

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Circular and/or the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) (FSMA) if you are in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Ordinary Shares in Palace Capital plc please immediately forward this Circular, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold only part of your holding of Existing Ordinary Shares, please contact immediately your stockbroker, bank or other agent through whom the sale or transfer was effected.

The Directors (whose names appear on page 6 of this Circular) and the Company accept responsibility, both individually and collectively, for the information contained in this Circular. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Circular is in accordance with the facts and there are no other facts which, if omitted, would affect the import of such information. The Company and the Directors accept responsibility accordingly.

This Circular is not a prospectus for the purposes of the Prospectus Rules and has not been prepared in accordance with the Prospectus Rules. Accordingly, this Circular has not been, and will not be, reviewed or approved by the Financial Conduct Authority of the United Kingdom (FCA), pursuant to sections 85 and 87 of FSMA, the London Stock Exchange or any other authority or regulatory body.

Palace Capital plc

*(Incorporated and registered in England and Wales under the Companies Act 1985
with registered no. 05332938)*

Notice of General Meeting in connection with the Placing of 6,451,612 Placing Shares at 310 pence per Placing Share and The proposed acquisition of Property Investment Holdings Limited

You should read the whole of this Circular. Your attention is drawn in particular to the letter from the Chairman of Palace Capital plc, which is set out in Part I of this Circular, and which contains the unanimous recommendation of the Directors that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting referred to below.

Notice of a General Meeting of Palace Capital plc, to be held at 10.00 a.m. on 26 August 2014 at Hamblins LLP, 273-287 Regent Street, London, W1B 2AD is set out at the end of this Circular. The Form of Proxy for use at the meeting accompanies this Circular and, to be valid, should be completed and returned to the Company's registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Kent BR3 4TU, as soon as possible and, in any event, so as to arrive by no later than 10.00 a.m. on 22 August 2014. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting, should they so wish.

Allenby Capital Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting as nominated adviser and broker to the Company for the purposes of the AIM Rules for Companies in connection with the Placing and as such, its responsibilities are owed solely to the London Stock Exchange plc and are not owed to the Company and the Directors or to any other person or entity. Allenby Capital Limited will not be responsible to any person other than the Company for providing the protections afforded to clients of Allenby Capital Limited or for providing advice to any other person in connection with the Placing or any acquisition of shares in the Company. Allenby Capital Limited is not making any representation or warranty, express or implied, as to the contents of this Circular. Allenby Capital Limited has not authorised the contents of, or any part of, this Circular, and no liability whatsoever is accepted by Allenby Capital Limited for the accuracy of any information or opinions contained in this Circular or for the omission of any material information.

Arden Partners plc, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting as lead broker and bookrunner to the Company in connection with the Placing. Arden Partners plc will not be responsible to any person other than the Company for providing the protections afforded to clients of Arden Partners plc or for providing advice to any other person in connection with the Placing or any acquisition of shares in the Company. Arden Partners plc is not making any representation or warranty, express or implied, as to the contents of this Circular. Arden Partners plc has not authorised the contents of, or any part of, this Circular, and no liability whatsoever is accepted by Arden Partners plc for the accuracy of any information or opinions contained in this Circular or for the omission of any material information.

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TIMETABLE OF PRINCIPAL EVENTS

2014

Announcement of the Placing and Acquisition	6 August
Posting of Circular along with Forms of Proxy	6 August
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 22 August
General Meeting	10.00 a.m. on 26 August
Admission effective and dealings in the New Ordinary Shares expected to commence on AIM	8.00 a.m. on 27 August
Date for crediting of New Ordinary Shares in uncertificated form to CREST stock accounts	27 August
Date of despatch of share certificates in respect of the New Ordinary Shares in certificated form	by 8 September

Notes:

- 1 The dates set out in the Timetable of Principal Events above and mentioned throughout this Circular may be adjusted by Palace Capital plc.
- 2 All references to time in this Circular are to time in London.

PLACING STATISTICS

Number of Existing Ordinary Shares in issue	12,520,602
Number of Placing Shares to be issued pursuant to the Placing	6,451,612
Number of Consideration Shares to be issued pursuant to the Acquisition	Up to 1,177,419
Total number of New Ordinary Shares to be issued	7,629,031*
Enlarged Share Capital on Admission	20,149,633*
Issue Price	310p
Percentage of Enlarged Share Capital represented by the Placing Shares	32.02%*
Gross proceeds of the Placing	£20.0 million
Net proceeds of the Placing	£18.3 million
Market capitalisation of the Company at the Issue Price on Admission	£62.5 million*

*Assumes the maximum number of Consideration Shares are issued

DEFINITIONS

The following definitions apply throughout this Circular unless the context otherwise requires:

