24 November 2022

Palace Capital plc

("Palace Capital" or the "Company")

Interim Results for the six months ended 30 September 2022

CONTINUED DELIVERY OF STRATEGIC OBJECTIVES

Palace Capital (LSE: PCA), the Main Market listed property company, announces its unaudited results for the six months ended 30 September 2022.

Steven Owen, Interim Executive Chairman commented:

“At an operational level, the Company continues to make steady progress with its asset management activities, as well as reducing its level of gross debt and its cost base.

“In our October trading update we announced that we have decided to pause the timing of material property disposals for the time being due to significant volatility and uncertainty and this remains the case. However, we are continuing to successfully sell small, individual assets which lend themselves better to private buyers and special purchasers, the proceeds of which have been used to further reduce gross debt from that reported at the half year end.

“Although we are hopeful of stability returning, the commercial property market continues to be adversely affected both in terms of investment activity and in the downward re-pricing of assets as evidenced by recently reported results and indices. During this challenging period our priority remains to actively manage the portfolio and further reduce gross debt through selective sales of smaller properties. Our relatively low gearing gives the Company flexibility to determine when the appropriate time is to resume significant disposals. This is a matter that is kept under constant review as the Board strives to maximise cash returns to shareholders whilst remaining mindful of consolidation in the Real Estate sector.”

Income Statement metrics	**Six months to 30 Sept 2022**	**Six months to 30 Sept 2021**
Adjusted profit before tax	£3.5m	£4.0m
Adjusted earnings per share	7.9p	8.7p
IFRS (loss)/profit before tax	(£12.4m)	£8.0m
Basic earnings per share	(27.4p)	17.4p
Dividends		
Total dividend paid per share	7.0p	5.5p
Balance Sheet and operational metrics	30 Sept 2022	31 March 2022
EPRA NTA per share	356p	390p
Net asset value	£155.7m	£177.2m
Like-for-like portfolio valuation (decrease)/increase	(6.5%)	3.9%

EPRA occupancy rate	88.9%	88.5%
Debt		
Loan to value	32%	28%
Total drawn debt	£88.7m	£101.8m
Average cost of debt	3.9%	3.2%
Average debt maturity	2.8 years	1.9 years

Financial highlights

- Adjusted profit before tax of £3.5 million (September 2021: £4.0 million) reflecting higher borrowing costs
- IFRS loss before tax for the period of £12.4 million (September 2021 £8.0 million profit) primarily due to the valuation deficit of £15.6 million
- Adjusted EPS of 7.9 pence (September 2021: 8.7 pence)
- Dividends paid up 27.3% to 7.0 pence per share (September 2021: 5.5p)
- Completed a £6.0 million share buyback programme in July 2022, a 7.0 pence per share accretion to EPRA NTA
- EPRA NTA per share of 356 pence reduced by 8.7% (March 2022: 390 pence) and IFRS net assets of £155.7 million (March 2022: £177.2 million) reflecting an outward yield shift. Excluding Bank House, Leeds, EPRA NTA per share reduced by 6.1%
- Investment property portfolio valuation reduced by 6.5% on a like-for-like basis under the inaugural valuation undertaken by CBRE or 4.6% excluding the deficit of £5.0 million on Bank House, Leeds
- Portfolio ERV growth over the half year was 3.6% on a like-for-like basis, 7.1% for the industrial portfolio
- LTV of 32% (March 2022: 28%)
- Gross debt reduced by 12.9% in the period to £88.7 million (March 2022: £101.8 million). Gross debt reduced by a further £5.4 million post period-end to £83.3 million.
- The weighted average maturity of debt facilities is 2.8 years with the earliest facility not due to expire until March 2024
- Annualised administration cost savings of over £1.2 million following the Board changes and the relocation of the Company's head office, together with other, continuing cost reduction measures. The annualised cost savings of £1.2 million represent 26% of FY22 administration expenses and 16% of FY22 EPRA earnings

Operational highlights

- During the first half, the Company disposed of four investment properties for £4.8 million, 25% ahead of the 31 March 2022 book value
- Since the half year end a further two investment properties have been sold for £4.1 million bringing the total sold year to date to £8.9 million, 22% ahead of the 31 March 2022 book value
- Apartment sales at Hudson Quarter, York have continued to progress, despite the uncertain economic backdrop. A further 13 apartments have been sold since 31 March 2022 for a total of £5.7 million, with aggregate proceeds of the 93 units sold totalling £33.1 million. Additionally, 10 units are under offer to the value of £4.4 million, leaving 24 units remaining. During the first half 9 apartments were sold for £3.9 million.
- WAULT for the portfolio has remained resilient at 4.8 years (March 2022 4.7 years)
- An additional £0.9 million of annualised net rental income was created during the half year through leasing and review activity and the associated reduction in non-recoverable property costs which was, on average 12%, ahead of the 31 March 2022 ERVs. Annualised net rental

income lost from lease expiries and breaks totalled £0.4 million resulting in a net additional annualised increase of £0.5 million from active asset management activity. Net rental income lost from disposals totalled £0.3 million per annum resulting in a net gain in annualised net rental income of £0.2 million

- Rent collection for the first half of the financial year was 99% (31 March 2022: 98%)
- EPRA occupancy remains stable at 88.9% (31 March 2022: 88.5%)

Audio Webcast

The Company will hold an audio webcast for analysts and investors at 9.00 am today which will be available via the link below. An on demand recording will also be available from this link following the meeting and via the Company's website www.palacecapitalplc.com.

https://pcawebcast

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Cautionary Statement

This announcement does not constitute an offer of securities by the Company. Nothing in this announcement is intended to be, or intended to be construed as, a profit forecast or a guide as to the performance, financial or otherwise, of the Company or the Group whether in the current or any future financial year. This announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. They may appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of the directors, the Company or the Group concerning, amongst other things, the operating results, financial condition, prospects, growth, strategies and dividend policy of the Group or the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual operating results, financial condition, dividend policy or the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in this announcement. In addition, even if the operating results, financial condition and dividend policy of the Group, or the development of the industry in which it operates, are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, industry trends, competition, changes in government and other regulation, changes in political and economic stability and changes in business strategy or development plans and other risks.

