PALACE CAPITAL plc

Annual Report and Accounts 2022

Regional property experts

Our Performance: Summary

YEAR IN NUMBERS

Adjusted Profit Before Tax

2022	£7.8m
2021	£7.5m

IFRS Profit/(Loss) Before Tax

2022	£24.6m
2021	£(5.5)m

Total Property Return

2022	12.5%
2021	1.0%

EPRA NTA per Share

2022	390p
2021	350p

Total Accounting Return

2022	14.8%
2021	(1.2)%

Total Shareholder Return

2022	21.1%
2021	38.5%

Loan to Value

2022	28%
2021	42%

Dividends paid or declared

2022	13.25p
2021	10.50p

OPERATIONAL HIGHLIGHTS

- Disposal strategy ahead of target with £31.5m of gross proceeds achieved which is 19% above March 2021 book value, 12% ahead of purchase prices and capital expenditure, delivering an ungeared IRR of 11%
- 55 lease events completed in the period totalling 319,000 sq ft at an average of 11% premium to ERV
- An additional £1.9m of annualised net rental income gained in the year through asset management lease activity, acquisitions, and reduction in non-recoverable property costs. This takes into account income lost through disposals, lease expiries and lease breaks
- Portfolio repositioning in the year has led to a higher quality portfolio consisting of 37 properties, improved EPC ratings (which support future rental uplifts), higher occupancy and weighting of core assets
- 98% rent collection for the 12 months to 31 March 2022
- Overall EPRA occupancy of 88.5% (2021: 86.4%), with majority of remaining vacancy having been recently refurbished or identified for strategic refurbishment or redevelopment
- WAULT of 4.7 years to break, 6.5 years to expiry, reflecting flexible lease terms
- Increased prioritisation of ESG initiatives and incorporated energy efficiency measures into our capital expenditure projects

VISIT OUR WEBSITE AT WWW.PALACECAPITALPLC.COM

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

FRONT COVER: HUDSON QUARTER, YORK

Welcome to Palace Capital

We are regional property experts with a diversified portfolio of UK commercial real estate

2022 SUMMARY

Our year in numbers and operational highlights summarise a strong performance for the Group in the year. We saw the gradual easing of lockdown restrictions in the UK and were well placed to take advantage of this. We maintained our close relationship with our tenants to maximise rent collection and completed our York development. Our asset management strategy focused on maximising the full potential of our properties, including letting activity and consideration of the development and refurbishment pipeline.

We are well placed to continue to perform well, as we focus on our diversified portfolio in good locations and our commitment to sustainable buildings which have strong ESG credentials, or viable for improvement to create long term sustainable value.

PORTFOLIO

We aim to provide a balanced portfolio of well located properties comprising:

- c.50% core assets with medium or long term leases with high occupancy and strong income profiles located where we see rental and capital value growth;
- c.40% value add /asset management assets where we reinvest surplus capital to adapt our properties to occupier demands; and
- c.10% development assets where we identify potential to undertake or divest at the right time for others to complete.

Total portfolio value as at 31 March 2022

£259m

Number of assets

37

Contracted rent

£15.9m

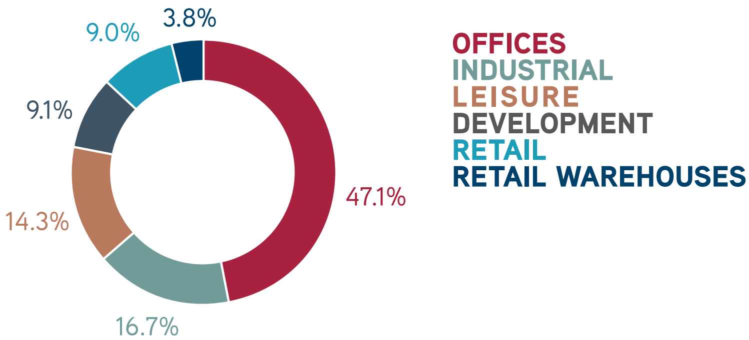
Total occupancy

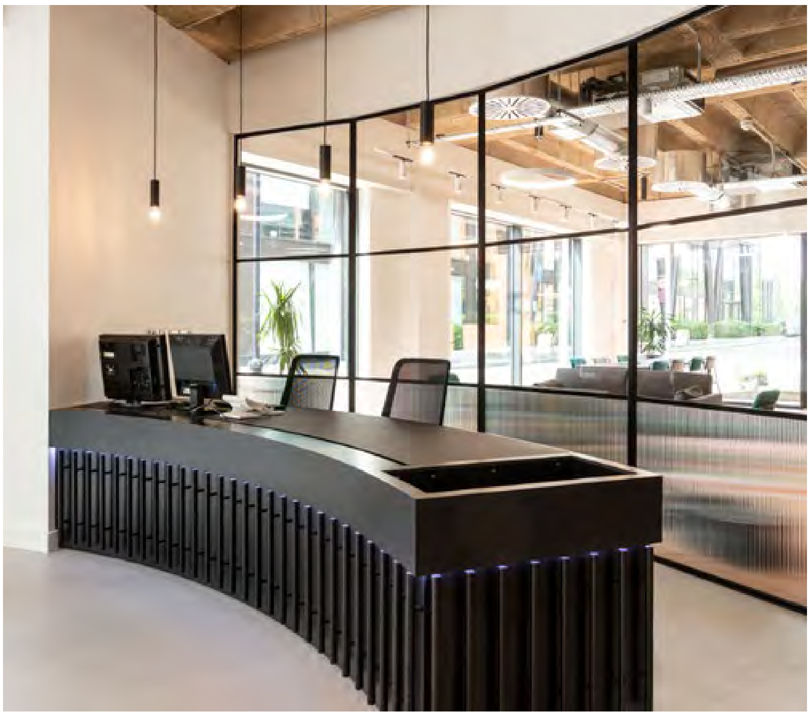
88.5%

WAULT

4.7Y

SECTOR SPLIT





22 Market Street, Maidenhead

Chairman's Statement

"Palace Capital has performed resiliently whilst adapting quickly to ensure business continuity is maintained in this challenging environment".

Steven Owen

A resilient market with Steven Owen

I am pleased to present my first Chairman's Statement on the results for the year ended 31 March 2022, following my appointment to the Board on 1 January this year.

INTRODUCTION

Despite the uncertainty and volatility in the economic environment over the last two years, the Group has performed strongly with many of the key metrics showing a marked improvement in these results. The UK's success in rolling out its Covid-19 vaccination programme and thereby providing protection for the public has translated into improved confidence, which in turn has had a positive impact on the portfolio. This has been evidenced by strong letting activity and rental collections returning to their pre-pandemic levels, as people learn to live with the virus, get back to their offices and enjoy leisure activities once again. Furthermore, with a portfolio comprising assets in town and cities across the regions, the Group is well placed to capitalise on the Government's Levelling Up agenda.

The Group has navigated the unprecedented challenges that faced the economy and its business with the support of its tenants, banks and its employees. On behalf of the Board, I would like to thank all of them and other stakeholders for their support during the last year.

OVERVIEW OF RESULTS

The Group has delivered a robust set of results over the last year driven by a combination of active operational and financial activity, property revaluation gains and profits arising from the disposal strategy resulting in a total accounting return of 14.8% (2021: minus 1.2%).

The Group's adjusted profit before tax increased marginally to £7.8m notwithstanding the dilution to earnings caused by property sales totalling £31.5m which realised a profit of £5.0m. Trading profits from the sale of residential units realised £3.8m.

The Group's portfolio has demonstrated resilience throughout the past year and combined with asset management activity and yield compression, generated a revaluation surplus of £8.2m, equivalent to 17.7 pence per share.

The aggregation of the profits described in the preceding paragraphs account for the significant increase in profit before tax reported under IFRS of £24.6m (2021: £5.5m loss).

"The Group has delivered a positive set of results over the last year driven by a combination of active operational and financial activity, property revaluation gains and profits arising from the disposal strategy resulting in a total accounting return of 14.8%."

Principally as a result of the revaluation surplus and profits arising from the disposal strategy, EPRA NTA per share increased by 11.4% to 390 pence per share (2021: 350 pence per share).

The Group's balance sheet has been significantly strengthened following the disposal of properties and the revaluation surplus resulting in a loan to value ratio of 28% (2021: 42%). As at 31 March 2022 the Group had cash and cash equivalents of £28.1m and as at 10 June it was £22.7m, excluding the £5.0m available to immediately draw from the NatWest revolving credit facility, which was repaid post year end.

DIVIDEND

The Group increased its paid or declared dividends by 26.2% to 13.25 pence per share (2021: 10.50 pence per share) in relation to the year ended 31 March 2022, including a proposed final fourth quarter dividend of 3.75 pence per share. The total dividend of 13.25 pence per share is covered 128% by Adjusted earnings per share.

TOTAL SHAREHOLDER RETURNS

The Company's share price increased from 236 pence per share on 31 March 2021 to 274p on 31 March 2022 which together with dividends distributed produced a Total Shareholder Return of 21.1% (2021: 38.5%).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Company is committed to responsible business and ESG matters, which are at the forefront of the Board's considerations. Further details on the approach to responsible business can be found in the Annual Report and on the website.

BOARD CHANGES

Neil Sinclair, Chief Executive and Co-founder, stepped down from the Board with effect from 14 June 2022. Neil considered this to be the right time to step down following the strong trading update announced on 6 April 2022 and the material increase in NAV and dividend. Neil, with Stanley Davis and Andrew Perloff, co-founded the Company and was instrumental in growing the business through a combination of corporate and property transactions including moving from AIM to the Main Market and conversion to a REIT. The Board would like to thank him for his dedication, commitment and contribution to Palace Capital since 2010. The Board and staff of Palace Capital wish him well.

I, currently Non-Executive Chairman, will assume the role of Interim Executive Chairman with effect from 14 June 2022.

In December 2021, it was announced that Stanley Davis, Chairman and Co-founder of the Group in 2010, would retire from the Board on 31 December 2021. The Board would also like to thank Stanley for his considerable service to the Company.

OUTLOOK

The year ahead is likely to be further affected by continuing macroeconomic and geo-political uncertainty, particularly arising from the continuing war in Ukraine. The inflationary headwinds and the consequential impact on consumer and investor confidence are likely to constrain UK economic growth in the short term. The consequential risks to real estate owners of such factors are understood and the Board will continue to monitor the situation regarding any impact on its business.

The Board announced in the Trading Update on 6 April that, in consultation with shareholders, it was considering a range of strategic options to unlock further value in the business. We expect to update the market on the strategic options that we will pursue before the Annual General Meeting in July 2022. The Board remains committed to maximising value for shareholders and closing the current share price discount to NAV.

Steven Owen

CHAIRMAN

Leading with our purpose

Our Strategic Report outlines what we do and how we do it, and the key to this is our updated Purpose:

To provide compelling and **sustainable built environments...**

22 Market Street, Maidenhead.

Hudson Quarter, York

COMPELLING AND SUSTAINABLE BUILT ENVIRONMENTS

We want our tenants to view our properties as the best that they can afford for location, convenience, facilities and their future needs. This includes being sustainable in providing them with the built environment that takes into consideration environmental factors in particular. It is a priority for us to work with our tenants as partners to deliver sustainable space for them now and in the future.

SEE PAGE 46 TO READ MORE ON OUR ESG APPROACH

...for people to thrive for the benefit of all our stakeholders.

PEOPLE TO THRIVE

Although our properties are physical environments, we recognise the importance of the people who use them. We therefore want all our tenants to get the best experience whether working, visiting, or being part of the local community fabric, creating a win-win situation for all. A sound, supportive environment provides occupiers with the platform to perform at their best.

FOR THE BENEFIT OF ALL OUR STAKEHOLDERS

When our tenants are thriving, the knock-on effect boosts our business and their communities so that a whole network of stakeholders benefit from mutual success.

SEE PAGES 44 AND 45 TO READ MORE ABOUT OUR STAKEHOLDERS

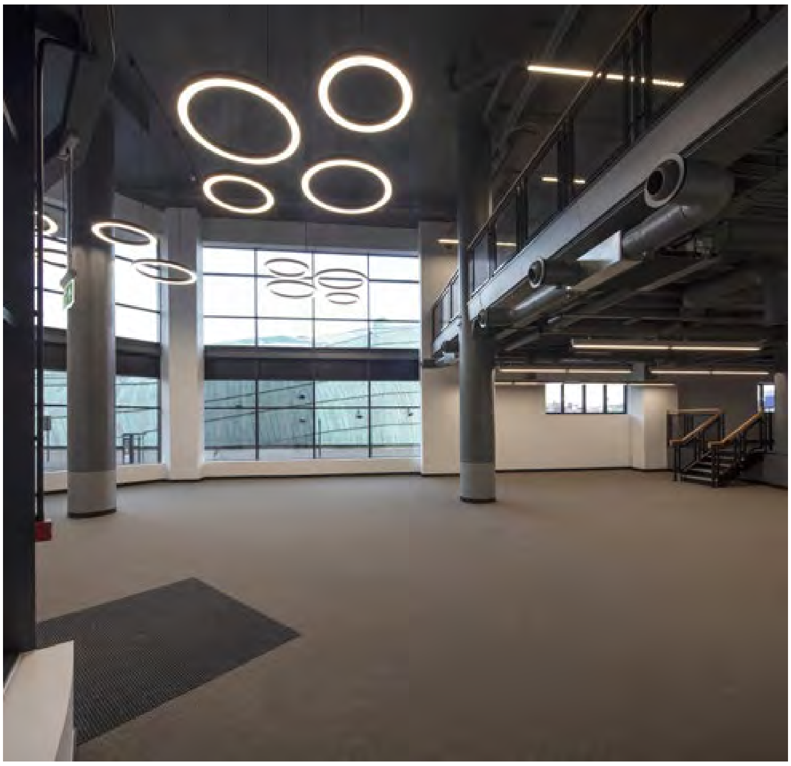
Repositioning our portfolio
Looking forward

We are focused on acquiring high quality, income producing assets with attractive rental growth prospects and strong ESG credentials, that will enhance the Group's earnings and dividend payouts.

SEE PAGE 48 FOR OUR ESG STRATEGY

ACQUISITION STRATEGY

In tandem with our ongoing strategy and recent disposals we are looking to recycle our capital into investment opportunities to reposition the portfolio for growth in income and capital value. We are pivoting the portfolio weighting towards higher quality assets in the office and industrial sectors. The intention is to use our Core assets to provide a bedrock of sustainable income.



St James' Gate, Newcastle

ESG CONSIDERATIONS

ESG continues to be at the forefront of our strategy in both asset management and acquisition/disposal. We want our buildings to have strong ESG credentials (including at least EPC 'B') or alternatively buildings where it is viable to increase the sustainability credentials during the hold period to match our ESG requirements.

PORTFOLIO WEIGHTING

Looking forward, our portfolio will be structured to allow a balance for higher return/risk properties, which can provide stronger returns through active management, by identifying opportunities available in the regions which, in selected instances in the Company's view, may be currently mispriced.

The Company expects to balance the portfolio with c.50% Core assets where we see rental and capital value growth, with the remainder split between Value Add of c.40% and Development of c.10%. At 31 March 2022, the portfolio comprised 50% Core, 40% Value Add and 10% Development.

This realignment provides the backbone to a progressive covered dividend policy.

Our investment criteria: helping us to focus our portfolio and create long-term sustainable value:

01

Capital values of £5m to £20m

02

Diversified portfolio throughout focused on office and industrial

03

Location: University towns and city centres throughout England (not Central London) with good transport connections and local government or private sector investment to support projected rental growth

04

ESG: sustainable buildings with strong ESG credentials that are EPC 'B' or better, or are viable for improvement to meet our ESG requirements

05

Comparison with a select peer group to ensure we outperform the market

06

Open to off-market corporate acquisitions

At a glance
How we work

We are a premium listed real estate investment trust (REIT) that has a diversified portfolio of UK commercial real estate in carefully selected locations outside of London.

ACQUIRE

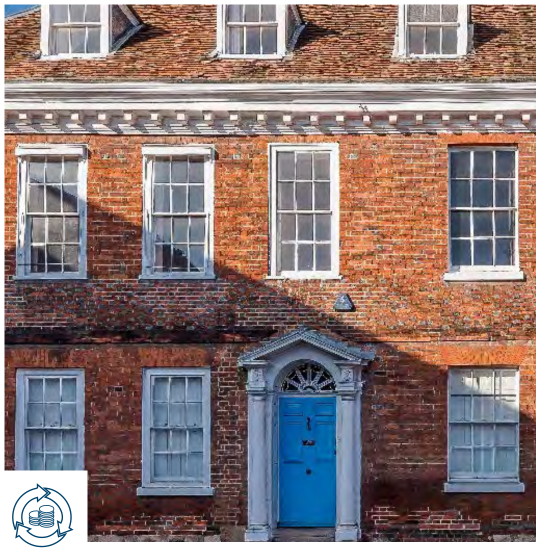
We identify and buy strategically-located real estate outside London that fits our investment criteria.

REFURBISH

We revitalise assets, creating refurbished space that meets occupational and environmental demands.

REDEVELOP

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



RECYCLE

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

Our portfolio

We measure performance on a total return basis with a core portfolio of sustainable income-producing assets which enables us to pay a progressive dividend, along with assets with value-add initiatives to drive value enhancement.

22 Market Street, Maidenhead

CORE/CORE PLUS

The core of the portfolio has medium/long leases, high occupancy and a strong income profile, providing sustainable income to fund dividends

50%

Target weighting and actual weighting


Bank House, Leeds

VALUE-ADD

We invest additional capital to drive rental and capital growth by improving assets via refurbishment, ESG improvements, fit out or adapting to suit occupier needs

40%

Target weighting and actual weighting

Hudson Quarter, York

DEVELOPMENT

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

10%

Target weighting and actual weighting

Investment case

1 Invested in regional commercial property

We see income and capital growth in the regional property market as a result of higher levels of employment, population growth and major infrastructure investment.

Demand for industrial space continues as the technology revolution continues, whilst the return to the office presents a real opportunity for the business to meet the increasing demand for flexible, adaptable and connected office space.

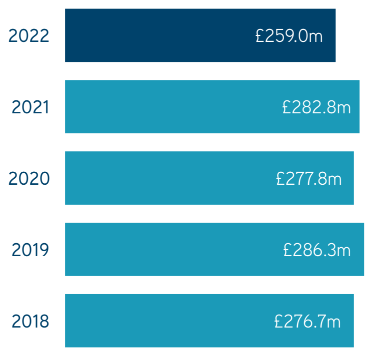
2 Total return model

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

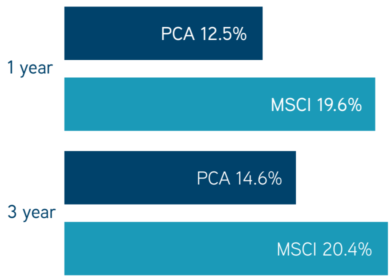
3 Entrepreneurial approach

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

Portfolio Valuation



Total Property Return Vs MSCI Index



Regency House, Winchester

64%

Office and industrial

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

4 Proactive asset management strategies

We apply proactive asset management strategies to unlock sustainable returns by growing rents and improving occupancy. Within our investment portfolio we identify potential development opportunities which, providing they are viable and meet target returns, we will look to unlock over the medium-term to deliver fit for purpose real estate.

5 Regional expertise and extensive relationship network

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

4.8%

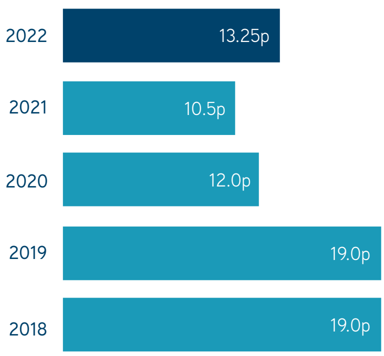
Dividend yield

128%

Dividend cover

[1] Dividends paid or declared for the year ended 31 March 2022

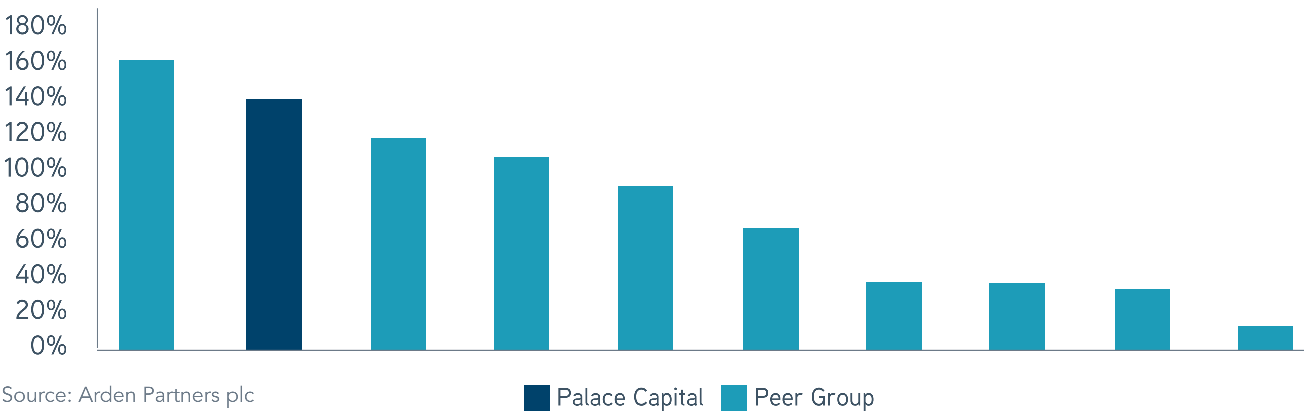
Dividend Per Share[1]



Regency House, Winchester

8.5 Year Total Accounting Return vs peers

(EPRA NTA growth + dividends) now at 134%



Source: Arden Partners plc

Business model

KEY RESOURCES

Our People

- Extensive regional property and financial expertise
- Substantial real estate experience
- Core values of being active, astute and ambitious, supported by strong inclusive culture
- Entrepreneurial and proactive approach to property investment

Our Portfolio

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

Our Funding

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

WHAT WE DO

UNDERPINNING EVERYTHING WE DO

Our Purpose

To provide compelling and sustainable built environments for people to thrive for the benefit of all our stakeholders.

Our Values

Active

Astute

Ambitious

PORTFOLIO EVALUATION AND MARKET INFLUENCES; DISPOSAL AND REINVESTMENT

Characteristics of disposals:

- Assets with limited growth prospects
- Non-core assets that don't fit with our primary strategy
- Changes in the market cycle, external market trends and challenges that could effect our assets
- Assets that are partly vacant, requiring significant capital expenditure to let

Characteristics of reinvestment:

- Buildings which meet our stringent and cautious approach but also provide opportunities for rental and capital growth

VALUE CREATED FOR ALL OF OUR STAKEHOLDERS

Investors

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

12.5%

Total property return versus MSCI Index: 19.6%

Tenants

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

319,000 sq ft

letting activity

Communities

- Sustainably-built developments and refurbishments
- Meeting current and future regional demand
- Working with local authorities
- Helping reinvigorating city centres

189

no. of commercial leases across portfolio

Our people

- Strong values supporting fair reward for company and individual successes
- Annual bonus and long term incentive plan opportunities

The environment

- Continuous focus on upgrading our portfolio and working with tenants to protect the immediate and wider environment

88.8%

EPC of A–D in portfolio

11.2%

EPC of E–G in portfolio

0.7%

EPC of F or G in portfolio

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

Strategy

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

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

SEE PAGES 46 TO 60 TO READ MORE ON OUR ESG APPROACH

KPIs key

1. Total Property Return (TPR)
2. Total Shareholder Return (TSR)
3. Total Accounting Return (TAR)
4. Adjusted Profit Before Tax
5. EPRA Vacancy Rate %
6. LTV of Group Debt
7. Average Cost of Debt
8. EPC ratings
9. Dividend cover

Principal risks key

1. Market Cycle
2. Political and Economic
3. Capital structure
4. Liquidity
5. Portfolio strategy
6. Asset Management
7. Valuations
8. Tenant Demand and Default
9. Business Continuity and Cyber
10. People
11. Climate Change
12. Regulatory, Legal and Tax

01

REFOCUS OUR REGIONAL PORTFOLIO

We are continuously reviewing opportunities and disposals to improve the property portfolio.

We have completed our disposal programme ahead of book value. We will continue to review our portfolio and monitor potential disposals or acquisitions. We have a conservative capital structure so are able to access debt on attractive terms in order to support acquisitions to support our total return model.

Progress during the year

- Maintained a conservative capital structure
- Observed the market intently and built relationships with new and existing investors
- Enhanced our close relationships with the banks
- Acquired one major asset
- Concluded the FY22 disposal programme

Focus

- Recycle capital from non-core assets into core income enhancing acquisitions focused on the office and industrial sectors
- Expand and maintain our relationships with our main stakeholder groups
- Maintain conservative capital structure to support potential investment
- Reduce the share price discount to NAV
- Consider disposals

Link to KPIs

1 2 6 7 8

Link to risks

1 2 3 6 7 10 11 12

02

GENERATE ATTRACTIVE TOTAL RETURNS

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

We measure ourselves against the MSCI industry benchmark.

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

Progress during the year

- Delivered a total shareholder return of 21.1% and a total accounting return of 14.8%
- Total Property Return of 12.5% compared to the MSCI benchmark of 19.6%
- Sale of 80 residential apartments at Hudson Quarter, York. As at 13 June 2022, 84 residential sales have completed with seven contracts exchanged or under offer

Focus

- Secure lettings of the remaining office space at Hudson Quarter, York
- Secure lettings including Newcastle and Manchester
- Sell the remaining residential apartments at Hudson Quarter, York
- Grow recurring income through lease renewals and re-gears and reduce void costs
- Sustainably grow the dividend

Link to KPIs

1 2 3 4 5 6 7 8 9

Link to risks

1 3 5 6 12

03

MANAGE OUR ASSETS EFFECTIVELY

We apply proactive asset management strategies balancing income generation and capital expenditure value enhancement activity.

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

Progress during the year

- Collected 98% of rent in the year, completed 55 lease events
- Disposed of 14 non-core assets for £5.0m profit on disposal
- Reduced our void costs by £1.1m p.a.
- Undertook £5.5m of capital expenditure across the portfolio to improve the rental and capital value potential of our assets
- Secured new office lettings on average 20% above the estimated rental value

Focus

- Build on the engagement with our tenants to further improve relationships
- Identify assets where we can grow rental and capital values through asset management initiatives

Link to KPIs

4 6

Link to risks

1 3 4 5 8 10

04

BE A RESPONSIBLE COMPANY

We are committed to conducting our business responsibly taking into account each of our stakeholder groups.

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

Progress during the year

- Worked with our ESG Committee and our external consultant to progress our ESG strategy
- Liaised with tenants throughout the Covid-19 pandemic, ensuring we offered support to their business needs
- Implemented ESG principles within our asset management initiatives
- Progress a TCFD reporting

Focus

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

Link to KPIs

2 6 7 8

Link to risks

1 2 3 4 5 6 7 8 9 10 11 12

Key performance indicators

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

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

MSCI EPRA

Strategic aims

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

Remuneration aims

1. Fixed remuneration
2. Short term variable remuneration
3. Long term variable remuneration

ADJUSTED PBT

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

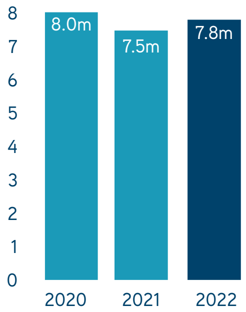
Why we use this measure

To demonstrate the sustainability of dividends paid.

Performance

Adjusted PBT increased in the year due to successful asset management initiatives driving rental growth (see note 6 on page 128).

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1 2 3

EPRA VACANCY RATE %

Vacancy rate of investment portfolio measured against portfolio ERV.

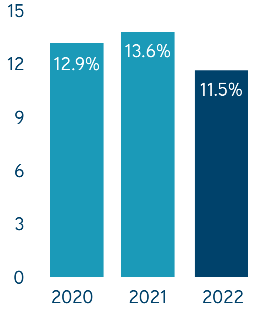
Why we use this measure

Maintain strong occupier contentment and retention.

Performance

Increased lease activity led to a fall in our vacancy rate to 11.5%. Our target is to reduce this to under 10% to maximise income and reduce costs.

Performance over the last 3 years



Link to strategy 1 2 3

Link to remuneration 1

TOTAL SHAREHOLDER RETURN (TSR)

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

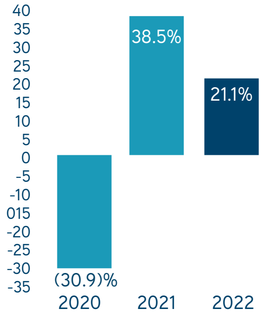
Why we use this measure

Actual market-based returns achieved by an investor.

Performance

The share price increased by 16.1% in the year whilst an increased dividend gave a total TSR of 21.1%. It remains a key objective to reduce the discount between NAV and share price.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 2 3

TOTAL ACCOUNTING RETURN (TAR)

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

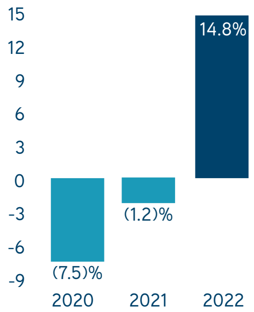
Why we use this measure

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

Performance

We delivered shareholder value with an increased dividend and EPRA NTA growth of 11.4% giving a TAR of 14.8%.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 2 3

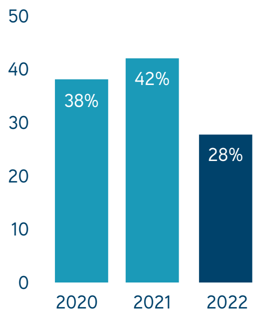
LTV OF GROUP DEBT

Debt drawn less cash held as a fraction of portfolio valuation.

Why we use this measure
To demonstrate our commitment to an appropriate level of gearing.

Performance
Disposals of investment and trading properties have reduced LTV to 28% (see note 18 on page 138).

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1

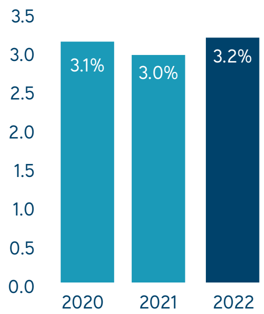
AVERAGE COST OF DEBT

Average cost of debt drawn to finance investment portfolio.

Why we use this measure
To demonstrate financial efficiency by maintaining lower cost of finance to drive returns.

Performance
We repaid variable rate debt in the year which increased the proportion of fixed rate debt increasing our average cost of debt.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1

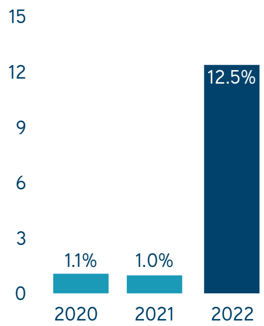
TOTAL PROPERTY RETURN (TPR)

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

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

Performance
Strong asset management has driven earnings and capital growth resulting in a TPR of 12.5%.

Performance over the last 3 years



Link to strategy 1 2 3

Link to remuneration 2 3

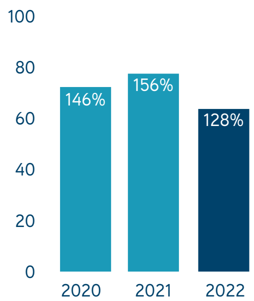
DIVIDEND COVER

Adjusted EPS divided by dividend per share.

Why we use this measure
To ensure that our dividends are covered by current earnings.

Performance
The dividend paid in the year of 13.25p was covered 128% by adjusted earnings. The dividend was increased by 26.2% in the year.

Performance over the last 3 years



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Link to remuneration 1

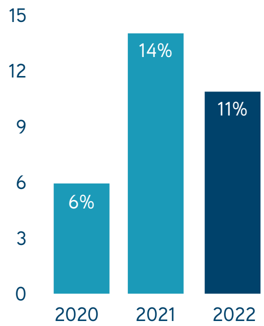
RENTAL GROWTH VS ERV

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

Why we use this measure
To identify the underlying income growth of the portfolio generated through asset management.

Performance
We have achieved an average uplift of 11% on ERV on all lease activity throughout the year.

Performance over the last 3 years



Link to strategy 1 2 3 4

Link to remuneration 2 3

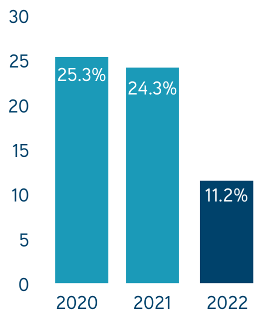
AVERAGE EPC RATING E-G

Reflects our ambition to improve our ESG performance.

Why we use this measure
We want to either develop, refurbish or sell under performing assets based on our criteria.

Performance
We have refurbished or sold assets in the year to reduce our holding of E, F and G rated property.

Performance over the last 3 years



Link to strategy 1 2 3 4

Link to remuneration 2 3

Our marketplace
Overview

THE REGIONS

We have established ourselves as a leading property REIT in the regions outside of London, with a focus on university towns and city centre locations, with good local and national infrastructure.

The release of the government's White Paper and policies around 'Levelling Up' is supportive and backs our long-held belief that regional disparities need to be addressed.

THE GOVERNMENT'S LEVELLING UP AGENDA

In February 2022 the UK Government announced its long awaited 'Levelling Up' plan to address and close the gap between the rich and poorest parts of the country. Investment in local transport connectivity, telecommunications and placemaking has been promised, which when implemented will improve the regeneration and thereby the economic performance of regional cities. We are experts at sourcing investment opportunities to align with these initiatives to extract rental and capital growth.

Government has taken the lead by moving departments to towns and cities across the Midlands and North of England. A significant move across the markets we operate in was for HM Revenue and Customs (HMRC) agreeing to lease 463,000 sq ft in Newcastle at Pilgrim's Quarter and BBC relocating to Salford Quays, Manchester. The private sector has also contributed, such as Channel 4 to Leeds and we believe others will follow suit in due course.

POST COVID-19 AND THE FLIGHT TO QUALITY

The success of the UK vaccination programme has aided the government to actively encourage workers to return to working from offices rather than home.

Occupiers remain uncertain as to what their long term occupational requirements are and this has increased demand for flexible leasing. We expect that as companies return to working from an office, corporate occupiers will be in a position to make long term decisions.

The pandemic changed work patterns with hybrid working and employers recognising they need to give more thought to the working environment, both within the building itself and the immediate locality.

There is a growing trend towards greater customer and employee care, wellbeing facilities and collaboration space, leading to a flight to quality which landlords are providing, ultimately leading to higher rents.

ESG

Real Estate is a major contributor to global emissions so ESG has become central to strategies for both Landlords and Tenants.

ESG will be the focal consideration when investing in buildings as all occupiers will demand good energy performance and low emissions as well as engaging, adaptable and sustainable built environments to satisfy their own ESG agendas.

In addition, it will be critical to any debt required as the cost of borrowing will, we believe, be higher for those assets which do not meet the minimum standards.

ECONOMIC INFLUENCES

A key concern in our investment strategy is the impact the UK and global economy performance has. As we entered 2022 there were strong indications that the world economy would power ahead in its recovery from the pandemic. This has been halted for example by a sharp rise in inflation and the war in Ukraine.

Global events are noticeably affecting the construction sector with costs increasing and shortages of materials causing delays.

Despite this average wages in the UK continue to rise relatively strongly and the UK labour market is strong. UK-wide job vacancies have surged to record highs implying a further boost to unemployment figures over the next few months. We expect the majority of UK households and businesses to show positive progress during the year.

Our sectors
Overview

INDUSTRIAL

The industrial sector continues to outperform the other sectors with strong rental growth and yield compression predicted to continue. The pandemic accelerated consumer adoption of online commerce and this pattern has continued as shopping habits continue to evolve, including 'last mile' logistics requirements.

Wider inflationary impacts on occupiers alongside the expected transfer of business rates burden from retail to industrial property in the next revaluation in April 2023 have the potential to slow down rental growth however it is the provision of logistics stock that is driving rents upwards and demand continues to outstrip supply.

Our industrial holdings, 16.7% of the portfolio, have performed well throughout the portfolio demonstrating strong rental growth.

LEISURE

With the lifting of government-imposed restrictions due to the pandemic the public has returned to experience based entertainment and food.

Our leisure assets, 14.3% of the portfolio, have echoed this positive sentiment with three new lettings across our two schemes in Northampton and Halifax during the last year. Our managing agents report that trading for these occupiers is currently at 75% of pre-pandemic levels.

RETAIL

Improving footfall, renewed occupier demand and the significant yield gap between other sectors has resulted in strong investor interest, albeit the focus remains on prime locations with strong fundamentals. However current inflationary pressures may influence investor and occupier confidence over the coming months.

Making up 9.0% of the portfolio, we have no vacancy in this sector and our holdings are in good locations with an annual rent of £1.9m per annum.

RETAIL WAREHOUSING

High levels of essential retailers and comparatively low occupational costs from typically multi-national covenants has seen a reversal in the out-of-town retail occupational and investment market following the pandemic.

High car parking provisions has proven ideally suited for click-and-collect, customer returns and home deliveries with retail warehousing increasingly acting as a bridge between online and physical retail.

Our holdings, 3.8% of the portfolio, are located in the South East, underpinned by strong land values and let to "essential" occupiers and we expect to see continued rental growth in the medium term.

OFFICES

As businesses try to attract staff back to the office, demand in the sector has been characterised by a clear emphasis on quality. Last year has seen significant demand for Grade A space, with some occupiers reducing their space requirements but committing to improving the quality of their office accommodation.

What has become clear is that rent is less sensitive for better quality space with a two-tier market evolving with secondary accommodation increasingly more challenging to let. Tenants are increasingly focusing on ESG and sustainability when considering their occupational needs.

This focus on quality has limited Grade A supply levels and with there being limited development pipeline in the majority of the regions we operate in there is likely to be renewed pressure on supply and potential for rental growth in the coming years.

Our office holdings, 47.1% of the portfolio, are in prime city centre locations and our ongoing strategy through acquisition and asset management is to provide quality accommodation with strong ESG fundamentals to maintain occupancy levels and ultimately rental growth.