Act	the Companies Act 2006 (as amended);
Acquisition	the proposed acquisition by the Company of the entire issued share capital of PIH;
Acquisition Agreement	the conditional agreement between the Company (1) and the Sellers (2) dated 6 August 2014 pursuant to which the Company will acquire the entire issued share capital of PIH;
Admission	the admission to trading on AIM of the New Ordinary Shares taking place in accordance with the AIM Rules for Companies;
AIM	the market of that name operated by the London Stock Exchange;
AIM Rules for Companies	the AIM Rules for Companies, as published and amended from time to time by the London Stock Exchange;
Allenby	Allenby Capital Limited;
Arden	Arden Partners plc;
Board	the board of directors of the Company from time to time;
Business Day	any day (excluding Saturdays and Sundays) on which banks are open in London for normal banking business and the London Stock Exchange is open for trading;
certificated or certificated form	not in uncertificated form;
Circular	this document;
Company, Palace or Palace Capital	Palace Capital plc, a company registered in England and Wales with registered number 05332938;
Consideration Shares	up to 1,177,419 new Ordinary Shares to be issued by the Company to the Sellers pursuant to the Acquisition Agreement;
CREST	the relevant system for the paperless settlement of trades and the holding of uncertificated securities operated by Euroclear UK & Ireland Limited in accordance with the CREST Regulations;
Directors	the directors of the Company at the date of this Circular;
DTZ	DTZ Debenham Tie Leung Limited;
Enlarged Share Capital	the issued ordinary share capital of the Company immediately following Admission;
Existing Ordinary Shares	the 12,520,602 existing issued Ordinary Shares as at the date of this Circular;
Facility	the new loan facility to be granted by NatWest to PIH on the terms of the Facility Agreement;
Facility Agreement	the facility agreement between PIH (1) and NatWest (2) to be entered into on or around the date of completion of the Acquisition as detailed in Part III of this Circular;
Form of Proxy	the form of proxy relating to the General Meeting being sent to Shareholders with this Circular;
FCA	the Financial Conduct Authority of the United Kingdom;
FSMA	the Financial Services and Markets Act 2000 (as amended);

General Meeting	the general meeting of the Company convened for 10.00 a.m. on 26 August 2014 (or any adjournment of it), notice of which is set out at the end of this Circular;
Group	the Company and its subsidiaries from time to time;
Issue Price	310 pence per New Ordinary Share;
Lloyds	Lloyds Bank plc;
London Stock Exchange	London Stock Exchange plc;
NatWest	National Westminster Bank plc;
New Ordinary Shares	the Placing Shares and the Consideration Shares;
Ordinary Shares	the ordinary shares of 10 pence each in the capital of the Company;
PIH Properties	the portfolio of properties owned by PIH further details of which are set out in Part III of this Circular;
PIH	Property Investment Holdings Limited, a company incorporated in England and Wales with company number 00582889 whose registered office is The Old House, 4 Heath Road, Weybridge, Surrey KT13 8TB;
Placees	the persons who conditionally agree to subscribe for the Placing Shares;
Placing	the conditional placing by Arden and Allenby on behalf of the Company of the Placing Shares at the Issue Price as described in Part I of this Circular;
Placing Agreement	the agreement between the Company (1), Arden (2) and Allenby (3) dated 6 August 2014 relating to the Placing, summary details of which are set out in Part II of this Circular;
Placing Shares	6,451,612 new Ordinary Shares which have been placed conditionally with investors by Arden and Allenby on behalf of the Company;
Prospectus Rules	the rules made by the FCA under Part VI of FSMA in relation to offers of transferable securities to the public and admission of transferable securities to trading on a regulated market;
RBS	The Royal Bank of Scotland plc;
Registrar or Capita Asset Services	Capita Asset Services of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
Resolutions	the resolutions set out in the notice of General Meeting at the end of this Circular;
Sellers	the holders of shares in PIH for the time being;
Sequel Portfolio	a portfolio of commercial properties acquired by the Company on 21 October 2013;
Shareholders	holders of Existing Ordinary Shares;
stock account	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited;
uncertificated or uncertificated form	means recorded on the relevant register or other record of the share or other security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
UK Listing Authority	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;

United Kingdom or UK

the United Kingdom of Great Britain and Northern Ireland;

£ or Pounds

UK pounds sterling, being the lawful currency of the United Kingdom; and

US Securities Act

the United States Securities Act of 1933, (as amended).

PART I
LETTER FROM THE CHAIRMAN
PALACE CAPITAL PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 05332938)

Directors:
Stanley Davis *(Non-Executive Chairman)*
Neil Sinclair *(Managing Director)*
Richard Starr *(Executive Director)*
Anthony Charles Dove *(Non-Executive Director)*
Roger Nagioff *(Non-Executive Director)*

Registered Office:
41 Chalton Street
London
NW1 1JD

6 August 2014

Dear Shareholder

**Notice of General Meeting
in connection with the
Placing of 6,451,612 Placing Shares at 310 pence per Placing Share
and
The proposed acquisition
of Property Investment Holdings Limited**

1. INTRODUCTION

Palace Capital has announced today that it has entered into a conditional agreement to acquire the entire issued share capital of PIH, a property investment company which has a portfolio of 17 properties valued at approximately £32.02 million. Under the terms of the Acquisition Agreement, the consideration payable by Palace for the shares of PIH is up to £3.65 million which will be satisfied by the issue of the Consideration Shares at the Issue Price to the Sellers. The Company will also procure the repayment of £15.0 million of the outstanding bank indebtedness owed by PIH to RBS and the repayment of £12.744 million of the outstanding bank indebtedness owed by PIH to Lloyds (both subject to adjustment to reflect accrued interest and the impact of certain interest rate fluctuations between now and the date of such repayments). After assuming other liabilities of PIH the total amount payable by Palace Capital in connection with the acquisition of PIH is £32.0 million.

