investment properties are stated at fair value based upon external valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a

knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation.

As a result of the level of judgement used in arriving at the market valuations, the amounts which may ultimately be realised in respect of any giving property may differ from the valuations shown in the statement of financial position.

At 30 September 2018, the Group's freehold and leasehold investment properties were externally valued by Royal Institution of Chartered Surveyors ("RICS") registered independent valuers. A reconciliation of the valuations carried out by the external valuers to the carrying values shown in the balance sheet was as follows:

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Fair value per independent valuer	261,625	202,840	255,024
Adjustment in respect of minimum payment under head leases included as a liability	1,600	1,600	1,600
Less lease incentive balance in prepayments	(2,346)	(1,608)	(1,731)
Less rent top-up adjustment	(701)	-	(1,030)
Carrying value per financial statements	260,178	202,832	253,863

Investment properties with a carrying value of £234,948,600 (31 March 2018: £234,429,000) are subject to a first charge to secure the Group's bank loans amounting to £99,204,600 (31 March 2018: £101,395,000).

Valuation process

The valuation reports produced by the independent external 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 valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgment and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

The executive director responsible for the valuation process, verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior period valuation report and holds discussions with the external 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; and
- An appropriate yield.

Valuation technique

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

Assets held for sale

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Assets held for sale	21,708	-	21,708

Assets held for sale consist of the residential portfolio acquired in October 2017 as part of the Warren acquisition. The Group announced it was its intention to dispose of the portfolio as soon as terms with a potential buyer could be agreed. In accordance with the Group's accounting policy, these properties are classified as held for sale at 30 September 2018.

The residential portfolio has been valued by the board of directors based on open market information available and discussions with valuation professionals. The valuation has been held in the financial statements at a lower of their carrying value immediately prior to being classified as held for sale and fair value less costs to sell.

9 Trade and other receivables

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Current			
Trade receivables	2,531	2,285	2,435
Prepayments and accrued income	2,797	2,230	2,393
Other taxes	250	359	609
Other debtors	124	144	114
	5,702	5,018	5,551

10 Cash and cash equivalents

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Cash and cash equivalents - unrestricted	13,105	8,733	17,985
Restricted cash	713	-	1,048
	13,818	8,733	19,033

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

11 Current trade and other payables

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Trade payables	632	875	986
Accruals	1,757	1,346	1,916
Deferred rental income	3,155	4,273	3,466
Taxes	2,697	1,852	2,358
Other payables	219	7	108
	8,460	8,353	8,834

12 Borrowings

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Current borrowings	6,124	2,186	2,686
Non-current borrowings	91,692	90,464	97,157
Total borrowings	97,816	92,650	99,843
Non-current borrowings			
Secured bank loans drawn	93,081	91,571	98,709
Unamortised facility fees	(1,389)	(1,107)	(1,552)
	91,692	90,464	97,157

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

	Unaudited 30 September 2018 £000	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Within one year	6,124	2,186	2,686
From one to two years	2,436	2,186	2,686
From two to five years	78,447	76,751	83,607
From five to ten years	12,198	12,634	12,416
Total borrowings	99,205	93,757	101,395

Facility and arrangement fees

As at 30 September 2018

	All in cost %	Maturity date	Facility drawn £000	Unamortised facility fees £000	Loan balance £000
Secured borrowings					
Scottish Widows	2.91	Jul 2026	14,191	(187)	14,378
National Westminster Bank plc	3.63	Mar 2021	14,658	(231)	14,889
Barclays	3.14	Jan 2023	39,123	(627)	39,750
Santander Bank plc	3.69	Aug 2022	26,169	(331)	26,500
Lloyds Bank plc	2.91	Apr 2019	3,675	(13)	3,688
			97,816	(1,389)	99,205

The Group has unused loan facilities amounting to £15,000,000 (31 March 2018: £14,152,000). Interest is charged on this facility at a rate of 1.25% and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited and Palace Capital (Properties) Limited.

13 Share capital

Authorised, issued and fully paid share capital is as follows:

	Unaudited 30 September 2018	Unaudited 30 September 2017	Audited 31 March 2018
Ordinary 10p shares	46,388,515	25,800,279	46,388,515
Share capital – number of shares in issue	46,388,515	25,800,279	46,388,515
Share capital – £	4,638,852	2,580,028	4,638,852

The Company has set up an employee benefit trust, 'The Palace Capital Employee Benefit Trust', for the granting of shares applicable to directors and employees under the Long-Term Incentive Plan. On 15 August 2018 the Company transferred 100,000 ordinary shares held in Treasury into The Palace Capital Employee Benefit Trust.