Operational Review

"ESG is fundamental to our strategy to create a sustainable portfolio for the benefit of our shareholders and the communities we invest in."

Richard Starr MRICS
Executive Property Director

98% rent **collection**

SUMMARY OF THE YEAR

The Covid-19 pandemic dominated the period with the asset management team working tirelessly to maintain personal contact with most tenants. Where needed we provided financial support to deal with the drawn-out implications of lockdown and then readjustment as occupiers dealt with unforeseen circumstances.

The strategy for the year was threefold; to ensure we maintained our rent collection achieving 98% for the 12 months to 31 March 2022 (2021: 95%), secondly, to sell some non-core assets which generated £31.5m at an average of 19% above the March 2021 book value and finally to reinvest in higher quality assets which aligned with our growing focus on ESG. Collectively, these actions have rebalanced the portfolio towards a more equal weighting of Core and Value Add buildings.

ASSET MANAGEMENT

The pandemic placed a lot of focus on rent collection. We are proud of how we interacted with our tenants, working with them to maintain income whilst supporting them where needed. More detail on this is provided in the financial review.

Despite the various restrictions during the period, we completed 55 lease events (2021: 31) totalling 319,000 sq ft (2021: 230,000 sq ft). This generated an additional £1.9 million of annualised net rental income. Lease activity and the associated reduction in non-recoverable property costs generated £3.0m of income, along with income generated from acquisitions of £0.7m. These increases were offset by income lost through breaks and expiries of £0.6m and income lost through disposals of £1.2m.

We are particularly pleased with three new lettings we achieved at our two leisure schemes (Sol, Northampton and Broad Street Plaza, Halifax), taking occupancy levels to 95% and 91% respectively. Overall, the portfolio EPRA occupancy has increased to 88.5% (2021: 86.4%).

We report in detail on our Disposal Strategy on page 24. The objective was to improve the portfolio's performance, recognise the importance of ESG criteria and at the same time rebalance the assets. The portfolio weightings are now 50% Core (2021: 28%) with the remainder focused on value-add strategies which have the potential to generate greater returns.

PORTFOLIO OVERVIEW

Following the recent disposal programme of carefully selected non-core assets, the portfolio now comprises 37 buildings, compared with 37 as at 31 March 2022 (2021: 48) with 164 occupiers (2021: 182), which is now higher quality, with improved EPC ratings, occupancy and increased weighting to Core assets.

Our diversified portfolio has had a focus on the office and industrial sectors, which make up 64% of the total holdings (increasing to 70% once the remaining Hudson Quarter residential apartments have been sold). The remainder comprises residential at 9% (HQ York), leisure at 14% and retail and retail warehousing at 13%.

Cushman and Wakefield independently valued the portfolio as at 31 March 2022 at £259.0m, which is 3.9% higher than 31 March 2021 on a like-for-like basis. The industrial sector performed the best, increasing by 20.8%, whilst our offices showed a small decline of 0.9%. The retail, retail warehousing and leisure properties increased by 2.8%.

	FY22	FY21
Portfolio value	**£259.0m**	£282.8m
Net initial yield	**5.6%**	5.6%
Reversionary yield	**7.5%**	7.3%
Contractual rental income	**£15.9m**	£16.4m
Estimated rental value	**£19.4m**	£20.6m
WAULT to break	**4.7 years**	4.8 years
EPRA vacancy rate	**11.5%**	13.6%

INVESTMENT STRATEGY

We identified (as part of an ongoing strategic review of all assets) a number of our buildings where business plans had been completed or income maximised. We anticipated that a number of these buildings would not meet our increasing ESG criteria without significant capital expenditure, which wouldn't provide enough shareholder return. We therefore embarked on a disposal strategy which would improve the portfolio's overall quality and increase the average lot size, which cumulatively provides resilience to the progressive dividend policy.

14 properties were sold for £31.5m at an average 19% premium to March 2021 book value, producing an 11% ungeared IRR from purchase, including any capital expenditure during the hold period. We continue to strategically review our portfolio and individual properties on an ongoing basis and anticipate further sales in the coming year. Having prioritised our cash during Covid-19, our disciplined acquisition strategy is focused on properties with good ESG credentials (or viable potential), in regional university towns and city centres, that are well positioned for future growth. In January 2022 we completed on the acquisition of 22 Market Street, an office building in the centre of Maidenhead at £10.25m reflecting a net initial yield of 6.83%. Newly refurbished with an EPC B rating, the building added £0.75m per annum with excellent potential for future rental growth. We continue to selectively identify new investment opportunities as we look to recycle further capital from the disposal programme and continuing residential sales at Hudson Quarter.

HUDSON QUARTER, YORK

Our flagship development in York was completed on 20 April 2021 It comprises 127 residential units and 39,000 sq ft of Grade A, BREEAM Excellent office space.

We sold 80 apartments (63%) during the year for a total of £27.4m, enabling full repayment of £26.5m development loan facility, eight months ahead of schedule. There remains strong interest from investors and occupiers with four further completions, seven under offer to the value of £2.9m and 36 remaining as at 13 June 2022. We expect this interest to continue as we target being fully sold by 31 March 2023.

The HQ office is the only newly speculatively developed office building within the historic city walls of York this century. As anticipated, we have capitalised on the lack of competing stock with the letting success proving corporate tenants will pay the market rent for buildings which are high quality. We have let a total of 18,000 sq ft to Great Rail Journeys and Redcentric Solutions at an average rent of £26 per sq ft on ten year leases, surpassing the previously set record rent of £25 per sq ft with the letting to Knights Solicitors.

It is testament to the quality of the development, and those involved with its delivery, that Hudson Quarter has been recognised an exemplar development whilst is has also had a major positive impact in regenerating a key site within a sensitive and historic setting. It has been shortlisted in ten prestigious regional and national property awards, in both commercial and residential categories, winning three so far. The scheme is recognised as a "Gamechanger" at the Yorkshire Property Awards and by the RICS for Regional Development of the Year. We are also shortlisted for the Property Week residential awards.

The long term growth in York is positive with the redevelopment of York Station, known as York Central with plans for over 1m sq ft of office, retail and leisure properties and 2,500 homes. This is purported to be one of the largest regeneration projects in Europe covering 111 acres. With our property only two minutes' walk away from York Station, we expect this regeneration to be directly beneficial.

TOP 20 OCCUPIERS

Maintaining a close working relationship with all our tenants has been fundamental to our asset management strategy since inception. This groundwork meant we were able to engage with all our occupiers easily during the pandemic which ultimately protected our income.

Our top 20 tenants contribute 41% of our total passing rent and over the period we collected 100% of their rent.

Tenant	Location	Industry	Contracted Rent pa (£'000)
Vue	Halifax & Northampton	Leisure	913
TTI	Maidenhead	Power Tools	718*
Rockwell Automation	Milton Keynes	Auto	544
Accor Hotels	Northampton	Hotel	510
Lottery Funded	Newcastle	Charity	487
Brose	Coventry	Auto	432
Exela Technologies	Harlow	Technology	424**
Somerset Bridge	Newcastle	Insurance	409
Wickes	East Grinstead	Retail	401
APCOA Parking	Halifax	Car Parking	345
Bravissimo	Leamington Spa	Retail	294
GJ	York	Tour Operator	293***
Aldi	Gosport	Retail	291
Sutton	Sutton	Local Authority	283
Quadrant Systems	Burgess Hill	Aviation	280
Calderdale and Huddersfield NHS	Halifax	Health	262
Booker	Burgess Hill	Retail	246
BMI	Milton Keynes	Construction	240
Bank of England	Leeds	Central Bank	232
Fedcap	Brighton	Charity	219***
		TOTAL:	7,823

* Headline rent payable from March 2023
** Headline rent payable from February 2025
*** Headline rent payable from December 2022

Operational Review CONTINUED

ESG

The UK real estate market is increasingly conscious of the need for buildings and occupiers to fulfil sustainable criteria to reflect the Paris Accord net zero targets. We are embracing the issue and putting it at the centre of business strategy and we have engaged with an external advisor to ensure we provide full transparency of the risks within our portfolio relating to achieving a net zero target. We are still collating data and set out further detail on progress to date and our future on page 54.

Central to our strategy of building a sustainable and future proofed portfolio with asset and portfolio management strategies aligned, is improving our EPC ratings. Following implementation of this policy the minimum rating within the portfolio is E (with the exception of one listed property at F, 0.7% of portfolio). 88.8% of our EPC's are rated A - D.

All asset management initiatives and capital expenditure are heavily focused on ESG benefits which as an example should reduce utility costs for occupiers.

New acquisitions undergo rigorous independent assessment of existing ratings to verify that they meet our ESG criteria.

ACQUISITIONS

In January 2022 we completed the acquisition of 22 Market Street, an office building in the centre of Maidenhead for £10.25m reflecting a net initial yield of 6.83%. Newly refurbished with an EPC B rating, the building added £0.75m per annum with excellent potential for future rental growth. The tenant, Techtronic Industries EMEA Ltd, a subsidiary of Hong Kong listed Techtronic Industries, completed the lease in April 2021 with this becoming their European HQ. With Maidenhead being located on the newly opened Elizabeth Line (Crossrail) new major town centre residential schemes have already been delivered and regeneration is continuing apace with the £500 million mixed use Nicholson Quarter scheme set to complete by 2025.

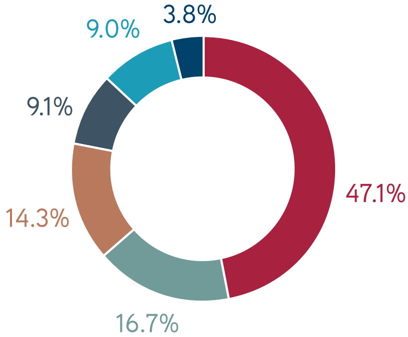
Richard Starr
EXECUTIVE PROPERTY DIRECTOR

13 June 2022

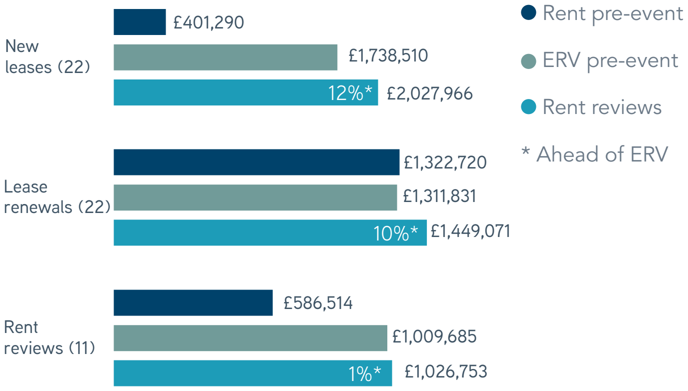
22 Market Street, Maidenhead

OFFICES
INDUSTRIAL
LEISURE
DEVELOPMENT
RETAIL
RETAIL WAREHOUSES

SECTOR SPLIT



Letting activity



Our portfolio in March 2022

Portfolio value:
£259.0m

Number of properties:
37

EPC Rating A-D:
88.8%

We are focused on Regional Commercial Properties outside of London

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

OFFICE

Overview

47.1% of our portfolio is in this sector and accounts for £7.5m p.a. in rent from 79 tenants in 19 buildings.

Investment summary

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

Top holdings by valuation at 31 March 2022

- 2/3 St James' Gate, Newcastle
- Hudson Quarter, York
- Boulton House, Manchester

INDUSTRIAL

Overview

16.7% of our portfolio is in this sector and accounts for £2.2m p.a. in rent from 22 tenants in seven buildings.

Investment summary

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

Top holdings by valuation at 31 March 2022

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

LEISURE

Overview

14.3% of our portfolio is in this sector and accounts for £3.5m p.a. in rent from 21 tenants in two buildings.

Investment summary

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

Top holdings by valuation at 31 March 2022

- Broad Street Plaza, Halifax
- Sol, Northampton

RETAIL

Overview

9.0% of our portfolio is in this sector and accounts for £1.9m p.a. in rent from 39 tenants in seven buildings.

Investment summary

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

Top holdings by valuation at 31 March 2022

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

RETAIL WAREHOUSE

Overview

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

Investment summary

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

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

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

Top holdings by valuation at 31 March 2022

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

Strategy in action
Disposal completion

55%

Ungeared Total Return on Disposal Strategy

Our portfolio continues to be under constant review to ensure that assets are recycled in order to maximise shareholder return, whilst maintaining a well-balanced portfolio.

The disposal strategy identified 15 non-core properties with an aggregate value of at least £30m for disposal before the FY22 year end.

The key considerations included (but were not limited to):

- Value maximisation through completion of asset management business plans
- ESG credentials (including EPC rating) and cost to future proof
- Tenure, occupancy, sector and future rental/capital growth prospects
- Lot size compared to the portfolio average

During the year the disposal strategy was ahead of target with 14 out of the 15 properties sold (average lot size £2.25m) generating, in aggregate, £31.5m gross proceeds which equated to an average premium of 19% to March 2021 book value, 12% to purchase price (including capital expenditure) and delivering an ungeared IRR of 11%.

Of the proceeds secured to date, £16.0m has been allocated towards debt reduction and fees, leaving £15.5m for redeployment into properties that satisfy the Company's acquisition criteria.

Strategic reviews and disposals of assets will continue to be a core part of our business strategy as we look to crystallise returns and recycle capital into new investment opportunities.

24 BLACKWATER WAY, ALDERSHOT

INDUSTRIAL

Purchase Price + Capex

£0.8m

Sale Price

£2.4m

Ungeared Total Return

536%

Ungeared IRR

37%

Asset Management

Originally purchased in 2013 as part of the Signal acquisition the adjoining long leasehold interest was also acquired reducing the headrent. At the same time, we extended the lease to ten years with the tenant BHW Automotive at a 20% increase in annual rental. The property was sold in November 2021.

FRASER HOUSE, STAINES

OFFICE

Purchase Price + Capex

£1.1m

Sale Price

£2.0m

Ungeared Total Return

218%

Ungeared IRR

21%

Asset Management

The property was acquired in 2014 as part of the PIH portfolio . Being in regular contact with our tenant we suspected they would vacate in December 2021. A detailed feasibility study was carried out which concluded the property required a significant refurbishment and in particular additional capital expenditure to meet our ESG criteria. It was clear this investment would not give us the required returns so the property was sold with vacant possession at a significant premium to book value in December 2021.

RUSSELL HOUSE, WALTON ON THAMES

INDUSTRIAL

Purchase Price + Capex

£1.3m

Sale Price

£2.7m

Ungeared Total Return

196%

Ungeared IRR

21%

Asset Management

Purchased as part of the PIH portfolio in 2014, this multi let asset was generally income producing throughout our hold period. For many years it has been categorised as a potential development so through active asset management the lettings were structured on co-terminus lease expiries to allow a redevelopment opportunity. Planning advice restricted many options so a sale to an owner occupier (Travis Perkins) at a significant premium to book value was completed in December 2021.

QUEENSWAY SHOPPING CENTRE, BANBURY

RETAIL

Purchase Price + Capex

£1.2m

Sale Price

£1.7m

Ungeared Total Return

80%

Ungeared IRR

16%

Asset Management

All five retail leases were extended during the Covid-19 pandemic to include minimum fixed uplifts. With an improved WAULT of c.8.9 years to break and 10 years to expiry a sale of a non core asset on completion of the lettings was completed to a private investor in January 2022.

BRITON HOUSE, SOUTHAMPTON

OFFICE

Purchase Price + Capex

£4.4m

Sale Price

£4.1m

Ungeared Total Return

23%

Ungeared IRR

6%

Asset Management

The building was 100% occupied by D Young & Co. throughout the hold period. Sale was completed following the expired tenant break option at maximum WAULT and income.

Strategy in action
Asset Management

Despite the prolonged headwinds and impact of Covid-19 and related restrictions throughout 2021, our Asset Management team have continued to work closely with existing and prospective occupiers and our advisors to drive value through leasing activity across the portfolio.

Headline leasing activity includes:

- 55 lease events completed in the period totalling 319,000 sq ft (2021: 31 lease events totalling 230,000 sq ft) at an average of 11% premium to ERV
- 44 new leases and lease renewals completed on 224,000 sq ft at a premium of 14% to ERV
- 11 rent reviews completed on 95,000 sq ft at a premium of 15% to the previous passing rents
- Portfolio EPRA occupancy of 88.5% (31 March 2021: 86.4%)
- New lettings reduced our void costs by £0.8m per annum and leasing activity generated additional gross income of £1.9m per annum

Ovest House, Brighton
OFFICE

Following a comprehensive refurbishment, we completed a letting of the whole building (5,500 sq ft) at £30.00psf to Fedcap on a five year lease. This deal represented a 50% uplift from the previous average rental tone of £20.00psf.

Brighton


Harlow

Sandringham House, Harlow
OFFICE

We worked closely with key occupier Exela Technologies Ltd to manage their expansion into the whole of the building (32,820 sq ft). A new full repairing and insuring lease for a term of six years (three year break) at £400,000 per annum was completed in November 2021.


Leeds

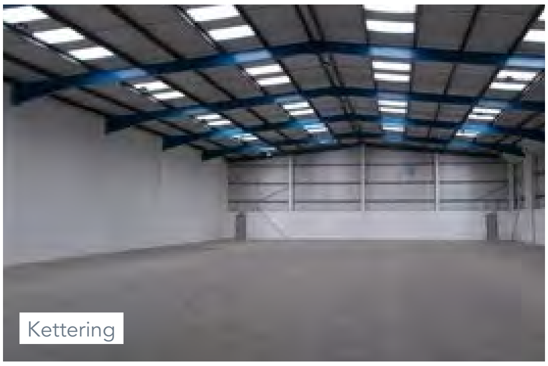
Bank House, Leeds
OFFICE

Existing occupier 2-Work Group Ltd expanded into an additional 13,465 sq ft bringing the 88,991 sq ft asset to full occupancy. A planning application is expected to be made in summer 2022 for this asset to increase the lettable floor area to 110,000 sq ft. The objective is to create the best in class sustainable landmark office building in Leeds city centre.

Point Four Industrial Estate, Avonmouth
INDUSTRIAL

The rent review with Eurocarb Products on 21,504 sq ft was at a 16% premium to ERV and 33% uplift to passing rent. This rent is already reversionary considering recent lettings post the year end on the estate.


Avonmouth


Kettering

Kettering
INDUSTRIAL

Following a comprehensive refurbishment, 14,685 sq ft was let to internet fulfilment business Prodbuy Ltd at £80,000 per annum on a ten year lease (five year break) with RPI linked rent review. This brings the asset to 100% occupancy.

Northampton

St Modwen, Plymouth
INDUSTRIAL

Lease renewal (ten year lease, five year break) completed with SIG Trading on 34,780 sq ft at a 10% premium to ERV and 27% uplift to the passing rent.

Plymouth

Sol, Northampton
LEISURE

Following the common area refurbishment (capital expenditure c.£1.2m) we have completed new lettings on 9,235 sq ft (50% of the vacant space) of which 8,030 sq ft was let to Community Health & Eye Care Ltd, at a 24% premium to ERV. These leases added a total rent of £0.82m per annum. The scheme is now 95% occupied.

Halifax

Broad Street Plaza, Halifax
LEISURE

One letting completed to a Food & Beverage operator, totalling 2,906 sq ft, bringing the scheme to 91% occupancy and adding £0.1m per annum to the annual rent. There are a number of rent reviews due in the financial year which we anticipate will increase the overall property income by at least 5%.

Top 10 properties by location

OFFICES
INDUSTRIAL
LEISURE
RETAIL
RETAIL WAREHOUSES
DEVELOPMENT

For indicative purposes only

Top 10 properties by value

HALIFAX

Area – 117,767 sq ft
Rental income: £1.8m p.a.
Broad Street Plaza is a dominant city centre leisure scheme anchored by a ten-screen Vue cinema, TGI Fridays, Wetherspoons and PureGym.

Distance from train station:
0.5m 12 min

NEWCASTLE UPON TYNE

Area – 99,125 sq ft
Rental income: £1.3m p.a.
Multi-let office block in the city centre with existing tenants including UBS and The National Lottery.

Distance from train station:
0.3m 6 min

NORTHAMPTON

Area – 189,203 sq ft
Rental income: £1.7m p.a.
Dominant city centre leisure scheme incorporating a Vue cinema, Ibis hotel and Gravity Fitness.
£1.2m of capital expenditure on the common areas was completed in May 2021.

Distance from train station:
0.2m 4 min

YORK

Area – 38,606 sq ft
Rental income: £0.3m p.a.
Hudson Quarter is a residential and office development within York's city walls comprising 127 apartments and grade A office space. Construction was completed in April 2021. 23,000 sq ft was let during the year.

Distance from train station:
0.1m 2 min

MANCHESTER

Area – 74,648 sq ft
Rental income: £1.0m p.a.
Boulton House is an eight-storey office block in Manchester city centre within walking distance of Piccadilly mainline station.

Distance from train station:
0.3m 7 min

LIVERPOOL

Area – 70,161 sq ft
Rental income: £0.9m p.a.
City centre office and retail property with tenants including Tesco, Pret, Medicash and Exchange Chambers. 100% occupied and let.

Distance from train station:
0.5m 11 min

MAIDENHEAD

Area – 21,852 sq ft
Rental income (post rent free period): £0.8m p.a.
Fully let, three storey office building with EPC rating of B, acquired in January 2022. Includes two small retail units on the ground floor.

Distance from train station:
0.4m 4 min

LEEDS

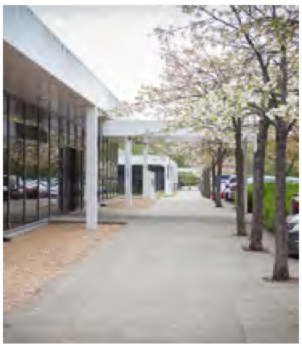
Area – 89,905 sq ft
Rental income: £0.7m p.a.
Multi-let city centre office building let to tenants on short term leases including the Bank of England.
22,000 sq ft of space was let during the year.

Distance from train station:
0.1m 2 min

AVONMOUTH

Area – 81,338 sq ft
Rental income: £0.4m p.a.
Multi-let industrial estate. Two vacant units were let post year end bringing occupancy to 100%.

Distance from train station:
1.1m 5 min



MILTON KEYNES

Area – 52,818 sq ft
Rental income: £0.8m p.a.
Three buildings are let to Rockwell and BMI at low passing rents with potential for rental growth.

Distance from train station:
2.9m 8 min

"Maidenhead is highly accessible including via the new Elizabeth line, and the town centre is benefitting from significant development and regeneration"

Tom Hood, Investment Manager

22 Market Street, Maidenhead

Acquisition date

2022

Sector

Office

Rental income

£0.7m

EPC rating

B

Area

21,852 sq ft

Strategy in action Strengthening the Balance Sheet

The success of our disposal strategy, alongside the completion of Hudson Quarter, has allowed us to strengthen the balance sheet considerably during the last twelve months.

Through the disposal of 14 buildings we have repaid £15.7m in bank loans which has helped improve our gearing, whilst generating additional cash to redeploy into improving our existing portfolio, as well as supporting new acquisitions. This, combined with the early repayment of the Barclays facility on Hudson Quarter in November 2021, has reduced our debt balance to £101.8m (2021: £128.3m). The repayment of the Barclays facility has also been beneficial in boosting cash receipts, as the proceeds from all future HQ sales will be available for the Group to redeploy as needed.

The disposal programme has provided the Group with £15.5m in net proceeds. Alongside the Hudson Quarter sales and strong rent collection in the year, we have strong cash reserves at the year end of £28.1m (2021: £9.4m). This has contributed to a reduction in our LTV to 28% (2021: 42%), achieving our goal of reducing LTV to below 40%. Post year end we reduced our revolving credit facility by £5m.

The Maidenhead property was purchased for £10.3m, with an EPC rating of B and headline income of £0.75m p.a. on a WAULT of 4.3 years. This acquisition fits with our strategy, as we have improved the portfolio lot size, portfolio EPC ratings and core weighting to strengthen the balance sheet further.

We have been able to reposition the portfolio to improve the quality of assets we own. We have sold buildings deemed to be value-add to allow us to re-weight the portfolio towards core assets. This has helped improve the EPC ratings across our portfolio, with 88.8% of EPCs across the portfolio an A – D rating (2021: 75.7%). With a shift to core assets, this has also improved our average lot size of assets to £7.0m (2021: £5.9m).

Loan to Value (LTV)

28%

Financial Review

"The Group increased adjusted profit before tax by 4.0% to £7.8m, and EPRA NTA per share by 11.4% to 390p"

Matthew Simpson Chief Financial Officer

A robust performance

Loan to value

28%

Total Accounting Return

14.8%

EPRA NTA increased by

11.4%

FINANCIAL OVERVIEW

The Group increased adjusted profit before tax by 4.0% to £7.8m, and EPRA NTA per share by 11.4% to 390p. The successful execution of the business strategy over the past 12 months has seen the Group also grow the dividend, reduce LTV and increase cash reserves, whilst delivering a total accounting return (TAR) of 14.8%.

The increase in adjusted profit before tax to £7.8m is largely due to asset management lease activity and the reversal of the expected credit loss provision.

Adjusted earnings per share, which is used as the basis to distribute dividends, increased to 16.9p (2021: 16.4p), an increase of 3.0%. The dividend paid or declared increased by 26.2% to 13.25p (2021: 10.50p), which was 128% cash covered by earnings (2021: 156%).

The £5.0m (2021: £0.9m) profit on disposal of 14 commercial properties sold, the £3.8m realised profit on the sale of 80 residential units at Hudson Quarter and the fair value commercial property valuation gain of £8.2m (2021: £14.8m loss), contributed to the IFRS profit before tax of £24.6m (2021: £5.5m loss).

The fair value revaluation gain has been a result of the success of asset management initiatives driving rental growth and yield compression, as confidence returned to the market.

FINANCIAL HIGHLIGHTS

	2022	2021
Income growth		
IFRS profit/(loss) before tax	**£24.6m**	(£5.5m)
Adjusted profit before tax	**£7.8m**	£7.5m
EPRA earnings	**£7.4m**	£7.2m
Basic EPS	**53.1p**	(12.0p)
EPRA EPS	**16.0p**	15.7p
Adjusted EPS	**16.9p**	16.4p
Dividend per share paid or declared	**13.25p**	10.5p
Dividend cover	**128%**	156%
Capital growth		
Portfolio like-for-like value	**3.9%**	(4.0%)
Net Asset Value	**£177.2m**	£157.8m
Basic NAV per share	**383p**	343p
EPRA NTA per share	**390p**	350p
Total accounting return	**14.8%**	(1.2%)
Total property return	**12.5%**	1.0%
Total shareholder return	**21.1%**	38.5%

The summary of the Group financial results are as follows:

INCOME STATEMENT SUMMARY

	Current year £'millions	Prior year £'millions
Net property income	**19.0**	14.9
Trading profit	**(3.8)**	–
Net rental income	**15.2**	14.9
Administrative expenses (excl. SBP)	**(4.4)**	(4.1)
Net finance costs	**(3.0)**	(3.3)
Adjusted profit before tax	**7.8**	7.5
Gain/(loss) on revaluation of investment property portfolio	**8.2**	(14.8)
Profit on disposal of investment properties	**5.0**	1.0
Trading profit	**3.8**	–
Fair value gain/(loss) on interest rate derivatives	**0.3**	(0.3)
Corporation tax	**(0.1)**	–
Development loan interest	**(0.2)**	–
Share based payments	**(0.1)**	(0.3)
Loss on disposal of equity investments	**(0.1)**	–
Debt termination costs	**(0.1)**	(0.1)
Impairment of trading properties	**–**	0.8
Gain on listed equity investments	**–**	0.7
IFRS earnings	**24.5**	(5.5)

Net property income in the year increased by 27.5% to £19.0m (2021: £14.9m). This was driven by the £3.8m trading profit from the sale of residential units at Hudson Quarter. Increased rental income generated from significant lease activity and the acquisition of Maidenhead was offset by income lost due to the timing of disposals in the year.

Non-recoverable property costs increased to £2.6m in the year (2021: £1.5m), driven largely by the introduction of vacancy costs on the completion of Hudson Quarter offices. The Group's EPRA cost ratio (excluding non-recoverable property costs) reduced to 24.4% (2021: 30.6%) but including non-recoverable property costs marginally increased to 39.4% (2021: 39.2%). The total expense ratio was 1.6% (2021: 1.4%). Administrative costs (excluding share-based payments) increased to £4.4m (2021: £4.1m). The increase was due to the recruitment of a new chairman, appointment of an ESG consultant and an increase in compliance, regulatory, advisory and payroll costs. Finance costs reduced by 3.0% to £3.2m (2021: £3.3m), which was driven by the reduction in Group debt repaid throughout the year.

In accordance with IFRS 9, in relation to the expected credit loss, we have assessed the risk of recoverability of our rental arrears. We reversed £0.4m of rental arrears from trade receivables to the income statement in the financial period. This was due to an improved assessment of risks, as rent collection returned to pre-pandemic levels and tenant financial covenant health improved as the economy recovered.

Financial Review CONTINUED

	Quarter starting Mar 21 £m	Quarter starting Jun 21 £m	Quarter starting Sep 21 £m	Quarter starting Dec 21 £m	Year ended 31 Mar 22 £m
Total demanded	4.1	4.2	4.2	3.9	**16.4**
Total collected	3.9	4.2	4.1	3.8	**16.0**
Concessions/deferrals	0.1	–	–	–	**0.1**
Outstanding excluding payment plans	0.1	–	0.1	0.1	**0.3**
Current collection rates	**98%**	**99%**	**98%**	**98%**	**98%**

The March 2022 quarter rent collection rates remain robust at 98%, displaying a continuation of the strong rent collection seen throughout the year.

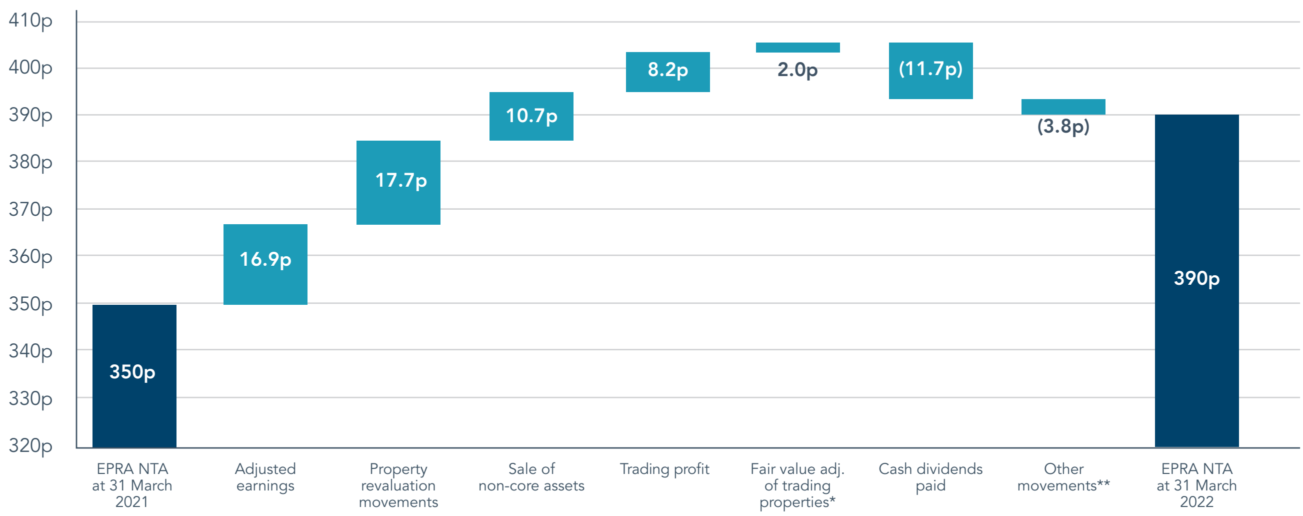
SHAREHOLDER VALUE

EPRA NTA increased by 40 pence per share or 11.4% to 390p (2021: 350p) during the year. This was driven largely due to the revaluation surplus of £8.2m, or 17.7 pence per share, the profit on disposal of non-core assets of £5.0m, or 10.7 pence per share and the £3.8m profit on completion of the 80 Hudson Quarter residential units in the year, or 8.2 pence per share. Net adjusted earnings, after dividends paid contributed an additional 5.2 pence per share.

The EPRA NTA return for the year, including dividends paid in the year, was 51.7 pence per share or 14.8% (2021: minus 1.2%). It remains a key focus of the Company to reduce the share price discount to EPRA NAV. The Company share price increased from 236p on 31 March 2021 to 274p on 31 March 2022, which together with dividends distributed, produced a total shareholder return of 21.1% (2021: 38.5%).

EPRA NET TANGIBLE ASSET BRIDGING CHART

EPRA NTA per share movements in the year



* Hudson Quarter York residential development is carried in the books at lower of cost and net realisable value (NRV) and as the NRV was higher than the cost at 31 March 2022, EPRA NTA adjusts for the variance

** Other movements includes movement in treasury shares, cost of derivatives, debt termination costs, non-recurring loan interest, disposal of listed equity investments and the effect of increased number of shares in the year

***Dividends equals dividends paid or declared in relation to the year ended 31 March 2022

EPRA NTA MOVEMENT

	£m	Pence per share
EPRA NAV AT 31 MARCH 2021	161.3	350
Adjusted earnings before tax	7.8	16.9
Property revaluation movements	8.2	17.7
Disposal of non-core assets	5.0	10.7
Trading property profit	3.8	8.2
Fair value adj. of trading properties	1.0	2.0
Shares issued	0.1	(1.0)
Cash dividends paid	(5.4)	(11.7)
Derivative costs	(0.7)	(1.5)
Taxation	(0.1)	(0.3)
Development loan interest	(0.2)	(0.4)
Sale of listed equity investment	(0.1)	(0.3)
Debt termination costs	(0.1)	(0.3)
EPRA NAV AT 31 MARCH 2022	180.6	390

FINANCING

It has been a core discipline, since the start of the pandemic, that the Group maintains an appropriate capital structure. The support from our banks has ensured that we have remained covenant compliant on all facilities over the past 12 months, with only a waiver obtained in April 2021 for the Scottish Widows facility.

The Group's drawn debt reduced by £26.5m to £101.8m at year end (2021: £128.3m). There were two facilities due to mature within one year. Post year end, the Group refinanced the facility with Santander, reducing the margin from 2.5% to 2.2% on a new five year facility, whilst also extending the current debt facility with Lloyds for a further year until March 2024. The average debt maturity decreased to 1.9 years (2021: 2.6 years), though this has extended post year end to 2.9 years as at 13 June 2022 on the refinancing of the two facilities stated above.

Since November, all disposal proceeds from the Hudson Quarter residential scheme have enhanced cash reserves. At 31 March 2022 the Group's cash and cash equivalents was £28.1m (2021: £9.4m). This included £5.0m drawn from the NatWest revolving credit facility. As at 10 June 2022, the cash balance was £22.7m, excluding the £5.0m available to immediately draw from the NatWest revolving credit facility, which was repaid post year end.

Net debt at 31 March 2022 was £73.6m (2021: £118.9m) which resulted in a significant reduction in the loan to value (LTV) ratio to 28% at the year-end (2021: 42%). The main driver was the repayment of the outstanding development loan facility of £20.6m with Barclays, which was paid eight months ahead of schedule in November 2021, and the repayment of £15.7m of debt from the proceeds of the disposal program announced at the beginning of the FY22 financial year. The total cost of debt increased slightly to 3.2% (2021: 3.0%).

Set out below is a table showing the movement in gross debt during the year:

	2022 £m
Drawn debt at 31 March 2021	128.3
Repayment of development loan	(20.6)[1]
Repayment of debt through disposals	(15.7)
Amortisation of loans	(1.7)
Debt drawdown	11.5
Drawn debt at 31 March 2022	101.8

1 At 31 March 2022 the development loan balance was £20.4m and during the year a further £0.2m of loan interest was capitalised.

There have been no new debt facilities in the year. Given the economic climate of increasing inflation, with interest rates expected to rise, we continue to monitor swap rates. At the 31 March 2022 we held £61.4m of fixed or hedged debt (2021: £62.6m), which was 60.3% of overall drawn debt (2021: 49%), as shown in the table below:

DEBT

	Fixed £m	Floating £m	Total drawn £m	Years to maturity
Barclays	33.8	(4.6)	29.2	2.2
NatWest	–	32.0	32.0	2.4
Santander	18.6	6.2	24.8	0.3
Lloyds	–	6.8	6.8	0.9
Scottish Widows	9.0	–	9.0	4.3
	61.4	40.4	101.8	1.9

The Group's key debt metrics are summarised in the table below:

DEBT METRICS

	31 March 2022	31 March 2021
Net loan to value ratio	28%	42%
Debt drawn	£101.8m	£128.3m
Total fixed debt	£61.4m	£62.6m
Average cost of debt	3.2%	3.0%
Average debt maturity (yrs)	1.9yrs	2.6yrs
Post year end average debt maturity (yrs)	2.9yrs	–
Net interest cover	3.9x	3.7x
NAV gearing	41%	74%

Matthew Simpson

CHIEF FINANCIAL OFFICER

13 June 2022

Risk management

RISK FRAMEWORK

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

Risk management is an inherent part of the Board's decision making process. This is then embedded into the business and its systems and processes. The Board reviews its overall risk appetite and regularly considers, via the Audit and Risk Committee, the principal risks facing the company, managements plans for mitigating these and emerging risks. The Committee also considers, at least annually, the effectiveness of the Company's system of risk management and internal control. Further information on the work of the Committee in this area is available in the Audit and Risk Committee report on page 81.

Our approach to risk identification and our open and supportive culture means that asset managers and key individuals in the finance team are able to report directly and at an early stage on issues, allowing management to take appropriate mitigating action.

COVID-19

A number of risks were heightened as a result of the Covid-19 pandemic. Although these have thankfully reduced over time, we kept matters under regular consideration by the Board and management on, for example, rent collection, compliance with banking covenants and the overall approach to tenant engagement.

EMERGING RISKS INCLUDING CLIMATE CHANGE

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

Cyber threats, technological advancements and the potential impact on operations are increasing for all businesses and were further heightened as working from home became vital in the fight against Covid-19. We took steps to increase our security measures and continue to review ways in which we can further mitigate the risk to our network and data.

