PALACE CAPITAL plc

Annual Report and Consolidated Financial Statements

2015

Company Registration No. 05332938

Contents

Front cover

Top left:
Imperial Court and Imperial House, Leamington Spa.

Top right:
Bridge Park, East Grinstead.

Bottom left:
Hudson House, York.

Bottom right:
Sandringham House, Harlow.

Palace Capital is an AIM quoted commercial property investment company focused on acquiring high yielding property assets, predominantly outside of London.

Financial Highlights

Portfolio Value

£103.0m
+73%

2014: £59.4m

Adjusted Profit Before Tax

£4.60m
+232%

2014: £1.38m (14 months)

Net Asset Value
(per share)

396p
+11%

2014: 356p

Key Events	Completion of third portfolio acquisition in August – Property Investment Holdings ("PIH") £32 million PIH portfolio acquisition supported by a £20 million equity issue
Property Revaluation	The Company's investment property value at 31 March 2015 was £101.8 million Plus the value of freehold interest in leasehold properties of £1.2 million Loan to Value ratio of 35.2%
Asset Management	Significant progress made on obtaining planning permissions at key sites Important lettings, refurbishment projects and disposals
Financing	Bank loans of £36.2 million and cash of £12.3 million with a gearing of 30.9%
Dividend	Final dividend of 7p proposed (total 13p for the year)

Strategic Report

Chairman's Statement

Sandringham House, Harlow.

Imperial House, Leamington Spa.

I am delighted to report the Company's results for the year ended 31 March 2015. We have made excellent progress through the year and the results show that the Company had made a profit before tax of £4.60 million (14 months ended 31 March 2014: £1.38 million) after stripping out increases from revaluations, realised gains and acquisition costs. Other highlights include:

- the valuation of the Company's portfolio increased to £102.75 million at 31 March 2015 (prior to the acquisition of Bank House, Leeds, for £10.0 million on 1 April 2015);
- bank borrowings at 31 March 2015 of £36.2 million, representing a loan to value of 35.2 per cent;
- NAV per Ordinary Share increased to 396 pence (31 March 2014: 357 pence);
- total revenue for the year of £8.6 million (14 months ended 31 March 2014: £3.25 million); and
- a proposed final dividend of 7.0 pence per share, ahead of forecast, making a total dividend of 13.0 pence for the year.

Acquisition activity during the year

The Company continued with its growth strategy during the year. The particular acquisition highlight during the year was the acquisition of Property Investment Holdings Ltd ("PIH") in August 2014. This was a heavily indebted company which owned seventeen commercial properties (two of which were vacant at the time of acquisition) that were valued in August 2014 at £32.0 million. The Company concluded the acquisition for £3.6 million, payable in new ordinary shares, and arranged to repay £28.0 million of PIH's bank loans and interest rate swaps. PIH's portfolio was producing a gross income of £2.5 million per annum. Given the largely South East location of the property assets, the Board felt this was an appropriate purchase price.

After seven months of ownership the Board remains convinced that significant value can be created from the PIH assets in both the short and medium-term. The Company's management team are now busy in applying our style of active property management to deliver this value for our shareholders.

Acquisition of Bank House, Leeds for £10 million completed one day after the Company's year-end.

In March 2015, we exchanged contracts to purchase Bank House in Leeds. This is an 88,000 sq ft building in a premier location and only two minutes from Leeds Railway Station. The purchase price was £10.0 million and the property currently produces a net rent of £860,000 per annum, from tenants such as the Bank of England, Walker Morris and AXA. We have instructed letting agents to market the 8,800 sq ft of vacant space. Bank House was an opportunistic purchase with considerable long-term potential. The transaction was completed one day after the Company's year-end.

Existing portfolio activity

The Company's portfolio currently consists of fifty properties, with a total floor space of 1.5 million sq ft and an occupancy rate of 90.6% by lettable space.

This has been a very busy year for Palace Capital and the Company has made encouraging progress with a number of the properties in its portfolio. Our particular skill lies in taking properties that have early lease expirations, termination clauses or are vacant and making them more secure investments. Through management actions we have sought to improve the potential rental income and the capital values, as well as reducing the liabilities from empty business rates. Set out below is an update on the progress on some of the properties which the Company are managing actively.

1) Hudson House, York

The Company is making steady progress on this 103,000 sq ft office building adjacent to York Railway Station. We are confident that we are close to reaching agreement with the City of York Council regarding the mix of a major refurbishment, comprising Grade A offices and residential use, for which we believe there is considerable demand in York and we are due to submit a planning application shortly. We continue to be very positive as to the potential of this property which is in a first class location, in a vibrant and growing city.

2) The Copperfields Centre, Dartford, Kent

In the Company's last interim results statement we confirmed that we had secured Permitted Development at the property for nine residential units. We have now submitted a revised application for fourteen residential units and a decision is expected shortly from Dartford Council.

3) 2-3, Pitfield Fairways, Milton Keynes

The refurbishment of these two office buildings was completed and new leases granted to Rockwell Automation for twelve years from December 2014, with provision for upward only rent reviews every four years at a total rental income of just under £400,000 per annum. An increase of £2.5 million in the Nationwide Building Society facility was secured following this refurbishment work.

4) 124-126, Above Bar Street, Southampton

Our professional team is progressing with the City Council to submit an early planning application for a new building for retail/restaurant on the ground floor and residential above. It is intended that this area of Southampton becomes the new cultural quarter.

5) Ovest House, West Street, Brighton

The refurbishment of this property in the centre of Brighton has now been completed. The vacant office floor has now been put on the market at a much higher rental than is currently being earned from tenants in the rest of the building.