Other than in accordance with its legal or regulatory obligations, the Company does not accept any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

INTERIM EXECUTIVE CHAIRMAN'S STATEMENT

Update on delivery of strategic objectives

At our Full Year results, announced in June, it was noted that the year ahead was likely to be further affected by continuing macroeconomic and geo-political uncertainty, particularly arising from the continuing conflict in Ukraine. These were expected to contribute to growing inflationary headwinds which would impact on consumer and investor confidence, with interest rates likely to constrain UK economic growth in the short term. This has been borne out by recent monetary and fiscal tightening, with the UK economy likely to suffer a recession in the short term.

On 19 July 2022, it was announced by the Company that the Board's strategy was to focus on maximising cash returns to shareholders, whilst continuing to remain mindful of consolidation in the Real Estate sector. As part of its considerations, several properties, including the industrial portfolio, were prepared and readied for sale. Other properties are undergoing asset management initiatives in order to prepare them for sale at a future date when market conditions are more favourable.

However, since the 'mini-budget' in September, the negative trends outlined above accelerated significantly, translating into higher borrowing costs, the impact of which has adversely impacted property valuations, with the industrial sector being particularly affected.

The Board therefore took the decision to pause the timing of significant property disposals for the time being because of this volatility but said that it would continue to sell small, individual assets which lend themselves better to private buyers and special purchasers. The Company has relatively low leverage and therefore has the flexibility to do this and to react promptly when the market stabilises.

To this end, since the half year end, the Company has sold £4.1 million of investment properties, bringing the total sold year to date to £8.9 million at 22% above the 31 March 2022 valuation. Since the half year end, the Company also sold £1.8 million of residential apartments at Hudson Quarter, York, bringing the total sold year to date to £5.7 million.

Operationally, the business remains robust. The Asset Management team has been proactive in implementing asset management plans to increase income and reduce void costs with lettings, renewals and rent reviews on average 12% ahead of the 31 March 2022 estimated rental values. During the first half year 23 lease events comprising seven new lettings, six lease renewals and ten rent reviews were completed across 113,600 sq ft of space providing £0.7 million of additional income. Including the associated reduction in non-recoverable property costs of £0.2 million an additional £0.9 million of net rental income was created during the first half.

The team has focused on minimising costs to our tenants. Rents and service charges for properties in the portfolio remain competitive and are considered by management to represent an affordable solution to existing and prospective tenants facing the current and predicted economic headwinds. Our passing rents per square foot for the portfolio sectors show levels of c. £17.10 psf, £7.10 psf and £17.90 psf for offices, industrial and leisure respectively. We have a good mix of assets ranging from Grade A offices to more affordable industrial, leisure and retail units in good locations for people to access for their business requirements.

In terms of managing our own costs, as previously announced, measures to reduce the level of administrative expenses have been implemented and are continuing. It is estimated that annualised cost savings are over £1.2 million which include the Company relocating its head office on 1 December

2022 from St James's, London to Victoria, London. The half year results include an exceptional charge of £1.1 million (excluding taxes and costs) relating to contractual payments to the former Chief Executive and Executive Property Director.

The new, smaller Board consisting of Mark Davies, Matthew Simpson and myself, which is more appropriate for the size of the Company, has operated effectively and closely in dealing with the challenges the Company has faced since August 2022. The Board is supported by an Executive Committee of six key personnel including the Heads of Asset Management and Investment.

During the period, the Company announced a share buyback programme of up to 5% of its issued share capital which was completed within a week of announcement through the purchase of 2.3 million shares at a price of 260 pence per share. The accretion to EPRA NTA was 7.0 pence per share.

As part of our financial management, we have also been active in allocating surplus capital to reduce our gross debt by repaying higher interest loans and thereby reducing debt servicing costs and improving covenant headroom.

Overview of results

The Group's adjusted profit before tax reduced to £3.5 million (September 2021: £4.0 million) principally due to higher borrowing costs compared with the previous half year period. Investment property sales during the half year period totalled £4.8 million which realised a profit of £0.9 million (September 2021: £0.4 million). Trading profits from the sale of residential units realised a profit of £0.1 million (September 2021: £2.8 million).

The whole portfolio was independently valued by CBRE, the Company's new valuers, as at 30 September 2022, at £235.6 million, a reduction of 6.5% on a like-for-like basis. The valuation deficit of £15.6 million equates to 35.4 pence per share. Of this, £5.0 million related to Bank House, Leeds. Excluding this one asset, the portfolio valuation reduction on a like-for-like basis was 4.6%.

Bank House, Leeds, is an 89,000 sq ft Grade II listed building in Leeds city centre. It is currently fully let. In the Trading Update on 12 October 2022, we advised that:

- on 5 October 2022, planning permission was granted for a three storey extension and extensive external alterations and remediation
- a design review process would be undertaken including a value engineering exercise with advisers in order to assess its viability
- if in the event the value engineering exercise concluded that the scheme is not viable then the carrying value of the property would be reduced to take account of remediation costs
- the Company would also be assessing all of its options in relation to the property.

The Company has now conducted detailed viability analyses of the proposed scheme for which planning permission was sought and has determined that such a scheme is not currently financially viable. Accordingly, the Company is now analysing options for the refurbishment and remediation of the existing building, alongside environmental improvements. The listing of the building is also being reviewed to establish whether, in the circumstances, there is a case to de-list the building, as part of the process to maximise its value for sale in due course. CBRE valued Bank House, Leeds as at 30 September 2022 at £5.3 million which reflects the cost of remediation to the exterior cladding.

The investment portfolio (excluding residential properties held as trading properties) was valued at £216.9 million and a net initial yield (NIY) of 6.8%. Within the investment portfolio the office, industrial and leisure assets, which comprise 89% of the portfolio, were valued at NIYs of 6.6%, 5.7% and 8.7% respectively.

The ERVs used by the valuers were, on the whole portfolio, 3.6% higher on a like-for-like basis than as at 31 March 2022. Within the portfolio the ERV growth for offices, industrial and leisure assets was 1.8%, 7.1% and 6.9% respectively.

Principally, as a result of the revaluation loss on investment properties, EPRA NTA per share fell by 34 pence to 356 pence per share as at 30 September 2022 (March 2022: 390 pence per share).