Climate change is a local and global issue which presents both risks and opportunities to the commercial real estate market, with the potential to adversely impact the macroeconomic environment as well as our own operations and those of our supply chain. Demand for sustainable buildings is increasing across all stakeholder groups with evolving regulation in the built environment. Like many other companies, we have determined that Climate Change is now a Principal Risk. The Board's ESG Committee is tasked with overseeing the Group's response to climate change and further information can be found on pages 79 to 80.

GOING CONCERN STATEMENT

The Directors regularly assess the Group's ability to continue as a going concern. The Strategic Report sets out in detail the Group's financial position, cash flows, liquidity position, borrowing facilities and the factors which will affect future performance. Given the ongoing economic disruption and uncertainty caused by rising inflation and rising interest rates, the assessment of the Group's ability to continue in operation has been undertaken, with due

Hudson Quarter Offices, York

consideration given to the Group's cash resources, borrowing facilities, rental income, acquisitions and disposals of investment properties, committed capital expenditure, Hudson Quarter sales and dividend distributions.

DOWNSIDE SCENARIO

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

The downside scenario assumptions used in the assessment included:

- 15% reduction in rent collection from our two leisure assets
- 2% increase in SONIA interest rate from current levels
- Sales progression at Hudson Quarter, York is significantly reduced
- Cash reserves are used to repay debt/cure bank facility covenants in the event of covenant breaches

LIQUIDITY

At 31 March 2022 the Group had £28.1m of cash and cash equivalents. The fair value of our property portfolio is £259.0m, with £101.8m debt drawn at 31 March 2022 with net assets of £177.2m. The Group increased its total annual dividend paid or declared for the year by 26.2% to 13.25p, fully covered from rental income. The Group has conservative gearing and reduced its gearing from 42% to 28% during the year as a result of its disposal strategy and strong Hudson Quarter residential apartment sales. The outstanding development facility of £20.6m at the start of the year was repaid in full, eight months ahead of schedule. There is a clear sales strategy at Hudson Quarter, York for the remaining residential apartments, and is expected to deliver significant cash into the Group over the next 12 months.

RENT COLLECTION

Rent collection has been resilient throughout the pandemic, and this has continued to be resilient as we return to normality. We have collected 98% of all rents demanded for the year ending 31 March 2022. On a quarterly basis, we have increased the cash collected compared to each prior period comparative quarter through the year. The high collection rate has continued into the new financial year with 98% collected for the March 2022 rent demands, which we expect to climb higher as the quarter progresses.

During the financial year we have given £0.1m of rent concessions to tenants who have struggled to satisfy their rents. This is down from £1.1m in the prior year, underpinning the strength of our tenant base. We also released £0.4m of ECL provision as a result of collecting a high proportion of our rents.

A fundamental area of our business is to collect our rents, and having gone through a global pandemic where the economy effectively shut down, we are buoyed by our strong rent collection statistics over the past two years and we are positive that we will continue this high rent collection in the future.

> "The Group increased its total annual dividend paid or declared for the year by 26% to 13.25p, fully covered from rental income."

BANK FACILITIES EXPIRING WITHIN THE GOING CONCERN PERIOD

The following facilities were due to expire within the going concern period and thus are classified as current liabilities on the Balance Sheet:

Santander facility

The Santander facility is cross collateralized across three assets in Newcastle, Manchester and Northampton. The current loan balance is £24.8m and the carrying value of the asset is £48.3m. This loan was due to mature on 3 August 2022. On 27 May 2022, the Group refinanced this loan facility in full for a further five years, therefore this falls outside the going concern period and the three year viability period. The margin on this new facility has decreased from 2.5% to 2.2%, providing increased headroom on the ICR covenants.

Lloyd's facility

The Lloyds facility is secured by an office and retail asset at One Derby Square in Liverpool. The current loan balance is £6.8m and the carrying value of the asset is £13.2m. This loan was due to mature on 7 March 2023. On 13 April 2022, the Group took the option to extend the loan by one year, therefore maturing on 7 March 2024. This falls outside the going concern period but falls within the three year viability assessment.

DEBT COVENANTS / STRESS TESTING

Our lenders have remained supportive as the economic climate has improved as the economy learns to live with the pandemic. We continually assess our rent receipts and outstanding arrears. We engage with our lenders ahead of potential breaches in covenants based on our continuous review of our covenant headroom.

All covenants were compliant during the year or waivers obtained. A waiver was obtained in April 2021 for the Scottish Widows facility which came under pressure as rent concessions or deferrals were still in the process of being agreed. Due to the high rent collection during the year, there was considerable headroom on all other banking covenants. This is expected to continue as we collect a high proportion of rents.

Risk management CONTINUED

The going concern assessment of debt covenants considered the prospect of the downside scenarios stated above. The Directors undertook reverse stress testing to confirm the resilience of the covenants, including a 15% reduction in rental collection from our two leisure assets, 75% of tenants vacating on break clauses and 75% vacating on lease expiry on all assets, as well as an increase in the SONIA interest rate. Given the current inflationary pressures, this has created uncertainty in interest rate increases. A 2% increase in SONIA interest rates from current levels was modelled as part of the downside assessment. The current SONIA rate is just below 1% therefore a 3% SONIA interest rate was applied throughout the whole period of the assessment. As the current SONIA interest rate is just below 1%, the rate would need to increase to roughly 5% in order to average 3% for the assessment period. The downside was modelled to assess the impact on the covenants, especially interest cover rations (ICR), debt service cover ratios (DSC) and loan to value ratios (LTV). We considered the credit rating and financial position of key tenants as part of the exercise and the potential impact they could have on the loan covenants. The downside scenario only placed pressure on one loan facility. If in the unlikely event this would happen, the Directors have the option to sell assets and repay part of the proceeds to the debt facilities and mitigate this risk by increasing the headroom on ICR covenants.

In addition, another downside scenario was considered using the same assumptions as above, except for assuming the largest five tenants within our portfolio only pay half of their rents over the next 12 months. This would place even further pressure on the covenants, however, this can be mitigated with a similar cure as indicated in the previous assessment.

We have significant headroom on our LTV covenants tests, meaning if values fell 20% we would only need £3.6m to cure any breaches across the debt portfolio. During the year the Group repaid £15.7m of bank debt, excluding the development facility in which £20.6m was repaid. This has provided us further headroom on our LTV covenants. The Scottish Widows facility of £9.0m, which is the smallest loan facility within the Group, has the lowest headroom of 8.1%, which means the value would need to fall by £1.4m before a potential covenant breach. Should we breach any covenants, our working capital model provides evidence that the Group has sufficient capital to cure any breach without lender support through covenant waivers. The Group can also access additional capital through liquidating various assets which are not secured to lenders though this remedy is not required in the stress testing undertaken. In addition, the debt across the Group is secured on a bilateral basis between SPV and bank, therefore the liability is contained within the SPV and the Group has alternative options to generate liquidity to settle its debt obligations as they fall due and therefore continue as a going concern.

GOING CONCERN STATEMENT

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

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code and taking into consideration the current economic uncertainty, the Directors have assessed the prospects of the Group and future viability over a three-year period from the year end, being longer than the 12 months required by the "Going Concern" provision.

The Board's assessment of the Group's viability for the next three years has been made with reference to:

- The impact of the current economic uncertainties and resulting impact on the Group and our tenants' ability to operate and meet their rental obligations.
- The key principal risks of the business and its risk appetite.
- The Group's long-term strategy.
- The impact on business operations, mainly rent collection, rising interest rates and progress on residential sales at Hudson Quarter, in the event of a downturn in the economy.
- The Group's current position and its ability to meet future financial obligations to remain covenant compliant.

ASSESSMENT OF REVIEW PERIOD

The Board considers a period of three years to be appropriate over which to assess the long-term viability of the Company for the following reasons:

- The Group's working capital model, detailed budgets and cash flows consist of a rolling three-year forecast.
- It reflects the short cycle nature of the Group's developments and asset management initiatives.
- This is the period in which the investment team assesses individual asset performance.
- Office refurbishments completed to date have taken less than 12 months.
- The Group's weighted average debt maturity at 31 March 2022 was 1.9 years – this has increased to 2.9 years post year end following the refinancing of the Santander facility and the extension of the Lloyds facility.
- The Group's WAULT at 31 March 2022 was 4.7 years.

STRESS TESTS & DOWNSIDE

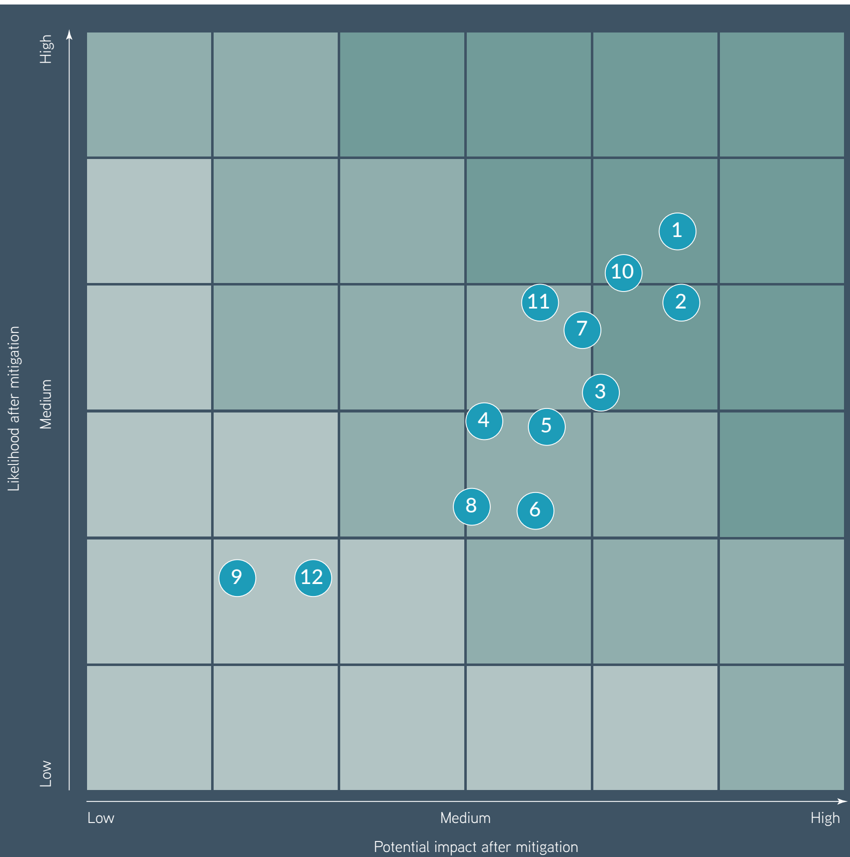
The Directors have undertaken a robust scenario assessment of the principal risks which could threaten the viability or the operational existence of the Group. As part of the downside modelling, we reverse stress-tested our working capital model and cash flows to understand the impact of our principal risks including rising inflation and interest rates, the impact of the increased cost of living on our tenants, the ability to meet our debt covenants, execute our sales strategy at our completed development and refinance our debt facilities.

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

The debt covenants were reverse stress-tested beyond the 12-month going concern period to allow for changes to banking covenants over the three-year viability period based on the scenarios above. If there was an economic downturn, ICR, DSC and LTV covenants could come under pressure. If covenant waivers were not obtained for a covenant breach, we would utilise cure rights and use additional liquidity if available. The Directors have considered further actions that could be taken to mitigate any negative cash flow impact and ensure additional liquidity. The Directors have assumed the Barclays, NatWest and Lloyds facilities due to mature within the viability period will be refinanced as positive discussions with the banks have already taken place. In the event that one or more of the loan facilities could not be refinanced, the Directors would dispose of the assets at a discount and repay the bank debt which would release substantial capital into the Group to help mitigate against other downside scenario impacts. As a result, the Company will continue to operate in accordance with its existing bank covenants with a smaller property portfolio.

CONFIRMATION OF VIABILITY

Having assessed the current position of the Group, its prospects and principal risks and taking into consideration the assumptions stated above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.



RISKS	SCORE	YEARLY MOVEMENT
1 Market Cycle	12	↔
2 Economic and Political	12	↔
3 Capital Structure	10	↓
4 Liquidity	8	↑
5 Portfolio Strategy	10	↓
6 Asset Management	6	↔
7 Valuation	11	↓
8 Tenant Demand	7	↓
9 Business Continuity / Cyber	4	↓
10 People	12	↑
11 Climate Change	10	NEW
12 Regulatory and tax	6	↔

Risk management CONTINUED

STRATEGIC RISKS

01

MARKET CYCLE

Risk description

Failure to react appropriately to changing market conditions and adapt our corporate strategy could negatively impact shareholder returns. Failure to close the NAV gap could lead to increased shareholder activism and make the Company a target for takeover.

Mitigation

The Board monitors market indicators and reviews the Group's strategy and business objectives on a regular basis. It will tailor the delivery of the Company's strategy in light of current and forecast market conditions. Management continues to take action to close the NAV gap including corporate and property activities.

Current position

The Board regularly reviews market indicators and the Group's strategy and business objectives. It will tailor the delivery of the Company's strategy in light of current and forecast market conditions. Management continues to take action to close the NAV gap.

Likelihood after mitigation
Score 1 (low) - 10 (high)

5

Impact after mitigation
Score 1 (low) - 10 (high)

7

Overall Risk Rating
Score 1 (low) - 20 (high)

12

02

ECONOMIC AND POLITICAL

Risk description

Uncertainty from Covid-19 and other world events (including Brexit, rising inflation, rising interest rates, cost of living crisis) could impact economic growth, weakening demand for our tenants and the profitability of their businesses.

Decisions made by Government and local councils can have a significant impact on our ability to extract value from our properties.

Mitigation

Underlying Government support for the regions and levelling up bodes well for the markets in which we operate outside London. Further, through the use of consultants and experts we can anticipate key planning and development policies and consider how these may impact our activities. Management continues to build on strong relationships with key stakeholders such as our tenants and banks, so in the event of an economic downturn, we can ensure any adverse impact is minimised.

Current position

Our budgets reflect current trading conditions. The markets in which we operate, including government actions and economic activity are regularly reviewed.

Likelihood after mitigation
Score 1 (low) - 10 (high)

5

Impact after mitigation
Score 1 (low) - 10 (high)

7

Overall Risk Rating
Score 1 (low) - 20 (high)

12

FINANCIAL RISKS

03

CAPITAL STRUCTURE

Risk description

An inappropriate level of gearing or failure to comply with debt covenants or manage re-financing events could put pressure on cash resources and lead to a funding shortfall for operational activities.

Mitigation

The Board regularly reviews its capital risk management policy, gearing strategy and debt maturity profile. Gearing is maintained at an appropriate level and hedging is utilised to reduce exposure to interest rate volatility. Management maintain close relationships with key lenders. Assets are purchased that generate surplus cash and significant headroom on all loan covenants.

Current position

The Group's weighted average debt maturity is currently 1.9 years, rising to 2.9 years following the refinancing post year end. The Group's LTV has decreased from 42% to 28% with a downward trajectory. The Board's target LTV is <40%.

Likelihood after mitigation
Score 1 (low) - 10 (high)

5

Impact after mitigation
Score 1 (low) - 10 (high)

5

Overall Risk Rating
Score 1 (low) - 20 (high)

10

PORTFOLIO RISKS

04

LIQUIDITY

Risk description

Increasing costs of borrowing and increasing interest rates could affect the Group's ability to borrow or reduce its ability to repay its debts.

Mitigation

Undrawn bank facilities are in place to ensure sufficient funds are available to cover potential liabilities arising against projected cashflows. The Board reviews financial forecasts on a regular basis, including sensitivity against financial covenants. The Audit and Risk Committee considers the going concern status of the Group bi-annually.

Current position

The Barclays development facility has been repaid. The Santander facility has been refinanced after year end on a new five year term at a reduced margin. There is a threat of rising interest rates and inflation. Inflation has increased due to multiple global supply chain factors, which in turn has led to the threat of rising interest rates.

Likelihood after mitigation
Score 1 (low) - 10 (high)

4

Impact after mitigation
Score 1 (low) - 10 (high)

4

Overall Risk Rating
Score 1 (low) - 20 (high)

8

05

PORTFOLIO STRATEGY

Risk description

An inappropriate investment and development strategy that is not aligned to overall corporate purpose objectives, economic conditions, or tenant demand may result in lower investment returns

Mitigation

The Board regularly reviews the Group's investment strategy and asset allocation to ensure this is aligned to the overall corporate strategy. Every proposed corporate or property acquisition requires Investment Committee approval, before final approval from the Board. Our regional model ensures no exposure to London. Property returns are benchmarked against the MSCI IPD index and performance against the benchmark is reviewed formally at the half year end and year end.

Current position

Rebalancing of the portfolio towards a core weighting with a focus on office and industrial assets. No single asset comprises more than 10% of the portfolio's value.

Likelihood after mitigation
Score 1 (low) - 10 (high)

4

Impact after mitigation
Score 1 (low) - 10 (high)

6

Overall Risk Rating
Score 1 (low) - 20 (high)

10

06

ASSET MANAGEMENT

Risk description

Failure to implement asset business plans and elevated risks associated with major development or refurbishment could lead to longer void periods, higher arrears and overall investment performance, adversely impacting returns and cashflows.

Mitigation

The process for reviewing asset business plans is embedded in the annual budget process. The Group's Capital Risk Management Policy limits development expenditure to <25% of Gross Asset Value and the core portfolio generates sustainable cash flows. Our experienced management team with vast networks and use of advisors and property managers supports the execution of asset management strategies. Our active management approach and new investment modelling system ensures we can monitor and analyse our cash flows, income streams and monitor the impact of vacant space on returns.

Current position

Our development and refurbishment pipeline is continuously assessed to ensure the right projects are being brought forward at appropriate times ensuring exposure at any one time is limited.

Likelihood after mitigation
Score 1 (low) - 10 (high)

3

Impact after mitigation
Score 1 (low) - 10 (high)

3

Overall Risk Rating
Score 1 (low) - 20 (high)

6

Risk management CONTINUED

PORTFOLIO RISKS

07

VALUATION

Risk description

Decreasing capital and rental values could impact the Group's portfolio valuation leading to lower returns.

Mitigation

Independent valuations are undertaken for all assets at the half year end and year end. These are reviewed by management and the Board. Members of the Audit and Risk Committee meet with the valuers at least once a year to discuss valuations and the valuation process. Management actively review leases, tenant covenants and asset management initiatives to grow capital and rental values.

Current position

Valuations are up on a like-for-like basis and the market is showing signs of correction following the pandemic impact. The ongoing disposal programme has improved the overall performance of the portfolio by removing those that are low performers or where asset management initiatives have been completed.

Likelihood after mitigation Score 1 (low) - 10 (high)

6

Impact after mitigation Score 1 (low) - 10 (high)

5

Overall Risk Rating Score 1 (low) - 20 (high)

11

08

TENANT DEMAND AND DEFAULT

Risk description

Failure to adapt to changing occupier demands and/or poor tenant covenants may result in us losing significant tenants, which could materially impact income, capital values and profit.

Mitigation

The Board regularly reviews the portfolio's overall tenant profile and sector diversification. Tenant diversification is high with no tenant making up more than 10% of total rental income. Management maintain close relationships with tenants, understanding their needs and supporting them throughout their business cycle. Managing agents support rent collection on a regular basis. Tenant due diligence and credit checks are undertaken on an ongoing basis to review covenant strength of existing and prospective tenants. Our ESG strategy focuses on our stakeholder needs and ensuring sufficient Board oversight and time is spent responding to tenant interests.

Current position

Loss of income from tenant administrations and CVAs is less than 1% of portfolio contracted income. Rent concessions have been honoured and collection rates remain in excess of 98% per quarter. The biennial Tenant survey was reported to the board at the December 2021 meeting. Major refurbishments at Newcastle and Northampton during the year have incorporated ESG considerations.

Likelihood after mitigation Score 1 (low) - 10 (high)

3

Impact after mitigation Score 1 (low) - 10 (high)

4

Overall Risk Rating Score 1 (low) - 20 (high)

7

OPERATIONAL RISKS

09

BUSINESS CONTINUITY AND CYBER SECURITY

Risk description

Business disruption as a result of physical damage to buildings, Government policy and social distancing measures implemented in response to pandemics, cyber attacks or other operational or IT failures or unforeseen events may impact income and profits.

Mitigation

Our governance structure and internal control systems ensure sufficient Board oversight, with delegated responsibilities, segregation of duties and clear authorisation processes. A comprehensive programme of insurance is in place which covers buildings, loss of rent, cyber risks, Directors' and Officers liability and public liability. Antivirus software and firewalls protect IT systems and data is regularly backed up.

Current position

Our business interruption processes were well tested following the move to working from home in response to the Covid-19 pandemic. The Board continues to review the internal control environment and ensure good governance practices are adopted throughout the business. Cyber security arrangements have been kept under regular review to ensure we are deploying the most up to date technologies.

Likelihood after mitigation Score 1 (low) - 10 (high)

2

Impact after mitigation Score 1 (low) - 10 (high)

2

Overall Risk Rating Score 1 (low) - 20 (high)

4

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

10

PEOPLE

Risk description

An inability to attract or retain staff and Directors with the right skills and experience or failure to implement appropriate succession plans may result in significant underperformance or impact the overall effectiveness of our operations.

Mitigation

We engage with staff regularly and encourage a positive working environment. We maintain an appropriate reward and benefits package and undertake regular performance reviews for each employee. The Workforce Advisory Panel provides a forum that allows direct feedback to the Board on employee related matters. Succession planning is a regular agenda item for the Nominations Committee.

Current position

A competitive employment market and inflationary pressures are driving increased pay and a review of benefits to ensure attraction and retention of individuals with the skills, knowledge and experience required. The Group's headcount is stable with sufficient cover if any key personnel are unavailable. The Workforce Advisory Panel continues to enhance employee engagement and ensure the Board understands the views of the whole workforce. A flexible working model continues following the pandemic.

Likelihood after mitigation Score

1 (low) - 10 (high)

5

Impact after mitigation
Score 1 (low) - 10 (high)

7

Overall Risk Rating
Score 1 (low) - 20 (high)

12

11

CLIMATE CHANGE

Risk description

Failure to anticipate and prepare for transition and physical risks associated with climate change including increasing policy and compliance risks associated with existing and emerging environmental legislation could lead to increased costs and the Group's assets becoming obsolete or unable to attract occupiers.

Mitigation

The Group's ESG Committee oversees the execution of ESG related matters and ensures these are integrated into our business model and corporate strategy. Climate related risks are considered as part of our overall corporate risk assessment and ongoing environmental management of our buildings. Major refurbishment projects include environmental considerations to ensure buildings are maintained to current standards.

Current position

There has been an increased focus on environmental management and climate change is now considered to be a principal risk. A TCFD working Group was established during the year whose work will support the identification of climate-related risks and potential financial impacts. An initial warming scenario has already been analysed. Major refurbishments at Newcastle and Northampton during the year have incorporated ESG considerations.

Likelihood after mitigation Score
1 (low) - 10 (high)

5

Impact after mitigation
Score 1 (low) - 10 (high)

5

Overall Risk Rating
Score 1 (low) - 20 (high)

10

12

REGULATORY AND TAX

Risk description

Non-compliance with the legal and regulatory requirements of a public real estate company, including the REIT regime could result in convictions or fines and negatively impact reputation.

Mitigation

The Company employs experienced staff and external advisers to provide guidance on key regulatory, accounting and tax issues. Compliance with the REIT regime is regularly monitored by the Board and the Executive team will consider the impact on the regime as part of their decision making.

Current position

Emerging corporate governance and audit reforms may lead to considerable changes to the financial reporting process, requiring additional processes and procedures to be put in place and additional reporting on the Company's resilience. The Audit and Risk Committee and Board are monitoring these changes.

Likelihood after mitigation Score
1 (low) - 10 (high)

4

Impact after mitigation
Score 1 (low) - 10 (high)

2

Overall Risk Rating
Score 1 (low) - 20 (high)

6

Section 172 statement

STAKEHOLDER	WHY WE ENGAGE	HOW WE ENGAGE AND OUR ACTIONS
Investors	Our investors rely on us to allocate their capital wisely, grow the business and deliver attractive returns.	• The Chairman has held regular meetings with key investors during the course of the year • We have an established investor relations programme with bi-annual presentations • Shareholders, focused on retail investors, are able to attend the Company's AGM where they can question Directors and vote on matters put to the meeting • Regular trading updates and announcements to the market regarding performance • Capital markets days coupled with opportunities to visit our properties • Continuous monitoring of holdings with regular Shareholder analysis and review • We increased our dividend in the year to Shareholders
Tenants	Our business is focused on our tenants as customers and we need to understand how their needs are changing and ensure we continually adapt to meet them.	Through our proactive approach to asset management, we engage with our tenants in a variety of ways: • On-site review meetings • Dedicated building managers and asset managers • Visiting assets and listening to concerns • Tenant surveys which cover general satisfaction, and opinions on how we can improve our assets
Employees	Our employees are vital to the Company, bringing many years relevant experience and are encouraged to promote the desired culture and behaviours.	• Regular and frequent internal communications between staff and management • Team strategy days, informing Board deliberations • Formal Workforce Advisory Panel • Social and sporting events to which all employees are invited
Suppliers, agents and consultants	We rely on a number of key partnerships to support our property and facilities management and help deliver our overall strategy.	We actively engage with our suppliers and work closely with them: • Weekly meetings with our managing agents and regular contact by telephone and email • Formal review meetings • Monthly meetings with our external project managers • Sharing insights and initiatives • Ensuring payments are made within agreed terms
Communities and the environment	We must be mindful of the impact our operations have on local communities and the environment.	We actively support community events and seek to have a positive impact on local areas: • Creating employment opportunities • Enhancing the built environment • Supporting charitable organisations and local community activities • Where large construction or refurbishment projects are underway, our contractors will participate in schemes such as the Considerate Constructors Scheme and we will consider certifications such as BREEAM to minimise the impact on our neighbours and the environment
Lenders	Our debt providers supply us with facilities to draw down upon as and when required for general business purposes.	• We actively engage regularly through quarterly meetings with our banks • We recently engaged with Santander and Lloyds extensively relating to our refinancing of facilities that were due to expire in the next 12 months • We consistently have met our covenant and repayment obligations with all our lenders • We have a very positive long term relationship with our five key banks.

HOW STAKEHOLDER INTERESTS HAVE BEEN CONSIDERED WITHIN KEY STRATEGIC DECISIONS

Stakeholder considerations - employees and shareholders

At its annual strategy meeting in January 2022, the Board considered, in addition to the presentations from management, the feedback that the Chairman had received in his meetings with shareholders representing c.40% of the register at that time.

The Board also considered the views expressed by the workforce at its own annual strategy meeting which preceded the Board meeting. The opinions of the Company's corporate brokers were also reflected upon.

KEY INTERESTS	HOW WE HAVE CONSIDERED STAKEHOLDERS IN THE YEAR
Our investors are looking for robust financial performance that generates a return on their investment incorporating both dividends and capital growth. Recent focus has been particularly on risk mitigation, governance and compliance. Investors are increasingly focused on ESG matters.	The Board and Committees have taken the views of investors into account regularly with the Chairman having met with over 60% of the register. These have informed the strategy and strategic discussions including consideration of issues raised by investors at meetings, including for example, methods for reducing the NAV gap between the share price and net asset values of properties, and share buybacks.
Our tenants want fit-for-purpose spaces that are able to evolve with their businesses. They want the best built environment in which they can thrive at a fair price.	We have considered the needs of our existing and future tenants during Board deliberations, for example in relation to capital expenditure on environmental improvements. The biannual tenant survey was discussed by the Board to understand tenants' views on a variety of matters and these helped deliberations on future asset management strategies and broader ESG related matters.
Our employees value an open and positive working environment. They want to work for a Company that reflects and aligns with their values and to receive a fair salary and benefits reflecting their contribution to the success of the Company.	Employees regularly feature in Board discussions and were a key consideration in relation to the risk management process and the elevation of people as a Principal Risk due to macroeconomic and industry related pressures on the labour market and the need to retain and motivate employees. Further information on decisions relating to workforce remuneration is contained in the Remuneration Report.
Our relationships with our suppliers are mutually beneficial supporting both parties' interests. Our managing agents, property managers and external project managers want clear communication and operational efficiency.	The use of the asset management model with a small internal team overseeing the day to day activities and performance of our key agents is an important consideration of how the Company does business and is therefore a key issue for the Board. The Company uses consultants, for example on ESG matters where external expertise is cost effective. The Board utilises these and considers their information provided during deliberations.
The communities within which we invest want to see attractive, safe and environmentally friendly spaces, which enhance the local area. They want to be kept up to date with planned activities and have a say on what happens.	As mentioned in the ESG section, communities and the environment are a key element of the values of the Company and the Board understands the need to foster these and other stakeholders over time especially in relation to future strategy.
Our lenders wish to see a return on the money lent to the Company and the long term success of the Company, particularly over the term of any loans provided.	We considered the requirement for refinancing of the loans that expired in the year and gave due consideration to the strong relationship we have built to secure favourable terms to the extension agreed post year end.

Outcome and action

The results of these discussions and in particular the input of the workforce advisory panel were the adoption of an updated purpose and vision and further consideration of strategic plans for the Company.

ESG Introduction

Working Responsibly
Environmental, Social and Governance

Over the past two years, the COVID-19 pandemic and the increasing urgency over climate action have only accelerated the need for companies to ensure that environmental, social and governance (ESG) matters are embedded within their business and decision-making, both in the short, medium and long-term. No more is this the case than in the UK real estate sector which is currently responsible for approximately 40% of the UK's carbon emissions whilst managing an ever-changing operating environment which includes aspects such as the adoption of a hybrid approach to office working and the continued growth of online retail.

> "It is not enough to mitigate, manage and report on ESG risks. We need to make our buildings perform more efficiently."
>
> Richard Starr,
> Executive Property Director

It is not enough to mitigate, manage and report on ESG risks. From an environmental perspective, it is clear that we must go beyond simply doing less harm if we are to hit the required reductions in carbon emissions and achieve net zero. As well as reducing the amount of energy consumed, we need to make our buildings perform more efficiently, use materials with less embodied carbon and embrace the principles of the circular economy by ensuring materials can be reused. From a social standpoint, we need to ensure that we are looking after our people; are providing our tenants with spaces which are healthy, safe and fit for purpose; and engaging with and supporting our communities as appropriate.

It is also clear that real estate companies cannot do this in isolation. It requires a collaborative approach and Palace Capital is committed to engaging with its stakeholders to achieve this. Good governance and engagement with stakeholders in the Company, continues to be at the forefront of the Company's activities as a listed and regulated Real Estate Investment Trust.

In 2020, we developed a corporate ESG strategy to mitigate the risks and explore the opportunities in terms of the impacts of our business on the environment, our communities, our tenants and our people. The main pillars of our strategy remain the same:

ENVIRONMENTAL

- Future-proofing the portfolio – by understanding better the environmental performance of our assets, we are actively seeking to reduce energy use and greenhouse gas emissions and improve energy efficiency.

SOCIAL

- Fostering a culture of inclusivity and consideration of stakeholders' interests – by promoting collaboration and input across all levels of the business and engaging more closely with our stakeholders.

GOVERNANCE

- Being a responsible business – by ensuring ethical business practices and sound risk management.

The Board has taken ownership of developing the strategy, reflecting on and updating the Company's purpose and vision to include 'sustainable' at its core and to highlight that the Company exists for the benefit of all our stakeholders.

The ESG Committee has led, on behalf of the Board, in overseeing the implementation of the strategy and further considering its development as we look at the pathway to net zero, which we will disclose in greater detail in 2023. You can read more about the decisions and actions of the ESG Committee on pages 79 to 80.

In last year's report, we committed to:

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

You can read more about how climate considerations have been integrated into our risk management framework on page 43, while you can learn more about our approach to climate resilience and associated targets in the section overleaf and within the ESG Committee Report.

Working Responsibly Our ESG Strategy

	STRATEGIC PILLAR	OBJECTIVES	FUTURE FOCUS
Environmental	Future-proofing the portfolio	• To ensure that operational environmental considerations and longer term climate change risks and opportunities are embedded within Palace Capital's decision-making process • To ensure that the Group's real estate portfolio is compliant, fit for purpose - now and in the future – and is valued appropriately	• Setting emissions reduction targets; improving EPC performance • Planning for net zero • Minimising waste disposal and water consumption • Creation of a Group biodiversity strategy
Social	Fostering a culture of inclusivity and considerations of stakeholders' interests	• To ensure that our employees are listened to, looked after, trained and opportunities exist for them to further their career l • To ensure that the Group's culture takes account of equality, diversity and inclusion • To ensure that we partner with our stakeholders – in particular our tenants - to maintain healthy, safe and energy efficient properties	• Dedicated engagement & action programme with our tenants • Utilising our team meetings and formal workforce advisory panel feedback
Governance	Being a responsible business	• To be recognised as a well-managed, ethical business which has ESG integrated into its business model • To have the right policies and committee structures in place to ensure that sustainability risks and opportunities are given due consideration • To communicate and report transparently with all our stakeholders	• Roll-out of a new purpose and values to support our commitment towards sustainability • Continue to integrate ESG into our risk management process • Continue to improve our sustainability reporting (2022: EPRA and CDP reporting)

ESG RISKS AND OPPORTUNITIES

The ESG Committee has considered various risks relating to ESG matters including:

- Climate Change and Energy Use – greenhouse gas emissions
- Employee practices and relations
- Risk management and business continuity
- Tenant Satisfaction and collaboration
- Ethical business practices
- Biodiversity
- Sustainable supply chain

"This year, we have made progress in assessing, understanding and managing the environmental performance of our portfolio."

Paula Dillon,
Chair of ESG Committee

Our ESG
Environmental

As a responsible landlord, we have a duty to consider the impact our assets have on the environment. During the year we have made positive progress in assessing, understanding and managing the environmental performance of our portfolio. We have focused on data collection so that we understand our existing usage under scope 1,2, and 3 and the ways in which we can work with tenants to improve our overall environmental impact. We are now gaining a better understanding and visibility of our carbon footprint.

Key to this is our EPC ratings and our desire to ensure that we bring the portfolio up to a higher standard through active asset management. We now have no G or H EPC rated buildings and are looking at moving towards at least a C or B rating across our portfolio by 2024.

GREENHOUSE GAS EMISSIONS

Our GHG calculation and reporting process follows the Greenhouse Gas Protocol ("operational approach") and the DEFRA Environmental Reporting Guidelines (2013). The boundary for reporting includes emissions from sources under our control, grouped under: Scope 1 (direct) GHG emissions from owned assets; and Scope 2 (indirect) GHG emissions from landlord-controlled electricity supplies.

The Company does not own any vehicles and emissions from sources such as production processes and combustion sources are minimal, therefore not deemed material. As a result, these emissions are not included in reported totals. In addition, during the year the Company introduced a new electric vehicle plan for employees which has been popular.

We have a limited amount of energy use within our control. To have a meaningful impact on greenhouse gas emissions we must ensure we engage with our tenants and encouraging them to consider their own energy consumption. This continues to be a priority and the Company is starting to collect and report its broader Scope 3 emissions for the first time as it looks to gain greater visibility of its total carbon footprint. We will continue to collaborate with our tenants and managing agents to be in a position to report more fully on Scope 3 in next year's report.

We have again disclosed our CO2 emissions. Total Scope 1 and 2 emissions have increased during the year as the UK came out of lockdown and people returned to their workplaces. We will work with our tenants on the strategy for overall carbon reduction as by working together we can make a significant positive impact on reducing energy usage.

GHG emissions	2022	2021
Emissions type (tonnes of CO_2 equivalents)		
Scope 1	**742**	767[1]
Scope 2	**14**	27
Total	**752**	873
Scope 3	**16**	–
Average GHG Intensity ($tCO_2e/sqft^2$)		
Scope 1 and 2 combined	**0.0008**	0.0012
Total energy use (kWh)		
Scopes 1 and 2	**9,829,473**	9,558,632

1 2021 GHG figures restated to take into account historical re-verification of Scope 1 emissions at one property

OUR JOURNEY WITH TCFD:

October 2020

The first stage of our TCFD journey was to ensure the Board understood its disclosure responsibilities and that an appropriate amount of resource was allocated to assessing climate related risks and opportunities.

February 2021

The Board's ESG Committee carefully considered the required TCFD disclosures and reviewed the existing governance framework to ensure the appropriate amount of board and management attention is given to climate related issues. It identified the appropriate people within the business to assess the relevant risks and opportunities and agreed that an external consultant should be engaged to provide ongoing support in this area.

March 2021

In March 2021 the Company engaged SIFA strategy to support the implementation of its wider ESG strategy, including the development of a climate resilience strategy.

2021/2022

We have worked to ensure climate resilience is appropriately integrated into the company's strategy. We evolved our risks assessment processes to ensure the material climate-related risks have been identified and are developing the appropriate metrics and targets to measure climate-related risks and opportunities in line with the company's strategy as well as risk management processes. We have worked on TCFD requirements and their implementation.

Future

We will look at our pathway to net zero and what we need to do to achieve this and in what time frame.

TCFD
Being a responsible business

OVERVIEW

Through the 2015 Paris Agreement, world governments have committed to curbing the global temperature rise to well below 2°C above pre-industrial levels and are pursuing efforts to limit warming to 1.5°C. In 2018, the Intergovernmental Panel on Climate Change warned that global warming must not exceed 1.5°C to avoid the serious impacts of climate change and this ambition was reinforced at COP26, the United Nations Climate Change Conference held in November 2021. To achieve this, greenhouse gas (GHG) emissions must halve by 2030 – and drop to net-zero by 2050. As well as setting a further interim target of reducing emissions by 78% by 2035, the UK Government has also enshrined Net Zero in UK Law providing it with further options to effect change and maintain momentum.

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase disclosure and reporting of climate-related financial information. This is our first TCFD disclosure and we will continue to evolve our approach and reporting in future years.

PALACE CAPITAL'S CONSIDERATION OF THE TCFD FRAMEWORK

A TCFD working group comprising senior members from asset management and finance and the leadership team have met regularly throughout the year to appraise the potential consequences of global climate change; discuss the TCFD methodology and associated governance; work through a recommended scenario; and consider the associated risk and finance implications. Palace Capital's ESG Board Committee has also discussed the TCFD framework and been kept regularly informed. The ESG Committee's commitment to the TCFD recommendations are referenced in the ESG Board Committee's Report.