To part finance the Acquisition and to provide additional capital to exploit further opportunities, the Board has announced a conditional placing of 6,451,612 Placing Shares at the Issue Price to raise approximately £20.0 million (before expenses). The Placing has been arranged by Arden and Allenby. The Issue Price of 310 pence per Placing Share represents an approximate 6.8 per cent. discount to the closing middle market price of 332.5 pence per Existing Ordinary Share on 5 August 2014, the last business day before the announcement of the Placing.

The Company has agreed the terms of a Facility Agreement with NatWest which it is expected that PIH will enter into on or around the date of completion of the Acquisition. Pursuant to the Facility Agreement, NatWest propose to loan PIH £16.0 million, secured on the PIH Properties.

The Placing is conditional, *inter alia*, on PIH and NatWest entering into the Facility Agreement and the passing of the Resolutions by the Shareholders at the General Meeting, which has been convened on 26 August 2014, notice of which is set out at the end of this Circular. If the Resolutions are passed (and the Facility Agreement is entered into), the Placing Shares and Consideration Shares will be allotted immediately after the General Meeting, conditional on Admission which is expected to occur at 8.00 a.m. on 27 August 2014. Should Shareholder approval not be obtained at the General Meeting or the Facility Agreement is not entered into by PIH and NatWest, the Acquisition and the Placing will not proceed. The Placing is not underwritten.

The purpose of this document is to explain the background to the Acquisition and the Placing, to set out the reasons why your Board believes that the Acquisition and Placing are each in the best interests of the Company and its Shareholders and to seek your approval to the Resolutions at the

forthcoming General Meeting, which will be held at the offices of Hamlins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD at 10.00 a.m. on 26 August 2014.

2. INFORMATION ON PIH

PIH was established in 1957 to focus on the development of industrial and commercial real estate in the South East of England. PIH has followed a buy and build and rent strategy but in recent years has undertaken property disposals, because it has been necessary to do so.

Since being founded PIH (which is unlisted) has acquired properties with a mixture of bank debt, investment from shareholders and cash generated by the business. To support PIH's bank borrowings, PIH entered into interest rate swap arrangements in relation to its loan facilities with RBS and Lloyds in order to fix PIH's interest rate liabilities.

PIH's portfolio of properties had a market value of approximately £59.0 million as at 31 March 2007 but this valuation was significantly impacted by the subsequent UK economic decline. The UK economic recession led to a fall of approximately 30 per cent. in the value of PIH's property portfolio and this decline was compounded by the RBS and Lloyds' interest rate swaps (which were tied into long term fixed interest rates) and PIH was unable to benefit from falling UK interest rates on its bank loans. The interest rate on the Lloyds interest rate swap increased to 4.95 per cent. in May 2013 and the interest rate on the RBS interest rate swap increased to 5.84 per cent. in November 2012. These increases had a further detrimental effect on PIH's profitability.

Over the past three years PIH has undertaken a programme of property sales from its portfolio in order to fund the part repayment of its bank loans, cancel the related interest rate swaps and reduce its interest payments. In the year to 31 March 2013 PIH sold five properties at a book value of £7.6 million and in the year to 31 March 2014 it sold one property at a book value of £1.0 million. PIH has not made any acquisitions since August 2012 as all its available cash has been used to part repay bank loans and cancel the related interest rate swaps in order to reduce PIH's interest charge.

PIH achieved a net profit of £1.8 million in the year ended 31 March 2013. However it incurred a £2.5 million loss in the year ended 31 March 2014, largely as a result of a £2.3 million interest rate swap cancellation fee incurred in cancelling £9.0 million notional value of interest rate swaps. In addition rental income has reduced and property costs increased as a result of additional vacant properties in PIH's portfolio. Reduced profitability has resulted in cash constraints and accordingly, PIH's management had to manage its supplier payment terms and stop paying dividends in its most recent financial period. PIH's annual accounts for the year ended 31 March 2014 were qualified on a going concern basis.

At 11 July 2014, PIH held 17 properties split into 55 individual units. The PIH Properties have been valued, on an open market and fair value basis, by DTZ at £32.02 million. Further details of the values attributed to the PIH Properties by DTZ are set out in Part III of this Circular. The current gross annual rental on the PIH Properties is circa £2.5 million.

On completion of the Acquisition PIH's chief executive will resign. PIH's part time finance director will remain with the business.