The Group's balance sheet remains resilient with cash reserves of £12.9 million as at 30 September 2022. Gross debt reduced by 12.9% in the period to £88.7million (March 2022: £101.8 million), but, mainly as a result of the property portfolio valuation reduction, the loan to value ratio increased slightly to 32% (March 2022: 28%). Since the half year end, gross debt has reduced by a further £5.4 million.

Dividend

The Group increased its paid dividends by 27.3% to 7.0 pence per share (September 2021: 5.5 pence per share) in relation to the period ended 30 September 2022. The Company declares that an interim dividend will be paid in the amount of 3.75 pence per share on 13 January 2023 as a Property Income Distribution (PID). The record date will be 23 December 2022.

Outlook

The recent increase in interest rates with the prospect of further increases as implied by financial markets has adversely impacted the commercial property market in relation to investment activity resulting in a re-pricing of assets compared with the position earlier in the year. Notwithstanding this, the occupational market has remained resilient as evidenced by the increases over estimated rental values obtained on lettings, lease renewals and rent reviews together with a stable occupancy rate and high rent collection which demonstrates the resilience of the portfolio.

The Company continues to sell selected properties at attractive prices which further strengthens the balance sheet through the reduction in gearing associated with debt repayment. During this challenging period the priority is to actively manage the portfolio and further reduce gross debt through selective sales of smaller properties. The relatively low gearing gives the Company flexibility to determine when the appropriate time is to resume significant disposals in an orderly manner.

The Board looks forward to announcing further progress in due course.

Steven Owen
Interim Executive Chairman

CHIEF FINANCIAL OFFICER'S REPORT

Financial Overview

The Group's adjusted profit before tax reduced by 12.5% to £3.5 million (September 2021: £4.0 million), and EPRA NTA per share by 8.7% to 356 pence (March 2022: 390 pence). Against a backdrop of economic uncertainty, the Group continued to deliver at an operational level, by reducing gross debt in a rising interest environment and making substantial progress in reducing administration costs since June 2022, with over £1.2 million of annualised cost savings made to date, with further reduction measures identified. In line with the strategy of returning capital to shareholders, the Group has increased the dividend paid by 27.3% in the period compared with the previous half year and completed a £6.0 million share buyback programme in July 2022, increasing EPRA NTA by 7.0 pence per share.

The summary of the Group financial results are as follows:

Income Statement Summary

Income Statement	30 Sept 2022	30 Sept 2021
	£m	£m
Gross property income (excluding ECL provision)	8.7	8.6
Property operating expenses	(1.3)	(1.2)
Expected Credit Loss provision	(0.1)	-
Net property income (excluding trading profit)	**7.3**	**7.4**

Dividend income from listed equity investments	-	0.1
Recurring administration expenditure	(2.0)	(2.0)
Finance costs	(1.8)	(1.5)
Adjusted profit before tax	**3.5**	**4.0**
Tax	0.1	-
Adjusted profit after tax	**3.6**	**4.0**
Hudson Quarter development loan interest	-	(0.2)
Payments to former Directors (including associated costs)	(1.4)	-
Share based payments	(0.1)	(0.1)
EPRA earnings	**2.1**	**3.7**
(Loss)/gain on revaluations	(15.6)	1.3
Loss on disposal of equity investments	-	(0.1)
Trading profit	0.1	2.8
Profit on disposal of investment properties	0.9	0.4
Change in fair value of interest rate derivatives	0.2	-
Debt termination costs	-	(0.1)
IFRS earnings	**(12.3)**	**8.0**

Net property income in the period fell marginally to £7.3 million (September 2021: £7.4 million). An increase in annualised income from lease events has been mostly offset by income lost to disposals since September 2021. Property operating expenses have risen by £0.1 million as a result of rates refunds being received in the period to September 2021, which were not replicated in the current period. A bad debt provision of £0.1 million has been recognised in the current half year period in the event of an increase in tenant arrears as the economic outlook deteriorates. Notwithstanding our caution in making this provision, rent collection has remained consistent at 99% throughout the period.

The Group has made significant progress in reducing its annualised administration costs by over £1.2 million to since June 2022. These cost savings reflect changes in the board composition and a combination of other cost reduction measures, including the relocation of the head office with effect from 1 December 2022. The cost savings of £1.2 million represent 26% of FY22 administration expenses and 16% of FY22 EPRA earnings. Due to the timing of the savings and various contract notices, the subsequent impact of these costs will not be reflected fully in the financial statements until the latter months of the financial year but principally into FY24. Recurring administration costs remained flat at £2.0 million (September 2021: £2.0 million) in the period.

Non-recurring administration expenses in the period include £1.4 million of payments including associated costs, paid to the former CEO and Executive Property Director, who stepped down in the period, under the terms of their service contracts and the Company's remuneration policy.

Finance costs increased by £0.3 million to £1.8 million (September 2021: £1.5 million) in the period, as the Bank of England increased interest rates in response to rising inflation.

EPRA NTA Movement

EPRA NTA decreased by 34 pence or 8.7% to 356 pence (March 2022: 390p) during the period. This was largely due to the revaluation deficit of £15.6 million or 35.4 pence per share, or a 6.5% reduction in the portfolio on a like-for-like basis. However, the revaluation deficit on one asset, Bank House, Leeds, contributed £5.0 million of this deficit, which equates to 11.4 pence per share of the total EPRA NTA reduction.

Other movements to note include the buyback of shares of £6.0 million, increasing EPRA NTA by 7.0 pence per share, the profit on disposal of assets and HQ trading profit of £1.0 million, contributing 2.2

pence per share. These were offset by the fair value, downward adjustment of trading properties (HQ York residential) of £1.8 million, or 4.1 pence per share and the payments including associated costs to former Directors of £1.4 million reducing EPRA NTA by 3.1 pence per share. Conversely, net adjusted earnings, after dividends paid, increased EPRA NTA by a further 0.9 pence per share. Other movements contributed to a further reduction of 1.5 pence per share.