INITIAL CLIMATE CHANGE SCENARIO

As a first scenario, we considered a 2-degrees warming scenario, referencing the models mapped out by the Bank of England and the IMF's World Economic Outlook. As well as considering acute and chronic physical risks, the scenario included a series of transition risks and opportunities, such as changes in regulation and policy. The principal real estate sectors discussed relevant to Palace Capital were Retail & Leisure, Office and Industrial.

As regards to climate change, we have considered the risks and potential financial implications to Palace Capital's portfolio by assessing a 2 degrees warming scenario, as part of the Taskforce for Climate-related Financial Disclosures (TCFD) framework. Our TCFD disclosures are included in the Annual Report. Palace Capital's asset management team has also been focusing on improving the EPC profile of the portfolio in order to reduce exposure to current and future legislative and policy decisions taken to address climate change risks. In the second half of 2022, we will be considering our net zero plans in detail and will be disclosing them in our 2023 Annual Report.

In this section, we have provided an overview of our progress and priorities against the requirements of Listing Rules 9.8.6R. The Company has assessed its progress with the TCFD Recommendations and Recommended Disclosures and the table on the following page sets out our analysis.

GOVERNANCE

Palace Capital is committed to managing its environmental impacts in a responsible way. The Board assumes overall responsibility and accountability for the management of climate-related risks and opportunities.

The remit of the ESG Board Committee is to oversee the Company's response to the evolving environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Company. Its primary responsibility is to oversee the formulation and discharge of the Group's corporate and social responsibilities and ensure its social, environmental and economic activities are aligned.

MORE INFORMATION ABOUT THE ESG COMMITTEE'S OVERSIGHT CAN BE FOUND ON PAGE 79.

STRATEGY

Palace Capital invests in properties across the UK. These properties contribute to carbon emissions through the energy used to heat and power the buildings, and the embodied energy used in construction and retrofit materials. Palace Capital's strategy is concentrated on helping its tenants reduce their carbon emissions, though targeted investments, building upgrades, and energy efficiency improvements. The carbon impacts from its own administrative operations are limited. However, the business does recognize that the energy consumed in its value chain impact on GHG emissions indirectly, so it is focused on measuring and managing these effectively.

Physical climate risks are those which arise from both gradual changes in climatic conditions and extreme weather events that can result in asset damage, resource depletion, and disruption. Transition risks occur in the process of moving to a low-carbon economy. These include government policy changes, reputational impacts, as well as shifts in market preferences, norms, and technology.

Major physical impacts to properties from climate change could lead to disruption from flooding and storm damage as well as communications and transport infrastructure. The company has been analysing potential risks, based on geographic location, and specific building type. Based on the location of its assets and the specific office, retail, and industrial property types, the current risk of prolonged physical disruption is regarded as very low, with insurance cover in place to deal with any short-term impacts.

The transition of the UK economy to reduce carbon emissions and evolving regulatory requirements at a national level is an important consideration for the Company. Addressing climate risks also provide opportunities for enhanced investment returns in the medium to long term. Palace Capital is implementing a targeted upgrade and retrofit programme, to meet more stringent building performance and carbon emissions requirements: for example, to meet existing Government minimum energy efficiency regulations (MEES), and in anticipation of a further ratcheting up of regulatory requirements for energy performance certificate (EPC) ratings by 2030. Palace Capital has risk assessed its portfolio based on building energy intensity, location, tenant composition, the potential direct and indirect impacts on revenue and operating and capital costs.

RISK MANAGEMENT

The ESG Board Committee supports the Audit & Risk Committee which oversees the Group's risk management framework, evaluating its principal and emerging risks, setting the risk appetite, and assisting the Executive Management team with developing and implementing the operational plans required to strategically manage those risks.

The Audit and Risk Committee makes recommendations to the Board on the principal risks of relevance to the business. Climate-related issues are initially considered by the ESG Committee in terms of potential for contribution to these principal risks.

The issues considered include both the risk of physical disruption to the business from climate change and the risks and opportunities as the UK economy transitions to significantly lower carbon emissions.

METRICS AND TARGETS

Palace Capital started measuring its greenhouse gas emissions (GHG) in 2020. These GHG emissions cover Scope 1 direct emissions from the usage of fuel in its operation and indirect Scope 2 emissions from electricity consumption on site. In this report, we are starting to collect and report Scope 3 emissions for the first time, including aspects such as purchased goods & services (water); fuel & energy related activities; business travel; employee commuting; teleworking; and upstream leased assets.

We intend to expand our measurement and reporting on environmental sustainability in support of continual improvement.

TCFD
Being a responsible business CONTINUED

TCFD'S RECOMMENDED DISCLOSURES

DISCLOSURE	COMMENTARY
Describe the Board's oversight of climate-related risks and opportunities	Palace Capital established a Corporate Social Responsibility Committee in 2019 which was reconstituted as the ESG Committee in 2020, in recognition of the increasing importance of ESG to us, its stakeholders and broader society. The Board, supported by input from the ESG Committee, assumes overall responsibility and accountability for the management of climate-related risks and opportunities. A TCFD Working Committee was established in 2021 and its progress and findings have been reported into the ESG Committee.
Describe the management's role in assessing and managing climate -related risks and opportunities	Management has undertaken a review of the company's Enterprise Risk Management approach and climate-related issues have been integrated into the core risk management process as a principal risk.
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	The short- and medium-term risks identified include increased utility costs; unattractiveness of buildings to potential occupiers due to poor carbon performance; and increased regulatory and policy measures. The opportunities identified include: greater collaboration with tenants to improve environmental performance; improved commercial opportunities of owning assets which are energy efficient; and the possibility of securing more competitive financing.
Describe the impact of climate-related risks and opportunities the organisation's businesses, strategy and financial planning	Climate-related risks have been integrated within the company's Principal Risks. Climate and energy performance have been fully integrated into both investment and asset management decision-making process.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario	The average life-cycle of Palace Capital's assets is short to medium term and the assets are exclusively located across the UK in well-connected regional transport hubs. The company is continually reviewing its exposure to climate-related risks. Under a 2°C scenario, the company's strategy is considered resilient, bearing in mind the physical locations of its assets and the actions it is taking to manage transition risks.
Describe the organisation's processes for identifying and assessing and managing climate-related risks	Palace Capital has formed a TCFD working committee to identify and assess and manage climate related risks which reports through to the ESG Committee. This, in turn, reports to the Board. The TCFD working committee will continue to meet and will be leading on the Company's thinking and planning re its net zero strategy.
Describe the organisation's processes for managing climate-related risks	Palace Capital considers and assesses climate-related risks and opportunities through the ESG Committee and the Board.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	GHG emissions and energy consumption, are disclosed in the Annual Report including Scope 1 & 2 and are aligned to the Greenhouse Gas Protocol Corporate Standard and DEFRA Environmental Reporting Guidelines. We are starting to report Scope 3 emissions for the first time in this year's Annual Report.
Describe Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	GHG emissions are disclosed in the Annual Report including Scope 1 & 2 and are aligned to the Greenhouse Gas Protocol Corporate Standard. We are starting to report Scope 3 emissions for the first time in this year's Annual Report recognising that further work is required going forwards. The related potential risks can be viewed in the Risk Management section on page 36.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	We have started to collect Scope 3 emissions for the first time and are now beginning to gain greater visibility of our direct and indirect carbon footprint. We will be in a better position to consider metrics including incremental improvements and net zero targets.

ESG
Improving the environmental performance of our assets

During the year, we have made good progress in embedding environmental considerations in all aspects of asset management and across our wider business model. This is reflected in an improved EPC profile across the portfolio. Our Scope 1 and 2 emissions have decreased year on year reflecting the ongoing improvements made to properties within our portfolio.

We have:

- Incorporated energy efficiency measures into our major building refurbishments
- Progressed our EPC management programme
- Introduced guidance for our asset managers to ensure ESG considerations are incorporated in our asset level business plans

FUTURE PROOFING THE PORTFOLIO

Through effective asset management, we are seeking to reduce our energy and resource consumption to minimise the impact our assets have on the natural environment. We recognize that in order to meet our tenants' needs and be a responsible landlord, our strategy must address the accelerating industry and global challenges in the built environment. Not only will this future-proof our business and ensure we are resilient, but it will also bring greater consistency and efficiency.

Our active asset management approach means we are constantly assessing the portfolio, earmarking assets for refurbishment and renewal, utilising the latest technology and environmentally efficient products so that our properties are equipped to meet minimum energy efficiency standards. We continue to review the EPC risk associated with existing assets and new purchases, implementing improvement plans for any asset with an "E" rating or below.

During the year we:

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

Over the next year we will continue to put in place further internal processes to ensure environmental considerations are factored into our portfolio management initiatives.

We will keep our ESG strategy under continuous review and intend to participate in EPRA sustainability benchmark in 2022.

5%

reduction in Scope 1 and 2 GHG emissions

99%

landlord controlled electricity from renewable sources

22%

reduction in absolute landlord purchased water consumption

14%

reduction in average building water intensity

89%

Properties in the portfolio with an EPC rating of A-D

ESG
Case studies

Boulton House, Manchester

Our eight-storey office block in the heart of Manchester city centre has benefited from significant refurbishment in recent years. This included the installation of two new boilers and an upgraded lobby area, which now benefits from LED lighting and improved insulation.

The asset operates a zero waste to landfill policy and 100% of the electricity procured is renewable.

St James' Gate, Newcastle

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

As part of the energy efficient refurbishment of the office areas, we installed LED lighting on levels 3 and 7 with works underway to introduce a new energy efficient HVAC system. We also upgraded the toilet and shower facilities and enhanced the external courtyard for our 330 building occupants and the wider estate.

Working with our tenants, we have improved the EPC and the facilities and received positive feedback from tenants.

FURTHER INFORMATION ON ST JAMES' GATE IS ON PAGES 56 TO 57.

ESG
Future-proofing the portfolio

CURRENT EPC/MEES REQUIREMENTS & COMPLIANCE

Since 1 April 2020, landlords can no longer let or continue to let properties covered by the MEES Regulations if they have an EPC rating below 'E'. From 1 April 2023, this will be extended to include existing leases, making it unlawful for a landlord to continue to let commercial property rated F or less.

In the 2021 Annual Report, a stated priority was to remove the 7.45% of 'F' & 'G' certifications.

Through proactive review and asset disposals, all G certifications have been removed from the portfolio and 'F' certifications reduced to 0.7% (one asset with Listed Building Consent). During 2021/22, twenty five EPC's were improved and the number of EPC's rated A-D increased from 75.7% to 88.8%.

FUTURE PROOFING – MOVING FROM COMPLIANT TO EFFICIENT

The government has released a consultation on raising the minimum energy efficiency standards in tenanted non-domestic properties. It is proposed landlords will have until 2027 to get properties up to a 'C' standard and a further 3 years to achieve EPC B, where cost effective. In office and industrial markets, corporate occupiers have strict EPC minimum requirements when acquiring sites. In response, we have instigated the below measures:

- KPI – A MEES/EPC rating has been included as a Key Performance Indicator for 2022.
- Asset Business Plans – EPC considerations are now integral to individual asset strategies including potential hold / disposal decisions.
- CAPEX – Forecast EPC improvement expenditure is to be put in place for all assets where required to meet minimum future standards. E.g. LED Lighting / car charging points across the portfolio.
- Data – Specialist consultants provide 3D modelling and advice on HVAC, structure and glazing to inform EPC strategies. This allows for confident budgeting and execution of EPC improvement works.
- Acquisition Strategy – Potential acquisitions require a 'B' EPC rating or the ability to meet future minimum standards through planned capital expenditure. We challenge the validity of a potential acquisitions EPC rating through our specialist consultants.
- Tenants – We engage with occupiers on improvements and ensure that lease contracts protect our position on EPC ratings over the lease term.

Our current EPC split is:

EPC CERTIFICATION	%
A	1.4%
B	15.4%
C	38.4%
D	33.6%
E	10.5%
F	0.7%
G	0.0%

St James' Gate, Newcastle

Energy performance and sustainability is at the forefront of all our decision making, especially on CAPEX projects. At St James's Gate in Newcastle, we secured planning for change of use and converted two retail units into two self contained office spaces within a striking courtyard plaza incorporating seating and planting and a greatly enhanced tenant and visitor experience.

The refurbishment transformed two vacant spaces that were detracting from the development and the city, into much-needed cutting edge offices for small and medium sized businesses.

Sustainability has been at the forefront of this refurbishment programme. The buildings will be minimum energy efficiency standard (EPC) compliant i.e. B rating in 2030 thanks to several ESG measures.

New glazing and LED lighting has been installed to provide better natural and diffused light. New showers and WC facilities, along with a new VRF system provide improved cooling and heating provision delivering the very best user experience.

The contractor, Overbury, has a 'zero waste to landfill' policy and their supply chain of local sub-contractors and suppliers also have strong ESG credentials.

Overbury diverted waste from landfill by minimising waste in the first instance; finding alternative uses for it; and by maximising what can be reused and recycled. They aim to recycle at least 94% of waste on all projects and beat that target on the St James's Gate development project by achieving a 97% recycling rate. This was done through vigorous segregation and waste management including the use of manufacturer take-back schemes.

ESG
Social

Our workforce, the culture and our values are critical to our Company's success.

"The Workforce Advisory Panel is a great way of getting across our points to management and the Board so that workforce considerations are front and centre of their deliberations."

Chris Petrie
Chair, Workforce Advisory Panel

OUR PEOPLE

Ensuring our people felt safe and supported during the pandemic has continued to be a key priority. We are a small team and the culture of support and care has been vital for returning to the office to collaborate and connect. This has in turn helped inform our discussions when considering the views, concerns and challenges of our tenants and the new ways of working that have emerged, particularly from our office tenants. This engagement has supported the success of our rental recovery which was 98% across the portfolio and 98% across our offices.

We remain committed to attracting and retaining people of the highest calibre. As part of our efforts to retain and attract talent, we were delighted to appoint Matthew Simpson as CFO following his previous role as Finance Director and before that as Financial Controller. We were also delighted that members of staff completed further qualifications in finance and members of the property team furthered their development.

We are proud to be able to say that we did not furlough any employees throughout the pandemic, nor take up any other Government support measures.

We recognise that employees prefer to work from home on occasion so we have adopted a hybrid model whereby we work in the office collaboratively but people are not expected to be in the office five days a week. We appreciate that employees now expect flexibility and does not affect their productivity.

Our portfolio of offices is well located across regional towns and cities, so we are well placed to support the ongoing hybrid model with people's preference for a shorter commute and the increase in work/life balance. This itself brings wider environmental benefits with the shorter car journeys as our buildings are often close to major transport links.

EMPLOYEE ENGAGEMENT – WORKFORCE ADVISORY PANEL

In addition to our weekly team meetings, all employees again participated in the annual strategy session in January 2022, This fed directly into the Board's annual strategy meeting.

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

TRAINING AND DEVELOPMENT

A thorough annual appraisal process is conducted. We regularly invest in employees' development, encouraging them to reach their full potential by providing training opportunities.

CULTURE AND DIVERSITY

We ensure the values and behaviours within the business underpin a culture that is aligned to the Group's strategy and that policies and training are in place to support this. The employees are at the heart of delivering our strategy so we empower them to take responsibility for their contribution to the business. Our core values set out how we work and the principles we expect everyone in our business to follow. These values create the framework for building on our positive culture of inclusivity and working together.

DIVERSITY POLICY

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

VALUES

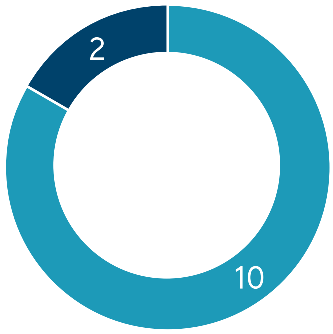
Active, Astute, Ambitious

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

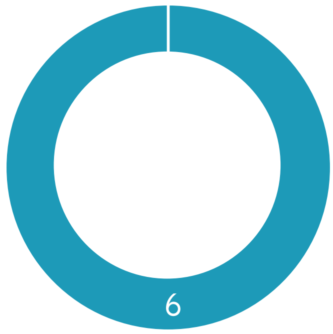
MALE

FEMALE

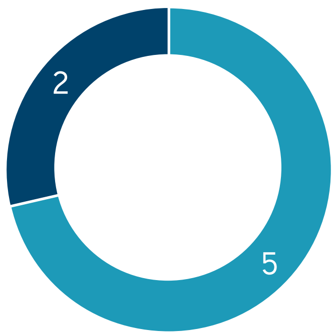
Gender split across the whole workforce



Gender split across senior management



Gender split on the Board



FOR FURTHER INFORMATION ON THE BOARD'S APPROACH TO DIVERSITY, PLEASE REFER TO PAGE 76 IN THE NOMINATIONS COMMITTEE REPORT.

ESG
Social CONTINUED

Charities and local communities

St Georges Crypt, Leeds

This year we made a significant donation to St Georges Crypt in Leeds, a charity which works with vulnerable and homeless people, helping them to build confidence and self-esteem. This charity provides structure to their lives so that they can maintain a tenancy and avoid being homeless in the future through a tailored programme of work-groups, volunteering opportunities, and life skills training in a residential setting. We repeated our donation to SASH, a youth homelessness charity that works across North and East Yorkshire where our flagship development, Hudson Quarter, York is located.

As a property investor, we believe it is fitting for us to support groups for whom accommodation is a challenge and no one was more seriously affected by this than those fleeing the war in Ukraine, which was why the Company also donated to the Disaster Emergency Committee's Ukraine appeal which supplies essential food, hygiene supplies and blankets for displaced families.

Closer to home, one employee joined a team walking 40 miles over the course of a day to raise funds for cystic fibrosis. We also pledged a donation to our surveyor's daughter when she shaved her head for The Little Princess Trust so that children affected by cancer who had lost their hair due to chemotherapy could enjoy long hair again by wearing a wig made from the donated hair. Further donations, to The Bedfordshire NHS Trust and the Sea Cadets, were other small expressions of empathy and encouragement for other members of our community.

We were particularly pleased to be able to respond to an appeal from the magician who performed a (virtual) show for our Christmas party during lockdown. He was supporting 'Spread a Smile', a charity which brings joy and laughter to thousands of seriously ill and hospitalised children and their families during long hospital stays through visits, outings, events and art initiatives.

Hudson Quarter, York

In March 2022, the public had the opportunity to travel through York and discover more than 40 ice sculptures designed and sponsored by local businesses in York, including the Company. These transported visitors into other destinations 'Around the World'

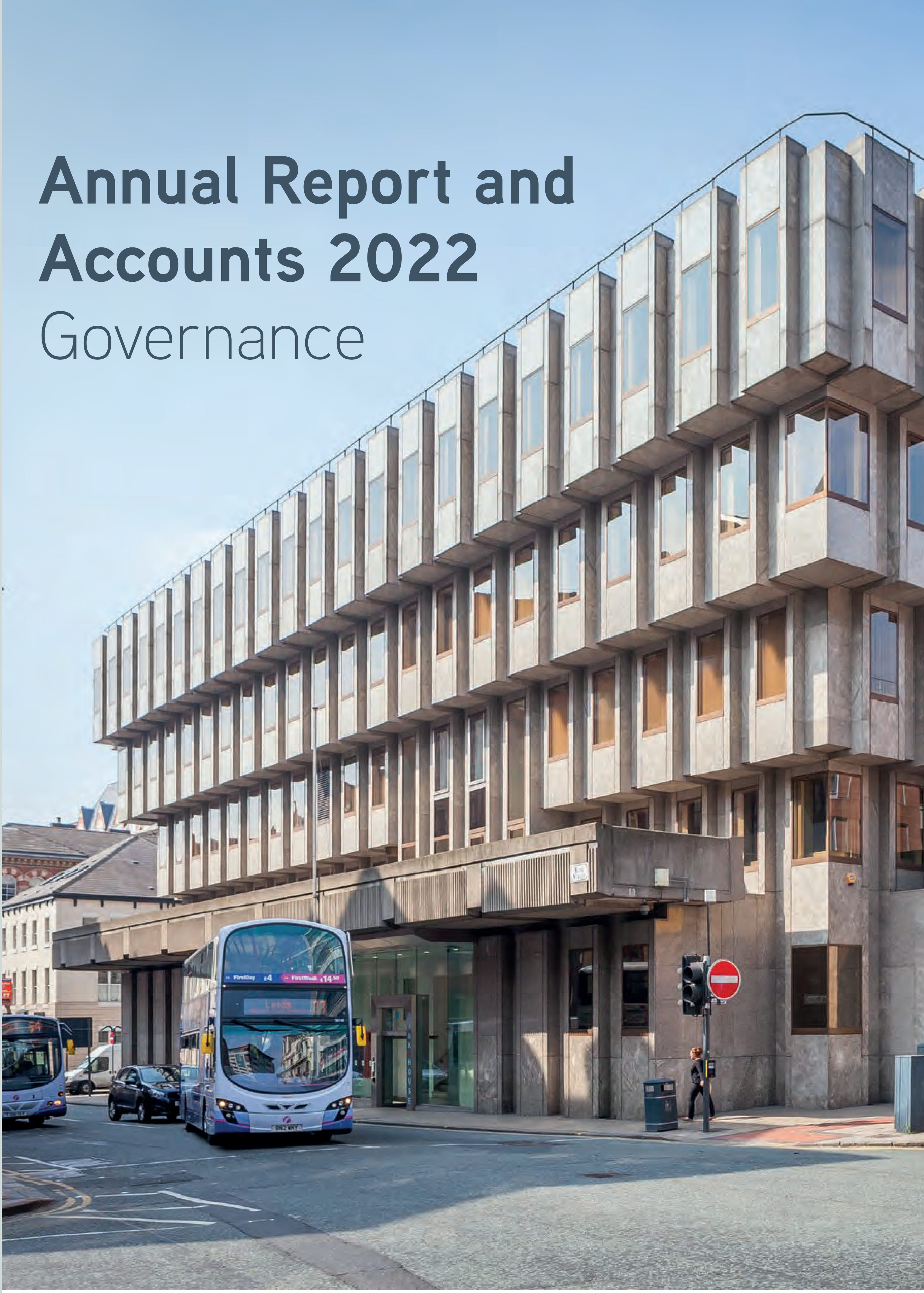
HTTPS://WWW.VISITYORK.ORG/YORK-ICE-TRAIL

Hudson Quarter, York

Our ability to engage with local communities and participate in charitable activities has been restricted this year but we have several events planned during 2022 which the team are excited to be able to participate in to help local communities and charities. We have donated £20,000 during the year to charities, nominated and agreed by the staff.

We have continued to engage with Local Authorities to understand their priorities and attempt to support these in conjunction with our own plans. Our public relations programme focuses on building relationships with local stakeholders and these strong and extensive relationships are at the heart of our business model.

Annual Report and Accounts 2022
Governance



GOVERNANCE

Corporate Governance Report

"I have been very keen to understand the views of our key shareholders and have met with those holding over 60% of our share register"

Steven Owen

Letter from the Chairman

Dear Shareholder,
It is a pleasure to write my first Chairman's Governance Report to you and firstly I would like to thank Stanley Davis for his contribution to the governance at Palace Capital plc from its inception in 2010 to December 2021 when he retired as Chairman.

This Report describes in more detail how our current governance at Palace Capital contributes to the delivery of the Company's strategy, how we have applied the Principles under the UK Corporate Governance Code (the 'Code') and have complied with each of the Provisions under the Code.

A key element to the Board's leadership is that, in line with the Code, the Board should ensure effective engagement with, and encourage participation from, shareholders and stakeholders. I have been very keen to understand the views of our key shareholders and have met with those holding over 60% of our share register as part of my induction and subsequently, including after our Trading Update in April. Those discussions have helped me, and the other Non-Executive Directors in particular, form the views as to what shareholders want to see happen for the Company. Together with the Board and our advisors, we have discussed these at length, having reviewed the feedback from shareholders and investigated the options that major shareholders have suggested. Some of these options have been discussed previously, including a share buyback programme. Others are more focused on ways to close the discount to NAV and others are focused on consolidation in the sector.

I would like to take this opportunity to thank shareholders for this engagement.

"The Non-Executive Directors have spent significant amounts of time on the Company's business and I am grateful for their commitment. They have provided constructive challenge, strategic guidance, offered specialist advice and have held management to account."

Key to the Board's considerations and our governance is having a diverse range of backgrounds, gender, age, experience and cognitive abilities on the Board. The Non-Executive Directors have spent significant amounts of time on the Company's business and I am grateful for their commitment. They have provided constructive challenge, strategic guidance, offered specialist advice and have held management to account. I believe the Board and its Committees contain an appropriate combination of skills, experience and knowledge to be effective at fulfilling our responsibilities to shareholders and stakeholders.

I have also been pleased with the Company's stance on Environmental, Social and Governance ('ESG') matters and the progress made in upgrading our properties, having a plan to do so or divesting those that do not fulfil our longer term ESG ambitions. More information on this is provided in our ESG Committee report from Paula Dillon.

Executive remuneration remains a topical matter and the Non-Executive Directors have discussed these matters at length to ensure our policies and practices support strategy and promote long-term sustainable success. Further information is provided in the Remuneration Report from Mickola Wilson. Mickola also describes, in the Nomination Committee Report, the Board evaluation process and our policy on recruitment including diversity, and the process for recruiting myself and the internal promotion of Matthew Simpson as CFO last year. Finally, the Audit and Risk Committee has been very busy considering the Principal Risks to the Company and how the Company has mitigated these, together with the reporting of financial performance. Details are provided in Kim Taylor-Smith's report.

This year, on 29 July 2022, we expect to hold a physical Annual General Meeting at which shareholders can attend in person. This is again being held at our solicitors, Edwin Coe LLP, at 2 Stone Buildings, Lincoln's Inn, London, WC2A 3TH and I look forward to meeting retail shareholders then.

Steven Owen

CHAIR

Governance overview

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2018 (the code) applied to the Group for the financial year ended 31 March 2022. The Board is pleased to confirm that it considers that the company has complied with the provisions of the Code.

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

APPLYING THE PRINCIPLES OF THE CODE

SECTION OF THE CODE	HOW WE HAVE APPLIED THE CODE	FURTHER INFORMATION
Board leadership and Company purpose The Board is responsible for leading the business in a way which promotes the long-term sustainable success of the Company, generating value for Shareholders and contributing to wider society.	• The Board establishes the Company's purpose, values and strategy and reviews these regularly. The purpose and vision were updated in January 2022 • The Board assesses and monitors culture • There is a regular programme of meetings for the Board and its Committees • A formal schedule of matters is reserved for Board approval and regularly reviewed. This was updated in March 2022 • The Board has oversight of stakeholder engagement, including the Workforce Advisory Panel	READ ABOUT OUR GOVERNANCE FRAMEWORK ON PAGE 70 INFORMATION ON BOARD ACTIVITIES AND COMMITTEE ATTENDANCE IS ON PAGE 74 EXAMPLES OF OUR ONGOING STAKEHOLDER ENGAGEMENT IS PROVIDED ON PAGES 72 AND 73
Division of responsibilities The Board includes an appropriate combination of executive and independent Non-Executive Directors. The chair leads the Board and is responsible for its overall effectiveness in directing the company.	• During the year there were three independent Non-Executive Directors, three Executive Directors and the Non-Executive Chairman who was independent on appointment • The roles of Chair and Chief Executive were not exercised by the same individual • The Senior Independent Director and other Non-Executive Directors provide a sounding board for the Chair • The Non-Executive directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	READ ABOUT KEY RESPONSIBILITIES ON PAGE 71

SECTION OF THE CODE	HOW WE HAVE APPLIED THE CODE	FURTHER INFORMATION
Composition, succession and evaluation The Nominations Committee ensures Board appointments are subject to a formal, rigorous and transparent process.	• All Directors submit themselves at each AGM for election or re-election to the Board • The Nominations Committee leads the process for appointments • There is an annual evaluation of the performance of the Board, conducted in December 2021 • Appointments are based on merit and promote diversity	THE NOMINATIONS COMMITTEE REPORT IS ON PAGES 76 TO 78 READ ABOUT THE BOARD'S PERFORMANCE EVALUATION ON PAGE 75
Audit, risk and internal control The Audit and Risk Committee monitors the integrity of the Financial Statements and oversees the risk management process and internal control environment.	• The Audit and Risk Committee supports the Board and advises on whether the Annual Report and Accounts is fair, balanced and understandable • There is regular robust assessment of the Company's emerging and principal risks • There are clear policies and processes to ensure the independence and effectiveness of the external audit and whether an internal audit is required	READ ABOUT RISK MANAGEMENT ON PAGE 84 READ THE AUDIT AND RISK COMMITTEE REPORT ON PAGES 81 TO 84
Remuneration Our remuneration policies and practices are designed to support the business strategy and promote the long-term sustainable success of the Company.	• The Remuneration Committee determines the policy and implementation of Executive Director and Senior Executive remuneration • Long-term incentive awards are subject to a total vesting and holding period of five years • Pension contribution rates for Executive Directors were aligned with those available to the workforce	THE DIRECTORS' REMUNERATION REPORT IS ON PAGES 85 TO 99 READ AN OVERVIEW OF OUR REMUNERATION POLICY ON PAGES 89 TO 92

Board of Directors

Non-Executive Directors

STEVEN OWEN

Non-Executive Chairman

Committee membership

Date of appointment

Joined the Group on 1 January 2022

Expertise

Steven is the Non-Executive Chairman of FTSE 250 property investment group Primary Health Properties plc ("PHP") having been appointed Chairman in April 2018. He was appointed to the PHP Board as an independent Non-Executive Director in January 2014 becoming chairman of the Audit Committee and Senior Independent Director in April 2014. Steven has overseen PHP's significant corporate activity in the period including its merger with MedicX Fund Limited in 2019 and the internalisation of its management structure in January 2021 with both transactions creating significant shareholder value. Steven began his earlier career with KPMG before moving into property with Brixton plc where he became Finance Director and subsequently Deputy Chief Executive.

External appointments

- Chairman of PHP

MICKOLA WILSON

INDEPENDENT

Non-Executive Director

Committee membership

Date of appointment

Joined the Group in 2019

Expertise

Mickola is a Chartered Surveyor and has over 30 years' experience in the real estate market, providing consultancy, research and investment management advice to the property fund management industry. Former head of property investment at Guardian Royal Exchange and CEO of the listed property company, Teesland plc.

External appointments

- Director of Seven Dials Fund Management
- Non-Executive Director of Kent and Medway Partnership Trust
- Non-executive director of Mailbox REIT plc
- Member of Mercers Livery Company Real Estate Investment Committee
- Member of the Court of the Chartered Surveyors Livery Company

KIM TAYLOR-SMITH

INDEPENDENT

Non-Executive Director

Committee membership

Date of appointment

Joined the Group in 2014

Expertise

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

External appointments

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

PAULA DILLON

INDEPENDENT

Non-Executive Director

Committee membership

Date of appointment

Joined the Group in 2020

Expertise

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

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

External appointments

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

Executive Directors

MATTHEW SIMPSON FCCA

Chief Financial Officer

Committee membership

●

Date of appointment

Appointed as Chief Financial Officer in November 2021

Expertise

Matthew is a Chartered Certified Accountant and has been with the Company since 2016. Previously holding the position of Head of Finance and Operations, Matthew was appointed as Finance Director Designate on 13 August 2021.

Prior to joining the Company, Matthew held various finance roles, including at CIT Group Partners LLP and PricewaterhouseCoopers.

Responsible for the implementation of the Group's financial strategy, investor relations, debt financing arrangements and all aspects of accounting and taxation.

External appointments

- None

RICHARD STARR MRICS

Executive Property Director

Committee membership

●

Date of appointment

Joined the Group in 2013

Expertise

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

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

External appointments

- Acorn2Oak Property Advisors Limited

Committee membership

- ● Audit and Risk Committee
- ● Remuneration Committee
- ● Nomination Committee
- ● ESG Committee

Board composition

Stanley Davis stood from the Board on 31 December 2021

Stephen Silvester stood down as CFO on 29 October 2021

Matthew Simpson appointed CFO on 11 November 2021

Steven Owen appointed as Chairman on 1 January 2022

Neil Sinclair will stand down as CEO with effect from 14 June 2022

Governance framework

BOARD AND COMMITTEES

BOARD OF DIRECTORS AS AT 31 MARCH 2022

Chairman: Steven Owen

Comprised: Three Executive Directors and four Non-Executive Directors (including the Chairman)

Role: Collectively responsible for devising the purpose, vision and long-term strategy and overseeing its implementation to promote the long term sustainable success of the company, generating value for shareholders and contributing to wider society.

BOARD COMMITTEES

AUDIT AND RISK COMMITTEE

Chair:

KIM TAYLOR-SMITH

Comprises:

Three independent Non-Executive Directors

Role:

- Monitor and oversee financial reporting
- Monitor risk management and internal controls
- Oversee external auditors and the audit process

REMUNERATION COMMITTEE

Chair:

MICKOLA WILSON

Comprises:

Three independent Non-Executive Directors and Chairman

Role:

- Set Remuneration policy and oversee its implementation
- Review Directors' remuneration packages and incentives
- Approve bonus and LTIP targets

NOMINATIONS COMMITTEE

Chair:

MICKOLA WILSON

Comprises:

Three independent Non-Executive Directors and Chairman

Role:

- Recommend Board appointments
- Succession planning
- Board composition skills and diversity
- Board performance evaluation

ESG COMMITTEE

Chair:

PAULA DILLON

Comprises:

Three Independent Non-Executive Directors, Chairman, the Chief Financial Officer and the Executive Property Director

Role:

- Develop the strategy for ESG matters and oversee its implementation
- Stakeholder engagement

Board composition and division of responsibilities

KEY RESPONSIBILITIES

Chairman

- Leads the Board.
- Sets the Board agenda and meeting schedule. Oversees the culture of the Board including diversity of opinion, ensures all the Directors are properly briefed and are able to take a full and constructive part in Board discussions
- Responsible for evaluating the performance of the Board and of the Executive management and of the other Non-Executive Directors
- Engage with advisors and meet with shareholders to understand their concerns and views and consider implications for the strategy of the Company

Senior Independent Director

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

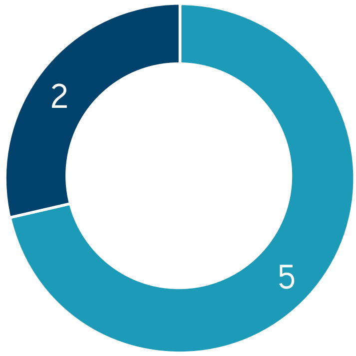
Independent Non-Executive Directors

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

BOARD COMPOSITION AT 31 MARCH 2022

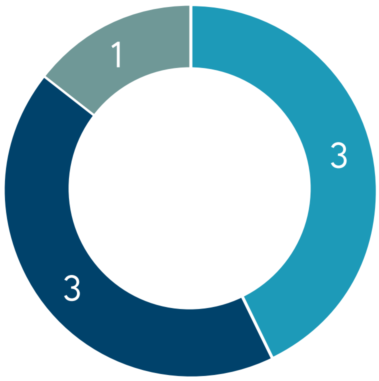
Gender diversity

Male Female



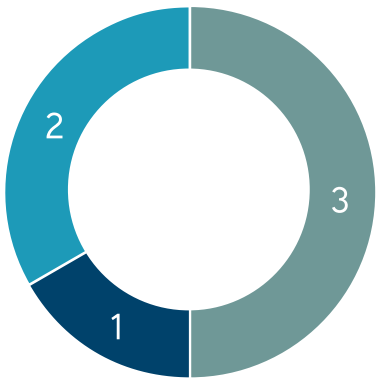
Independence

Independent Non-independent
Chairman (independent on appointment)



Board tenure

Under 3 years 3 to 6 years
Over 7 years



Board activities

Strategic aims

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

Stakeholders and s172

1. Investors
2. Tenants
3. Employees
4. Suppliers, agents and consultants
5. Communities and the environment

ACTIVITY	STRATEGY	FINANCIAL
Key priorities	• Promote the long-term sustainable success of the Company • Generate value for Shareholders • Implement a £30m disposal strategy to realign the Group	• Strengthen the balance sheet • Competent and prudent financial management, reducing the Loan to Value ratio • Maximise liquidity and enable progressive covered dividend • Ensure the integrity of the Financial Statements
Key activities and discussions	• Closing the NAV gap • Appropriate and prudent capital allocation • Oversaw the successful execution of the disposal strategy • Approved strategic acquisitions eg Maidenhead • Monitored the wider pandemic and implications, the economic environment and market outlook • Monitored trading performance throughout the year • Monitored the performance of the portfolio and individual asset valuations	• Regularly reviewed the Group's financial position and rolling forecasts • Overseeing the refinancing of the Santander facility • Reviewed and approved half-yearly and annual results, viability statement and going concern matters • Approved the budget for 2022 • Monitored rent collection • Monitored capital expenditure and significant refurbishment projects • Monitored the progression of Hudson Quarter and compliance of the Barclays development loan, which was repaid in November 2021
Link to strategy	1 2 3 4	2 3
Link to s172 stakeholder	1 2 3 4 5	1

GOVERNANCE	ENGAGING WITH OUR INVESTORS AND OUR LENDERS	ENGAGING WITH OUR TENANTS	OUR WORKFORCE
• Ensure compliance and implementation of requirements of the UK Code • Consider shareholder feedback from the 2021 AGM • Onboarding of a new Chairman and CFO • Review the implications of ESG matters	• Meet the Company's responsibilities to Shareholders and banks • Ensure a robust programme of investor relations • Continue our proactive engagement	• Maintain positive dialogue • Support our tenants as they navigated the pandemic	• Ensure workforce policies and practices are consistent with the Company's values • Ensure a safe working environment and compliance with government social distancing guidelines • Ensure availability of facility for workforce to raise concerns
• Retirement of Chair, appointment and onboarding of new Chair and Chief Financial Officer • Monitored compliance with Code and Company law and regulatory requirements • Revised the Corporate Social Responsibility Committee to become a new Environmental Social and Governance Committee with new Terms of Reference to consider and oversee implementation of the Group's ESG strategy • Performed an internally facilitated evaluation of the Board and its Committees. • Received updates on corporate and regulatory changes and reporting requirements	• Approved the increase to dividends and the Company's ongoing dividend policy • Received updates from management following presentations to investors at the half and full year • Received input from the Company's brokers in relation to Shareholder attitudes to the Company and investor feedback • Met with top shareholders as part of the Chairman's induction and ongoing dialogue • Kept our lenders regularly updated in respect of income and capital values	• Monitored our tenant risk profile • Approved capital expenditure in relation to Bank House, Leeds • Received regular reports from the Executive Property Director in relation to rent collection and Covid-19 engagement responses • Reviewed feedback from tenants following Biennial survey FURTHER INFORMATION ON THE GROUP'S APPROACH TO STAKEHOLDER ENGAGEMENT, INCLUDING THE BOARD'S SECTION 172 STATEMENT, ON PAGE 44	• Received feedback from the Workforce Advisory Panel and acted upon this including in relation to performance and potential future strategic direction • Discussed the Company's Purpose, Vision and future strategy and received input from the workforce • Monitored employee engagement, training and development • Monitored the Group's approach to employee remuneration and investing in and rewarding the workforce • Continued to monitor key indicators in relation to the Group's culture, purpose and values
1 2 3 4	1 2 4	3 4	3 4
1 2 3 4 5	1	2	3

Board activities and Committee attendance

The Board has a culture of diligent preparation for meetings, whether virtual or in person, by the Non-executive Directors. This includes pre-meetings without Executives present, constructive discussion and challenge. The Non-Executive Directors are considered to be independent and free from any relationship that could affect the exercise of their independent judgement. It is felt that their knowledge and understanding are fundamental to the Board's deliberations. The Board is led by the Chairman.