3. BACKGROUND TO AND REASONS FOR THE ACQUISITION AND PLACING

On 21 October 2013 the Company completed the acquisition of the Sequel Portfolio from Quintain Estates & Development PLC and Buckingham Properties Limited which comprised 24 properties around the UK, for a consideration of £39.25 million. At the time of this acquisition the properties in the Sequel Portfolio had an aggregate market value of £44.2 million, with a net rent receivable of £5.2 million. The Board has undertaken a programme of active management and as at 31 March 2014 (the Company's year end) the Company had completed the sale of five properties, all at above book value. These properties are Gelderd Point (Leeds), two buildings at Argent Court (Tolworth), Atlantic Wharf (Cardiff) and Meadowcourt (Sheffield). At 31 March 2014 the remaining Sequel Portfolio was independently valued at £55.99 million. The Company also owns Hockenhull Estates, a portfolio of nine freehold commercial properties, acquired in October 2011. As at 31 March 2014 the Hockenhull portfolio was valued at £2.23 million.

Since the acquisition of the Sequel Portfolio, it has remained the Company's strategy to focus on the UK secondary property market outside London, both through its current investment portfolio

and by continuing to pursue additional acquisition opportunities. The Directors continue to believe that the disparity between the yields on prime London property compared to regional and secondary property offers good opportunities for investors. The Directors believe that, together with evidence of improving economic data from the UK economy in general, this supports their view that this is an opportune time to buy such property.

The Directors have looked at a number of opportunities but in their view most of them did not provide a sufficient return that they could recommend to the Company's shareholders. Having identified PIH and assessed the PIH Properties, the Directors believe that there is an opportunity to enhance the value of the PIH Properties through active management to reduce irrecoverable outgoings and increase rental income. The Directors believe the PIH Properties fit neatly within the Company's investment criteria, are being purchased at a reasonable price and offer significant potential for the creation of shareholder value.

The Company is undertaking the Placing to finance the repayment of PIH's indebtedness to RBS and Lloyds, alongside the Facility. The Placing will also provide funding for the Company to pursue other acquisition opportunities.

4. CURRENT TRADING AND PROSPECTS

Subsequent to its financial year ended 31 March 2014, the Company has announced the following developments with the Sequel Portfolio:

- the exchange of an agreement for lease in respect of a renewal of two offices leases (totalling 38,356 sq. ft.) in Milton Keynes with Rockwell Automation Limited for a period of 12 years, with provision for upward rent review at the end of every fourth year at a combined rent of £398,196 per annum. Under this agreement the Company will invest circa £2.5 million in refurbishing these properties;
- a new 5 year lease at Courtauld House in Coventry of a 75,000 sq. ft. industrial unit to German Auto components group Brose Limited for an annual rent of £325,000; and
- the renewal of a lease over 26,140 sq. ft. of offices in Bristol to Balfour Beatty Group Limited for a period of 5 years, at an initial rental of £81,500 per annum for the first year, £162,500 per annum for the second and third years (with a break clause pursuant to which, subject to notice and conditions, the tenant may terminate the lease on 18 June 2017).

The Board will continue to actively manage the Company's properties and believes there is further opportunity to increase Shareholder value.

5. DETAILS OF THE ACQUISITION AGREEMENT

The Company has conditionally agreed to acquire the entire issued share capital of PIH, on the terms of the Acquisition Agreement, for consideration of up to £3.65 million, to be satisfied by the issue of the Consideration Shares at the Issue Price to the Sellers. The Company will also procure the repayment of £27.744 million of the outstanding bank indebtedness owed by PIH, comprising £15.0 million to RBS and £12.744 million to Lloyds (both subject to adjustment to reflect accrued interest and the impact of certain interest rate fluctuations between now and the date of such repayments). After assuming other liabilities of PIH the total amount payable by Palace capital for PIH is £32.0 million. Included in the Acquisition and Placing costs are £150,000 of transaction costs Palace Capital has agreed to pay on behalf of PIH.

Pursuant to the Acquisition Agreement, the Sellers have agreed not to dispose of the Consideration Shares prior to 30 September 2015 or the publication of the Company's annual accounts for the year ending 31 March 2015, whichever is earlier.

The Consideration Shares will rank *pari passu* in all respects with the Existing Ordinary Shares and therefore will rank equally for all dividends or other distributions declared, made or paid (save that they shall not rank for any dividend or the distribution of the Company declared, made or paid by reference to a record date before the Acquisition completes). Application will be made to the London Stock Exchange for the Consideration Shares to be admitted to trading on AIM. It is expected that Admission will become effective at 8.00 a.m. on 27 August 2014.

Completion of the Acquisition is conditional, *inter alia*, upon the passing of the Resolutions and Admission.

Further detail on the Acquisition Agreement, including the calculation of the number of Consideration Shares to be issued to the Sellers, is set out in Part II of this Circular.

6. DETAILS OF THE FACILITY

The Company has agreed the terms of the Facility Agreement with NatWest. The Directors expect that PIH and NatWest will enter into the Facility Agreement upon completion of the Acquisition. In the event that the Facility Agreement is not entered into by PIH and NatWest then the Acquisition and Placing will not complete and Admission will not occur. The Facility constitutes a term loan facility of £16.0 million.