	£m	No. of shares (diluted)	Pence per share
EPRA NTA at 31 March 2022	**180.6**	**46,325,236**	**390.0p**
Share buyback	(6.0)	(2,300,000)	7.0p
EPRA NTA after share buyback	**174.6**	**44,025,236**	**397.0p**
Adjusted earnings	3.5		7.9p
Sale of assets	0.9		2.0p
HQ trading profit	0.1		0.2p
Property portfolio revaluation loss excl. Bank House	(10.6)		(24.0p)
Bank House revaluation loss	(5.0)		(11.4p)
Cash dividends paid	(3.2)		(7.0p)
Fair value adj. of trading properties	(1.8)		(4.1p)
Payments to former Directors including associated costs	(1.4)		(3.1p)
Other movements	(0.1)	11,287	(1.5p)
EPRA NTA at 30 September 2022	**157.0**	**44,036,845**	**356.0p**

FINANCING

Given the economic uncertainty, leading to rising inflation and subsequent increases in interest rates, the Group has prioritised the efficient use of its capital and maintaining an appropriate capital structure. The Group has made significant progress in reducing its drawn debt by 12.9% to £88.7 million (March 2022: £101.8 million). Given the rising interest rate environment, management continue to sensitise bank loan covenants ensuring they remain compliant. Post 30 September 2022, £5.4 million of gross bank debt has been repaid, which included £5.0m repayment of the Santander facility on 1 November 2022. As a result, gross debt was £83.3 million at 23 November 2022. Using current SONIA rates plus the margin, this saves the Group annualised interest costs of over £0.25 million. The Group has remained compliant with all covenants on its bank facilities in the period.

As at 23 November 2022, the cash balance was £8.0 million (March 2022: £28.1 million – including £5.0 million drawn from the NatWest RCF which has been repaid). The disposal proceeds from Hudson Quarter residential sales continue to enhance cash reserves, as this cash is unfettered and free from bank debt. The cash received from both HQ sales and the disposal of investment properties, gives the Group flexibility and optionality on how to deploy its capital.

The Group refinanced the facility with Santander, reducing the margin from 2.5% to 2.2% on a new five-year facility in May 2022, whilst also extending the current debt facility with Lloyds for a further year until March 2024. The average debt maturity increased to 2.8 years (March 2022: 1.9 years). The Company continues to maintain close relationships with its lenders, as we navigate these uncertain times.

Net debt at 30 September 2022 increased slightly to £75.8 million (March 2022: £73.6 million). The combination of the £6.0 million share buyback programme which was completed in July 2022 and the revaluation deficit on investment properties of £15.6 million has resulted in an increase in the loan to value (LTV) ratio to 32% at 30 September 2022 (March 2022: 28%). The average cost of debt increased to 3.9% (March 2022: 3.2%) as a result of interest rates increasing and the Santander swap maturing in August 2022.

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

	2022 £m
Drawn debt at 31 March 2022	**101.8**
Repayment of debt from disposals	(12.2)
Amortisation of loans	(0.9)
Drawn debt at 30 September 2022	**88.7**
Repayment of debt from disposals	(5.0)
Amortisation of loans	(0.4)
Drawn debt at 23 November 2022	**83.3**

Given the economic climate of increasing inflation, with interest rates expected to rise further, we continue to monitor swap rates on an ongoing basis. At 30 September 2022 we held £36.6 million of fixed or hedged debt (March 2022: £61.4 million), which was 41% of overall drawn debt (March 2022: 60%), as shown in the table below:

DEBT

	Fixed £m	**Floating £m**	**Total drawn £m**	**Years to maturity**
Barclays	27.8	-	27.8	1.7
NatWest	-	20.8	20.8	1.9
Santander	-	24.5	24.5	4.7
Lloyds	-	6.8	6.8	1.4
Scottish Widows	8.8	-	8.8	3.8
	36.6	**52.1**	**88.7**	**2.8**

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

DEBT METRICS

	30 September 2022	**31 March 2022**
Net loan to value ratio	32%	28%
Debt drawn	£88.7m	£101.8m
Total fixed debt	£36.6m	£61.4m
Average cost of debt	3.9%	3.2%

Average debt maturity	2.8yrs	1.9yrs
NAV gearing	49%	41%

Matthew Simpson

CHIEF FINANCIAL OFFICER

23 November 2022

Statement of Principal Risks

We consider there has been no material changes to the Group's principal risks, as set out on pages 39 to 43 of the Annual Report and Accounts for the year ended 31 March 2022 and summarised below. However, several risks continue to be elevated as a result of the ongoing economic outlook for the UK.

This includes increased risks relating to Market Cycle, Economic and Political, Liquidity and Valuation through increased economic uncertainty, higher interest rates, inflation and energy costs which may negatively impact revenues and costs for our tenants, for the commercial property market and the Company. We are working with our tenants, banks and other stakeholders to mitigate these risks.

01

MARKET CYCLE
Risk description
Failure to react appropriately to changing market conditions and adapt our corporate strategy could negatively impact shareholder returns.

02

ECONOMIC AND POLITICAL
Risk description
Uncertainty from global 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.

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.

04

LIQUIDITY
Risk description
Increasing costs of borrowing due to increasing interest rates could affect the Group's ability to borrow or reduce its ability to repay its debts

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

06

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

07

VALUATION

Risk description

08

TENANT DEMAND AND DEFAULT
Risk description

09

BUSINESS CONTINUITY AND CYBER SECURITY
Risk description

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

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.

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.

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.

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.

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.

Statement of Directors' Responsibilities

The Directors confirm that the condensed set of consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Palace Capital plc are listed on the Company website www.palacecapitalplc.com

By order of the Board

Matthew Simpson

Chief Financial Officer

23 November 2022

Palace Capital plc

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2022

	Notes	**Unaudited 6 months to 30 September 2022 £000**	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
Revenue	3	**14,340**	29,798	49,064
Cost of sales	4	**(6,934)**	(19,530)	(30,408)
Movement in expected credit loss		**-**	-	360
Net property income		**7,406**	10,268	19,016
Dividend income from listed equity investments		**-**	64	64
Administrative expenses		**(3,529)**	(2,176)	(4,623)
Operating profit before gains and losses on property assets and listed equity investments		**3,877**	8,156	14,457
Profit on disposal of investment properties		**882**	380	4,946
(Loss)/gain on revaluation of investment properties	9	**(15,587)**	1,265	8,222
Loss on disposal of listed equity investments		**-**	(80)	(80)
Operating (loss)/profit		**(10,828)**	9,721	27,545
Finance income		**2**	-	-
Finance expense		**(1,725)**	(1,618)	(3,196)
Debt termination costs		**(6)**	(48)	(63)
Changes in fair value of interest rate derivatives		**184**	(10)	329
(Loss)/profit before taxation		**(12,373)**	8,045	24,615
Taxation	5	**31**	-	(67)
(Loss)/profit after taxation for the period and total comprehensive income attributable to owners of the Parent		**(12,342)**	8,045	24,548