The profiles of the Board members can be found on pages 68 and 69 of this Report. They demonstrate a complementary diversity of skills, backgrounds and experience, which enables the Group to be led effectively.

The Directors' interests in the shares of the Company are set out on page 96. The Board met nine times during the financial year in accordance with its usual meeting programme. A number of further meetings were convened to deal with specific strategic and corporate matters.

The Board has a schedule of matters reserved for its approval which includes material capital commitments, acquisitions and disposals and Board appointments. This was reviewed in the year and updated for best practice matters, in line with the Code. Directors are given information for each Board meeting, including reports on the current financial and trading position and the papers are considered carefully. In the year, suggestions for development of papers were incorporated, including the use of a new Board portal for improved access and communication.

	BOARD[1]	AUDIT AND RISK	REMUNERATION	NOMINATIONS	ESG
Steven Owen (Chairman)	2/2	–	1/1	–	1/1
Neil Sinclair[4]	9/9	–	–	–	–
Richard Starr	9/9	–	–	–	2/2
Matthew Simpson	3/3	–	–	–	1/1
Kim Taylor-Smith	9/9	3/3	3/3	1/1	2/2
Mickola Wilson	8/9	3/3	3/3	1/1	2/2
Paula Dillon	9/9	3/3	3/3	1/1	2/2
Stanley Davis[2]	7/7	–	–	1/1	–
Stephen Silvester[3]	4/4	–	–	–	–

1 In addition to scheduled Board meetings noted above, the Board held numerous ad hoc meetings virtually and in person during the year to discuss specific strategic and operational topics
2 Retired from the Board December 2021
3 Resigned from the Board October 2021
4 Stepped down from the Board June 2022

CULTURE

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

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

During the year, the Board updated the Company's Purpose and Vision, taking into account the input and views of the workforce via the Workforce Advisory Panel. In addition, the Board keeps the values, beliefs, policies and practices that encapsulate the Group's culture under review. It assessed reports from management and the output of the Workforce Advisory Panel. It monitored adherence to Group policies and compliance with the corporate governance requirements of the Company and under the Code and regulatory requirements.

For further information regarding the Company's approach to investing in and rewarding its workforce, please see page 92.

Board performance evaluation

BOARD PERFORMANCE EVALUATION

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

The 2021 review process took place throughout December 2021 and was led by the Chairman and the Senior Independent Director with support from the Company Secretary.

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

PROCESS

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

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

- Board responsibilities
- Oversight
- Board meetings
- Support for the Board
- Board composition
- Working together
- Outcome and achievements

The questionnaire also considered the Board's views on the material ESG issues facing the Company. In addition the process included a review of the effectiveness of the Remuneration, Nomination, Audit and Risk Committees.

The questionnaire was completed by all Directors during December 2021 and a report was compiled based on the findings. This was initially shared with the Chairman and the Chief Executive before being presented to the Board.

Stage 1

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

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

Stage 2

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

Stage 3

A final report was compiled and shared with the Board.

Stage 4

Following Board discussion and debate, a range of actions were agreed. An action plan has been prepared on the basis of the actions outlined below and progress will be monitored during the next financial year. Key themes for discussion include ESG, succession planning and ensuring regular reviews of Board composition.

Stage 5

The action plan will reviewed during FY23 and updated as appropriate

Key Recommendations in the Board Evaluation

RECOMMENDATIONS AND ACTIONS

- The Board should seek to define the Board's risk appetite and tolerance.
- The Board should consider ways to continue to monitor culture.
- The Board should consider ways in which the Board can review the Company's supply chain and related risks to performance and reputation.
- The Nominations Committee should keep directors' skills and knowledge and any training requirements under regular review
- The Nominations Committee should keep directors' skills and knowledge and any training requirements under regular review.
- Succession planning for the Executive Directors should be kept under review with updates to the whole Board.
- The Board should expand the time horizon over which strategy discussions are based.

Nominations Committee Report

"The Nominations Committee leads the process for appointments to the Board and oversees plans for succession."

Mickola Wilson
CHAIR OF NOMINATIONS COMMITTEE

Members

- Mickola Wilson (Chair)
- Kim Taylor-Smith
- Paula Dillon
- Steven Owen

Total meetings held:

One

KEY ACHIEVEMENTS DURING 2021/22

- Leading search for and successful appointment of new CFO and Chair
- Board Evaluation

AREAS OF FOCUS FOR 2022/2023

Succession plans

Director training and development

Dear Shareholder,

In accordance with the UK Code, at least a majority of members of the Committee are Independent Non-Executive Directors. We welcomed Steven Owen to the Committee following his appointment as Chairman in January 2022. Mr Owen, was considered independent upon his appointment as Chairman. The Executive Directors may attend Committee meetings by invitation.

The Committee met formally once during the year (details of attendance are set out on page 74) and held several informal meetings in relation to the appointments to the Board and evaluation processes. The Nominations Committee leads the process for appointments to the Board and overseas the plans for orderly succession to both the Board and senior management positions.

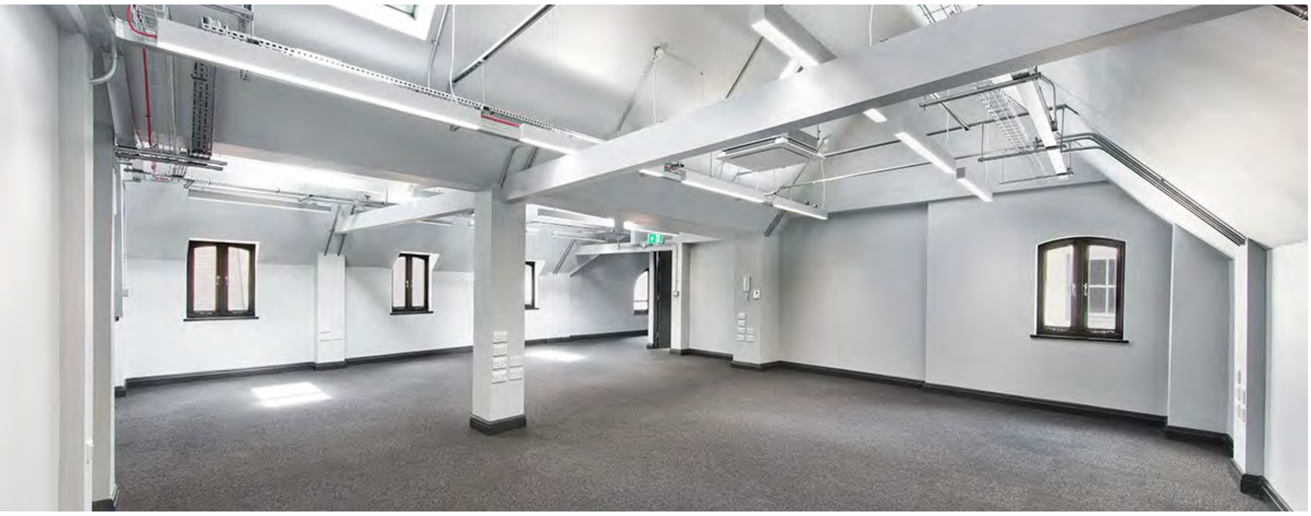
The Committee has kept the structure and composition of the Board under regular review to ensure it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership.

BOARD CHANGES

Appointment of Chairman

The Board noted the 20% votes against the re-election of Stanley Davis at the 2021 AGM, and, in line with best practice, engaged with shareholders further to consider an appropriate response. We agreed with Stanley that, having served over nine years on the Board, that he would step down from the Board upon finding a suitable replacement. Initially, this was proposed for October 2021 but Stanley kindly stayed on until the end of the calendar year in order for the Nominations Committee to conclude its search for a replacement as Chair. Mr Davis was not involved in the search for his successor. We are very grateful to Stanley for his leadership over the time since he formed the Company in 2010.

The Committee is very conscious of the issues of diversity and gender diversity in particular. Our general policy is to appoint the best candidate for the role but take into consideration the need to consider people from, for example, a range of ages, gender, educational or professional backgrounds and ethnicity. For the appointment of the Chairman, we engaged Warren Partners who also provide executive coaching to one of the Executive Directors. Warren Partners are a signatory to the executive search firms voluntary code. As part of their brief, we requested that they should include a significant proportion of suitable female candidates for review and consideration. Ultimately, we believed that the best candidate, taking into account their experience, background, leadership and cognitive skills was Steven Owen. We encourage management to also consider such issues of diversity when recruiting internally, irrespective of the role level.



Appointment of Chief Financial Officer

In addition to overseeing the process for the appointment of a new independent Chair, the Committee also oversaw the appointment of Matthew Simpson as CFO. Matthew had been Financial Controller since joining the Company in 2016 then acting Finance Director while the Committee reviewed the appointment on a permanent basis. Matthew brought valuable experience of the Company, its culture and markets and working with the other Executive Directors. We welcome Matthew's appointment which was in line with the Group's succession plans, as overseen by the Committee.

The Committee continued to monitor the Company's succession plans for the other Executive Directors and senior management and oversaw specific training requirements in this regard including executive coaching and development.

Chief Executive

In line with the Committee's focus on succession planning, the Committee agreed with Neil that he would step down from the Board. We agreed that Steven Owen would become Interim Executive Chairman.

EVALUATION

A formal and rigorous internal evaluation of the Board's performance was carried out during the year, the process and findings of which are set out on page 75. The Committee oversaw the evaluation process ensuring that a clear action plan was put in place.

The Committee is satisfied that the Board has a strong group of people from different backgrounds and experience which provides for robust debate and effective decision making.

AGM

In accordance with the Code, each of the Directors will submit themselves for election or re-election at the 2022 AGM. The Committee, on behalf of the Board, is satisfied that all Board members put forward for election or re-election have, and commit, the time required to discharge their roles effectively. The Committee believes that the Board has the appropriate balance of skills, experience, independence and knowledge and Shareholders are requested to support the resolutions.

Mickola Wilson

CHAIR OF NOMINATIONS COMMITTEE

13 June 2022

Nominations Committee Report CONTINUED

Steven Owen
CHAIRMAN

NEW DIRECTOR INDUCTION

For the induction of Mr Owen as Chairman, a formal schedule of relevant and tailored information was provided. The objective was to provide him as a new Director of the Company with the information he needed to become as effective as possible in his new role within the shortest practicable time.

The induction process was designed to achieve three goals:

- Build an understanding of the nature of the company, its business and the markets in which it operates
- Build a link with the company's people
- Build an understanding of the company's main relationships

The aim of an induction was also to ensure an understanding of the framework within which the Board and its committees operate.

Acknowledging that it is not possible to design a single programme to suit all circumstances, the programme was therefore tailored to the needs of a specific individual, recognising Mr Owen's existing role as Chairman of a FTSE250 company. In addition to meetings with key stakeholders, reference materials were also made available to Mr Owen and all Directors going forwards via the new Board portal, introduced in the year.

DIRECTOR REFERENCE DOCUMENTS INCLUDED:

- Board and Committees including Matters Reserved for the Board and Terms of Reference
- Board meetings including scheduled dates, cycle of matters considered at meetings and recent minutes
- Rules, regulations and guidance including Company adopted Policies
- Board procedures
- Current issues
- The nature of the company, its business and its markets
- The Company's main relationships
- Useful documents/information

In addition, as a member of Board Committees, the Chairman was provided with information on each Committee such as:

- Role and remit of the committee
- Link between the committee's policy and the company's strategic objectives
- The annual meeting schedule for the Committee
- The main business conducted by the Committee
- The legal requirements relevant to the Committee's operations
- Market practice and current trends relevant to the Committee
- Current issues
- Views of investors on matters considered by the Committee and potential areas of focus
- Any technical training on key matters.

Environmental Social and Governance Committee Report

"The primary responsibilities of the ESG Committee is to oversee the design, implementation and embedding of the Group's ESG strategy."

Paula Dillon

CHAIR OF ESG COMMITTEE

Members

- Paula Dillon (Chair)
- Mickola Wilson
- Kim Taylor-Smith
- Richard Starr
- Matthew Simpson
- Steven Owen

Total meetings held:

Two

KEY ACHIEVEMENTS DURING 2021/22

- Reviewed ESG developments in the sector and the Company's strategy
- Oversaw the governance of ESG matters
- Considered the risks of climate change and its elevation by the Board to it being a Principal Risk
- Reviewed the development of each of the E, S, and G narrative by the Company
- Progressed the TCFD disclosure framework
- Obtained specialist advice on ESG matters

AREAS OF FOCUS FOR 2022/2023

The ongoing remit and focus of the Environmental, Social and Governance ('ESG') Committee is to oversee the Company's response to the evolving environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Company. Its primary responsibility is to oversee the formulation and discharge of the Group's corporate and social responsibilities and ensure its social, environmental and economic activities are aligned.

Dear Shareholder,

The Committee met twice during the year, in line with its Terms of Reference and the Group's ESG strategy. The meeting agendas included updates from management in relation to the progress against the Board's ESG strategy and its three fundamental objectives, which are to:

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

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

COMMITTEE ROLE

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

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

Environmental Social and Governance Committee Report CONTINUED

STRATEGY AND LINKAGE TO ESG

Palace Capital has made good progress during the year and has taken steps to ensure that ESG matters are being more actively considered. Palace Capital is on the road to better understanding its carbon footprint, has started to ensure that environmental factors are part of its refurbishment and new acquisition planning and is taking positive action to improve its EPC ratings, has made an initial submission to the Carbon Disclosure Project and has improved its level of ESG reporting.

Looking forward, the Committee believes that the Company is well placed to develop the commercial opportunities associated with ESG and to consider areas where it might have positive social impacts.

In terms of governance, we are pleased that the ESG Committee has been constituted and has provided focus on ESG matters and for Palace Capital to consider risks and opportunities regarding potential future climate change scenarios. The Committee will continue to review the way in which the business is conducted and seek to ensure this is done in a responsible manner while acknowledging that there are challenges and opportunities for the Company over ESG matters going forwards.

Responsible business initiatives have included setting targets and objectives against which performance can be measured. One such measure is the Group's greenhouse gas emissions, and in line with the Companies Act 2006, we have set out our greenhouse gas emissions report on the next page.

ESG STRATEGY

Climate change and energy use pose one of the highest ESG risks and potential opportunities for the Palace Capital Group. A key aspect of the ESG strategy is therefore centred on the environmental performance of the Group's assets and future-proofing the portfolio to ensure the business is able to adapt to changing occupier demands. The updated Principal Risk Register (see pages 40 to 43) now includes such risks to the Company. The Committee believes that management have made good progress in the year to embed ESG considerations into the business, though work continues to develop this.

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

STAKEHOLDER ENGAGEMENT

Stakeholder engagement has been a significant theme throughout the year. The Committee has received updates in relation to the Group's culture and engagement with the workforce and has monitored the approach to tenants in response to the Covid-19 pandemic. During the year, a tenant satisfaction survey was undertaken, the outcome of which was positive but the Company acknowledged that this was from a relatively small number of tenants' responding. Further engagement work with tenants is therefore proposed going forwards.

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

Paula Dillon
CHAIR OF ESG COMMITTEE

13 June 2022

Audit and Risk Committee Report

"Overall, we are pleased with the Company's robust reporting processes and its approach to considering and mitigating its Principal Risks."

Kim Taylor-Smith

CHAIR OF AUDIT AND RISK COMMITTEE

Members

- Kim Taylor-Smith (Chair)
- Mickola Wilson
- Paula Dillon

Total meetings held:

Two

KEY ACTIVITIES DURING 2021/22

- Reviewed and approved the annual and half-yearly financial statements
- Ensured that the Annual Report was fair, balanced and understandable
- Scrutinised potential transactions and property valuations
- Full and mid-year risk reviews
- Considered the appointment of the external Auditor, their reports to the Committee and their independence

AREAS OF FOCUS FOR 2022/2023

- The Committee will meet with the valuers to further review their independent valuations for the full year and half year
- The Committee will review the possible capital costs of ESG matters and the Company's provision of these

Dear Shareholder,

The remit of the Committee is to assist the Board in its oversight and assurance roles, ensuring that the annual report and accounts are fair balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Committee has supported the Board by monitoring the integrity of the Company's financial and narrative reporting and the robustness of the Group's risk management and internal control framework, taking into account that the Company does not have an internal audit function. Due to the size and relative lack of complexity of the business, the Committee recommended to the Board that no internal audit function was required. We have however, worked closely with the external auditors, reviewing key accounting judgements and policies, and ensuring an effective external audit process. I am pleased to report that no material uncertainty disclosure has been included in the valuations issued by the independent valuer of our properties, Cushman & Wakefield, in March 2022 and our independent external auditor, BDO, have not included any emphasis of matter in their audit report this year. Overall, we are pleased with the Company's robust reporting processes and its approach to considering and mitigating its Principal Risks, as described more fully on pages 39 to 43.

COMPOSITION

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

The Committee is satisfied that I, Kim Taylor-Smith, a Chartered Accountant, bring recent and relevant financial experience and considers that all members have the necessary competence relevant to the sector in which the Company operates, as required by the UK Code.

Audit and Risk Committee Report CONTINUED

COMMITTEE ROLE AND EFFECTIVENESS

The Committee's terms of reference set out its role and the authority delegated to it by the Board including reviewing and monitoring:

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

The performance of the Committee was reviewed as part of the Board's annual evaluation process. This concluded that the Committee members demonstrate sufficient time commitment, has at least one member having recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the company operates. In addition, the meeting cycle, agenda items and information provided are considered appropriate and meetings are conducted effectively, with sufficient time spent on significant or emerging issues.

Overall, the conclusion of the performance review was that the Committee is effective and provides appropriate support to the Board.

FINANCIAL REPORTING AND SIGNIFICANT MATTERS

As part of its role, the Committee has considered a number of significant issues relating to the financial statements. This includes the suitability of accounting policies and the appropriateness of management's judgements and estimates. The Group's accounting policies can be found in the notes to the consolidated financial statements and further information on the significant issues considered by the Committee is set out below.

Property valuations

The valuation of the Group's properties and the determination of their fair value is one of the most critical elements of the annual and half-year financial results. The Committee reviews the valuations and the underlying assumptions and judgements applied by management and Cushman & Wakefield. The Committee receives information on the valuation process and reviews updates from management in relation to current market trends and key valuation movements compared to previous periods. The Committee provides robust challenge and satisfies itself that sufficient oversight and controls are in place and that the financial reporting is supported.

Recoverability of receivables

The impact of Covid-19 on our tenants was significant and this led to some tenants falling into arrears. The Committee was pleased with the asset management team's approach to working with tenants to maintain high levels of payment.

Going concern

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

Viability statement

The Committee reviewed the viability statement and the period for which the Board should assess the prospects of the Group. Following the review, the Committee concluded that a three-year period was appropriate, in line with the Company's internal forecasting horizon. Further details are provided on page 38.

INTERNAL CONTROL FRAMEWORK

Governance Framework	Strategic Framework	Risk Management Framework	Assurance Framework

Fair, balanced and understandable

The Committee has considered whether the Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance. In forming its opinion, the Committee considered whether the Annual Report provided a comprehensive review of matters in the year, both positive and negative, included all relevant financial transactions and balances, was consistent throughout and had been written in straightforward language without unnecessary repetition. The Committee was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

"The Committee has assessed BDO's performance, independence, objectivity and fees, as well as the effectiveness of the audit process."

EXTERNAL AUDITOR

BDO LLP was first appointed as external Auditor in respect of the year ended 31 March 2015. There are no current plans to carry out a re-tender exercise, but in accordance with the EU Audit Regulation and Directive, the Group will be required to put the external audit contract out to tender by 2024.

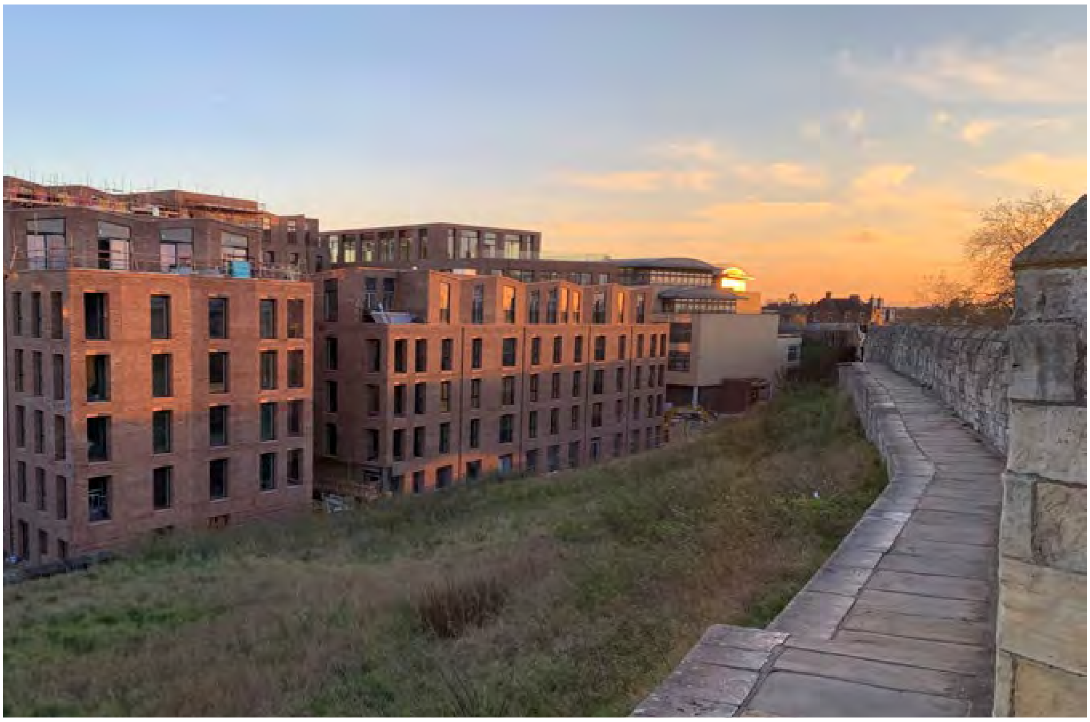
The Committee has assessed BDO's performance, independence, objectivity and fees, as well as the effectiveness of the audit process. In making its assessment, the Committee considered the qualifications, expertise and resources of the audit partner and team as well as the quality and timeliness of the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

In the year ended 31 March 2022, the only non-audit services provided to the Group related to the independent review of the half-year results. The Committee will only authorise non-audit services on the basis that they are permissible under regulations relating to a Public Interest Entity and the Company has a formal non-audit services Policy that it adheres to.

AUDIT FEES

Fees payable to the Group's Auditors for audit and non-audit services are set out in note 3 on page 126. Total fees related to non-audit services represented 5.4% of the total fees for audit services (2021: 5.6%).

Hudson Quarter, York



RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the Group's risk management and internal control systems. To support the Board, the Committee oversees and at least annually reviews the effectiveness of the Group's internal controls and risk management systems and reviews / approves the related statements in the Annual Report. During the year the Committee received updates from management and the external Auditor regarding the operation of key controls. As part of their review the Committee also considered the process of risk identification, mitigation and evaluation of the potential impact on the Group's strategic objectives. The Directors are satisfied that the current controls are effective with regard to the size of the Group.

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

INTERNAL AUDIT

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

WHISTLEBLOWING PROCEDURES

The Audit and Risk Committee reviews arrangements whereby employees may in confidence raise concerns, which are detailed in the Company's Employee Handbook. During the year no concerns were raised. It is intended that the process will be reviewed again in the upcoming year to ensure it remains effective.

Kim Taylor-Smith

CHAIR OF AUDIT AND RISK COMMITTEE

13 June 2022

Directors' Remuneration Report

"The Committee's primary objective is to ensure that the Group's remuneration policies and practices support the successful delivery of the long-term strategy."

Mickola Wilson
CHAIR OF REMUNERATION COMMITTEE

Members

- Mickola Wilson
- Kim Taylor-Smith
- Paula Dillon
- Steven Owen

KEY ACHIEVEMENTS DURING 2021/22

- Considered the operation of the annual bonus and grant of Long Term Incentive Plan (LTIP) awards to ensure they remain appropriate
- Continued to keep wider workforce remuneration arrangements under review including share plans and overall levels of salary, bonus, pensions and benefits
- Engagement with shareholders on Remuneration matters.

AREAS OF FOCUS FOR 2022/2023

- Short term variable remuneration including bonus and the achievement of targets; and
- Longer term alignment of LTIPs for senior staff only with appropriate stretching objectives including for ESG matters, and progress against these.

Dear Shareholder,

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

COMMITTEE MEMBERSHIP AND MEETINGS

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

The Committee met twice during the year (details of attendance are set out on page 74).

Advisors

The Company has been advised by MM&K during the year ended 31 March 2022. MM&K Limited were paid £5,940 (2021: £8,640) and do not have any other connection with the Company.

REMUNERATION POLICY

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

The Directors' Remuneration Policy was approved at the Company's AGM held in July 2021 and a summary of the policy can be found on pages 89 to 92.

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

Before putting to shareholders, the Committee undertook a review of the policy and considered whether any adjustments were necessary and whether any alternative incentive structures would work better. The Committee concluded that in the current environment, the existing policy is appropriate and continues to operate as intended. The Committee was particularly mindful of the uncertainty and economic disruption caused by Covid-19 and considered that significant changes to the structure would not be appropriate. Accordingly, the policy was only updated to reflect best practice including the introduction of formal

Directors' Remuneration Report CONTINUED

guidance in relation to Directors' minimum shareholdings and post-employment requirements, as well as the introduction of a formal discretionary override to the annual bonus and Long-Term Incentive Plan. The Committee will continue to keep the policy under review.

PERFORMANCE OUTCOMES FOR FY22

The 12 months to 31 March 2022 were challenging. Covid-19 had a significant impact on our business and the businesses of all our tenants. Despite this, the Group achieved 98% rent collection, an adjusted profit before tax ahead of budget as well as seeing some share price recovery.

In light of the uncertainty that existed at the time, the Committee delayed setting the targets for the Directors' annual bonus for the year ending 31 March 2022 and has disclosed these details in full on pages 93 and 94. A total of 50% of the maximum potential target was achieved.

The Long Term Incentive awards that were granted in November 2018 had a normal vesting date of 1 November 2021. The performance conditions related 50% to Total Shareholder Return and 50% to Total Property Return ('TPR') versus TPR of the MSCI IPD index. The performance criteria over a three-year period were achieved for the portfolio valuation element and the awards vested at 50%. Full details can be found on page 94.

Like the bonus, the Committee delayed the grant of awards under the Long Term Incentive Plan until after the half-year results. Having seen some share price recovery during the first half of the year, on 16 November 2021 awards were granted to the Executive Directors. The awards are subject to the achievement of performance criteria, which are linked to the Group's overall strategy, with 50% based on Total Shareholder Return and 50% based on the growth in the portfolio value using TPR (as calculated by MSCI), when measured against the TPR of the MSCI IPD Index over a three-year performance period.

IMPLEMENTATION IN FY23

There will be salary increases for Directors for the period commencing 1 April 2022 representing changes to the roles and responsibilities of the CFO and there were inflationary increases for the Executive Property Director and Chief Executive. Details are provided on page 98.

In line with Mr Sinclair stepping down from the Board in June 2022, we will provide full details of his leaving arrangements in the 2023 Remuneration Report.

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

After consultation with employees, we will be looking at introducing a new all employee share save plan ('SAYE') details of which are in the notice of 2022 Annual General Meeting. Workforce pensions contributions from the Company will be increased up to ten per cent with employees contributing five per cent or more. There is no intention currently to increase Directors' pensions to this level (currently a five per cent contribution from the Company).

In accordance with the Remuneration Policy, the maximum bonus opportunity will be 100% of salary and the Committee has set targets based on Profit Before Tax ('PBT') and TPR growth and has included ESG metrics for the Executive Property Director and CFO (who also has a metric for his additional Company Secretary responsibilities). The Committee ensures that individual metrics are aligned to the business strategy and are sufficiently stretching.

Awards under the Long-Term Incentive Plan are typically made following the publication of the Company's full year results and will be announced via a regulated information service at the relevant time. Performance will be based on Total Property Return, Total Shareholder Return and ESG metrics.

CONCLUDING REMARKS

The remuneration arrangements provide alignment with shareholders through the use of financial and operational objectives. The framework applies in a very similar way across the Group in terms of types of benefits and variable pay and the new share plans and increased pension provision for the workforce reflects their importance to the Company and valued contribution.

The Committee will take into consideration a range of stakeholders' interests when making reward decisions for Directors, especially those of our Shareholders.

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

Mickola Wilson

CHAIR OF REMUNERATION COMMITTEE

13 June 2022


HQ

Remuneration at a glance

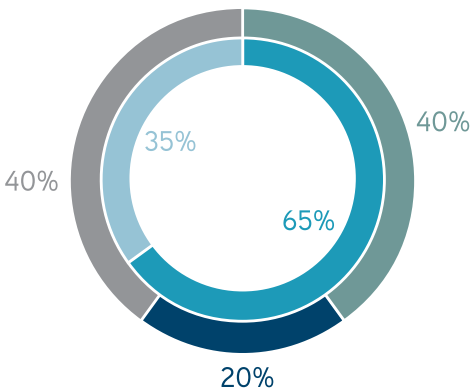
£7.8m
Adjusted PBT

21.1%
Total shareholder return

12.5%
Total property return

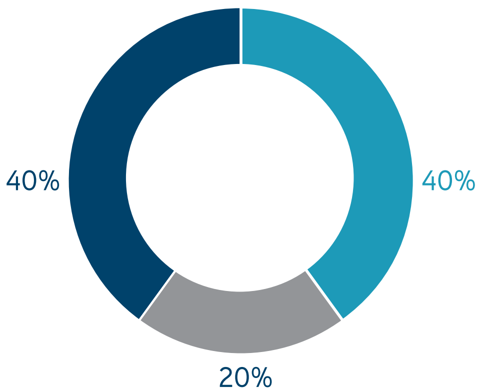
PERFORMANCE RELATED PAY FRAMEWORK (2022 AWARDS)

Annual Bonus



- Shares
- Cash
- Total Property Return compared to TPR of the MSCI Index (40%)
- ESG (20%)
- Profit Before Tax (40%)

LTIP



- Total Property Return compared to TPR of the MSCI Index (40%)
- Total Shareholder Return (TSR) (40%)
- ESG (20%)

Remuneration policy

This policy report sets out the Directors' Remuneration Policy that guides the Remuneration Committee's decision-making which was approved at the Company's AGM on 29 July 2021, and is effective for a period of up to three years from this date.

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

EXECUTIVE DIRECTORS' POLICY TABLE

ELEMENT AND LINK WITH STRATEGY	OPERATION AND MAXIMUM POTENTIAL VALUE	PERFORMANCE FRAMEWORK
Salary Fixed amount at a level appropriate to the skills and experience needed to fulfil the role.	Salaries are reviewed annually with effect from 1 April each year. Any increases are made having regard to inflation, personal performance, and the need to retain and motivate. A review of the salaries in the Company's peer group in conjunction with the Group's remuneration advisors may be undertaken to ensure comparable salaries are being paid. The Remuneration Committee seeks to ensure that salaries are set at levels that are reasonable with an emphasis on total remuneration being achieved from performance-based rewards. The Committee does not specify a maximum salary or maximum salary increase.	Salary is not linked to specific financial or non-financial performance measures.
Annual bonus To incentivise performance which is measured against targets set at the beginning of the financial year. Paying part of the bonus in shares aligns the interests of the directors with those of shareholders.	Performance targets are set by the Remuneration Committee at the beginning of each financial year. At the end of the financial year the Committee reviews performance against the targets and also takes in to account the overall financial performance and future prospects. The maximum bonus opportunity is capped at 100% of salary. The bonus is paid as to 65% in cash and 35% by way of an option over shares pursuant to the Deferred Bonus Plan. The ability to exercise the option granted under the Deferred Bonus Plan is deferred for a year and there is a period of a further year during which the options may be exercised. The Committee has discretion for 100% to be paid in cash. The Committee may, in exceptional circumstances, use its discretion to amend the bonus outcome if it believes that it does not properly reflect overall underlying business performance, an individual's contribution or some other factor. Malus and clawback provisions apply to all elements of the bonus. See page 91 for more detail.	Performance is assessed against a range of financial, non-financial and strategic targets which vary each year.

Remuneration policy CONTINUED

ELEMENT AND LINK WITH STRATEGY	OPERATION AND MAXIMUM POTENTIAL VALUE	PERFORMANCE FRAMEWORK
LTIP To incentivise and reward performance over the long term, aligning directors' interests with those of shareholders.	Awards are proposed to be granted in the form of nil cost options and will be subject to challenging performance conditions in line with business KPIs, measured over a three-year period. Award levels are capped at a maximum value of 100% of salary. At the end of the three-year performance period a review is undertaken and a comparison made with the performance targets which will determine the percentage of the award that will vest. Vested shares are subject to a further two-year holding period. The Committee may, in exceptional circumstances, use its discretion to adjust the level of vesting of LTIP awards if it believes it does not properly reflect overall underlying business performance, shareholders' experience, an individual's contribution or any combination thereof. Malus and clawback provisions apply to LTIPs.	Performance measures are aligned to the key objectives of the Company and the creation of shareholder value. The Committee reviews the measures, their relative weightings and targets prior to each award and makes changes as is deemed appropriate.
Pension As part of their overall package Executive Directors are provided with retirement benefits.	Executive Directors, below retirement age receive a contribution in line with the rate applying to the majority of the workforce of 5% of salary paid into a pension scheme.	None
Other Benefits As part of their overall package Executive Directors are provided with a competitive level of benefits that encourage well-being and engagement	Travel or car allowance – Travel allowances are fixed in the Executive Directors service contracts. Private medical cover - Private medical cover is at a level which the Committee determines is fair and reasonable. Life assurance - Life assurance is fixed at £1.5m for the Executive Directors below retirement age. Critical illness cover - The critical health insurance benefit for the two Executive Directors below retirement age provides £500,000 in the event policy cover terms are met.	None
Shareholding Requirements Encourages long-term commitment and alignment with shareholder interests.	The Chief Executive is expected to build up and retain a minimum shareholding of 200% of basic salary. The other Executive Directors are expected to build up and retain a minimum shareholding of 100% of basic salary. The shareholding will be built up over time, with a requirement to retain 25% of any shares vesting under the Deferred Bonus Plan or the Long-Term Incentive Plan (after tax/NI has been settled) until the guideline is met. Post-employment requirements - Any shares that are still subject to the holding period as defined in the respective award will need to be retained, and in all other regards the Executive will be encouraged to engage with the Company regarding the timing of any sales for a period of two years following the termination of their employment to ensure an orderly market is preserved. The Committee may, in exceptional circumstances, exercise its discretion to adjust the holding requirement.	None

DIVIDEND EQUIVALENTS FOR SHARE-BASED AWARDS

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

MALUS AND CLAWBACK

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

HOW THE COMMITTEE WILL USE ITS DISCRETION

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

NON-EXECUTIVE DIRECTORS AND CHAIRMAN POLICY TABLE

ELEMENT AND LINK WITH STRATEGY	OPERATION AND MAXIMUM POTENTIAL VALUE	PERFORMANCE FRAMEWORK
Fees To provide competitive fees to attract the right Non-Executives.	Fees are normally reviewed every two years following the advice of the Company's remuneration advisors. Additional fees are payable for the chairing of Board Committees. No maximum is specified.	Not applicable.

APPROACH TO RECRUITMENT REMUNERATION

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

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

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

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

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

Remuneration policy CONTINUED

SERVICE CONTRACTS AND POLICY ON PAYMENTS FOR LOSS OF OFFICE

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

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

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

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

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

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

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

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

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

Annual Remuneration Report

This report was prepared by the Remuneration Committee and approved by the Board for the financial year ended 31 March 2022.

DIRECTORS' TOTAL REMUNERATION (AUDITED)

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2022, with a comparison to the previous financial year.