The Facility terms agreed between the Company and NatWest include: i) the Facility being available to PIH for five years from the date of completion of the Acquisition; ii) interest being charged at a rate of 2.75 per cent. above the NatWest lending base rate; and iii) the Facility will be secured by a first ranking legal charge over each of the PIH Properties and a debenture over the entire undertaking of PIH.

The Facility Agreement contains a number of covenants on the part of PIH, including the loan to value ratio not exceeding 55 per cent. and the payment of rent on the PIH properties into a PIH bank account at NatWest.

Further detail on the Facility Agreement is set out in Part II of this Circular.

7. DETAILS OF THE PLACING

The Company has conditionally raised £20.0 million (before expenses) through a placing of 6,451,612 Placing Shares at 310p per share with institutional and other investors. The net proceeds of the Placing (being £18.3 million) will be applied by the Company to: a) part fund (together with the Facility) the repayment of PIH's bank indebtedness with Lloyds and RBS; and b) fund future property acquisitions. The Directors believe that these additional funds will enable the Company to pursue acquisition opportunities which are complimentary to the Company's existing property portfolio. The Placing has not been underwritten.

The Company has entered into a Placing Agreement under which Arden and Allenby as joint brokers have agreed to use their reasonable endeavours to procure subscribers for the Placing Shares at the Issue Price. Further terms of the Placing are set out in Part II of this Circular. Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Placing Shares will commence at 8.00 a.m. on 27 August 2014.

The Placing is conditional, *inter alia*, upon:

- (a) the passing of the Resolutions;
- (b) the Acquisition Agreement and the Facility Agreement becoming unconditional in all respects save in respect of any interconditionality with the Placing Agreement;
- (c) the Placing Agreement becoming unconditional in all respects (other than Admission) and not having been terminated in accordance with its terms; and
- (d) Admission occurring by not later than 8.00 a.m. 27 August 2014 (or such later time and/or date as the Company, Arden and Allenby may agree, not being later than 8.00 a.m. on 12 September 2014).

Accordingly if any of such conditions are not satisfied or, if applicable, waived the Placing will not proceed.

The Placing Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Ordinary Shares and therefore rank equally for all dividends or other distributions declared, made or paid after the date of issue of the Placing Shares. No temporary documents of title will be issued.

Directors participation in the Placing

The Directors are subscribing for £760,000 in the Placing. This subscription is split as follows:

	At the date of this Circular		Placing Shares acquired	On Admission	
	Number of Ordinary Shares	% of issued share capital		Number of Ordinary Shares	% of issued share capital ⁵
Stanley Davis ¹	1,403,997	11.29%	161,290	1,565,287	7.77%
Neil Sinclair ²	154,413	1.24%	19,354 ³	173,767	0.86%
Anthony Dove	43,000	0.35%	32,258	75,258	0.37%
Richard Starr	50,000	0.40%	32,258 ⁴	82,258	0.41%

1 Stanley Davis holds 303,997 ordinary shares in his own name. The trustees of the IRG PLC Directors Retirement and Death Benefit Scheme of which Stanley Davis is the sole beneficiary holds 375,000 ordinary shares. The trustees of the SDA Directors Retirement and Death Benefit scheme of which Rachel Rita Davis, the wife of Stanley Davis, is the sole beneficiary holds 725,000 ordinary shares.

2 London Active Management, a company controlled by Neil Sinclair and Pamela Sinclair (his wife) holds 1,791 ordinary shares, Neil Sinclair holds 4,500 ordinary shares and Pamela Sinclair 900 ordinary shares in her own name. The Trustees of the Sinclair Goldsmith Executive Pension Scheme of which Neil Sinclair is the sole beneficiary holds 147,222 ordinary shares.

3 These 19,354 Placing Shares are being acquired by the Sinclair Goldsmith Executive Pension Scheme.

4 16,129 of these Placing Shares have been acquired by Sharon Starr, the wife of Richard Starr.

5 Assuming the maximum number of Consideration Shares are issued.

Reasons for not carrying out a pre-emptive issue

The Directors have considered the most appropriate method to conduct the fundraising, including consideration of carrying out a placing and open offer or a rights issue. The Directors concluded that the time and costs associated with a pre-emptive offer were not in the best interests of the Company. After careful consideration, they concluded that the benefit of minimising the costs of any fundraising by way of a non-pre-emptive cash placing would be in the best interests of Shareholders.

8. GENERAL MEETING

The General Meeting is being called to seek Shareholders' approval to grant new authorities to enable the Directors, *inter alia*, to allot the Consideration Shares and the Placing Shares.

A notice convening a General Meeting of the Company, to be held at the offices of Hamblins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD at 10.00 a.m. on 26 August 2014, is set out at the end of this Circular. At the General Meeting, the following resolutions will be proposed:

An ordinary resolution to:

- (i) grant authority to the Directors pursuant to and for the purposes of Section 551 of the Act, to allot shares or grant rights to subscribe for or to convert any security into shares in the Company with an aggregate nominal amount of up to:
 - (A) £654,161.20 in connection with the Placing;
 - (B) Up to £117,741.90 in connection with the Acquisition;
 - (C) £1,343,308.80 in connection with a rights issue; and
 - (D) £671,654.40 generally.