Earnings per ordinary share				
Basic	6	(27.4p)	17.4p	53.1p
Diluted	6	(27.4p)	17.4p	53.0p

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

Palace Capital plc

Condensed consolidated statement of financial position

For the six months ended 30 September 2022

	Notes	**Unaudited 30 September 2022 £000**	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000
Non-current assets				
Investment properties	9	**213,928**	229,584	232,717
Right of use asset		**-**	90	17
Property, plant and equipment		**34**	48	45

		213,962	229,722	232,779
Current assets				
Trading property	10	**17,005**	27,246	20,287
Trade and other receivables	11	**8,191**	11,080	7,412
Cash and cash equivalents	12	**12,888**	13,680	28,143
Derivative financial instruments	15	**252**	-	-
		38,336	52,006	55,842
Total assets		**252,298**	281,728	288,621
Current liabilities				
Trade and other payables	13	**(7,408)**	(9,109)	(8,912)
Borrowings	14	**(1,718)**	(30,835)	(32,749)
Lease liabilities for right of use asset		**-**	(67)	-
Derivative financial instruments	15	**-**	-	(47)
Creditors: amounts falling due within one year		**(9,126)**	(40,011)	(41,708)
Net current assets		**29,210**	11,995	14,134
Non-current liabilities				
Borrowings	14	**(86,247)**	(75,407)	(68,488)
Deferred tax liability		**(113)**	(228)	(143)
Lease liabilities for investment properties		**(1,077)**	(1,802)	(1,078)
Derivative financial instruments	15	**-**	(690)	-
Net Assets		**155,735**	163,590	177,204
Equity				
Called up share capital	16	**4,639**	4,639	4,639
Merger reserve		**3,503**	3,503	3,503
Capital redemption reserve		**340**	340	340
Treasury share reserve		**(6,669)**	(715)	(717)
Capital reduction reserve		**121,779**	125,019	125,019
Retained earnings		**32,143**	30,804	44,420
Equity shareholders' funds		**155,735**	163,590	177,204
Basic NAV per ordinary share	7	**354p**	353p	383p
Diluted NAV per ordinary share	7	**354p**	353p	383p
EPRA NTA per ordinary share	7	**356p**	362p	390p

The accompanying notes form an integral part of these condensed consolidated interim financial statements.
The condensed consolidated interim financial statements were approved by the Board of Directors on 23 November 2022.

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

Palace Capital plc
Condensed consolidated statement of changes in equity
For the six months ended 30 September 2022

	Share Capital £000	Treasury Shares Reserve £000	Other Reserves £000	Capital reduction reserve £000	Retained Earnings £000	Total equity £000

As at 31 March 2021	4,639	(1,288)	3,843	125,019	25,618	157,831
Total comprehensive profit for the period	-	-	-	-	8,046	8,046
Share based payments	-	-	-	-	158	158
Exercise of share options	-	573	-	-	(573)	-
EBT share purchased	-	-	-	-	(16)	(16)
Issue of deferred bonus share options	-	-	-	-	105	105
Dividends	-	-	-	-	(2,534)	(2,534)
As at 30 September 2021	4,639	(715)	3,843	125,019	30,804	163,590
Total comprehensive profit for the period	-	-	-	-	16,502	16,502
Share based payments	-	-	-	-	4	4
Exercise of share options	-	(2)	-	-	2	-
Issue of deferred bonus share options	-	-	-	-	-	-
Dividends	-	-	-	-	(2,893)	(2,893)
As at 31 March 2022	4,639	(717)	3,843	125,019	44,420	177,204
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(12,342)**	**(12,342)**
Share based payments	**-**	**-**	**-**	**-**	**100**	**100**
Exercise of share options	**-**	**73**	**-**	**-**	**(73)**	**-**
Issue of deferred bonus share options	**-**	**-**	**-**	**-**	**38**	**38**
Dividends	**-**	**-**	**-**	**(3,240)**	**-**	**(3,240)**
Share buyback	**-**	**(6,025)**	**-**	**-**	**-**	**(6,025)**
As at 30 September 2022	**4,639**	**(6,669)**	**3,843**	**121,779**	**32,143**	**155,735**

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

Palace Capital plc

Condensed consolidated statement of cash flows

For the six months ended 30 September 2022

	Notes	**Unaudited 6 months to 30 September 2022 £000**	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
Operating activities				
(Loss)/profit before taxation		**(12,373)**	8,045	24,615
Finance income		**(2)**	330	-
Finance expense		**1,725**	1,618	3,196
Changes in fair value of interest rate derivatives		**(184)**	10	(329)
Loss/(gain) on revaluation of investment property portfolio	9	**15,587**	(1,265)	(8,222)
Profit on disposal of investment properties	9	**(882)**	(380)	(4,946)
Loss on disposal of equity investments		**-**	80	80
Debt termination costs		**6**	48	63
Depreciation		**17**	24	48
Amortisation of right of use asset		**17**	74	148
Share-based payment		**100**	158	162
(Increase)/decrease in trade and other receivables		**(779)**	(1,428)	2,289

Decrease in trade and other payables		**(1,411)**	(2,366)	(2,929)
Decrease in trading property		**3,282**	14,753	21,972
Net cash generated from operations		**5,103**	19,701	36,147
Interest received		**2**	(330)	-
Interest and other finances charges paid		**(1,619)**	(1,593)	(3,417)
Corporation tax paid in respect of operating activities		**(106)**	(24)	(48)
Net cash flows from operating activities		**3,380**	17,754	32,682
Investing activities				
Purchase of investment properties		**-**	-	(9,870)
Capital expenditure on refurbishment of investment property	9	**(608)**	(2,967)	(6,519)
Proceeds from disposal of investment properties	9	**4,692**	10,230	31,221
Amounts transferred into restricted cash deposits		**-**	(3,043)	-
Proceeds from disposal of listed equity investments		**-**	3,169	3,169
Dividends from listed equity investments		**-**	64	64
Purchase of property, plant and equipment		**(6)**	(1)	(22)
Cash flows from investing activities		**4,078**	7,452	18,043
Financing activities				
Bank loan repaid		**(13,037)**	(21,408)	(38,033)
Proceeds from new bank loans		**-**	-	11,472
Loan issue costs		**(411)**	(44)	(11)
Dividends paid	8	**(3,240)**	(2,534)	(5,427)
Share buyback		**(6,025)**	-	-
Cash flows from financing activities		**(22,713)**	(23,986)	(31,999)
Net (decrease)/increase in cash		**(15,255)**	1,220	18,726
Opening cash and cash equivalents	12	**28,143**	9,417	9,417
Closing cash and cash equivalents	12	**12,888**	10,637	28,143