Executive Directors	Year	Salary £	Taxable benefits £	Bonus Cash £	Bonus Shares £	Long term incentive plan £	Pension £	Total fixed pay £	Total variable pay £	Total pay £
Neil Sinclair	**2022**	**303,000**	**17,773**	**98,475**	**53,025**	**118,402**	**–**	**320,773**	**269,902**	**590,675**
	2021	303,000	15,340	69,326	37,330	–	–	318,340	106,656	424,996
Richard Starr	**2022**	**229,500**	**8,525**	**74,588**	**40,163**	**89,314**	**11,475**	**249,500**	**204,065**	**453,565**
	2021	218,025	7,594	52,510	28,274	–	24,534	250,133	80,784	330,937
Matthew Simpson[1]	**2022**	**61,973**	**3,628**	**52,000**	**28,000**	**–**	**3,122**	**68,723**	**80,000**	**148,723**
	2021	–	–	–	–	–	–	–	–	–
Stephen Silvester[2]	**2022**	**176,425**	**1,747**	**–**	**–**	**74,775**	**6,490**	**184,662**	**74,775**	**259,437**
	2021	225,000	2,076	50,908	27,412	–	11,125	235,701	78,320	314,021
Total	**2022**	**770,898**	**31,673**	**225,063**	**121,188**	**282,491**	**21,087**	**823,658**	**628,741**	**1,452,400**
	2021	743,525	25,010	172,744	93,016	–	35,659	804,194	265,760	1,069,954

1 Matthew Simpson was appointed CFO on 11 November 2021.
2 Stephen Silvester left the Board on 29 October 2021. After leaving, Mr Silvester was paid £45,967 in lieu of notice period, £261 in taxable benefits and £4,635 in pension benefit

Non-Executive Directors	Fees to 31 March 2022 £	Fees to 31 March 2021 £
Steven Owen[1]	**27,500**	–
Kim Taylor-Smith	**45,000**	45,000
Mickola Wilson	**45,000**	45,000
Paula Dillon	**40,000**	40,000
Stanley Davis[2]	**37,500**	50,000
Anthony Dove[3]	**–**	15,865
	195,000	195,865

1 Steven Owen was appointed Chairman on 1 January 2022
2 Stanley Davis retired as Chairman on 31 December 2021
3 Anthony Dove retired from the Board on 7 August 2020

ANNUAL BONUS

The Group's remuneration policy for the year ended 31 March 2022 caps bonus payments to the Executive Directors at 100% of salary. In determining the bonuses, the Executive Directors are measured against specific criteria. Bonuses are awarded depending on whether performance achieves the relevant target criterion.

For the year ended 31 March 2022, the specific criteria comprised Total Property Return compared to the MSCI IPD Index (50%), and profit (adjusted PBT and profits from Hudson Quarter) (50%) being key deliverables in the year. The assessment of actual performance achieved is set out below and on the next page.

For the purposes of determining the Total Property Return portion, MSCI, the global provider of market indexes, was provided with the values of the Company's properties as at 1 April 2021 based on the Cushman & Wakefield valuations as at that date. MSCI measured the increase in value as at 30 September 2021 and again on 31 March 2022 using the Cushman & Wakefield valuations as at those dates and then compared them with the MSCI IPD index. The Company's properties showed an increase as at 31 March 2022 on a total return basis of 12.5% compared with the MSCI IPD Index, which showed a total return of 19.6%. The total return achieved by the Company did not exceed the benchmark index and therefore this portion of the bonus was not met.

Adjusted Profit Before Tax comprised 50% of the potential bonus. In the year ended 31 March 2022 the Group generated recurring earnings of £7.8m which met the threshold.

The remaining bonus criteria comprised specific strategic targets for progress at Hudson Quarter, York which was achieved in full.

Based on the performance criteria, the Executive Directors achieved 50% of the maximum award.

Annual Remuneration Report CONTINUED

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded are deferred for a year and shares to the value of the deferred bonus amount allocated. The Executives will have a further year from the vesting date to exercise their options. In respect of the year ended 31 March 2022, 35% will be deferred in accordance with the terms of the Deferred Bonus Plan.

ANNUAL BONUS TARGETS FOR YEAR ENDED 31 MARCH 2022 AND OUTCOMES

Measure	Weighting	Target	Achievement	Awarded (% of maximum)
Increase in Total Property Return	50%	Outperform MSCI Index by 1–3%	(7.1)%	0%
Profit	50%			
IFRS profit before tax excluding revaluation movements and gains/losses on disposals but adding back profit on HQ residential sales		Base Case Budget £6.3m + £3.8m = £10.1m, Best Case Budget £7.5m + £4.6m = £12.1m) Planned profit from HQ, in range of £3m to £4.5m Targets: £10.5m = 0%, £11.5m = 50% Measured on a sliding scale (approximately every extra £0.2m of profit above £10.5m will equate to a further 10% of bonus)	£11.6m	50%
Total	100%			50.0%

LONG-TERM INCENTIVE PLAN

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

The LTIP awards that were granted in July 2018 had a normal vesting date of 12 July 2021. The performance criteria over a three-year period were achieved for the total property return so 50% vested. The remainder lapsed.

Measure	Performance condition	Threshold	Maximum	Actual	Weighting	Awarded (% of maximum)
Total Shareholder Return	Annualised and Total TSR over the performance period. 33.33% vests for achieving threshold performance increasing on a straight-line basis to full vesting.	Annualised TSR 8.0% Total TSR 26.0%	Annualised TSR 13.0% Total TSR 44.3%	Below Threshold	50%	0%
TPR	50% based on increase in Total Property return as compared with an MSCI IPD index. For every whole % point of excess performance by the Company, 16.66% of the award will be awarded, up to a maximum of 50%.	Median	Upper Quartile	Above benchmark	50%	50%

SCHEME INTERESTS AWARDED DURING THE YEAR

The following awards under the Long-Term Incentive Plan were granted to the Executive Directors on 12 July 2021:

	Number of shares	% of salary	Face value of award[1]	Performance period end	Threshold vesting
Neil Sinclair	122,821	100	£303,000	31 March 2024	20%
Richard Starr	93,028	100	£229,500	31 March 2024	20%
Matthew Simpson	64,856	100	£160,000	31 March 2024	20%

1 Face value calculated based on the mid-market closing average price for the five days ending 12 July 2021 of 246.7 pence.

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

OUTSTANDING SCHEME INTERESTS

The Executive Directors have the following outstanding awards under the Long-term Incentive Plan:

	At 31 March 2021	Granted	Vested and exercised	Lapsed	As at 31 March 2022	Share price at date of award	Grant date	Vesting date
Neil Sinclair								
	80,282	–	40,140	40,142	–	£3.55	13/07/2018	13/07/2021
	99,494	–	–	–	**99,494**	£2.96	25/06/2019	25/06/2022
	159,264		–	–	**159,264**	£1.90	14/10/2020	14/10/2023
	–	122,821	–	–	**122,821**	£2.47	16/11/2021	16/11/2024
Total					**381,579**			
Richard Starr								
	60,563	–	30,281	30,282	–	£3.55	13/07/2018	13/07/2021
	75,211	–	–	–	**75,211**	£2.96	25/06/2019	25/06/2022
	120,631	–	–	–	**120,631**	£1.90	14/10/2020	14/10/2023
	–	93,028	–	–	**93,028**	£2.47	16/11/2021	16/11/2024
Total					**288,870**			
Matthew Simpson	–							
	17,875[1]	–	–	–	**17,875**	£2.96	25/06/2019	25/06/2022
	30,223[1]	–	–	–	**30,223**	£1.90	14/10/2020	14/10/2023
	–	64,856	–	–	**64,856**	£2.47	16/11/2021	16/11/2024
Total					**112,954**			

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

1 Mr Simpson's LTIP awards prior to joining the Board were based on 50% of salary
2 The awards to Mr Silvester lapsed on his leaving the Company in October 2021

DEFERRED BONUS PLAN

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded may be deferred for a year and options over shares to the value of the deferred bonus amount allocated plus dividends accruing at the discretion of the Remuneration Committee. The Executive Directors will have a further year from the vesting date to exercise their options. The Deferred Bonus Plan awards do not have any performance criteria attached to them. In respect of the year ended 31 March 2022, 35% of the bonuses due to the Executive Directors were deferred and the details of the outstanding awards are as follows:

	At 31 March 2021	Granted	Vested and exercised	Lapsed	As at 31 March 2022	Share price at date of award	Grant date	Vesting date
Neil Sinclair	**34,417**		34,417	–	–	£1.86	14/07/2020	14/07/2021
		14,755			**14,755**	£2.53	15/06/2021	15/06/2022
Richard Starr	**26,017**		26,017	–	–	£1.86	14/07/2020	14/07/2021
		11,175			**11,175**	£2.53	15/06/2021	15/06/2022

1 Dividend equivalents of 2,074 and 1,566 were provided to Mr Sinclair and Mr Starr respectively on exercise of their Deferred Bonus Plan Awards.
2 Mr Silvester received 25,975 shares including dividend equivalents. He was also awarded 10,835 shares in June 2021 for his Deferred Bonus Plan which will vest in June 2022.
3 Mr Simpson did not receive a Deferred Bonus Award in the year ended 31 March 2022.

TOTAL PENSION ENTITLEMENTS

The Company makes pension contributions into a defined contribution scheme on behalf of Directors below retirement age. For the year ending 31 March 2022, in line with the Remuneration Policy, contributions were paid at a rate of 5% of basic salary.

PAYMENTS TO PAST DIRECTORS

There were no payments to past Directors in the year ended 31 March 2022 except as disclosed for Mr Silvester.

Annual Remuneration Report CONTINUED

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office in the year ended 31 March 2022.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

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

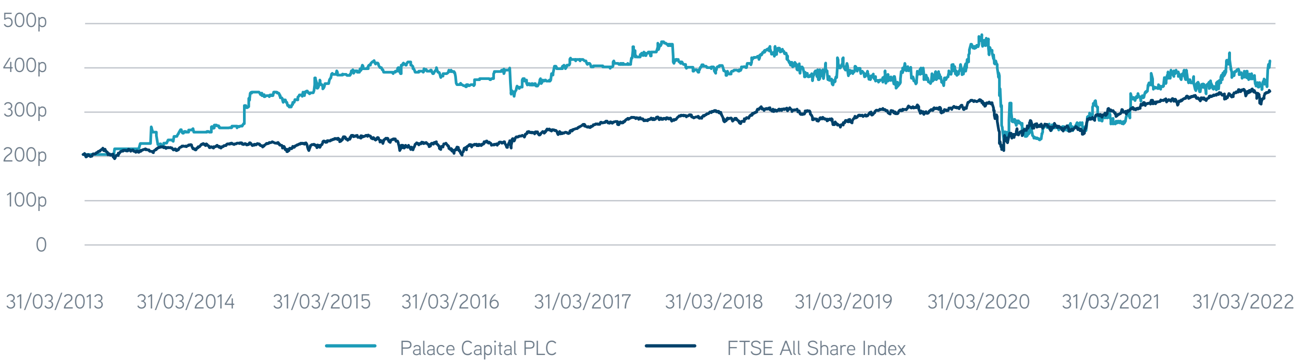
	Ordinary shares of 10p each 31 March 2022	Ordinary shares of 10p each 31 March 2021	Outstanding Ordinary share options of 10p each 31 March 2022	Outstanding Ordinary share options of 10p each 31 March 2021
Steven Owen	–	–	–	–
Neil Sinclair	306,425	260,715	396,334	373,457
Richard Starr	232,831	199,575	300,045	262,981
Matthew Simpson[1]	7,060	–	112,954	–
Kim Taylor-Smith	10,000	10,000	–	–
Mickola Wilson	10,000	10,000	–	–
Paula Dillon	10,000	10,000	–	–

As at 13 June 2022 there was no change in Directors' shareholding.

1 Matthew Simpson was appointed to the Board on 11 November 2021

REVIEW OF PAST PERFORMANCE

The following graph shows the Group's Total Shareholder Return (TSR) for the period to 31 March 2022 as compared with the FTSE All Share Index. The Committee has chosen the FTSE All Share Index as the Company's shares are a constituent of this index and it will provide a baseline for future years. Total Shareholder Return measures share price growth with dividends deemed to be reinvested on the ex-dividend date.



PERCENTAGE CHANGES IN CHIEF EXECUTIVE'S REMUNERATION

The percentage change in the Chief Executive's remuneration received from the previous year (2020) compared with the average change in remuneration for all other employees is as follows:

	Salary	Taxable benefit	Annual bonus
Chief Executive	0.0%	15.9%	42.0%
Other employees (excl. Chief Executive and other directors)	4.0%	0.0%	40.2%

HISTORICAL CHIEF EXECUTIVE'S REMUNERATION

Year to 31 March	Total remuneration £	Annual bonus (as a % of the maximum payout)	LTIP vesting (as a % of the maximum possible)
2022	590,675	50	–
2021	424,996	35.2	–
2020	598,406	62	50.00
2019	479,432	40	32.75
2018	683,379	95	16.66
2017	412,975	63	–
2016	362,629	[2]	–
2015	262,007	[2]	–
2014[1]	125,467	[2]	–

1 Fourteen month period ended 31 March 2014
2 No policy for annual bonuses in place

RELATIVE IMPORTANCE OF SPEND ON PAY

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

	2022 £	2021 £	% change
Employee costs	**2,895,000**	2,642,016	9.6%
Dividends	**5,426,862**	3,455,227	57.1%

Percentage Change in Directors' Remuneration in the year

	Salary	Benefits	Bonus
Neil Sinclair	0%	16%	42%
Richard Starr	0%	12%	42%
Matthew Simpson[1]	0%	N/A	N/A
Steven Owen[2]	0%	N/A	N/A
Kim Taylor-Smith	0%	N/A	N/A
Mickola Wilson	0%	N/A	N/A
Paula Dillon	0%	N/A	N/A
Total Directors change (%)	**0%**	**15%**	**42%**
Average change for employees (%)	**4%**	**0%**	**40%**

1 Matthew Simpson was appointed Chief Financial Officer and became a Director on 11 November 2021 and his salary on appointment was £160,000
2 Steven Owen was appointed Chairman on 1 January 2022 at a fee of £110,000

Percentage change in directors remuneration in prior year

	Salary	Benefits	Bonus
Neil Sinclair	3%	(5)%	(42)%
Stephen Silvester	6%	(77)%	(40)%
Richard Starr	3%	(10)%	(42)%
Stanley Davis	0%	N/A	N/A
Kim Taylor-Smith	0%	N/A	N/A
Mickola Wilson	0%	N/A	N/A
Paula Dillon	0%	N/A	N/A
Total Directors change (%)	**4%**	**26%**	**41%**
Average change for employees (%)	**10%**	**N/A**	**9%**

Annual Remuneration Report CONTINUED

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The Committee's policy on service contracts for Executive Directors is that they should provide for termination of employment by giving no more than 12 months' notice.

NAME	DATE OF APPOINTMENT	ORIGINAL CONTRACT DATE	CURRENT CONTRACT DATE	NOTICE PERIOD	TERMINATION ARRANGEMENTS
Neil Sinclair	30 July 2010	8 September 2011	15 February 2018	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.
Matthew Simpson	11 November 2021	18 January 2016	11 November 2021	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.
Richard Starr	21 October 2013	24 September 2013	20 February 2018	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.

Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms, typically three years, which may be extended for subsequent periods. The effective dates of the letters of appointment for the current Non-Executive Directors are as follows:

Name	Date of letter for current appointment	Date term due to expire
Steven Owen	1 January 2022	31 December 2024
Kim Taylor-Smith	6 October 2020	5 October 2023
Mickola Wilson	31 January 2022	30 January 2025
Paula Dillon	30 January 2020	28 February 2023

IMPLEMENTATION OF REMUNERATION POLICY IN 2022/23

In respect of the year ending 31 March 2023, the Committee intends to implement the Executive and Non-Executive Director remuneration policies as follows:

Salary

EXECUTIVE DIRECTORS

The average salary increase across the workforce from 1 April 2022 was 11.1% of salary.

	Salary	Change
Neil Sinclair[1]	315,000	4.0%
Matthew Simpson	238,000	48.8%
Richard Starr	238,000	3.7%

[3] Mr Sinclair stepped down from the Board with effect from 14 June 2022

NON-EXECUTIVE DIRECTORS

Non-Executive Director fees for the year ending 31 March 2023 are unchanged and will be as follows:

	Role	2023 fee	Change
Steven Owen[1]	Non-Executive Chairman	110,000	–
Kim Taylor-Smith	Non-Executive Director		
	• Chair of Audit and Risk Committee	45,000	0%
Mickola Wilson	Non-Executive Director		
	• Chair of Remuneration Committee from 7 August 2020		
	• Chair of the Nominations Committee		
	• Senior Independent Director from 1 April 2020	45,000	0%
Paula Dillon	Non-Executive Director		
	• Chair of ESG Committee from 1 April 2020	40,000	0%

4 The fee for Mr Owen for his role as Interim Executive Chairman is under discussion with the Remuneration Committee and will be disclosed in the 2023 Annual Report and Accounts

PENSION AND BENEFITS

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

ANNUAL BONUS

The 2022/23 bonus is capped at 100% of salary. The performance metrics are based on: 40% total property performance against MSCI benchmark; 40% adjusted profit before tax over one year and 20% based on ESG metrics.

LONG-TERM INCENTIVE PLAN

Awards under the Long-Term Incentive Plan are typically made following the publication of the Company's full year results, it is proposed that the performance outcome will be based on total property return against an MSCI benchmark (40%), total shareholder return (40%) and ESG metrics (20%).

STATEMENT OF VOTING AT ANNUAL GENERAL MEETING

The table below sets out the results of the voting in respect of the Directors' Remuneration Report at the 2021 AGM and Remuneration Policy at the same AGM.

	Percentage of votes cast		Number of votes cast		
	For and discretion	Against	For and discretion	Against	Withheld[1]
Remuneration Report	92.83%	7.17%	30,812,882	2,380,320	207,936
Remuneration Policy	84.50%	15.50%	28,048,824	5,144,377	207,937

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

APPROVAL

This report was approved by the Board of Directors on 13 June 2022 and signed on its behalf by:

Mickola Wilson

CHAIR OF REMUNERATION COMMITTEE

Directors' Report and additional disclosures

The Directors present their report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2022.

STATUTORY INFORMATION CONTAINED ELSEWHERE IN THE ANNUAL REPORT

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

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

- Strategic report pages 1 to 63
- Financial Review pages 32 to 35
- Risk Management pages 36 to 43
- Going Concern & Viability page 38
- Section 172 Statement pages 44 and 45
- Remuneration Report pages 87 to 99
- Financial instruments page 136
- Related party transactions page 144

RESULTS AND DIVIDENDS

The results for the year are set out in the financial statements. The Company paid interim dividends of 3.00p per Ordinary share on 15 October 2021, 3.25p per Ordinary share on 9 December 2021 and 3.25p per Ordinary share on 14 April 2022. The Directors recommend the payment of a final dividend in respect of the year ended 31 March 2022 of 3.75p per Ordinary share to be paid on 5 August 2022 to the Shareholders on the register on 1 July 2022.

SHARE CAPITAL

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

PURCHASE OF OWN SHARES BY THE COMPANY

At the Annual General Meeting of the Company, held on 29 July 2021, authority was granted to the Directors to purchase, in the market, the Company's own shares, up to the limit of 10% of the issued share capital. The authority was expressed to run until the conclusion of the next Annual General Meeting of the Company. No share purchases were made pursuant to this authority during the year. Renewal of this authority will be proposed at the forthcoming Annual General Meeting.

DIRECTORS

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

Details of the Directors of the Company who served during the year ended 31 March 2022 and up to the date of the financial statements, are set out on pages 68 and 69, and their interests in the Ordinary share capital of the Company and details of options granted under the Group's share schemes are set out in the Annual Remuneration Report on pages 87 to 99. The interests of the Directors in the shares in the Company have not changed since the end of the financial year to 13 June 2022, the latest practicable date. No member of the Board had a material interest in any contract of significance with the Company, or any of its subsidiaries, at any time during the year.

In accordance with the UK Code, all Directors offer themselves for re-election at the AGM on 29 July 2022. The Directors' service contract terms are set out in the Annual Remuneration Report on page 98.

POLITICAL DONATIONS

During the year, no donations were made to political parties and none are proposed for the current year.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are provided in note 25 on page 144 of the financial statements.

FUTURE DEVELOPMENTS

Details of future developments are provided in the Strategic Report on page 6.

GOING CONCERN

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

SUBSTANTIAL SHAREHOLDINGS

The table below is provided by our brokers under the requests made to shareholders under section 793 of the Companies Act 2006 and information provided to the Company. As such this information is regarded by the Company as providing an up to date representation of our major shareholders' interests:

As at 13 June 2022	Ordinary 10p shares No.	Shareholding %
Peter Gyllenhammar AB	4,278,227	9.24
Winton Capital Management	3,700,000	7.99
JO Hambro Capital Management	3,370,217	7.28
AXA Investment Managers	3,196,495	6.91
Premier Fund Managers	3,080,808	6.66
Allianz Global Investor	2,716,973	5.87
Mr Mark Harrison	2,344,153	5.06
M&G Investment Management	1,900,830	4.11
Charles Stanley & Co	1,706,057	3.69
Stanley Davis	1,665,287	3.60

As at 31 March 2022	Ordinary 10p shares No.	Shareholding %
AXA Investment Managers UK	3,257,633	8.38%
Winton Capital Management	3,700,000	7.99%
Peter Gyllenhammar AB	4,278,227	7.59%
JO Hambro Capital Management	3,370,217	7.28%
Premier Fund Managers	3,080,808	6.66%
Allianz Global Investors GmbH	2,716,973	5.87%
Mr Mark Harrison	2,344,153	5.06%
M&G Investment Management	1,900,830	4.11%
Charles Stanley & Co	1,721,684	3.71%
Davis S H Esq	1,665,287	3.60%
Hargreaves Lansdown Stockbrokers	1,636,568	3.51%

DIRECTORS' INDEMNITIES AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

FINANCIAL RISK MANAGEMENT

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

AUTHORISATION OF CONFLICTS OF INTEREST

Under the Articles of Association of the Company and in accordance with the provisions of the Companies Act 2006, a Director must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. However, the Directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only Directors who have no interest in the matter being considered will be able to make the relevant decision, and the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial year ended 31 March 2022, the Directors authorised a potential conflict in relation to Mickola Wilson's appointment as a Non-Executive director of Mailbox REIT plc.

CHANGE OF CONTROL

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

GREENHOUSE GAS EMISSIONS

The Group's GHG emission report can be found on page 49.

AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant Audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

2022 ANNUAL GENERAL MEETING

The 2022 AGM will be held on Friday 29 July 2022 at 10.00 a.m. The resolutions are set out in the Notice of Meeting, together with explanatory notes.

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

Phil Higgins

COMPANY SECRETARY

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

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with UK GAAP, subject to any material departure disclosed and explained in the parent company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business; and
- under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

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

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and Article 4 of the IAS Regulation, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's and Company's performance, business model and strategy.

On behalf of the Board

Phil Higgins

COMPANY SECRETARY

Independent Auditor's Report to the members of Palace Capital plc

OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Palace Capital plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 1 April 2015 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is eight years, covering the years ending 31 March 2015 to 31 March 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting is included in the Key audit matters section of our report:

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

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

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

Independent Auditor's Report
to the members of Palace Capital plc CONTINUED

OVERVIEW

Coverage	100% (2021: 100%) of Group revenue 100% (2021: 100%) of Group investment property 99.9% (2021: 99.9%) of Group total assets 99.9% (2021: 99.9%) of Group profit before tax		
Key audit matters		2022	2021
	KAM 1	Valuation of property portfolio	Valuation of property portfolio
	KAM 2	Revenue recognition	Revenue recognition
	KAM 3	Going concern and loan covenants	Going concern and loan covenants
Materiality	**Group financial statements as a whole** We determined materiality for the Group financial statements as a whole to be £2.9m (2021: £3m), which was set at 1% of Group total assets (2021: 1%).		

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

The Group operates solely in the United Kingdom. In addition to the Parent Company, we identified three significant components, being;

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

Full scope audits were performed by the Group audit team on all significant components and the Parent Company.

The non-significant components were subject to analytical procedures by the Group audit team.

Key audit matters

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

<table>
<tr><th colspan="2">KEY AUDIT MATTER</th><th>HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER</th></tr>
<tr>
<td>Valuation of property portfolio

Refer to accounting policies on investment properties and trading properties on page 122.

Refer to note 9 in relation to the property portfolio and note 10 as regards the trading properties.</td>
<td>The valuation of property portfolio requires significant judgement and estimates by the Directors and the independent external valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.

The Group's property portfolio includes:

• Standing investment properties: these are completed properties that are currently let. They are valued using the income capitalisation method.
• Investment properties under construction: these are properties that were being developed. Such assets had a different risk and investment profile to standing assets. They were valued using the residual method (i.e. by estimating the fair value of the completed asset less estimated costs to completion and an appropriate developer's margin). The development of Hudson Quarter in York was completed in April 2021 and therefore was a standing investment property.
• Trading properties: these are properties being developed with the view to sell. They are measured at the lower of the cost and estimated net realisable value.

The valuation of each property requires consideration of the individual nature of the asset, its location, cash flows and comparable market transactions.</td>
<td>Experience of external valuer and relevance of its work

We obtained the valuation report prepared by managements independent external valuer and discussed the basis of the valuations with them, confirming that the approach was consistent with the requirements of accounting standards.

We assessed the competency, independence and objectivity of the valuer which included making enquiries regarding interests and relationships that may create a threat to the valuer's objectivity.

We obtained a copy of the instructions provided to the valuer and reviewed for any limitations in scope or for evidence of Management bias.

Data provided to the valuer

We checked that the underlying data provided to the valuer by Management was consistent with the data provided to us for our audit work. This data included inputs such as current rent and lease terms, which we agreed on a sample basis to executed lease agreements as part of our audit work.

We checked the completeness of the data by agreeing a sample of data from the tenancy schedule, which we obtained as part of our audit of revenue, to the data provided to the valuer.

Assumptions and estimates used by the valuer

We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the unobservable inputs used in the valuation of the properties. This included establishing our own range of expectations for the yields used in assessing the valuation of each of the Group's properties based on externally available metrics, comparable organisations and wider economic and commercial factors.

We assessed the valuation of the properties against our own expectations and met with the valuer to challenge those valuations which fell outside of our range of expectations.

Key observation:

Our testing indicated that the estimates and assumptions used in the property valuations were appropriate in the context of the Group's property portfolio.</td>
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Independent Auditor's Report
to the members of Palace Capital plc CONTINUED

KEY AUDIT MATTER		HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Revenue recognition – rental income Refer to accounting policy on revenue on page 119. Refer to note 1 in relation to Revenue.	The Group has several property managers and multiple tenants across its property portfolio. Rental income revenue recognition has a significant impact on the allocation of resources and directing the efforts of the audit team. Rental income is recognised on a straight line basis over the lease term for the Group's properties based upon rental agreements that are in place. Management judgement is required to determine the term over which lease incentives should be recognised. A number of rent concessions have been previously agreed with tenants as a result of COVID-19 and judgement had been involved in assessing whether these qualify as lease modifications. There is a risk that the revenue recognised as rental income is not supported by underlying tenancy agreements or is inappropriately recognised. We consider this to be a Key Audit Matter ('KAM') based on the fact that there are approximately 250 leases, a large number of lease incentives and we have historically raised audit adjustments in this area. This is a fraud risk in that there is a risk the lease term can be manipulated which impacts on revenue recorded. This exists for existing and new leases.	We obtained the tenancy schedule and Management's analysis of revenue recognised for each tenant and the reconciliation of this analysis to the financial statements and performed the following: • We checked the integrity of the formulae used in Management's reconciliation to the financial statements. • We analysed the current year tenancy schedule compared to prior year to highlight changes in the year to check that no income has been omitted from the accounts and also any new tenancy schedules have been highlighted and tested • We analysed the amount of rental income recognised in the financial statements in respect of each tenant and compared this to our expectations for the year based on the prior year tenancy schedule. This highlighted changes to existing tenant agreements and also any new agreements entered into during the current year. The changes, including new tenant agreements, were investigated and agreed to the underlying lease documentation and rent review memoranda. • We obtained Management's schedule of lease incentive adjustments, including rent free periods and, for a sample, we recalculated the adjustment and agreed the inputs to the underlying lease documentation. We considered the completeness of the schedule based on information included in the tenancy schedule and the underlying lease information obtained. Where applicable, we assessed management's judgements and assertions for these not being a lease modification. • We traced a number of leases to management agent statements and through to cash to test the existence and accuracy of the revenue recognised. • We obtained a breakdown of other revenue recognised in the year including service charge and car park income. For a sample of these transactions we agreed the revenue recognised to supporting documentation to confirm its existence and accuracy. • With regards to service charge income, we have verified the split of revenue and cost of sales in the current and prior year by tracing revenue amounts back to supporting documentation to confirm existence and accuracy of amounts recognised as revenue. **Key observations:** We did not identify any indicators to suggest that rental income has been recognised inappropriately.

KEY AUDIT MATTER		HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Going Concern Refer to page 118. As set out in the accounting policy on going concern management have carried out a detailed assessment of the Group's ability to continue as a going concern.	At the year end the Group has a number of borrowings due for renegotiation. Consideration needs to be made around the disclosure of these borrowings in terms of classification in the accounts, the timing of renewal in terms and compliance with covenants in supporting the of going concern assumption. These loans also have financial covenants. A breach of covenant on any of the loans, either during the year or in the future, could also impact the Group's ability to operate as a going concern. Accordingly we considered going concern to be a key audit matter.	Our response to this key audit matter and our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included: • Obtaining management's going concern paper and supporting projections and testing the integrity of this model reviewing its arithmetic accuracy and testing the formulas within the model. • Assessing the appropriateness of assumptions made within this model by comparing forecast results to our expectations based on our knowledge of the business, most recent performance, current economic factors. • Considering the appropriateness of the sensitivities applied in the model, namely through assessing the impact of 'stress tests' scenarios such as rent reductions as well as fall in investment property values. This included considering the impact of these on covenants or cash flow deficits to determine the likelihood of those scenarios occurring. • Where bank loans mature in the 12 month period from the date of our audit report, we have discussed with management their plans to refinance the debt and vouched to agreements that were reached subsequent to the year end to confirm the assumptions are appropriate. • Reviewing the disclosures to check that they are in line with the detailed assessment undertaken by the Board, including that it is clear, understandable and complete. We made enquiries of management and those charged with governance as to any future events or conditions, outside of those associated with the pandemic that may affect the Group's ability to continue as a going concern. **Key observations:** Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Independent Auditor's Report
to the members of Palace Capital plc CONTINUED

OUR APPLICATION OF MATERIALITY

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

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

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

	GROUP FINANCIAL STATEMENTS		PARENT COMPANY FINANCIAL STATEMENTS	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	2.9	3.0	1.7	1.63
Basis for determining materiality	Materiality for the Group and Parent Company's financial statement was set at 1% of total assets (2021: 1%).			
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for the users of the financial statements in assessing the financial performance of the Group and the Parent Company.			
Performance materiality	2.16	2.25	1.05	1.22
Basis for determining performance materiality	On the basis of our risk assessment, together with our assessment of the Group overall control environment, our judgement was that overall performance materiality for the Group should be 75% (2021: 75%) of materiality, which reflects our assessment of the risk associated with the audit due to the limited number of audit adjustments identified in previous audits. We determined that the same measure as the Group was appropriate for the Parent Company.			

Specific materiality

We set a lower materiality for particular classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the Group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we applied a specific materiality of £590,000 (2021: £340,000) to those items which may affect profit before tax, including revenue, cost of sales, administrative expenses, finance cost and finance income, and taxation. The specific materiality represents 5% (2021: 5%) of profit before tax before revaluation of investments, debt termination costs, changes in fair value of interest rate derivatives and gains on investment property sales.

Component materiality

We set materiality for each component of the Group based on 1% (2021: 1%) of the total assets of that component. Component materiality ranged from £109,000 to £546,000 (2021: ranged from £384,000 to £802,000). In the audit of each component, we further applied performance materiality levels of 75% (2021: 75%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £55,000 (2021: £60,000) for items audited to financial statement materiality, and £11,200 (2021: £7,000) for items audited to specific materiality. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

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

We have nothing to report in this regard.

CORPORATE GOVERNANCE STATEMENT

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

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

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 36 to 38; and • The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 38
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 102; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 36 to 43; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 36; and • The section describing the work of the audit committee set out on pages 81 to 84

Independent Auditor's Report to the members of Palace Capital plc CONTINUED

OTHER COMPANIES ACT 2006 REPORTING

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

Strategic report and Directors' report

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

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

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

Directors' remuneration

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

Matters on which we are required to report by exception

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

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

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

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

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

We considered the potential for material misstatement in the financial statements, including those arising from fraud, and believed the areas in which fraud could occur were, management override of controls, revenue recognition, and management bias in the accounting for estimates, specifically in relation to the valuation of investment property. Our procedures to address these risks included:

- We addressed the risk of management override of internal controls by testing journals processed during and subsequent to the year and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud
- We evaluated the valuation of investment property which we consider is the greatest area for risk of management manipulation, as mentioned under the key audit matters section of our report, for any management bias.
- The fraud risk around revenue recognition was addressed by inspecting signed lease agreements to recalculate the annual turnover, and agreeing cash receipts to managing agent statements to check customers exist and that the management information did agree for a sample of tenants.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

USE OF OUR REPORT

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

Charles Ellis

SENIOR STATUTORY AUDITOR

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

13 June 2022

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

Annual Report and Accounts 2022
Financials

FINANCIALS

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £'000	Restated* 2021 £'000
Revenue	1	**49,064**	22,242
Cost of sales	3b	**(30,408)**	(6,426)
Movement in expected credit loss	13	**360**	(949)
Net property income		**19,016**	14,867
Dividend income from listed equity investments		**64**	72
Administrative expenses	3c	**(4,623)**	(4,347)
Operating profit before gains and losses on property assets, listed equity investments and cost of acquisitions		**14,457**	10,592
Profit on disposal of investment properties		**4,946**	905
Gain/(loss) on revaluation of investment property portfolio	9	**8,222**	(14,750)
Reversal of impairment	10	**–**	763
Loss on disposal of listed equity investments		**(80)**	–
Gain on revaluation of listed equity investments	11	**–**	709
Operating profit/(loss)		**27,545**	(1,781)
Finance income		**–**	1
Finance expense	2	**(3,196)**	(3,347)
Debt termination costs		**(63)**	(140)
Changes in fair value of interest rate derivatives		**329**	(265)
Profit/(loss) before taxation		**24,615**	(5,532)
Taxation	5	**(67)**	(1)
Profit/(loss) after taxation for the year and total comprehensive income attributable to owners of the Parent		**24,548**	(5,533)
Earnings per ordinary share			
Basic	6	**53.1p**	(12.0p)
Diluted	6	**53.0p**	(12.0p)

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

*For information on the restatement please see the note on page 116.

Consolidated Statement of Financial Position

AS AT 31 MARCH 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Investment properties	9	**232,717**	235,854
Listed equity investments at fair value	11	**–**	3,249
Right of use asset	12	**17**	165
Property, plant and equipment	12	**45**	71
		232,779	239,339
Current assets			
Trading property	10	**20,287**	42,719
Trade and other receivables	13	**7,412**	9,764
Cash and cash equivalents	14	**28,143**	9,417
		55,842	61,900
Total assets		**288,621**	301,239
Current liabilities			
Trade and other payables	15	**(8,912)**	(12,908)
Borrowings	17	**(32,749)**	(21,853)
Lease liabilities for right of use asset	20	**–**	(154)
Derivative financial instruments	16	**(47)**	–
Creditors: amounts falling due within one year		**(41,708)**	(34,915)
Net current assets		**14,134**	26,985
Non-current liabilities			
Borrowings	17	**(68,488)**	(105,432)
Deferred tax liability	5	**(143)**	(228)
Lease liabilities for investment properties	20	**(1,078)**	(1,804)
Derivative financial instruments	16	**–**	(1,029)
Net assets		**177,204**	157,831
Equity			
Called up share capital	21	**4,639**	4,639
Treasury shares		**(717)**	(1,288)
Merger reserve		**3,503**	3,503
Capital redemption reserve		**340**	340
Capital reduction reserve		**125,019**	125,019
Retained earnings		**44,420**	25,618
Equity – attributable to the owners of the Parent		**177,204**	157,831
Basic NAV per ordinary share	7	**383p**	343p
Diluted NAV per ordinary share	7	**383p**	342p

These financial statements were approved by the Board of Directors and authorised for issue on 13 June 2022 and are signed on its behalf by:

MATTHEW SIMPSON

Chief Financial Officer

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2022

	Note	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Capital Reduction Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2020		4,639	125,019	(1,349)	3,843	–	34,196	166,348
Total comprehensive income for the year		–	–	–	–	–	(5,533)	(5,533)
Share-based payments	22	–	–	–	–	–	300	300
Exercise of share options		–	–	61	–	–	(61)	–
Issue of deferred bonus share options		–	–	–	–	–	171	171
Dividends paid	8	–	–	–	–	–	(3,455)	(3,455)
Transfer to capital reduction reserve account		–	(125,019)	–	–	125,019	–	–
At 31 March 2021		4,639	–	(1,288)	3,843	125,019	25,618	157,831
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**24,548**	**24,548**
Share-based payments	22	**–**	**–**	**–**	**–**	**–**	**162**	**162**
Exercise of share options		**–**	**–**	**571**	**–**	**–**	**(571)**	**–**
Issue of deferred bonus share options		**–**	**–**	**–**	**–**	**–**	**90**	**90**
Dividends paid	8	**–**	**–**	**–**	**–**	**–**	**(5,427)**	**(5,427)**
At 31 March 2022		**4,639**	**–**	**(717)**	**3,843**	**125,019**	**44,420**	**177,204**

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

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

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

Other reserves comprise the merger reserve and the capital redemption reserve.