The authority in (C) will represent 66.6 per cent. of the Enlarged Share Capital and the authority in (D) will represent 33.3 per cent. of the Enlarged Share Capital and is in line with the existing share authorities granted at the Company's last AGM which was held on 21 July 2014.

A special resolution to:

- (ii) to empower the Directors pursuant to Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority conferred by paragraph (i) (A) and (B) above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate amount of:
 - (A) £654,161.20 pursuant to the Placing; and
 - (B) £201,496.30 generally.

9. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders will find accompanying this Circular a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete, sign and return the Form of Proxy in accordance with the instructions printed on it to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so as to arrive no later than 10.00 a.m. on 22 August 2014. Completion and return of the Form of Proxy will not affect your right to attend and vote in person at the General Meeting if you so wish.

10. DIRECTORS' RECOMMENDATION

The Directors consider the Placing and Acquisition to be in the best interests of the Company and its Shareholders as a whole.

Accordingly the Directors recommend unanimously that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting, as they intend to do in respect of their own shareholdings, which total 1,988,910 Ordinary Shares (representing 15.9 per cent. of the Existing Ordinary Share capital).

This Circular will be available for a period of twelve months from the date of this Circular on the Company's website www.palacecapitalplc.com free of charge in accordance with the requirements of Rule 26 of the AIM Rules.

Yours sincerely

Stanley Davis
Chairman

PART II
ADDITIONAL INFORMATION

1. ACQUISITION AGREEMENT

On 6 August 2014, the Company entered into the Acquisition Agreement with the Sellers to acquire the entire issued share capital of PIH. Completion of the Acquisition is conditional, *inter alia*, upon:

- the passing of the Resolutions;
- Lloyds and RBS signing deeds of settlement in respect of their existing security on PIH's assets, their existing loans and the interest rate swap arrangements (such deeds of settlement have not, as of the date of this Circular, been signed but PIH has received written confirmation from Lloyds and RBS that they will be entering into the deeds of settlement prior to completion and conditional upon their receiving the sums due to them (being £12.744 million in the case of Lloyds and £15.0 million in the case of RBS (both subject to adjustment to reflect accrued interest and the impact of certain interest rate fluctuations between now and the date of such repayments))); and
- Admission.

The consideration payable to the Sellers for the Acquisition is up to £3.65 million, to be satisfied by the issue of the Consideration Shares to the Sellers at the Issue Price.

The Company will also procure the repayment of £15.0 million of the outstanding bank indebtedness owed by PIH to RBS and the repayment of £12.744 million of the outstanding bank indebtedness owed by PIH to Lloyds (both subject to adjustment to reflect accrued interest and the impact of certain interest rate fluctuations between now and the date of such repayments). Any increase in the amount repaid to Lloyds above £12.744 million as a result of these adjustments will result in a pound for pound reduction in the total consideration payable to the Sellers from the maximum consideration of £3.65 million. The Company has also agreed to procure that PIH pays Richard Waple (PIH's chief executive) a severance payment of £220,000 in connection with the termination of his service agreement with PIH and his resignation as a director of PIH on completion of the Acquisition.

The Sellers have agreed, severally, to give warranties in relation to PIH to the Company. The warranties are qualified by the Disclosure Letter (as such term is defined in the Acquisition Agreement) and certain limitations on liability. The maximum liability pursuant to the warranties given by the Sellers is limited to £400,000 and the time limit for bringing claims (other than for tax matters) expires 18 months after completion of the Acquisition (or 7 years after completion of the Acquisition in respect of claims under the tax warranties or the tax covenant).

2. FACILITY AGREEMENT

The Company has agreed terms with NatWest pursuant to which NatWest will enter into the Facility Agreement with PIH on or around the date of completion of the Acquisition. NatWest will make the Facility available to PIH for a period of 5 years from the date of completion of the Acquisition.

The Facility constitutes a term loan facility subject to an interest rate of 2.75 per cent above NatWest's lending base rate.

The purpose of the Facility is to finance the acquisition of PIH by the Company.

The Facility Agreement provides for quarterly capital repayments throughout the term of the Facility in instalments of £100,000 plus interest. The Facility Agreement provides further for the payment of an arrangement fee of 1 per cent of the Facility and a security fee of £3,500 to NatWest on completion of the Facility.

The Facility will be secured by a first ranking legal charge over the PIH Properties and a debenture over the entire undertaking of PIH. PIH will covenant with NatWest, on the terms of the Facility Agreement, *inter alia*, that the ratio of the total amount of the loan outstanding to the value of the PIH Properties will be at least 55 per cent throughout the term of the Facility.

The Facility Agreement contains further covenants on the part of PIH including:

- (a) the maintenance of an insurance policy in respect of the PIH Properties, with an insurer and at a level of cover approved by NatWest and naming NatWest as a co-insured party;
- (b) the provision of six monthly management accounts of PIH and rent roll details of the tenants of the PIH Properties within 30 days of the end of the period to which they relate;
- (c) the provision of annual accounts of PIH within 180 days from the end of the period to which they relate; and
- (d) the payment of rental payments in respect of the PIH Properties into a current account held by PIH at NatWest.