Palace Capital plc
Notes to the condensed consolidated financial statements
For the six months ended 30 September 2022

1 General information

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

The Company's shares are admitted to trading on the Main Market of the London Stock Exchange. The Company is domiciled and registered in England and Wales and incorporated under the Companies Act 2006. The address of its registered office is 25 Bury Street, London, SW1Y 6AL.

The nature of the Company's operations and its principal activities are that of property investment in the UK.

Basis of preparation

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

The interim results have been prepared in accordance with applicable International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). These standards are collectively referred to as "IFRS".
The accounting policies and methods of computations used are consistent with those as reported in the Group's Annual Report for the year ended 31 March 2022 and are expected to be used in the Group's Annual Report for the year ended 31 March 2023.

The financial information for the year ended 31 March 2022 presented in these unaudited condensed Group interim financial statements does not constitute the Company's statutory accounts for that period but has been derived from them. The Report and Accounts for the year ended 31 March 2022 were audited and have been filed with the Registrar of Companies. The Independent Auditor's Report on the Report and Accounts for the year ended 31 March 2022 was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006. The financial information for the periods ended 30 September 2021 and 30 September 2022 are unaudited and have not been subject to a review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board.

The interim report was approved by the Board of Directors on 23 November 2022.

Copies of this statement are available to the public on the Company's website, www.palacecapitalplc.com. Printed copies are available to shareholders on request via email to info@palacecapitalplc.com.

Restatement
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 £2,024,000 as service charge income within revenue and a corresponding £2,024,000 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 period ending 30 September 2021 were therefore restated to £29,798,000 and £19,530,000 respectively, from £27,774,000 and £17,506,000.

Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern which included the current uncertainties around the economic climate brought on by rising inflation and rising interest rates. In this assessment, the Directors considered the impact on the Group's cash resources, borrowing facilities (including impact on bank covenants), rental income, disposals of investment and trading properties, committed capital and dividend distributions. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements.

As at 30 September 2022 the Group had £12.9m of unrestricted cash and cash equivalents, a low gearing level of 32% and a fair value property portfolio of £235.6m. The Directors have reviewed the forecasts for the Group taking into account the impact of rising inflation and rising interest rates on trading over the 12 months from the date of signing this report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly higher interest rates as a result of the economic uncertainty.

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 Interim Report.

2 Segmental reporting

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

3 Revenue

	Unaudited 6 months to 30 September 2022 £000	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
Gross rental income	**8,616**	8,453	16,670
Dilapidations and other property related income	**4**	89	732
Insurance commission	**-**	45	92
Gross property income	**8,620**	8,587	17,494
Trading property income	**3,523**	19,187	27,415
Service charge income	**2,197**	2,024	4,155
Total revenue	**14,340**	29,798	49,064

4 Cost of sales

	Unaudited 6 months to 30 September 2022 £000	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
Void investment and development property costs	**847**	841	2,310
Legal, lettings and consultancy costs	**458**	326	328
Property operating expenses	**1,305**	1,167	2,638
Trading property costs of sales	**3,432**	16,339	23,615
Service charge expense	**2,197**	2,024	4,155
Total cost of sales	**6,934**	19,530	30,408

5 Taxation

	Unaudited 6 months to 30 September 2022 £000	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
Current income tax charge	**-**	-	152
Deferred tax	**(31)**	-	(85)
Tax (credit)/charge	**(31)**	-	67

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.

6 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 (excluding treasury shares) during the period and for diluted weighted average number of ordinary shares (excluding treasury shares) in issue during the year. Refer to the table below.

	Unaudited 6 months to 30 September 2022 £000	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
(Loss)/profit after tax attributable to ordinary Shareholders for the year	**(12,342)**	8,045	24,548

	Unaudited 6 months to 30 September 2022	Unaudited 6 months to 30 September 2021	Audited Year to 31 March 2022
Weighted average number of shares for basic earnings per share	**45,033,081**	46,226,727	46,257,514
Dilutive effect of share options	**9,831**	36,766	36,766
Weighted average number of shares for diluted earnings per share	**45,042,912**	46,263,493	46,294,280
Earnings per ordinary share			
Basic	**(27.4p)**	17.4p	53.1p
Diluted	**(27.4p)**	17.4p	53.0p

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 (BPR) reporting framework the latest update of which was issued in November 2016. We report a number of these measures 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 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, gains and losses on disposals, changes in fair value of financial instruments, 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. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised.

The Group also reports an adjusted earnings measure which is based on recurring earnings before tax and the basic number of shares. Currently, this is one of the bases 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, non-recovery development loan interest and payments to former Directors. The earnings per ordinary share for the period is calculated based upon the following information:

	Unaudited 31 months to 30 September 2022 £000	Unaudited 31 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
(Loss)/profit after tax attributable to ordinary shareholders for the period	**(12,342)**	8,045	24,548
Adjustments:			
Loss/(gain) on revaluation of investment property portfolio	**15,587**	(1,265)	(8,222)
Profit on disposal of investment properties	**(882)**	(380)	(4,946)
Trading property revenue and cost of sales	**(91)**	(2,848)	(3,800)
Loss on disposal of listed equity investments	**-**	80	80
Debt termination costs	**6**	48	63
Fair value (gain)/loss on derivatives	**(184)**	10	(329)
EPRA earnings for the period	**2,094**	3,690	7,394
Share-based payments	**100**	158	162
Hudson Quarter development loan interest	**-**	166	189
Payments to former Directors (including associated costs)	**1,380**	-	-
Adjusted profit after tax for the period	**3,574**	4,014	7,745
Tax excluding deferred tax on EPRA adjustments and capital gain charged	**(31)**	-	67
Adjusted profit before tax for the period	**3,543**	4,014	7,812
EPRA and adjusted earnings per ordinary share			
EPRA basic	**4.6p**	8.0p	16.0p
EPRA diluted	**4.6p**	8.0p	16.0p
Adjusted EPS	**7.9p**	8.7p	16.9p

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 30 September 2022 Interim 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.