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

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

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £'000	Restated* 2021 £'000
Operating activities			
Profit/(loss) before taxation		**24,615**	(5,532)
Finance income		**–**	(1)
Finance expense	2	**3,196**	3,347
Changes in fair value of interest rate derivatives		**(329)**	265
(Gain)/loss on revaluation of investment property portfolio	9	**(8,222)**	14,750
Profit on disposal of investment properties		**(4,946)**	(905)
Reversal of impairment of trading properties	10	**–**	(763)
Loss on disposal of listed equity investments		**80**	–
Gain on revaluation of listed equity investments	11	**–**	(709)
Debt termination costs		**63**	140
Depreciation of tangible fixed assets	12	**48**	46
Amortisation of right of use asset	12	**148**	148
Share-based payments	22	**162**	300
Decrease in receivables		**2,289**	491
Decrease in payables		**(2,929)**	(291)
Decrease/(increase) in trading property		**21,972**	(14,646)
Net cash generated from operations		**36,147**	(3,360)
Interest received		**–**	1
Interest and other finance charges paid		**(3,417)**	(3,575)
Corporation tax paid in respect of operating activities		**(48)**	(1,174)
Net cash flows from operating activities		**32,682**	(8,108)
Investing activities			
Purchase of investment properties		**(9,870)**	–
Capital expenditure on refurbishment of investment property		**(6,519)**	(2,425)
Capital expenditure on developments		**–**	(4,131)
Proceeds from disposal of investment property		**31,221**	5,290
Amounts transferred from restricted cash deposits	14	**–**	1,020
Disposal of non-current asset – equity investment		**3,169**	–
Dividends from listed equity investments		**64**	72
Purchase of property, plant and equipment	12	**(22)**	(16)
Net cash flow used in investing activities		**18,043**	(190)
Financing activities			
Bank loans repaid	19	**(38,033)**	(11,363)
Proceeds from new bank loans	19	**11,472**	18,916
Loan issue costs paid	19	**(11)**	(282)
Dividends paid	8	**(5,427)**	(3,455)
Net cash flow from financing activities		**(31,999)**	3,816
Net increase/(decrease) in cash and cash equivalents		**18,726**	(4,482)
Cash and cash equivalents at beginning of the year		**9,417**	13,899
Cash and cash equivalents at the end of the year	14	**28,143**	9,417

*For information on the restatement please see the note on page 116.

Notes to the Consolidated Financial Statements

BASIS OF ACCOUNTING

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

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

BASIS OF PREPARATION

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework however, there is no impact on recognition, measurement or disclosure.

The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards, (the 'applicable framework'), and have been prepared in accordance with the provisions of the Companies Act 2006 (the 'applicable legal requirements'). The Group financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, the revaluation of property, plant and equipment, pension scheme, and financial assets and liabilities held at fair value.

RESTATEMENTS

The Consolidated Statement of Cash Flows for the comparative period has been corrected to present cash outflows from an increase in trading properties as operating activities for the year to 31 March 2021 of £14,646,000 that were previously presented as investing activities. This has resulted in an increase in the net movement in investing activities for the year to 31 March 2021 of £14,646,000 and a corresponding net decrease in the cash inflows from operating activities in the Consolidated Statement of Cash Flows. These cash flows represent expenditure on trading properties that were expected to be sold in the normal course of the Group's business and are therefore operating in nature. There was no impact on profit or net assets for any periods presented.

The Consolidated Statement of Comprehensive Income for the comparative period has been corrected to present service charge income in revenue and recoverable service charge costs in cost of sales. The Group has control over the services being provided, and ultimately the risk of paying and recovering these costs sit with the Group. Therefore, these receipts and recoverable expenses are presented gross in the Statement of Comprehensive Income. This has resulted in the Group recognising £4,926,000 as service charge income within revenue and a corresponding £4,926,000 in recoverable service charge costs in the cost of sales line. There was no impact on profit or net assets for any periods presented. The revenue and cost of sales for the year ended 31 March 2021 were therefore restated to £22,242,000 and £6,426,000 respectively, from £17,316,000 and £1,500,000.

GOING CONCERN

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

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

As at 31 March 2022 the Group had £28.1m of unrestricted cash and cash equivalents, a low gearing level of 28% and a property portfolio with a fair value of £259.0m. The Directors have reviewed the forecasts for the Group taking into account the impact of Covid-19 on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income in line with the possible ongoing effects of the pandemic. See Going Concern and Viability Statement on pages 36 to 38 for further details.

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

NEW STANDARDS ADOPTED DURING THE YEAR

New standards effective for the year ended 31 March 2022 did not have a material impact on the financial statements and were not adopted.

New standards issued but not yet effective

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

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

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

Revenue

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

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

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Group Statement of Comprehensive Income when the right to receive them arises. Surrender premium income are payments received from tenants to surrender their lease obligations and are recognised immediately in the Group's Consolidated Statement of Comprehensive Income.

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

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

Service charge income relates to expenditure that is directly recoverable from tenants. Service charge income is recognised as revenue in the period to which it relates as required by IFRS 15 Revenue from Contracts with Customers. Dividend income comprises dividends from the Group's listed equity investments and is recognised when the Shareholder's right to receive payment is established. Revenue is measured at the fair value of the consideration received. All income is derived in the United Kingdom.

Notes to the Consolidated Financial Statements CONTINUED

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

Deferred income

Where invoices to customers have been raised which relate to a period after the Group year end, being 31 March 2022, the Group will recognise deferred income for the difference between revenue recognised and amounts billed for that contract.

Cost of sales

Cost of sales includes direct expenditure relating to the construction of the trading properties, capitalised interest, and selling costs incurred as a result of residential sales. Selling costs includes agent and legal fees. Cost of sales is expensed to the income statement and is recognised on completion of each residential unit. The cost for each unit is calculated using the ratio of the unit selling price, over the total forecasted sales proceeds of all residential units. This ratio is then applied to the total forecasted development cost to get the cost of sale per unit.

Service charges and other such receipts arising from expenses recharged to tenants are as stated in note 3b. Notwithstanding that the funds are held on behalf of the occupiers, the ultimate risk for paying and recovering these costs rests with the Group.

Borrowing costs

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

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

Interest associated with trading properties is capitalised. Interest is capitalised from the start of the development work until the date of practical completion. The rate used is the rate on specific associated borrowings. Interest is then expensed through the income statement post completion of the development.

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

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

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

Financial assets

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

Fair value through profit or loss

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

Amortised cost

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

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

Listed equity investments

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

Fair value hierarchy

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

Cash and cash equivalents

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

Financial liabilities

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

Fair value through profit or loss

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

Amortised cost

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

Other financial liabilities

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

Contributions to pension schemes

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

Notes to the Consolidated Financial Statements CONTINUED

Investment properties

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

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

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

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

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

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

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

Trading properties

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

Right of use asset

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

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

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

The rate of amortisation for right of use assets is over the period of the lease.

Lease liabilities

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

Current taxation

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

Deferred taxation

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This was enacted by the Finance Bill 2021 on 10 June 2021.

Dividends to equity holders of the parent

Interim ordinary dividends are recognised when paid and final ordinary dividends are recognised as a liability in the period in which they are approved by the Shareholders.

Share-based payments

The fair value of the share options are determined at the grant date and are expensed on a straight-line basis over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that ultimately the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair values of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Commitments and contingencies

Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. A contingent asset is recognised when the realisation of the income is virtually certain.

Notes to the Consolidated Financial Statements CONTINUED

Equity

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

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

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

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

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

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

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Estimates

Properties

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Consolidated Statement of Financial Position. The investment property portfolio and assets held for sale are carried at fair value, which requires a number of estimates in assessing the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in the accounting policies and note 9.

Trading properties are held at the lower of cost and net realisable value. Net realisable value is the value of an asset that can be realised upon the sale of the asset, less a reasonable estimate of the costs associated with the eventual sale or disposal of the asset.

The Group has valued the investment properties at fair value. To the extent that any future valuation affects the fair value of the investment properties and assets held for sale, this will impact on the Group's results in the period in which this determination is made.

Expected credit loss model

The Group applies the IFRS 9 simplified approach to the expected credit loss model, using 12 months of historic rental payment information for tenants, and adjusting risk profile rates based on forward-looking information. Despite the unlocking of the UK economy during 2021, we remain cautious as global supply chain issues and rising inflation continue to create economic uncertainty.

With the relaxation of restrictions from the Covid-19 pandemic the risk of certain tenants defaulting on their rents has reduced, although challenges remain in the leisure and retail sectors. This has resulted in the ECL provisions calculated at 31 March 2022 being lower than in previous periods (refer to note 13).

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

Estimates and Judgements

Share-based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life, and is expensed over the vesting period. Some of the inputs used are not market observable and are based on estimates derived from available data. The models utilised are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options (see note 22 on page 142 for further details). The variables used to measure the fair value of share-based payments could have a significant impact on that valuation, and the determination of these variables requires a significant amount of professional judgement. A minor change in a variable which requires professional judgement, such as volatility or expected life of an instrument, could have a quantitatively material impact on the fair value of the share-based payments granted, and therefore will also result in the recognition of a higher or lower expense in the Consolidated Statement of Comprehensive Income.

Judgement is also exercised in assessing the number of options subject to non-market vesting conditions that will vest.

1. RENTAL AND OTHER INCOME

The chief operating decision maker ("CODM") takes the form of the Executive Directors (the Group's Executive Committee). The Group's Executive Committee are of the opinion that the principal activity of the Group is to invest in commercial real estate in the UK.

Operating segments are identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the CODM.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. Additionally, information is provided to the Group's Executive Committee showing gross property income and property valuation by individual property. Therefore, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Directors have considered the requirements of IFRS 8 as to aggregation of operating segments into reporting segments. All of the Group's revenue is generated from investment and trading properties located outside of London. The properties are managed as a single portfolio by an asset management team whose responsibilities are not segregated by location or type but are managed on an asset-by-asset basis.

The route to market is determined by reference to the current economic circumstances that fluctuate through the life cycle of the portfolio. The Group holds a diversified portfolio across different sectors including office, industrial, retail, leisure, retail warehouse and residential. The Group does from time to time engage in development projects. The Directors view the Group's development activities as an integral part of the life cycle of each of its assets rather than a separate business or division.

The Directors therefore consider that the individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment under the provision of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required.

Revenue – type	2022 £'000	Restated 2021 £'000
Gross rental income	**16,670**	17,150
Dilapidations and other property related income	**732**	56
Insurance commission	**92**	110
Gross property income	**17,494**	17,316
Service charge income	**4,155**	4,926
Trading property income	**27,415**	–
Total revenue	**49,064**	22,242

No single tenant accounts for more than 10% of the Group's total rents received from investment properties. Similarly, there was no individual or corporate that accounts for more than 10% of the trading property income.

Notes to the Consolidated Financial Statements CONTINUED

2. INTEREST PAYABLE AND SIMILAR CHARGES

	2022 £'000	2021 £'000
Interest on bank loans	**2,748**	2,898
Amortisation of loan arrangement fees	**305**	300
Interest on lease liabilities	**–**	105
Other finance charges	**143**	44
	3,196	3,347

3. PROFIT FOR THE YEAR

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

	2022 £'000	2021 £'000
Depreciation of tangible fixed assets and amortisation of right of use assets:	**196**	194
Auditor's remuneration:		
Fees payable to the Auditor for the audit of the Group's annual accounts	**165**	143
Fees payable to the Auditor for the audit of the subsidiaries' annual accounts	**29**	27
Additional fees payable to the Auditor in respect of the 2020 audit	**–**	23
Fees payable to the Auditor and its related entities for other services:		
Audit related assurance services in respect of the interim results	**11**	10
	205	203

b) The Group's cost of sales comprise the following:

	2022 £'000	2021 £'000
Void, investment and development property costs	**2,310**	1,275
Legal, lettings and consultancy costs	**328**	225
Property operating expenses	**2,638**	1,500
Service charge expenses	**4,155**	4,926
Trading property cost of sales	**23,615**	–
	30,408	6,426

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

	2022 £'000	2021 £'000
Staff costs	**2,895**	2,642
Accounting and audit fees	**269**	297
Other overheads	**260**	244
Consultancy and recruitment fees	**254**	110
Stock Exchange costs	**235**	208
Share-based payments	**162**	300
PR and marketing costs	**150**	118
Amortisation of right of use asset	**148**	148
Rent, rates and other office costs	**140**	125
Legal and professional fees	**62**	109
Depreciation of tangible fixed assets	**48**	46
	4,623	4,347

3. PROFIT FOR THE YEAR CONTINUED

d) EPRA cost ratios are calculated as follows:

	2022 £'000	2021 £'000
Gross property income	**17,494**	17,316
Administrative expenses	**4,623**	4,347
Property operating expenses	**2,638**	1,500
Movement in expected credit loss	**(360)**	949
EPRA costs (including property operating expenses)	**6,901**	6,796
EPRA cost ratio (including property operating expenses)	**39.4%**	39.2%
Less property operating expenses	**(2,638)**	(1,500)
EPRA costs (excluding property operating expenses)	**4,263**	5,296
EPRA cost ratio (excluding property operating expenses)	**24.4%**	30.6%
Total expense ratio	**1.6%**	1.4%

4. EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the period were as follows:

	2022 £'000	2021 £'000
Non-Executive Directors' fees	**195**	196
Wages and salaries	**2,357**	2,119
Pensions	**116**	102
Social security costs	**227**	225
	2,895	2,642
Share-based payments	**162**	300
	3,057	2,942

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

	2022 Number	2021 Number
Directors	**7**	7
Senior management and other employees	**9**	9
	16	16

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

	2022 £'000	2021 £'000
Emoluments for qualifying services	**1,423**	1,218
Social security costs	**185**	167
Pension	**25**	36
	1,633	1,421
Share-based payments	**116**	241
	1,749	1,662

Notes to the Consolidated Financial Statements CONTINUED

5. TAXATION

	2022 £'000	2021 £'000
Tax underprovided in prior year	–	1
Current income tax charge	152	–
Deferred tax	(85)	–
Tax charge	67	1

	2022 £'000	2021 £'000
Profit/(loss) on ordinary activities before tax	24,615	(5,532)
Based on profit/(loss) for the period: Theoretical Tax at 19% (2021: 19%)	4,677	(1,051)
Effect of:		
Net expenses not deductible for tax purposes	51	(32)
Tax underprovided in prior years	–	1
Movement on sale and revaluation not recognised through deferred tax	–	(145)
Deferred tax released to profit and loss on REIT conversion	(85)	–
Residual losses not recognised for deferred tax	(345)	–
Gain on appropriation for Hudson Quarter	119	–
REIT exempt income	(1,985)	(1,622)
Non-taxable items	(2,365)	2,850
Tax charge for the period	67	1

As a result of the Company's conversion to a REIT on 1 August 2019, the Group is no longer required to pay UK corporation tax in respect of property rental income and capital gains relating to its property rental business.

Deferred taxes relate to the following:

	2022 £'000	2021 £'000
Deferred tax liability – brought forward	(228)	(228)
Tax rate increase from 19% to 25%	(34)	–
Deferred tax release on sale of trading property	119	–
Deferred tax liability – carried forward	(143)	(228)

	2022 £'000	2021 £'000
Investment property unrealised valuation gains	(143)	(228)
Deferred tax liability – carried forward	(143)	(228)

A deferred tax liability on the revaluation of investment properties to fair value has been provided totalling £143,000 (2021: £228,000) as once the availability of capital losses, indexation allowances and the 1982 valuations for certain properties have been taken into account, it is anticipated that capital gains tax would be payable if the properties were disposed of at their fair value. The deferred tax liability relates to investment properties transferred into trading stock, prior to the Group becoming a REIT. As at 31 March 2022 the Group had approximately £5,915,000 (2021: £9,694,000) of realised capital losses to carry forward. There has been no deferred tax asset recognised as the Directors do not consider it probable that future taxable profits will be available to utilise these losses.

Finance Act 2021 sets the main rate of UK corporation tax at 19%, with an increase in the main rate to 25% with effect from 1 April 2023. The deferred tax liability relates to trading properties and has been calculated on the basis of 19% due to the expectation that all properties are sold ahead of April 2023.

6. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share and diluted earnings per share have been calculated on profit after tax attributable to ordinary Shareholders for the year (as shown on the Consolidated Statement of Comprehensive Income) and for the earnings per share, the weighted average number of ordinary shares in issue during the period (see table below) and for diluted weighted average number of ordinary shares in issue during the year (see table below).

	2022 £'000	2021 £'000
Profit/(loss) after tax attributable to ordinary Shareholders for the year	**24,548**	(5,533)

	2022 No. of shares	2021 No. of shares
Weighted average number of shares for basic earnings per share	**46,257,514**	46,061,417
Dilutive effect of share options	**36,766**	–
Weighted average number of shares for diluted earnings per share	**46,294,280**	46,061,417
Earnings per ordinary share		
Basic	**53.1p**	(12.0p)
Diluted	**53.0p**	(12.0p)

Key Performance Measures

The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ("APMs"), being financial measures which are not specified under IFRS, are also used by management to assess the Group's performance. These include a number of European Public Real Estate Association ("EPRA") measures, prepared in accordance with the EPRA Best Practice Recommendations reporting framework the latest update of which was issued in November 2019. The Group reports a number of these measures (detailed in the glossary of terms) because the Directors consider them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

EPRA EPS and EPRA Diluted EPS

EPRA Earnings is a measure of operational performance and represents the net income generated from the operational activities. It is intended to provide an indicator of the underlying income performance generated from the leasing and management of the property portfolio. EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains and losses on disposals, changes in fair value of financial instruments, associated close-out costs, one-off finance termination costs 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.

Adjusted profit before tax and Adjusted EPS

The Group also reports an adjusted earnings measure which is based on recurring earnings before tax and the basic number of shares. This is the basis on which the Directors consider dividend cover. This takes EPRA earnings as the starting point and then adds back tax and any other fair value movements or one-off items that were included in EPRA earnings. This includes share-based payments being a non-cash expense. The corporation tax charge (excluding deferred tax movements, being a non-cash expense) is deducted in order to calculate the adjusted earnings per share, if the charge is in relation to recurring earnings.

Notes to the Consolidated Financial Statements CONTINUED

6. EARNINGS PER SHARE CONTINUED

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

	2022 £'000	2021 £'000
Profit/(loss) for the year	**24,548**	(5,533)
Adjustments:		
(Gain)/loss on revaluation of investment property portfolio	**(8,222)**	14,750
Reversal of impairment of trading properties	**–**	(763)
Profit on disposal of investment properties	**(4,946)**	(905)
Trading property revenue and cost of sales	**(3,800)**	–
Loss on disposal of listed equity investments	**80**	–
Gain on revaluation of listed equity investments	**–**	(709)
Debt termination costs	**63**	140
Fair value (gain)/loss on derivatives	**(329)**	265
EPRA earnings for the year	**7,394**	7,245
Share-based payments	**162**	300
Hudson Quarter development loan interest	**189**	–
Adjusted profit after tax for the year	**7,745**	7,545
Tax excluding deferred tax on EPRA adjustments and capital gain charged	**67**	1
Adjusted profit before tax for the year	**7,812**	7,546
EPRA and adjusted earnings per ordinary share		
EPRA Basic	**16.0p**	15.7p
EPRA Diluted	**16.0p**	15.7p
Adjusted EPS	**16.9p**	16.4p

7. NET ASSET VALUE PER SHARE

The Group has adopted the new EPRA NAV measures which came into effect for accounting periods starting 1 January 2020. EPRA issued new best practice recommendations (BPR) for financial guidelines on its definitions of NAV measures. The new NAV measures as outlined in the BPR are EPRA net tangible assets (NTA), EPRA net reinvestment value (NRV) and EPRA net disposal value (NDV). The Group has adopted these new guidelines and applies them in the 31 March 2022 Annual Report.

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

As at 31 March 2022

	EPRA NTA £'000	EPRA NRV £'000	ERPA NDV £'000
Net assets attributable to Shareholders	177,204	177,204	177,204
Include:			
Fair value adjustment of trading properties	3,188	3,188	3,188
Real estate transfer tax	–	17,049	–
Fair value of fixed interest rate debt	–	–	413
Exclude:			
Fair value of derivatives value	47	47	–
Deferred tax on latent capital gains and capital allowances	143	143	–
EPRA NAV	180,582	197,631	180,805
Number of ordinary shares issued for diluted and EPRA net assets per share	46,325,236	46,325,236	46,325,236
EPRA NAV per share	390p	427p	390p

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

- Fair value adjustment of trading properties: Difference between development property held on the balance sheet at cost and fair value of that development property.
- Real estate transfer tax: Gross value of property portfolio as provided in the Valuation Certificate (i.e. the value prior to any deduction of purchasers' costs).

7. NET ASSET VALUE PER SHARE CONTINUED

- Fair value of fixed interest rate debt: Difference between any financial liability and asset held on the balance sheet of the Group and the fair value of that financial liability or asset.
- Fair value of derivatives: Exclude fair value financial instruments that are used for hedging purposes where the company has the intention of keeping the hedge position until the end of the contractual duration.
- Deferred tax on latent capital gains and capital allowances: Exclude the deferred tax as per IFRS balance sheet in respect of the difference between the fair value and the tax book value of investment property, development property held for investment, intangible assets, or other non-current investments as this would only become payable if the assets were sold.

As at 31 March 2021

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

	2022 No of shares	2021 No of shares
Number of ordinary shares issued at the end of the year (excluding treasury shares)	**46,288,470**	46,069,690
Dilutive effect of share options	**36,766**	84,934
Number of ordinary shares issued for diluted and EPRA net assets per share	**46,325,236**	46,154,624
Net assets per ordinary share		
Basic	**383p**	343p
Diluted	**383p**	342p
EPRA NTA	**390p**	350p

8. DIVIDENDS

	Payment date	**Dividend per share**	**2022 £'000**	2021 £'000
2022				
Interim dividend	31 December 2021	3.25	**1,504**	–
Interim dividend	15 October 2021	3.00	**1,389**	–
		6.25	**2,893**	–
2021				
Final dividend	05 August 2021	3.00	**1,382**	–
Interim dividend	09 April 2021	2.50	**1,152**	–
Interim dividend	31 December 2020	2.50	**–**	1,152
Interim dividend	16 October 2020	2.50	**–**	1,152
		10.50	**2,534**	2,304
2020				
Final dividend	14 August 2020	2.50	**–**	1,151
Interim dividend	27 December 2019	4.75	**–**	–
Interim dividend	18 October 2019	4.75	**–**	–
		12.00	**–**	1,151
Dividends reported in the Group Statement of Changes in Equity			**5,427**	3,455

Notes to the Consolidated Financial Statements CONTINUED

8. DIVIDENDS CONTINUED

Proposed Dividends

	2022 £'000	2021 £'000
July 2022 final dividend in respect of year end 31 March 2022: 3.75p (2021 final dividend: 3.00p)	**1,736**	1,382
April 2022 interim dividend in respect of year end 31 March 2022: 3.25p (2021 interim dividend: 2.50p)	**1,504**	1,152
	3,240	2,534

Proposed final dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 March 2022.

9. PROPERTY PORTFOLIO

	Freehold investment properties £'000	Leasehold investment properties £'000	Total investment properties £'000
At 1 April 2020	230,396	18,303	248,699
Additions – refurbishments	2,273	(44)	2,229
Capital expenditure on assets under construction	4,061	–	4,061
Loss on revaluation of investment properties	(13,614)	(1,136)	(14,750)
Disposals	(3,975)	(410)	(4,385)
At 31 March 2021	219,141	16,713	235,854
Additions – refurbishments	**2,351**	**2,543**	**4,894**
Additions - new properties	**10,022**	**–**	**10,022**
Gain on revaluation of investment properties	**6,886**	**1,336**	**8,222**
Disposals	**(22,290)**	**(3,985)**	**(26,275)**
At 31 March 2022	**216,110**	**16,607**	**232,717**

	Standing investment properties £'000	Investment properties under construction £'000	Total investment properties £'000	Trading properties £'000	Total property portfolio £'000
At 1 April 2020	240,927	7,772	248,699	27,557	276,256
Additions – refurbishments	2,229	–	2,229	–	2,229
Capital expenditure on developments	–	4,061	4,061	–	4,061
Additions – trading property	–	–	–	14,399	14,399
(Loss)/gain on revaluation of properties	(14,867)	117	(14,750)	763	(13,987)
Disposals	(4,385)	–	(4,385)	–	(4,385)
At 31 March 2021	223,904	11,950	235,854	42,719	278,573
Additions – refurbishments	**4,894**	**–**	**4,894**	**–**	**4,894**
Additions - new properties	**10,022**	**–**	**10,022**	**–**	**10,022**
Additions – trading property	**–**	**–**	**–**	**1,182**	**1,182**
Transfer from investment property under construction	**11,950**	**(11,950)**	**–**	**–**	**–**
Gain on revaluation of properties	**8,222**	**–**	**8,222**	**–**	**8,222**
Disposals	**(26,275)**	**–**	**(26,275)**	**(23,614)**	**(49,889)**
At 31 March 2022	**232,717**	**–**	**232,717**	**20,287**	**253,004**

The property portfolio has been independently valued at fair value. The valuations have been prepared in accordance with the RICS Valuation – Global Standards July 2017 ("the Red Book") and incorporate the recommendations of the International Valuation Standards and the RICS valuation – Professional Standards UK January 2014 (Revised April 2015) which are consistent with the principles set out in IFRS 13.

The valuer in forming its opinion makes a series of assumptions, which are typically market related, such as net initial yields and expected rental values, and are based on the valuer's professional judgement. The valuer has sufficient current local and national knowledge of the particular property markets involved and has the skills and understanding to undertake the valuations competently.

9. PROPERTY PORTFOLIO CONTINUED

In addition to the loss on revaluation of investment properties included in the table above, realised gains of £4,946,000 (2021: £905,000) relating to investment properties disposed of during the year were recognised in profit or loss.

The Group has developed a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of commercial units which the Group holds for leasing. During the development the commercial element of the scheme was classified as investment properties under construction. As a result of achieving practical completion in April 2021, the commercial element of the scheme is now classified as investment properties.

For investment properties under construction and trading properties, £51,674 (2021: £859,543) of borrowing costs have been capitalised in the year including 100% of the interest due on the development loan.

A reconciliation of the valuations carried out by the independent valuers to the carrying values shown in the Statement of Financial Position was as follows:

	2022 £'000	2021 £'000
Cushman & Wakefield LLP (property portfolio)	**259,040**	282,820
Adjustment in respect of minimum payment under head leases	**1,078**	1,804
Less trading properties at lower of cost and net realisable value	**(20,287)**	(42,719)
Less lease incentive balance included in accrued income	**(3,926)**	(3,804)
Less fair value uplift on trading properties	**(3,188)**	(2,247)
Carrying value of investment properties	**232,717**	235,854

The valuations of all investment property held by the Group is classified as Level 3 in the IFRS 13 fair value hierarchy as they are based on unobservable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

Valuation process – investment properties

The valuation reports produced by the independent valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment.

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

The Executive Director responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the independent valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The key assumptions made in the valuation of the Group's investment properties are:

- The amount and timing of future income streams;
- Anticipated maintenance costs and other landlord's liabilities;
- An appropriate yield; and
- For investment properties under construction: gross development value, estimated cost to complete and an appropriate developer's margin.

Valuation technique – standing investment properties

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

Notes to the Consolidated Financial Statements CONTINUED

9. PROPERTY PORTFOLIO CONTINUED

	Significant unobservable inputs				
31 March 2022	**Office**	**Industrial**	**Leisure**	**Other**	**Total**
Fair value of property portfolio	**£122,125,000**	**£43,345,000**	**£36,990,000**	**£56,580,000**	**£259,040,000**
Area (sq ft)	**633,591**	**345,586**	**303,993**	**169,762**	**1,452,932**
Gross Estimated Rental Value	**£10,952,762**	**£2,608,500**	**£3,270,645**	**£2,586,276**	**£19,418,183**
Net Initial Yield					
Minimum	**(5.1%)**	**3.5%**	**7.8%**	**3.5%**	**(5.1%)**
Maximum	**9.6%**	**5.6%**	**9.2%**	**11.1%**	**11.1%**
Weighted average	**4.7%**	**4.5%**	**8.4%**	**7.2%**	**5.6%**
Reversionary Yield					
Minimum	**4.5%**	**4.6%**	**7.3%**	**3.4%**	**3.4%**
Maximum	**11.3%**	**6.3%**	**9.1%**	**10.4%**	**11.3%**
Weighted average	**8.0%**	**5.5%**	**8.2%**	**7.2%**	**7.5%**
Equivalent Yield					
Minimum	**4.5%**	**4.5%**	**8.4%**	**3.4%**	**3.4%**
Maximum	**8.8%**	**5.9%**	**9.8%**	**9.9%**	**9.9%**
Weighted average	**7.6%**	**5.4%**	**9.6%**	**7.2%**	**7.4%**

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

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

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

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining fair values:

Market comparable method

Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions in the market.

Unobservable input: estimated rental value

The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £23,640–£1,874,413 per annum).

Rental values are dependent on a number of variables in relation to the Group's property. These include: size, location, tenant, covenant strength and terms of the lease.

9. PROPERTY PORTFOLIO CONTINUED

Unobservable input: net initial yield

The net initial yield is defined as the initial gross income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase.

Sensitivities of measurement of significant unobservable inputs

As set out within significant accounting estimates and judgements above, the Group's property Portfolio Valuation is open to judgements inherently subjective by nature.

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross Estimated Rental Value	Increase	Decrease
Net Initial Yield	Decrease	Increase
Reversionary Yield	Decrease	Increase
Equivalent Yield	Decrease	Increase

	-5% in passing rent (£m)	+5% in passing rent (£m)	+0.25% in net initial yield (£m)	-0.25% in net initial yield (£m)
(Decrease)/increase in the fair value of investment properties as at 31 March 2022	**(10.76)**	**10.76**	**(9.74)**	**12.36**
(Decrease)/increase in the fair value of investment properties as at 31 March 2021	(10.87)	10.87	(11.29)	12.35

Valuation technique: properties under construction

Development assets are valued using the gross development value of the asset less any costs still payable in order to complete, and an appropriate developer's margin.

10. TRADING PROPERTY

	Total £'000
At 1 April 2020	27,557
Costs capitalised	14,399
Reversal of impairment of trading properties	763
At 1 April 2021	42,719
Costs capitalised	**1,182**
Disposal of trading properties	**(23,614)**
At 31 March 2022	**20,287**

The Group developed a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of residential units which the Group is in the process of selling. As a result, the residential element of the scheme is classified as trading property.

11. LISTED EQUITY INVESTMENTS

	Total £'000
At 1 April 2020	2,540
Gain on revaluation of equity investment shown in Consolidated Statement of Comprehensive Income	709
At 1 April 2021	3,249
Disposal of equity investment	**(3,249)**
At 31 March 2022	**–**

Notes to the Consolidated Financial Statements CONTINUED

12. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000	Right of use asset £'000
At 1 April 2020	258	461
Additions	16	–
At 1 April 2021	274	461
Additions	**22**	**–**
At 31 March 2022	**296**	**461**
Depreciation		
At 1 April 2020	157	148
Provided during the year	46	148
At 1 April 2021	203	296
Provided during the year	**48**	**148**
At 31 March 2022	**251**	**444**
Net book value at 31 March 2022	**45**	**17**
Net book value at 31 March 2021	71	165

13. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Current		
Gross amounts receivable from tenants	**2,624**	4,115
Less: expected credit loss provision	**(980)**	(1,340)
Net amount receivable from tenants	**1,644**	2,775
Other taxes	**156**	143
Other debtors	**1,022**	2,461
Accrued income	**3,926**	3,804
Prepayments	**664**	581
	7,412	9,764

Accrued income amounting to £3,926,000 (2021: £3,804,000) relates to rents recognised in advance of receipt as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases.

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

As at 31 March 2022 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 90 days past due £'000	Total £'000
Expected loss rate	7%	82%	0%	90%	
Gross carrying amount	1,668	12	–	944	**2,624**
Loss provision	124	10	–	846	**980**

Changes to credit risk management

The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's tenants. As a result, impairment calculations have been carried out on trade receivables using the IFRS 9 simplified approach, using 12 months of historic rental payment information, and adjusting risk profiles based on forward-looking information. In addition, the Group has reviewed its register of tenants at higher risk, particularly in the leisure and retail sectors, those in administration or CVA and the top 50 tenants by size with the remaining tenants considered on a sector by sector basis.

Concentration of credit risk

The credit risk in respect of trade receivables is not concentrated as the Group operates in many different sectors and locations around the UK, and has a wide range of tenants from a broad spectrum of business sectors. The Group predominantly operates in the office and industrial sectors, which has largely remained unaffected by Covid-19. 48% of the ECL provision relates to tenants in the leisure and retail sectors, and 3% of the ECL provision relates to tenants in administration or CVA.

13. TRADE AND OTHER RECEIVABLES CONTINUED

How forward looking information was incorporated

In calculating the ECL provision, the Group used forward looking information when assessing the risk profiles of each tenant, most notably around the assessment over the likelihood of tenants having the ability to pay rent as demanded, as well as the likelihood of rent deferrals and rent frees being offered to tenants. The Group considered factors such as the vaccine success on the economy, whilst remaining cautious of potential new economic headwinds.

Key sources of estimation uncertainty

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

A sensitivity analysis performed to determine the impact on the Group Statement of Comprehensive Income from a 10% increase in each of the risk profile rates would result in a decrease in profit by £305,084.

The Group does not hold any material collateral as security.

As at 31 March 2021 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 90 days past due £'000	Total £'000
Expected loss rate	12%	3%	7%	69%	
Gross carrying amount	2,364	168	45	1,538	**4,115**
Loss provision	278	5	3	1,054	**1,340**

Movement in the expected credit loss provision was as follows:

	2022 £'000	2021 £'000
Brought forward	**1,340**	391
Receivables written off during the year as uncollectable	**(158)**	–
Provisions released	**(276)**	–
Provisions increased	**74**	949
	980	1,340

14. CASH AND CASH EQUIVALENTS

All of the Group's cash and cash equivalents at 31 March 2022 and 31 March 2021 are in sterling and held at floating interest rates.

	2022 £'000	2021 £'000
Cash and cash equivalents – unrestricted	**28,143**	9,417

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

Notes to the Consolidated Financial Statements CONTINUED

15. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	**604**	1,143
Other taxes	**1,167**	2,100
Other payables	**1,136**	2,607
Deferred rental income	**3,368**	3,347
Accruals	**2,637**	3,711
	8,912	12,908

The Directors consider that the carrying amount of trade and other payables measured at amortised cost approximates to their fair value.

Included within other payables are deposits on pre sales of apartments at Hudson Quarter, York totalling £Nil (2021: £924k). These amounts will be recognised as revenue when the title is transferred to the buyer.

16. DERIVATIVES

The Group adopts a policy of entering into derivative financial instruments with banks to provide an economic hedge to its interest rate risks and ensure its exposure to interest rate fluctuations is mitigated.

The contract rate is the fixed rate the Group is paying for its interest rate swaps.

The valuation rate is the variable SONIA and bank base rate the banks are paying for the interest rate swaps. Details of the interest rate swaps the Group has entered can be found in the table below.

The valuations of all derivatives held by the Group are classified as Level 2 in the IFRS 13 fair value hierarchy as they are based on observable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

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

Bank	Notional principal	Expiry date	Contract rate %	Valuation rate %	2022 Fair value £'000	2021 Fair value £'000
Barclays Bank plc	33,847,900	25/01/2023	1.3420	0.1862	**3**	(717)
Santander plc	18,591,549	03/08/2022	1.3730	0.1326	**(50)**	(312)
	52,439,449				**(47)**	(1,029)

17. BORROWINGS

	2022 £'000	2021 £'000
Current liabilities		
Bank loans	**32,813**	22,075
Unamortised lending costs	**(64)**	(222)
	32,749	21,853
Non-current liabilities		
Bank loans	**68,940**	106,238
Unamortised lending costs	**(452)**	(806)
	68,488	105,432
Total borrowings		
Bank loans	**101,753**	128,313
Unamortised lending costs	**(516)**	(1,028)
	101,237	127,285

17. BORROWINGS CONTINUED

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

	2022 £'000	2021 £'000
Within one year	32,813	22,075
From one to two years	1,218	32,813
From two to five years	67,722	65,750
After five years	–	7,675
	101,753	128,313

Facility and arrangement fees

As at 31 March 2022

Secured Borrowings	All in cost	Maturity date	Total Facility £'000	Unused loan facilities £'000	Facility drawn £'000	Unamortised facility fees £'000	Loan Balance £'000
Santander Bank plc	3.71%	August 2022	24,750	–	24,750	(29)	24,721
Lloyds Bank plc	2.64%	March 2023	6,845	–	6,845	(35)	6,810
National Westminster Bank plc	2.79%	August 2024	40,000	(7,957)	32,043	(230)	31,813
Barclays	3.41%	June 2024	29,168	–	29,168	(128)	29,040
Scottish Widows	2.90%	July 2026	8,947	–	8,947	(94)	8,853
			109,710	(7,957)	101,753	(516)	101,237

As at 31 March 2021

Secured Borrowings	All in cost	Maturity date	Total Facility £'000	Unused loan facilities £'000	Facility drawn £'000	Unamortised facility fees £'000	Loan Balance £'000
Santander Bank plc	3.55%	August 2022	25,250	–	25,250	(108)	25,142
Lloyds Bank plc	2.04%	March 2023	6,845	–	6,845	(63)	6,782
National Westminster Bank plc	2.19%	August 2024	40,000	(11,380)	28,620	(329)	28,291
Barclays	3.17%	June 2024	37,976	–	37,976	(191)	37,785
Barclays	3.34%	January 2022	22,298	(1,940)	20,358	(222)	20,136
Scottish Widows	2.90%	July 2026	9,264	–	9,264	(115)	9,149
			141,633	(13,320)	128,313	(1,028)	127,285

Investment properties with a carrying value of £218,780,000 (2021: £234,613,000) are subject to a first charge to secure the Group's bank loans amounting to £101,753,000 (2021: £128,313,000). Trading properties with a carrying value of £20,286,000 (2021: £42,719,000) are no longer subject to a first charge to secure the Group's bank loans following the repayment of the Barclays loan in November 2021.

The Group has unused loan facilities amounting to £7,957,000 (2021: £13,320,000). A facility fee is charged on this balance at a rate of 1.05% p.a. and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited, Palace Capital (Properties) Limited and Palace Capital (Leeds) Limited as part of the NatWest loan.

The Group constantly monitors its approach to managing interest rate risk. The Group has fixed £61,386,000 (2021: £62,580,000) of its debt in order to provide surety of its interest cost and to mitigate interest rate risk. The remaining debt in place at year end is subject to floating rate in order to take advantage of the historically low interest rate environment.

The Group has a loan with Scottish Widows for £8,947,000 (2021: £9,264,000) which is fully fixed at a rate of 2.9%.

The Group has a loan with Barclays Bank plc for £29,168,000 (2021: £37,976,000), of which £33,848,000 (2021: £34,348,000) is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at a margin of 1.95% plus SONIA.

The Group has a loan with Santander plc for £24,750,000 (2021: £25,250,000), of which £18,592,000 (2021: £18,967,000) is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at a margin of 2.5% plus SONIA.