3. PLACING AGREEMENT

On 6 August 2014 the Company entered into the Placing Agreement with Arden and Allenby pursuant to which Arden and Allenby have agreed to use their respective reasonable endeavours to arrange for Placees to subscribe for 6,451,612 Placing Shares at the Issue Price. The agreement is conditional, *inter alia*, upon Admission taking place on or before 27 August 2014 or such later date as Arden, Allenby and the Company may agree but in any event no later than 12 September 2014.

Allenby will receive, pursuant to the Placing Agreement and conditional on Admission, a corporate finance fee of £30,000 plus VAT. In addition, Arden and Allenby will receive, conditional on Admission, total Placing commissions of £740,000.

The Placing Agreement contains, *inter alia*, customary undertakings and warranties given by the Company in favour of Arden and Allenby as to the accuracy of information contained in this document and other matters relating to the Company and its business and an indemnity from the Company in favour of Arden and Allenby.

Arden or Allenby may terminate the Placing Agreement in specified circumstances prior to Admission, principally in the event of a material breach of the Placing Agreement or any of the warranties contained in it, or where any event of omission relating to the Company is, or will be in the opinion of Arden or Allenby, material in the context of the Placing, or where any change of national or international, financial, monetary, economic, political or market conditions is, or will be in the opinion of Arden and Allenby, materially adverse to the Company or the successful outcome of the Placing.

PART III
PIH PROPERTIES

The following data has been extracted from the independent valuation report prepared by DTZ, which valued the properties as at 11 July 2014.

	<i>DTZ Valuation</i>
	<hr/>
1. <i>Ovest House, 58, West Street, Brighton, East Sussex BN1 2RA</i> Retail and office building in the town centre comprising an approximate net area of 8,124 sq. ft. Multi-let with one floor vacant currently producing a gross rental income of £104,482 per annum.	£1.35m
2. <i>Units 1-3, Clayton Industrial Estate, Burgess Hill, West Sussex, RH15 9NB</i> Three warehouse/office buildings of which one is vacant about 10 miles North of Brighton comprising an approximate net area of 45,454 sq. ft. They currently produce a gross rental income of £319,000 per annum.	£4.7m
3. <i>Units A & B Imberthorne Lane, East Grinstead, RH19 1QY</i> Two retail warehouse properties comprising an approximate net area of 26,505 sq. ft. They are currently let to Wickes & Pets at Home at a gross rental income of £467,363 per annum.	£7.55m
4. <i>Princeton House, 1-5, Victoria Road, Farnborough GU14 7NT</i> Office building comprising a net area of 6,623 sq.ft. Currently used as a Job Centre and let to Trillium (Prime) Property Group at a gross rental income of £70,200 per annum.	£0.83m
5. <i>Russell House, Molesey Road, Walton-on-Thames, Surrey, KT12 3PJ</i> Multi-let office building comprising an approximate net area of 23,796 sq. ft. Currently producing a gross rental income of £141,405 per annum.	£1.34m
6. <i>Saxon House, Henson Way, Kettering, Northants, NN16 8PX</i> Two factory warehouse units comprising a net area of approximately 29,376 sq. ft. amongst a large number of industrial properties. Currently let and producing a gross rental income of £146,800 per annum.	£1.18m
7. <i>138 Molesey Avenue, West Molesey, KT8 2RY</i> An industrial building comprising a net area of approximately 5,352 sq. ft. It is currently let at a gross rental income of £38,000 per annum.	£0.43m
8. <i>Treston House & Fenestra House, 5 B&C, Bone Lane, Newbury RG14 5SH</i> One industrial and one trade counter building in a good location with an approximate net area of 12,058 sq. ft. The properties are currently let and produce a gross rental income of £85,370 per annum.	£0.95m
9. <i>Unit H2, Parkway Industrial Estate, 87, St Modwen Road, Plymouth, PL6 8LH</i> A trade counter building with an approximate net area of 31,290 sq. ft. on an extensive industrial estate. It is currently let to SIG Trading at a gross rental income of £157,000 per annum.	£1.7m
10. <i>54 Albert Road North, Reigate, RH2 9EL</i> An industrial unit in this upper class town with an approximate net area of 11,558 sq. ft. It is currently let and producing a gross rental income of £35,000 per annum.	£0.32m
11. <i>61 Albert Road North, Reigate, RH2 9EL</i> Three industrial buildings with a net lettable area of 25,024 sq. ft. They are currently let and produce a gross rental income of £117,600 per annum.	£0.96m
12. <i>Unit 2, Brookside Avenue, Rustington, BN16 3LF</i> An industrial unit comprising a net area of approximately 9,588 sq. ft. It is currently let and produces a gross rental income of £36,000 per annum.	£0.36m
13. <i>1-11, Winchester Street, Salisbury, SP1 1HB</i> A five unit retail property together with car parking situated close to Market Square. It comprises a net area of 11,292 sq. ft. and produces a gross rental income of £152,200 per annum.	£1.98m
14. <i>Unit 5 Harnham Business Park, Netherhampton Road, Salisbury, SP2 8PF</i> A retail warehouse property on the outskirts of Salisbury with a net lettable area of 28,864 sq ft. It is currently let at a gross rental income of £222,759 per annum exclusive to Booker Cash & Carry.	£2.48m
15. <i>Fraser House, 56 Kingston Road, Staines-upon-Thames, TW18 4NL</i> A refurbished office building adjoining Staines Station. It has a net area of 6,741 sq. ft. and is currently vacant.	£1.07m
16. <i>Bridge House, 41-45 High Street, Weybridge, KT13 8BB</i> A retail and office building in this prosperous town comprising 11,525 sq. ft. It is currently let and producing a gross rental income of £331,113 per annum.	£3.5m
17. <i>The Old House & Rathbone House, 4 Heath Road, Weybridge, KT13 8TB</i> Two properties that were probably originally used for residential purposes and comprising a net lettable area of 4,528 sq. ft. The properties are partly occupied by PIH and the remainder let at a gross rental income of £71,000 per annum.	£1.32m
TOTAL:	<hr/> <hr/> £32,020,000