On 27 September 2018 the Company granted 38,586 shares, being the awards granted on 25 September 2017 under the Palace Capital Deferred Bonus Plan from The Palace Capital Employee Benefit Trust. As at 31 March 2018 there were 549,587 shares held in treasury but as a result of the 100,000 shares transferred into the Employee Benefit Trust, there are 449,587 shares remaining in Treasury.

Movement in ordinary authorised share capital		Price per share pence	Number of ordinary shares issued	Total number of shares
As at 1 Apr 2017				25,800,279
Equity issue	9 October 2017	340	20,588,236	
As 31 March 2018 and 30 Sep 2018				46,388,515

The Company's issued share capital as at 30 September 2018 comprises 45,843,866 ordinary shares which is the denominator for the calculations of earnings per share and net asset value per share. This excludes the 544,649 ordinary shares held in treasury and the Employee Benefits Trust.

14 Palace Capital plc - Company Statement of Financial Position

	Interim Balance sheet as at 16 November 2018 £000	Audited 31 March 2018 £000	Prior Year Adjustment £000	Restated 31 March 2018 £000
Non-current assets				
Property, plant and equipment	101	121	-	121
Investments	120,872	126,331	-	126,331
Loans to subsidiary undertaking	25,099	26,569	-	26,569
	146,072	153,021	-	153,021
Current assets				
Trade and other receivables	20,270	22,185	(790)	21,395
Cash at bank and in hand	912	5,363	-	5,363
Total current assets	21,182	27,548	(790)	26,758
Total assets	167,254	180,569	(790)	179,779
Current liabilities				
Creditors: amounts falling due within one year	(3,667)	(1,772)	(23,409)	(25,181)
Net current assets	17,515	25,776	(24,199)	1,577
Net assets	163,587	178,797	(24,199)	154,598
Equity				
Called up share capital	4,639	4,639	-	4,639
Share premium account	125,019	125,036	-	125,036
Treasury shares	(1,893)	(2,011)	-	(2,011)
Merger reserve	3,503	3,503	-	3,503
Capital redemption reserve	340	340	-	340
Retained earnings	31,979	47,290	(24,199)	23,091
Equity – attributable to the owners of the parent	163,587	178,797	(24,199)	154,598

The Palace Capital plc parent company balance sheet has been restated to reflect the post balance sheet event in note 15.

15 Post balance sheet events

During the year ended 31 March 2018 the parent company, Palace Capital plc, received a dividend from a subsidiary company which, due to a technical error, was subsequently found to have been declared unlawfully (as the subsidiary did not have relevant accounts that had been properly prepared as prescribed by Companies Act 2006 at the time that it declared the dividend). Consequently the parent company's financial statements for the year ending 31 March 2019 will reflect a prior year adjustment which reduces its profit after tax for the year ended 31 March 2018 by £24.2 million and increases amounts due by the parent company to subsidiaries at that date by the same amount. There is no impact on the consolidated financial statements.

In November 2018, Palace Capital was released from the liability to repay the dividend which has restored the £24.2 million of profit after tax and decreased the sum due to the subsidiary by an equivalent amount.

Palace Capital plc paid out dividends of 4.75p per share in July 2018 and a further dividend in October 2018 of 4.75p per share on the basis of its last annual accounts for the year ended 31 March 2018. Although the parent company had distributable reserves in excess of those needed to pay such dividends, even after adjusting for the unlawful dividend received, in view of the above, the 31 March 2018 accounts produced by the parent company did not constitute relevant accounts as prescribed by Companies Act 2006 to justify these dividends.

Note 14 in these interim accounts reflects the most current unaudited parent company balance sheet properly prepared as prescribed by Companies Act 2006, relevant for future dividends payable. The Company will be convening a General Meeting in due course in order to enter into a Shareholders' Deed of Release and Directors' Deed of Release with regard to the July 2018 and October 2018 dividends. A circular will be sent out to shareholders notifying them of the resolutions and date of the meeting.

On 22 November 2018 contracts were exchanged to sell 50 residential units, acquired as part of the RT Warren (Investments) Ltd portfolio in October 2017, for a total consideration of £18.2 million, reflecting 97% of their book value, to the London Borough of Barnet. Completion for each respective unit sold will take place when they become vacant with all the properties expected to be sold on or before 31 March 2019.