The Group has a loan with Lloyds Bank plc for £6,845,000 (2021: £6,845,000) which is fully charged at a floating rate margin of 1.95% plus SONIA.

The Group has a loan with National Westminster Bank plc for £32,043,000 (2021: £28,620,000) which is fully charged at a floating rate margin of 2.1% plus SONIA.

Notes to the Consolidated Financial Statements CONTINUED

17. BORROWINGS CONTINUED

The fair value of borrowings held at amortised cost at 31 March 2022 was £101,650,000 (2021: £127,342,000).

The Group's bank loans are subject to various covenants including Loan to Value, Interest Cover and Debt Service Cover requirements. During the year, the Group met all of its covenants, with a waiver obtained in April 2021 for the Scottish Widows facility.

18. GEARING AND LOAN TO VALUE RATIO

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

	2022 £'000	2021 £'000
EPRA net asset value (note 7)	180,582	161,335
Borrowings (net of unamortised issue costs)	101,237	127,285
Lease liabilities for investment properties	1,078	1,804
Cash and cash equivalents	(28,143)	(9,417)
Net debt	74,172	119,672
NAV gearing	41%	74%

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

	2022 £'000	2021 £'000
Fair value of investment properties	235,565	240,101
Fair value of trading properties	23,475	42,719
Fair value of property portfolio	259,040	282,820
Borrowings	101,753	128,313
Cash at bank	(28,143)	(9,417)
Net bank borrowings	73,610	118,896
Loan to value ratio	28%	42%

19. RECONCILIATION OF LIABILITIES TO CASH FLOWS FROM FINANCING ACTIVITIES

	Bank borrowings £'000	Total £'000
Balance at 1 April 2020	119,356	119,356
Cash flows from financing activities:		
Bank borrowings drawn	18,916	18,916
Bank borrowings repaid	(11,363)	(11,363)
Loan arrangement fees paid	(282)	(282)
Non-cash movements:		
Amortisation of loan arrangement fees	300	300
Capitalised loan arrangement fees	218	218
Debt termination costs	140	140
Balance at 1 April 2021	127,285	127,285
Cash flows from financing activities:		
Bank borrowings drawn	11,472	11,472
Bank borrowings repaid	(38,033)	(38,033)
Loan arrangement fees paid	(11)	(11)
Non-cash movements:		
Amortisation of loan arrangement fees	305	305
Capitalised loan arrangement fees	219	219
Balance at 31 March 2022	101,237	101,237

20. LEASES

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

	2022 £'000	2021 £'000
Within one year	**15,765**	16,170
From one to two years	**15,109**	14,730
From two to three years	**13,000**	12,637
From three to four years	**12,357**	10,502
From four to five years	**10,787**	9,535
From five to 25 years	**49,821**	47,005
	116,839	110,579

Lease liabilities are classified as follows:

	2022 £'000	2021 £'000
Lease liabilities for investment properties	**1,078**	1,804
Lease liabilities for right of use asset	**–**	154
	1,078	1,958

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

	2022			2021
	Lease payments £'000	Interest £'000	Present value of lease payments £'000	Present value of lease payments £'000
Within one year	**54**	**(54)**	**–**	2
From one to two years	**54**	**(54)**	**–**	3
From two to five years	**162**	**(162)**	**–**	10
From five to 25 years	**1,081**	**(1,073)**	**8**	47
After 25 years	**4,813**	**(3,743)**	**1,070**	1,742
	6,164	**(5,086)**	**1,078**	1,804

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

	2022			2021
	Lease payments £'000	Interest £'000	Present value of lease payments £'000	Present value of lease payments £'000
Within one year	**–**	**–**	**–**	154

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

Notes to the Consolidated Financial Statements CONTINUED

20. LEASES CONTINUED

The Group has over 180 leases granted to its tenants. These vary depending on the individual tenant and the respective property and demise and vary considerably from short-term leases of less than one year to longer-term leases of over 10 years.

A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs. All investment properties in the Group's portfolio generated rental income during both the current and prior periods, with the exception of Hudson Quarter, York held in Palace Capital (Developments) Limited which commenced development in February 2018 and was completed in April 2021. Direct operating costs of £Nil (2021: £Nil) were incurred on the property.

21. SHARE CAPITAL

Authorised, issued and fully paid share capital is as follows:	2022 £'000	2021 £'000
46,388,515 ordinary shares of 10p each (2021: 46,388,515)	4,639	4,639
	4,639	4,639

Reconciliation of movement in ordinary share capital	2022 £'000	2021 £'000
At start of year	4,639	4,639
Issued in the year	–	–
At end of year	4,639	4,639

Movement in ordinary authorised share capital	Price per share pence	Number of ordinary shares issued	Total number of shares
As at 31 March 2020, 31 March 2021 and 31 March 2022	–	–	46,388,515

Movement in treasury shares		Number of ordinary shares issued	Total number of shares
As at 31 March 2020 and 31 March 2021			299,587
Shares transferred to EBT	14 July 2021	(200,000)	
As at 31 March 2022			**99,587**
Total number of shares excluding the number held in treasury at 31 March 2022			**46,288,928**

Year ended 31 March 2022

On 14 July 2021, 200,000 shares were transferred into the employee benefit trust.

Prior year figures included shares and transfers in the employee benefit trust.

21. SHARE CAPITAL CONTINUED

Shares held in Employee Benefit Trust

Authorised, issued and fully paid share capital is as follows:	2022 No. of options	2021 No. of options
Brought forward	19,238	52,420
Transferred under scheme of arrangement	200,000	–
Shares exercised under deferred bonus share scheme	(90,049)	(33,182)
Shares exercised under employee LTIP scheme	(134,814)	–
Shares purchased by EBT	6,083	–
At end of year	458	19,238

Share options:

Reconciliation of movement in outstanding share options	2022 No. of options	2021 No. of options
At start of year	1,193,984	770,223
Issued in the year	402,717	573,456
Exercised in the year	(134,814)	–
Lapsed in the year	(329,778)	(201,447)
Deferred bonus share options issued	36,766	84,934
Deferred bonus share options exercised	(90,049)	(33,182)
At end of year	1,078,826	1,193,984

As at 31 March 2022, the Company had the following outstanding unexpired options:

	2022		2021	
Description of unexpired share options	No. of options	Weighted average option price	No. of options	Weighted average option price
Employee benefit plan	1,042,060	0p	1,114,232	0p
Deferred bonus share scheme issued	36,766	0p	84,934	0p
Total (note 22)	1,078,826	0p	1,199,166	0p
Exercisable	–	0p	–	0p
Not exercisable	1,078,826	0p	1,199,166	0p

The weighted average remaining contractual life of share options at 31 March 2022 is 1.7 years (2021: 1.7 years).

Notes to the Consolidated Financial Statements CONTINUED

22. SHARE-BASED PAYMENTS

Employee benefit plan

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

	Number of options	Exercise price	Average share price at date of exercise	Grant date	Vesting date
Outstanding at 31 March 2020	770,223	0p			
Issued during the year (LTIP 2020)	573,456	0p		14 October 2020	14 October 2023
Deferred bonus share options issued	84,934	0p		14 July 2020	14 July 2021
Deferred bonus share options exercised	(33,182)	0p	184p	25 June 2019	25 June 2020
Lapsed during year (LTIP 2017)	(187,956)	0p			
Lapsed during year (LTIP 2019)	(13,491)	0p			
Outstanding at 31 March 2021	1,193,984	0p			
Exercised during the year (LTIP 2018)	(134,814)	0p	254p	13 July 2018	13 July 2021
Issued during the year (LTIP 2021)	402,717	0p	247p	16 November 2021	16 November 2024
Deferred bonus share options issued	36,766	0p	253p	15 June 2021	15 June 2022
Deferred bonus share options exercised	(90,049)	0p	254p	14 July 2020	14 July 2021
Lapsed during year (LTIP 2018)	(114,405)	0p			
Lapsed during year (LTIP 2019)	(70,826)	0p			
Lapsed during year (LTIP 2020)	(144,547)	0p			
Outstanding at 31 March 2022	1,078,826	0p			

LTIP 2019

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. The options are subject to a two-year holding period following vesting. Half the options will be awarded based on the first target and half based on the achievement of the second.

Total property return growth is based on the increase in the total property return of the Company compared with an increase in the MSCI IPD UK Quarterly Index (PV growth) as at 31 March 2019. This target will measure the annualised growth in total property return over the three-year period ending 31 March 2022 (PV performance period), and comparing this with the annualised total property return growth of the MSCI IPD UK Quarterly Index.

Total Shareholder return (TSR) measures the total Shareholder return (price rise plus dividends) over the period from 25 June 2019 to 24 June 2022. The base price is £2.85 per share which was the market price at the grant date.

Annualised TSR over the TSR performance period	Vesting %	PV growth over the PV performance period	Vesting %
<5%	0	<0.5%	0
Equal to 5%	20	Equal to 0.5%	20
Between 5% and 9%	20–100	Between 0.5% and 2.5%	20–100
Equal to 9%	100	Equal to 2.5%	100

LTIP 2020

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. The options are subject to a two-year holding period following vesting. Half the options will be awarded based on the first target and half based on the achievement of the second.

Total property return growth is based on the increase in the total property return of the Company compared with an increase in the MSCI IPD UK Quarterly Index (PV growth) as at 31 March 2020. This target will measure the annualised growth in total property return over the three-year period ending 31 March 2023 (PV performance period), and comparing this with the annualised total property return growth of the MSCI IPD UK Quarterly Index.

Total Shareholder return (TSR) measures the total Shareholder return (price rise plus dividends) over the period from 14 October 2020 to 13 October 2023. The base price is £1.88 per share which was the market price at the grant date.

22. SHARE-BASED PAYMENTS CONTINUED

Annualised TSR over the TSR performance period	Vesting %	PV growth over the PV performance period	Vesting %
<5%	0	<0.5%	0
Equal to 5%	20	Equal to 0.5%	20
Between 5% and 9%	20–100	Between 0.5% and 2.5%	20–100
Equal to 9%	100	Equal to 2.5%	100

LTIP 2021

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. For directors, the options are subject to a two-year holding period following vesting. Half the options will be awarded based on the first target and half based on the achievement of the second.

Total property return growth is calculated as Total Property Return of the Company over the Performance Period beginning on 31 March 2021 and ending on 31 March 2024, using the Total Property Return ("TPR") as calculated by MSCI for the Group as compared with the TPR for the MSCI IPD Index (the "Comparator") over the same period. The TPR for the Group and the Comparator will be its percentage increase over the three-year Performance Period.

Total Shareholder return (TSR) measures the total Shareholder return (price rise plus dividends) over the period from 16 November 2021 to 15 November 2024. The percentage of the TSR metric will be adjusted downwards according to the Company's share price discount to net asset value at the time of vesting. Share Price Discount will be calculated with reference to the closing share price on 15 November 2024 and EPRA Net Tangible Assets as at 30 September 2024. The base price is £2.44 per share which was the market price at the grant date.

Annualised TSR over the TSR performance period	Vesting %	TPR equivalent total over the performance period	Vesting %
<5%	0	<0.5%	0
Equal to 5%	20	Equal to 0.5%	20
Between 5% and 9%	20–100	Between 0.5% and 2.5%	20–100
Equal to 9%	100	Equal to 2.5%	100

The fair value of grants was measured at the grant date using a Black–Scholes pricing model for the TPR tranche and using a Monte Carlo pricing model for the TSR tranche, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of both the Black–Scholes and Monte Carlo pricing models are as follows:

	Monte Carlo TSR Tranche	Black-Scholes PV Tranche
Grant date	16 November 2021	16 November 2021
Share price	£2.44	£2.44
Exercise price	0p	0p
Term	5 years	5 years
Expected volatility	38.03%	38.03%
Expected dividend yield	0.00%	0.00%
Risk free rate	0.59%	0.59%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£1.28	£2.44

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

	2022 £'000	2021 £'000
LTIP 2017	**–**	13
LTIP 2018	**42**	86
LTIP 2019	**9**	135
LTIP 2020	**72**	66
LTIP 2021	**39**	–
Total expense arising from share-based payment transactions	**162**	300

Notes to the Consolidated Financial Statements CONTINUED

23. RELATED PARTY TRANSACTIONS

Accounting services amounting to £Nil (2021: £3,062) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a Director and Shareholder.

Charitable donations amounting to £Nil (2021: £4,000) have been made by the Group to Variety, the Children's Charity, a charity where Neil Sinclair is a Trustee.

Dividend payments made to Directors amounted to £262,265 (2021: £163,511) during the year. See note 4 on page 125 for further details of key management remuneration.

24. CAPITAL COMMITMENTS

The obligation for capital expenditure relating to the construction, development or enhancement of investment properties entered into by the Group amounted to £395,952 (2021: £5,575,818).

25. POST BALANCE SHEET EVENTS

On 1 April 2022, the Group completed the disposal of Warren House, Thame for a total consideration of £1.63m. The property was charged against the loan facility with Barclays Bank plc and as a result, £506,758 of the total consideration was used to repay the Barclays loan on 4 April 2022.

On 13 April 2022, the Group signed a 12 month extension with Lloyds in respect of the Liverpool facility to extend the termination date to 7 March 2023.

On 14 April 2022, the Group completed the disposal of 2-4 High Road, Ickenham, for a total consideration of £875,000. The property was charged against the loan facility with Barclays Bank plc and as a result, £432,234 of the total consideration was used to repay the Barclays loan facility on 21 April 2022.

On 19 May 2022, the Group exchanged on the disposal of Winchester Street, Salisbury, for a total consideration of £2.01m. The property is charged against the loan facility with NatWest plc, with £1.24m of the total consideration being used to repay the facility. Completion of the sale is due to take place by 28 June 2022.

On 27 May 2022, the Group signed an amend and restate for the Santander UK facility. The amend and restate replaces the existing Santander UK facility that was due to expire on 3 August 2022. The facility is charged at a margin of 2.2% plus SONIA.

Post year end, the Group have completed on a further four residential unit sales at Hudson Quarter for a total consideration of £1.7m.

26. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk and liquidity risk.

The Group's senior management oversee the management of these risks, and the Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares.

Capital risk management

The Group considers its capital to comprise its share capital, share premium, other reserves and retained earnings which amounted to £177,204,000 at 31 March 2022 (2021: £157,831,000). The Group's capital management objectives are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to provide an adequate return to Shareholders by pricing its services commensurately with the level of risk.

Within the subsidiaries of the Group, the business has covenanted to maintain a specified leverage ratio and a net interest expense coverage ratio, all the terms of which have been adhered to during the year.

26. FINANCIAL RISK MANAGEMENT CONTINUED

Market risk

Market risk arises from the Group's use of interest bearing, and tradable instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or other market factors.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2022 and 31 March 2021 were:

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2022					
Trade and other receivables	**2,666**	**–**	**–**	**–**	**2,666**
Cash and cash equivalents	**–**	**28,143**	**–**	**–**	**28,143**
Trade and other payables	**(4,377)**	**–**	**–**	**–**	**(4,377)**
Interest rate swaps	**–**	**–**	**(47)**	**–**	**(47)**
Bank borrowings	**–**	**–**	**(61,386)**	**(39,851)**	**(101,237)**
Lease liabilities	**–**	**–**	**(1,078)**	**–**	**(1,078)**
	(1,711)	**28,143**	**(62,511)**	**(39,851)**	**(75,930)**

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2021					
Trade and other receivables	5,236	–	–	–	5,236
Cash and cash equivalents	–	9,417	–	–	9,417
Trade and other payables	(7,461)	–	–	–	(7,461)
Equity investments	3,249	–	–	–	3,249
Interest rate swaps	–	–	(1,029)	–	(1,029)
Bank borrowings	–	–	(62,579)	(64,706)	(127,285)
Lease liabilities	–	–	(1,958)	–	(1,958)
	1,024	9,417	(65,566)	(64,706)	(119,831)

The Group's interest rate risk arises from borrowings issued at floating interest rates. The Group's interest rate risk is reviewed throughout the year by the Directors. The Group manages its exposure to interest rate risk on borrowings through the use of interest rate derivatives (see note 16). Interest rate swaps are used to mitigate the risk of an increase in interest rates but also to allow the Group to benefit from a fall in interest rates. 60% of the Group's interest rate exposure is fixed and the remainder held on a floating rate. The Group has employed an external adviser when contracting hedging to advise on the structure of the hedging.

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. The cash balances of the Group at the year end were £28,143,000 (2021: £9,417,000). Interest receivable in the income statement would be affected by £281,000 (2021: £94,000) by a one percentage point change in floating interest rates on a full year basis.

The Group's borrowings with Lloyds, Barclays, NatWest, Scottish Widows and Santander UK have all transitioned from the London Interbank Offer Rate (LIBOR) benchmark to Sterling Overnight Index Average (SONIA) benchmark. There has been and is expected to be negligible cost involved in the borrowing facility transition and the respective hedge instrument amendments.

The Group has loans amounting to £39,851,000 (2021: £64,706,000) which have interest payable at rates linked to the three-month SONIA interest rates or bank base rates. A 1% increase in the SONIA or base rate will have the effect of increasing interest payable by £399,000 (2021: £647,000).

The Group has interest rate swaps with a nominal value of £52,939,449 (2021: £53,315,036). If the SONIA or base rate was to increase above the fixed contract rate then the Group will benefit from a fair value increase of the interest rate swap. If, however, the SONIA or base rate was to decrease, then the Group would incur a decrease in the fair value of the interest rate swap.

Notes to the Consolidated Financial Statements CONTINUED

26. FINANCIAL RISK MANAGEMENT CONTINUED

Change in interest rate	-1% £'000	+1% £'000
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2022	**(326)**	**321**
(Decrease)/increase in fair value of interest rates swaps as at 31 March 2021	(859)	840

Upward movements in medium and long-term interest rates, associated with higher interest rate expectations, increase the value of the Group's interest rate swaps that provide protection against such moves. The converse is true for downward movements in the yield curve.

The Group is therefore relatively sensitive to changes in interest rates. The Directors regularly review the Group's position with regard to interest rates in order to minimise its risk.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has its cash held on deposit with four large banks in the United Kingdom. At 31 March 2022 the cash balances of the Group were £28,143,000 (2021: £9,417,000). The concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £20,281,000 (2021: £6,773,000). Credit risk on liquid funds is limited because the counterparty is a UK bank with a high credit rating assigned by international credit rating agencies.

Credit risk also results from the possibility of a tenant in the Group's property portfolio defaulting on a lease. The largest tenant by contractual income amounts to 5.7% (2021: 5.6%) of the Group's anticipated income. The Directors assess a tenant's creditworthiness prior to granting leases and employ professional firms of property management consultants to manage the portfolio to ensure that tenants debts are collected promptly and the Directors in conjunction with the property managers take appropriate actions when payment is not made on time.

The carrying amount of financial assets (excluding cash balances) recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. The carrying amount of these assets at 31 March 2022 was £2,666,000 (2021: £5,236,000). The details of the provision for expected credit loss are shown in note 13.

Liquidity risk management

The Group's policy is to hold cash and obtain loan facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term capital and funding obligations, including organic growth and acquisition activities, and to meet certain unforeseen obligations and opportunities. The Group holds cash to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a monthly cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans, term loans, loan notes, overdrafts and lease liabilities.

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	On demand £'000	0–1 years £'000	1–2 years £'000	2–5 years £'000	> 5 years £'000	Total £'000
As at 31 March 2022						
Interest bearing loans	**–**	**35,044**	**3,409**	**70,257**	**–**	**108,710**
Lease liabilities	**–**	**54**	**54**	**162**	**5,894**	**6,164**
Derivative financial instruments	**–**	**–**	**(3)**	**50**	**–**	**47**
Trade and other payables	**4,377**	**–**	**–**	**–**	**–**	**4,377**
	4,377	**35,098**	**3,460**	**70,469**	**5,894**	**119,298**

	On demand £'000	0–1 years £'000	1–2 years £'000	2–5 years £,000	> 5 years £'000	Total £'000
As at 31 March 2021						
Interest bearing loans	–	25,678	35,268	68,244	7,735	136,925
Lease liabilities	–	107	108	323	10,799	11,337
Derivative financial instruments	–	–	312	717	–	1,029
Trade and other payables	7,461	–	–	–	–	7,461
	7,461	25,785	35,688	69,284	18,534	156,752

Company Statement of Financial Position

AS AT 31 MARCH 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Investments in subsidiaries	2	**122,864**	125,567
Listed equity investments	3	**–**	3,249
Property, plant and equipment	4	**43**	68
		122,907	128,884
Current assets			
Trade and other receivables	5	**42,576**	33,899
Cash at bank and in hand		**479**	266
		43,055	34,165
Total assets		**165,962**	163,049
Current liabilities			
Creditors: amounts falling due within one year	6	**(28,953)**	(19,159)
Net current assets		**14,102**	15,006
Total assets less current liabilities		**137,009**	143,890
Equity			
Called up share capital	7	**4,639**	4,639
Treasury shares		**(717)**	(1,288)
Merger reserve		**3,503**	3,503
Capital redemption reserve		**340**	340
Capital reduction reserve		**125,019**	125,019
Retained earnings		**4,225**	11,677
Equity – attributable to the owners of the Parent		**137,009**	143,890

The Company's loss after tax for the year was £1,706,000 (2021: £2,826,000).

The financial statements were approved by the Board of Directors and authorised for issue on 13 June 2022 and are signed on its behalf by:

MATTHEW SIMPSON

Chief Financial Officer

Company Statement of Changes in Equity

AS AT 31 MARCH 2022

	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Other Reserves £'000	Capital Reduction Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2020	4,639	125,019	(1,349)	3,843	–	17,548	149,700
Total comprehensive income for the year	–	–	–	–	–	(2,826)	(2,826)
Transactions with Equity Holders							
Share-based payments	–	–	–	–	–	300	300
Exercise of share options	–	–	61	–	–	(61)	–
Issue of deferred bonus share options	–	–	–	–	–	171	171
Dividends	–	–	–	–	–	(3,455)	(3,455)
Transfer to capital reduction reserve account	–	(125,019)	–	–	125,019	–	–
At 31 March 2021	4,639	–	(1,288)	3,843	125,019	11,677	143,890
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(1,706)**	**(1,706)**
Transactions with Equity Holders							
Share-based payments	**–**	**–**	**–**	**–**	**–**	**162**	**162**
Exercise of share options	**–**	**–**	**571**	**–**	**–**	**(571)**	**–**
Issue of deferred bonus share options	**–**	**–**	**–**	**–**	**–**	**90**	**90**
Dividends	**–**	**–**	**–**	**–**	**–**	**(5,427)**	**(5,427)**
At 31 March 2022	**4,639**	**–**	**(717)**	**3,843**	**125,019**	**4,225**	**137,009**

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

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

Other reserves comprise the merger reserve and the capital redemption reserve.

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

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

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

Notes to the Company Financial Statements

ACCOUNTING POLICIES

Palace Capital plc is a company incorporated in England and Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Group's operations and its principal activities are set out in the Strategic Report. The financial statements of the Company have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgement in applying the Company's accounting policies (as detailed below). The Statement of Financial Position heading relating to the Company's investments and property, plant and equipment has been amended to "Fixed assets" from "Non-current assets" to be consistent with the Company's presentation of its Statement of Financial Position in accordance with the balance sheet formats of the Companies Act 2006. Assets are classified in accordance with the definitions of fixed and current assets in the Companies Act instead of the presentation requirements of IAS 1 Presentation of Financial Statements

DIVIDENDS REVENUE

Revenue is recognised when the Company's right to receive payment is established, which is generally when Shareholders of the paying company approve the payment of the dividend.

VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

LISTED EQUITY INVESTMENTS

Listed equity investments have been classified as being at fair value through profit and loss. Listed equity investments are subsequently measured using Level 1 inputs, the quoted market price, and all fair value gains or losses in respect of those assets are recognised in the profit and loss.

CURRENT TAXATION

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are recognised in respect of timing differences that have originated but not reversed on the balance sheet date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax balances are not recognised in respect of permanent differences between the fair value of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This was enacted by the Finance Act 2021 on 10 June 2021.

Notes to the Company Financial Statements CONTINUED

TRADE AND OTHER RECEIVABLES

Trade and other receivables and intercompany receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables concerned.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

TRADE PAYABLES

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

EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the fair value of proceeds received, net of direct issue costs.

PARENT COMPANY DISCLOSURE EXEMPTIONS

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- no cash flow statement has been presented for the Parent Company;
- disclosures in respect of the Parent Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- disclosures in respect of the Parent Company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- disclosure has been given for the aggregate remuneration of the key management personnel of the Parent Company as their remuneration is included in the totals for the Group as a whole.

JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Investments and loans to subsidiary undertakings (see note 3)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings and the carrying value of the loans that the Company has made to them. The nature, facts and circumstance of the investment or loan are taken into account in assessing whether there are any indications of impairment.

Provisions provided in the year reflect the reduction in net asset value of subsidiaries for the year ended 31 March 2022. Write-down of investments reflect the winding up of subsidiaries within the year.

1. PROFIT FOR THE FINANCIAL PERIOD

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently a profit and loss account for the Company alone has not been presented.

2. INVESTMENTS IN SUBSIDIARIES

Cost:	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
At 1 April 2020	183,614	40	183,654
Settlement of loans	–	(40)	(40)
At 1 April 2021	183,614	–	183,614
Write-down of investments	**(2,658)**	**–**	**(2,658)**
At 31 March 2021	**180,956**	**–**	**180,956**
Provision for impairment:			
At 1 April 2020	56,197	–	56,197
Provided during the year	1,850	–	1,850
At 1 April 2021	58,047	–	58,047
Provided during the year	**45**	**–**	**45**
At 31 March 2022	**58,092**	**–**	**58,092**
Net book value at 31 March 2022	**122,864**	**–**	**122,864**
Net book value at 31 March 2021	125,567	–	125,567

The Group comprises a number of companies; all subsidiaries included within these financial statements are noted below:

Subsidiary undertaking:	Class of share held	% shareholding	Principal activity
Palace Capital (Leeds) Limited	Ordinary	100	Property Investments
Palace Capital (Northampton) Limited	Ordinary	100	Property Investments
Palace Capital (Properties) Limited	Ordinary	100	Property Investments
Palace Capital (Developments) Limited	Ordinary	100	Property Investments
Palace Capital (Halifax) Limited	Ordinary	100	Property Investments
Palace Capital (Manchester) Limited	Ordinary	100	Property Investments
Palace Capital (Liverpool) Limited	Ordinary	100	Property Investments
Palace Capital (Signal) Limited	Ordinary	100	Property Investments
Property Investment Holdings Limited	Ordinary	100	Property Investments
Palace Capital (Dartford) Limited	Ordinary	100	Property Management
Palace Capital (Newcastle) Limited	Ordinary	100	Property Investments
Palace Capital (York) Limited	Ordinary	100	Property Management
Associate Company:			
HBP Services Limited*	Ordinary	21.4	Property Management
Clubcourt Limited*	Ordinary	40	Property Management

* Held indirectly

The results of the associates are immaterial to the Group.

The registered addresses for the subsidiaries across the Group are consistent based on their country of incorporation and are as follows:

UK entities: 4th Floor, 25 Bury Street, St James's, London, SW1Y 6AL

On 22 March 2022 R.T. Warren (Investments) Limited was dissolved.

Notes to the Company Financial Statements CONTINUED

3. LISTED EQUITY INVESTMENTS

	Total £'000
At 31 March 2020	2,540
Gain on revaluation of listed equity investment shown in statement of comprehensive income	709
At 31 March 2021	3,249
Disposal of listed equity investment	**(3,249)**
At 31 March 2022	**–**

4. PROPERTY, PLANT AND EQUIPMENT

	IT, fixtures and fittings £'000
At 31 March 2020	253
Additions	16
At 31 March 2021	269
Additions	**22**
At 31 March 2022	**291**
Depreciation	
At 31 March 2020	157
Provided during the period	44
At 31 March 2021	201
Provided during the period	**47**
At 31 March 2022	**248**
Net book value at 31 March 2022	**43**
Net book value at 31 March 2021	68

5. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Amounts owed by subsidiary undertakings	**36,374**	30,063
Trade debtors	**5,607**	2,454
Other debtors	**44**	1,096
Accrued interest on amounts owed by subsidiary undertakings	**309**	65
Prepayments	**242**	221
	42,576	33,899

Trade debtors represent amounts owed from subsidiary undertakings in relation to management charges.

All amounts that fall due for repayment within one year and are presented within current assets as required by the Companies Act. The amounts owed by subsidiary undertakings are repayable on demand with no fixed repayment date, although it is noted that a significant proportion of the amounts may not be sought for repayment within one year depending on activity in the subsidiary undertakings.

A loan amounting to £28,888,501 remains outstanding at 31 March 2022 (2021: £26,375,362) from Palace Capital (Developments) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £519,534 remains outstanding at 31 March 2022 (2021: £396,034) from Palace Capital (Leeds) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

A loan amounting to £2,781,417 remains outstanding at 31 March 2022 (2021: £3,291,417) from Palace Capital (Halifax) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

A loan amounting to £4,034,646 remains outstanding at 31 March 2022 (2021: £743,583 creditor) from Palace Capital (Properties) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

A loan amounting to £150,000 remains outstanding at 31 March 2022 (2021: £Nil) from Palace Capital (Northampton) Limited. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on demand.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2022 £'000	2021 £'000
Trade creditors	**168**	206
Amount owed to subsidiary undertaking	**27,528**	17,776
Other taxes	**278**	269
Other creditors	**5**	66
Accruals and deferred income	**974**	842
	28,953	19,159

A loan amounting to £10,113,143 remains outstanding at 31 March 2022 (2021: £9,373,143) to Palace Capital (Signal) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £Nil remains outstanding at 31 March 2022 (2021: £2,662,519) to R.T. Warren Investments Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £16,314,718 remains outstanding at 31 March 2022 (2021: £4,996,489) to Property Investment Holdings Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £1,100,000 remains outstanding at 31 March 2022 (2021: £Nil) to Palace Capital (Liverpool) Limited. No interest is charged on this loan. This loan is repayable on demand.

7. SHARE CAPITAL

The details of the Company's share capital are provided in note 21 of the notes to the Consolidated Financial Statements.

8. LEASES

Operating lease payments in respect of rents on leasehold properties occupied by the Company are payable as follows:

	2022 £'000	2021 £'000
Within one year	**19**	178
From one to two years	**–**	19
	19	197

9. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

Officers and Professional Advisors

DIRECTORS

Steven Owen	Interim Executive Chairman
Matthew Simpson	Chief Financial Officer
Richard Starr	Executive Property Director
Kim Taylor-Smith	Non-Executive Director
Mickola Wilson	Non-Executive Director
Paula Dillon	Non-Executive Director

SECRETARY

Phil Higgins

REGISTERED OFFICE

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REGISTERED NUMBER

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JOINT BROKER

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LS1 5AA

Lloyds Bank plc

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London
EC2V 7HN

National Westminster Bank plc

16 The Boulevard
Crawley
West Sussex
RH10 1XU

Santander UK plc

Bridle Road
Merseyside
L30 4GB

Glossary

Adjusted EPS: Is adjusted profit before tax less corporation tax charge on recurring earnings (excluding deferred tax movements) divided by the average basic number of shares in the period.

Adjusted profit before tax: Is the IFRS profit before taxation excluding investment property revaluations, gains/losses on disposals, acquisition costs, fair value movement in derivatives, share-based payments and exceptional items.

Assets Under Management (AUM): Is a measure of the total market value of all properties owned and managed by the Group.

Balance sheet gearing: Is the balance sheet net debt divided by IFRS net assets.

Building Research Establishment Environmental Assessment Methodology (BREEAM) rating: A set of assessment methods and tools designed to help construction professionals understand and mitigate the environmental impacts of the developments they design and build. Performance is measured across a series of ratings: Good, Very Good, Excellent and Outstanding.

Core: Is a property investment management style which adopts a certain risk appetite growth strategy. Core is typically associated with a low to moderate risk profile. Core property owners would have the ability to increase cash flows through light refurbishment and asset management strategies. These properties tend to be high quality and well occupied.

Dividend cover: Is the Adjusted EPS divided by dividend per share declared in the period.

EPRA: Is the European Public Real Estate Association.

EPRA cost ratio (including direct vacancy costs): Is a proportionally consolidated measure of the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA cost ratio (excluding direct vacancy costs): Is the ratio calculated above, but with direct vacancy costs removed from the net overheads and operating expenses balance.

EPRA diluted EPS: Is EPRA earnings divided by the average diluted number of shares in the period.

EPRA earnings: Is the IFRS profit after taxation excluding investment property revaluations and gains/losses on disposals and changes in fair value of financial derivatives.

EPRA EPS: Is EPRA earnings divided by the average basic number of shares in the period.

EPRA net assets (EPRA NAV): Are the balance sheet net assets according to the definitions of the various NAV measures defined in the EPRA Best Practice Recommendations that came into effect for accounting periods starting 1 January 2020.

EPRA NAV per share: Is EPRA NAV divided by the diluted number of shares at the period end.

EPRA net tangible assets (EPRA NTA): Is the NAV adjusted to reflect the fair value of trading properties and derivatives and to exclude deferred taxation on revaluations.

EPRA occupancy rate: Is the ERV of occupied space divided by ERV of the whole portfolio, excluding developments and residential property.

EPRA topped-up net initial yield: Is the current annualised rent, net of costs, topped up for contracted uplifts, where these are not in lieu of rental growth, expressed as a percentage of capital value.

EPRA vacancy rate: Is the ERV of vacant space divided by ERV of the whole portfolio, excluding developments and residential property.

Equivalent yield: Is the net weighted average income return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent received annually in arrears and on values before deducting prospective purchaser's costs.

Estimated rental value (ERV): Is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

IAS/IFRS: Is the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the UK.

Interest cover ratio (ICR): Is the number of times net interest payable is covered by underlying profit before net interest payable and taxation.

Investment Property Databank (IPD): A wholly-owned subsidiary of MSCI producing an independent benchmark of property returns and the Group's portfolio returns.

Key Performance Indicators (KPIs): Are the most critical metrics that measure the success of specific activities used to meet business goals – measured against a specific target or benchmark, adding context to each activity being measured.

LIBOR: Is the London Interbank Offered Rate, a formerly used interest rate charged by one bank to another for lending money.

Like-for-like net rental income: Is the change in net rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, properties with guaranteed rent reviews, asset management determinations and surrender premiums.

Like-for-like valuation: Is the change in the carrying value of properties owned throughout the entire year.

This excludes properties acquired during the year, disposed of during the year and capital expenditure

Loan to value (LTV): Is the ratio of principal value of gross debt less cash, short-term deposits and liquid investments to the aggregate fair value of properties and investments.

Glossary CONTINUED

MSCI Inc. (MSCI IPD): Is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

Net asset value (NAV) per share: Is the equity attributable to owners of the Group divided by the number of ordinary shares in issue at the period end.

Net equivalent yield (NEY): Is the weighted average income return (after adding notional purchaser's costs) a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent is received annually in arrears.

Net initial yield (NIY): Is the current annualised rent, net of costs, expressed as a percentage of capital value, after adding notional purchaser's costs.

Net rental income: Is the rental income receivable in the period after payment of net property outgoings. Net rental income will differ from annualised net rents and passing rent due to the effects of income from rent reviews, net property outgoings and accounting adjustments for fixed and minimum contracted rent reviews and lease incentives.

Net reversionary yield (NRY): Is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Passing rent: Is the gross rent, less any ground rent payable under head leases.

Peer Group: A selection of small/medium sized property companies within the listed real estate sector with a diversified portfolio.

Portfolio Valuation: The value of the Company's property portfolio, including all investment and trading properties as valued by our independent valuers, Cushman & Wakefield, and assets held for sale.

Portfolio Value (PV): The value of the investment properties within the Palace Capital property portfolio as measured by Cushman & Wakefield. It is referenced in relation the 2018 LTIP's awarded to employees in 2018.

Property Income Distribution (PID): A dividend received by a Shareholder of the principal company in respect of profits and gains of the Property Rental Business of the UK resident members of the REIT Group or in respect of the profits or gains of a non-UK resident member of the REIT Group.

Real Estate Investment Trust (REIT): A UK Real Estate Investment Trust must be a company listed on a recognised stock exchange with at least three-quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90% of those profits to Shareholders. Tax is payable on profits from non-qualifying activities of the residual business.

SONIA: Is the Sterling Overnight Index Average, the interest rate charged by one bank to another for lending money.

Special Purpose Vehicle (SPV): Is a separate legal entity created by an organisation. The SPV is a distinct company with its own assets and liabilities, as well as its own legal status. Usually, they are created for a specific objective, often which is to isolate financial risk. As it is a separate legal entity, if the Parent Company goes bankrupt, the special purpose vehicle can carry its obligations.

Tenant (or lease) incentives: Are any incentives offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free period, or a cash contribution to fit-out or similar costs. Under accounting rules the value of lease incentives given to tenants is amortised through the Income Statement on a straight-line basis to the lease expiry.

Total Accounting Return (TAR): Is the increase or decrease in EPRA NAV per share plus dividends paid, and this can be expressed as a percentage of EPRA NAV per share at the beginning of the period.

Total Expense Ratio: Is calculated as total administrative costs for the year divided by the total asset value in the year.

Total Property Return (TPR): Total property return is a performance measure calculated by the MSCI IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as "the percentage value change plus net income accrual, relative to the capital employed".

Total Shareholder Return (TSR): Is calculated as the movement in the share price for the period plus dividends paid in the year, divided by opening share price.

Value-add: Is a risk appetite growth strategy. Typically associated with a moderate to high-risk profile. Value-add properties tend to have low cash flows at acquisition but have the potential to produce future cash flow uplifts once value has been added. This could be by taking on larger capital refurbishment projects to improve the layout and look of the property to ensure rental increases and capital value enhancement.

Weighted average debt maturity: Is measured in years when each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted average interest rate: Is the loan interest per annum at the period end, divided by total debt in issue at the period end.

Weighted average unexpired lease term (WAULT): Is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date, as stated.

WiredScore: Wired Certification is a commercial real estate rating system that empowers landlords to understand, improve, and promote their buildings' digital infrastructure. Connectivity is measured across a series of ratings: Platinum, Gold, Silver and Certified.

PALACE CAPITAL plc

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