NOTICE OF GENERAL MEETING

PALACE CAPITAL PLC

*(Incorporated and registered in England and Wales under the Companies Act 2006
with registered number 05332938)*

NOTICE IS HEREBY GIVEN that a General Meeting of the Company will be held at the offices of Hamblins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD on 26 August 2014 at 10.00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions. Resolution 1 will be proposed as an ordinary resolution and Resolution 2 will be proposed as a special resolution:

ORDINARY RESOLUTION

1. THAT the directors of the Company be generally and unconditionally authorised to allot shares and to make offers or agreements to allot shares in the Company or grant rights to subscribe for or convert any security into shares (“**Relevant Securities**”):
 - 1.1 in respect of the allotment of up to an aggregate nominal amount of £117,741.90 in respect of the Acquisition;
 - 1.2 in respect of the allotment of up to an aggregate nominal amount of £645,161.20 in respect of the Placing;
 - 1.3 comprising equity securities (as defined by section 560 of the Act) up to an aggregate nominal amount of £1,343,308.80 (such amount to be reduced by the nominal amount of any Relevant Securities allotted pursuant to the authority in paragraph 1.4 below) in connection with an offer by way of a rights issue:
 - (a) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - (b) to holders of other equity securities as required by the rights of those securities or as the directors of the Company otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

- 1.4 in any other case, up to an aggregate nominal amount of £671,654.40,

provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date which is 15 months after the date of this resolution or, if earlier, the conclusion of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the directors of the Company may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the directors of the Company to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

SPECIAL RESOLUTION

2. THAT, subject to and conditional on the passing of Resolution 1, the directors of the Company be given the general power to allot equity securities (as defined by Section 560 of the Act) for cash, either pursuant to the authority conferred by Resolution 1 or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - 2.1 the allotment of new Ordinary Shares in respect of the Placing;
 - 2.2 the allotment of equity securities in connection with an offer by way of a rights issue:
 - (a) to the holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings; and

(b) to holders of other equity securities as required by the rights of those securities or as the directors of the Company otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

2.3 the allotment (otherwise than pursuant to sub-paragraphs 2.1 and 2.2 above) of equity securities up to an aggregate nominal amount of £201,496.30.

The power granted by this resolution will expire on the date which is 15 months after the date of this resolution or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuant of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This resolution revokes and replaces all unexercised powers previously granted to the directors of the Company to allot equity securities as if section 561(1) of the Companies Act 2006 did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

Capitalised terms above shall bear the meaning as set out in this Circular dated 6 August 2014.

By Order of the Board
David Kaye
Company Secretary

Registered office:
41 Chalton Street
London, NW1 1JD

Dated: 6 August 2014

NOTES TO THE NOTICE OF GENERAL MEETING

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at:
 - 10.00 a.m. on 22 August 2014; or,
 - if this Meeting is adjourned, at 48 hours (excluding any part of a day that is not a working day) prior to the adjourned meeting,shall be entitled to attend and vote at the Meeting.

Attending in person

2. If you wish to attend the Meeting in person, please arrive at the offices of Hamllins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD (the nearest underground station is Oxford Circus) at 9.30 a.m. on 26 August 2014 (commencement of registration); the Meeting will commence at 10.00 a.m. Please bring this notice with you. Representatives of corporate shareholders will have to produce evidence of their proper appointment when attending the Meeting. Please contact the Company's Registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF, if you require further guidance on this.

Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
4. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.
5. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's Registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF.
7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Company's Registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF; and
- received by Capita Asset Services no later than 10.00 a.m. on 22 August 2014.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxies through CREST

9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in

the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (IDRA10) by 10.00 a.m. on 22 August 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

11. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

12. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4TF. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Asset Services no later than 10.00 a.m. on 24 August 2014.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

13. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share