	30 September 2022 (unaudited)			**30 September 2021 (unaudited)**			**31 March 2022 (audited)**		
	EPRA NTA (£000)	**EPRA NRV (£000)**	**EPRA NDV (£000)**	**EPRA NTA (£000)**	**EPRA NRV (£000)**	**EPRA NDV (£000)**	**EPRA NTA (£000)**	**EPRA NRV (£000)**	**EPRA NDV (£000)**
Net assets attributable to shareholders	**155,735**	**155,735**	**155,735**	163,590	163,590	163,590	177,204	177,204	177,204
Include:									
Fair value adjustment of trading properties	**1,390**	**1,390**	**1,390**	3,279	3,279	3,279	3,188	3,188	3,188
Real estate transfer tax	**-**	**14,347**	**-**	-	17,148	-	-	17,409	-
Fair value of fixed interest rate debt	**-**	**-**	**1,233**	-	-	60	-	-	413
Exclude:									
Fair value of derivatives	**(252)**	**(252)**	**-**	690	690	-	47	47	-
Deferred tax on latent capital gains and capital allowances	**113**	**113**	**-**	228	228	-	143	143	-
EPRA NAV	**156,986**	**171,333**	**158,358**	**167,787**	**184,935**	**166,929**	**180,582**	**197,631**	**180,805**
EPRA NAV per share	**356p**	**389p**	**360p**	**362p**	**399p**	**360p**	**390p**	**427p**	**390p**

	Unaudited 30 September 2022	Unaudited 30 September 2021	Audited 31 March 2022
Number of ordinary shares issued at the end of the period	**44,027,014**	46,288,470	46,288,470
Dilutive effect of share options	**9,831**	36,766	36,766
Number of diluted ordinary shares for diluted and EPRA net assets per share	**44,036,845**	46,325,236	46,325,236
Net assets per ordinary share			
Basic NAV	**354p**	353p	383p
Diluted NAV	**354p**	353p	383p
EPRA NTA	**356p**	362p	390p

8 Dividends

	Payment Date	**Unaudited 6 months to 30 September 2022 £000**	Unaudited 6 months to 30 September 2021 £000	Audited Year to 31 March 2022 £000
Ordinary dividends paid				
2021 Interim dividend: 2.50p per share	9 April 2021	**-**	1,152	1,152

2021 Final dividend: 3.00p per share	5 August 2021	**-**	1,382	1,382
2022 Interim dividend: 3.00p per share	15 October 2021	**-**	**-**	1,389
2022 Interim dividend: 3.25p per share	31 December 2021	**-**	-	1,504
2022 Interim dividend: 3.25p per share	14 April 2022	**1,504**	-	-
2022 Final dividend: 3.75p per share	5 August 2022	**1,736**	-	-
		3,240	2,534	5,427

Proposed dividend
2023 Q1 interim dividend: 3.75p per share paid on 14 October 2022.
2023 Q2 interim dividend: 3.75p per share payable on 13 January 2023.

9 Property Portfolio

	Freehold Investment properties £000	Leasehold Investment properties £000	Total investment properties £000
At 1 April 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**
Additions – refurbishments	480	128	608
Loss on revaluation of investment properties	(14,604)	(983)	(15,587)
Disposals	(3,810)	-	(3,810)
At 30 September 2022	**198,176**	**15,752**	**213,928**

	Standing investment properties £000	Investment properties under construction £000	Total investment properties £000	Trading properties £000	Total property portfolio £000
At 1 April 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 properties	-	-	-	1,182	1,182
Transfer from investment property under construction	11,950	(11,950)	-	-	-
Gain on revaluation of investment 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**
Additions – refurbishments	**608**	**-**	**608**	**-**	**608**
Additions – trading properties	**-**	**-**	**-**	**150**	**150**
Loss on revaluation of properties	**(15,587)**	**-**	**(15,587)**	**-**	**(15,587)**
Disposals	**(3,810)**	**-**	**(3,810)**	**(3,432)**	**(7,242)**

At 30 September 2022	**213,928**	**-**	**213,928**	**17,005**	**230,933**

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.

At 30 September 2022, the Group's freehold and leasehold investment properties were externally valued by CBRE for the first time, a Royal Institution of Chartered Surveyors ("RICS") registered independent valuer. A reconciliation of the valuations carried out by the external valuer to the carrying values shown in the balance sheet was as follows:

	Unaudited 30 September 2022 £000	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000
CBRE (property portfolio)	**235,620**	262,005	259,040
Adjustment in respect of minimum payment under head leases included as a liability	**1,077**	1,802	1,078
Less trading properties at lower of cost and net realisable value	**(17,005)**	(27,246)	(20,287)
Less lease incentive balance in accrued income	**(4,374)**	(3,698)	(3,926)
Less fair value uplift on trading properties	**(1,390)**	(3,279)	(3,188)
Carrying value of investment properties	**213,928**	229,584	232,717

Investment properties with a carrying value of £198,850,000 (31 March 2022: £218,780,000) are subject to a first charge to secure the Group's bank loans amounting to £88,716,000 (31 March 2022: £101,753,000). Trading properties with a carrying value of £17,005,000 (31 March 2022: £20,287,000) are no longer subject to a first charge to secure the Group's bank loans following the repayment of the Barclays development loan in November 2021.

The fair value of the property portfolio was independently valued by CBRE as at 30 September 2022. For the periods ending 30 September 2021 and 31 March 2022, the portfolio was independently valued by Cushman & Wakefield LLP.

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 judgment and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

The Directors 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 commercial investment portfolio has been derived from capitalising the future estimated net income receipts at capitalisation rates reflected by recent arm's length sales transactions.

10 Trading property

	Total £000
At 1 April 2021	42,719
Costs capitalised	1,182
Disposal of trading properties	(23,614)
At 31 March 2022	20,287
Costs capitalised	**150**
Disposal of trading properties	**(3,432)**
At 30 September 2022	**17,005**

The Group has developed a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consisted of residential units which the Group held for sale. As a result, the residential element of the scheme was classified as trading property.

11 Trade and other receivables

	Unaudited 30 September 2022 £000	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000
Current			
Trade receivables	**1,557**	2,174	1,644
Prepayments and accrued income	**4,879**	4,294	4,590
Other taxes	**116**	248	156
Other debtors	**1,639**	4,364	1,022
	8,191	11,080	7,412

12 Cash and cash equivalents

	Unaudited 30 September 2022 £000	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000
Cash and cash equivalents - unrestricted	**12,888**	10,637	28,143
Restricted cash	**-**	3,043	-
	12,888	13,680	28,143

Restricted cash is cash where there is a legal restriction to specify its type of use. This is typically where the Group has agreed to deposit cash with a lender with regards to top-ups received from vendors on completion funds, to be realised over time consistent with the loss of income on vacant units, and where the Group has agreed to deposit cash with a lender to provide additional security over loan facilities, and proceeds from sale of trading properties which is used to repay the development facility.

13 Trade and other payables

	Unaudited 30 September 2022 £000	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000
Current			
Trade payables	**468**	554	604
Accruals	**1,473**	2,488	2,637
Deferred rental income	**3,485**	3,465	3,368
Taxes	**740**	1,225	1,167
Other payables	**1,242**	1,377	1,136
	7,408	9,109	8,912

14 Borrowings

	Unaudited 30 September 2022 £000	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000

Current borrowings			
Bank loans	**1,718**	30,835	32,813
Unamortised lending costs	**-**	-	(64)
	1,718	30,835	32,749
Non-current borrowings			
Bank loans	**86,998**	76,071	68,940
Unamortised lending costs	**(751)**	(664)	(452)
	86,247	75,407	68,488
Total borrowings			
Bank loans	**88,716**	106,906	101,753
Unamortised lending costs	**(751)**	(664)	(516)
	87,965	106,242	101,237

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

	Unaudited 30 September 2022 £000	Unaudited 30 September 2021 £000	Audited 31 March 2022 £000
Within one year	**1,718**	30,835	32,813
From one to two years	**55,346**	8,063	1,218
From two to five years	**31,652**	68,008	67,722
Total borrowings	**88,716**	106,906	101,753

Facility and arrangement fees
As at 30 September 2022 (unaudited)

Secured borrowings	**All in cost %**	**Maturity date**	**Facility drawn £000**	**Unamortised facility fees £000**	**Loan balance £000**
Scottish Widows	**2.90%**	**July 2026**	**8,788**	**(82)**	**8,706**
National Westminster Bank plc	**4.29%**	**August 2024**	**20,804**	**(180)**	**20,624**

Barclays	**3.29%**	**June 2024**	**27,779**	**(95)**	**27,684**
Santander Bank plc	**4.39%**	**May 2027**	**24,500**	**(377)**	**24,123**
Lloyds Bank plc	**4.14%**	**March 2024**	**6,845**	**(17)**	**6,828**
			88,716	**(751)**	**87,965**

During the period, the Group took the option to extend the Lloyds loan facility by one year, therefore maturing on 7 March 2024. The Group also refinanced the Santander plc loan facility for a further five years, with the loan repayable on 26 May 2027.

As at 31 March 2022 (audited)

Secured borrowings	All in cost %	Maturity date	Facility drawn £000	Unamortised facility fees £000	Loan balance £000
Scottish Widows	2.90%	July 2026	8,947	(94)	8,853
National Westminster Bank plc	2.79%	August 2024	32,043	(230)	31,813
Barclays	3.41%	June 2024	29,168	(128)	29,040
Santander Bank plc	3.71%	August 2022	24,750	(29)	24,721
Lloyds Bank plc	2.64%	March 2023	6,845	(35)	6,810
			101,753	(516)	101,237

As at 30 September 2021 (unaudited)

Secured borrowings	All in cost %	Maturity date	Facility drawn £000	Unamortised facility fees £000	Loan balance £000
Scottish Widows	2.90%	July 2026	9,107	(105)	9,002
National Westminster Bank plc	2.18%	August 2024	23,811	(279)	23,532
Barclays	3.18%	June 2024	37,526	(158)	37,368
Barclays	3.33%	January 2022	4,617	-	4,617
Santander Bank plc	3.56%	August 2022	25,000	(69)	24,931
Lloyds Bank plc	2.03%	March 2023	6,845	(53)	6,792
			106,906	(664)	106,242

The Group has unused loan facilities amounting to £19,196,000 (31 March 2022: £7,957,000). 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.

15 Derivatives financial instruments

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.

The Santander interest rate swap matured in the period, on 3 August 2022.

Bank	**Notional principal**	**Expiry date**	**Contract rate %**	**Valuation rate %**	**Unaudited 30 September 2022 £000**	**Unaudited 30 September 2021 £000**	**Audited 31 March 2022 £000**
Barclays Bank plc	33,972,900	25 January 2023	1.34%	2.80%	**252**	(475)	3
Santander plc	-	3 August 2022	1.37%	-	**-**	(215)	(50)
	33,972,900				**252**	(690)	(47)

16 Share capital

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

	Unaudited 30 September 2022	Unaudited 30 September 2021	Audited 31 March 2022
Ordinary 10p shares	**46,388,515**	46,388,515	46,388,515
Share capital – number of shares in issue	**46,388,515**	46,388,515	46,388,515
Share capital – £000	**4,639**	4,639	4,639

As at 30 September 2022, there were 2,361,501 shares held in Treasury.

17 Post balance sheet events

On 1 November 2022, the Group repaid £5.0 million of the Santander plc loan facility.

On 11 November 2022, the Group exchanged contracts on the disposal of 127 Above Bar Street, Southampton for a total consideration of £3.75 million.

Post half year, the Group have completed on a further four residential unit sales at Hudson Quarter for a total consideration of £1.8 million.

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.

Dividend cover: Is the sum of Adjusted profit before tax and profit on investment and trading property disposals, divided by dividends paid in the period, expressed as a percentage.

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, 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.

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.

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, CBRE.

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 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

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.