6) Fraser House, Staines

This refurbished office building adjoining Staines Railway Station had been vacant since July 2013. The team let the property within three months of its acquisition as part of the PIH portfolio. It was let to Tornier UK Ltd for a term of ten years, with a tenant's option to break at the fifth year, at a rental of £155,000 per annum commencing in July of this year. This was valued on acquisition at £1,070,000 and has been updated as at 31 March 2015 to £1,950,000.

7) Unit 1, Clayton Manor, Burgess Hill

This 16,100 sq ft warehouse/office building has been empty since June 2013, fourteen months before we acquired PIH. It was valued on purchase at £690,000 and was updated at our year end to £1,090,000. We exchanged contracts in January of this year to sell the freehold for £1,250,000, subject to planning consent being granted to use the premises for builders' merchants. This planning consent was granted on 15 May 2015 so the contract has become unconditional and we are due to complete in mid June 2015.

Strategic Report
continued

8) Whittle House, Coventry
The lease on this 17,800 sq ft office building was terminated on 1 August 2014. However, the outgoing tenant refurbished the building to a high standard under a Schedule of Dilapidations and paid a 6 month rent penalty. This property is now available to let and we have considerable interest.

9) Allen House, Stockport
The Company is currently in dispute with a tenant who claims to have exercised a break clause. The Company, supported by counsel's opinion, are resisting the tenant's claim and are confident of a satisfactory outcome.

10) Property Sales
In the last six months, the Company has sold three small properties (under £0.5 million each), with one property sold post year-end, leading to a small reduction in projected revenue for the current year. We anticipate this will be replaced once lettings, including Whittle House, Coventry are achieved. Progress is also expected on other lettings during the year.

The management team continues to manage the growing portfolio actively and there is the opportunity to add significant value at many of the Company's properties. The Board will advise shareholders with further news when appropriate.

Borrowings
The Company has modest levels of borrowing (including finance leases of £1.2 million), which totalled £37.0 million at 31 March 2015. Based on the revaluation of our properties at 31 March 2015 of £102.75 million, the Board believes the Company has a very comfortable level of net gearing of 30.9 per cent and a loan to value of 35.2 per cent.

Cash in hand of £12.3 million at 31 March 2015 was reduced by the acquisition of Bank House, Leeds, for £10.0 million plus costs after the year-end.

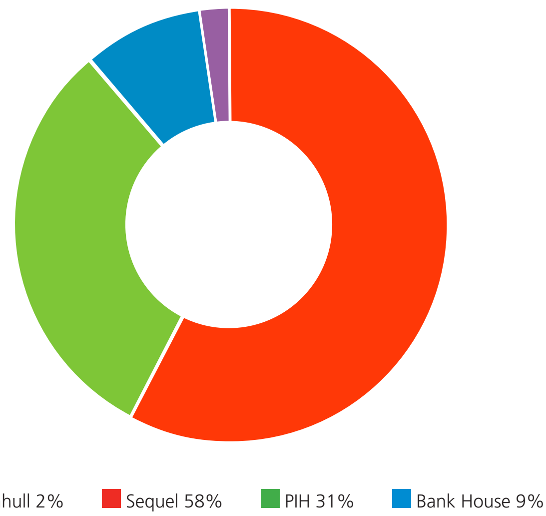
On 11 May 2015, the Company announced that it had secured a £4.5 million loan facility for a term of four years from Lloyds Bank to be charged against Bank House, Leeds.

The acquisition of the Sequel Portfolio in October 2013 was part financed by a £20.0 million bank loan from the Nationwide Building Society. Since October 2013 the Company has repaid a net £0.4 million of this bank loan and the remaining balance of £19.6 million is due to be repaid in October 2016. The loan to value on the Sequel Portfolio is 30.4% and the Company is in preliminary discussions with the Nationwide Building Society to refinance the bank loan and allow part of the security contained in the Sequel Portfolio to be released. Further announcements will be made at the appropriate time.

In addition to the bank loans secured on Bank House and the Sequel portfolio, the Company currently has a bank loan of £1.2 million secured on the Hockenhull portfolio (the Company's properties in Cheshire) and £15.4 million secured on the PIH portfolio.

Portfolio valuation
At 31 March 2015 the Company's properties have been revalued at £102.75 million against an effective cost of circa £75.0 million. The valuation does not include Bank House, Leeds, which was bought for £10.0 million on 1 April 2015.

Portfolio – Valuation (including Bank House)
At 1 April 2015



The Company announced on 28 May 2015, the conditional acquisition of O&H Northampton Limited, which owns Sol Central, valued at £20.7 million.

Dividend

In the Company's Admission Document dated 2 October 2013 the Board stated its intention to recommend a dividend of 12.0 pence per share, split equally between interim and final, in respect of the period ending 31 March 2015. We paid an interim dividend of 6.0 pence per share on 30 December 2014. We are pleased to announce that we will be increasing the dividend and the Company intends to recommend payment of a final dividend of 7.0 pence per share on 31 July 2015 to those shareholders on the register as at 10 July 2015.

The Board intends to continue a progressive dividend policy as the business develops.

Management team and administration

As the Company grows we are continuing to attract talented people to join the team. I am delighted that after the year end, we announced that Stephen Silvester will be joining Palace Capital as Finance Director in July 2015. He has a first class background and experience in the sector and I am sure he will make a significant contribution to the development of the Company.

The growth in the number of properties managed by the Company together with the high activity levels across the portfolio has been supported by investment in the Company infrastructure, with the establishment of the Company's own office. Administration costs for the year were £1.4 million which included circa £0.1 million of LTIP charges, reflecting the very strong share price performance during the year.

Conditional acquisition and fund raising

The Company announced on 28 May 2015, the conditional acquisition of O&H Northampton Limited which owns Sol Central, a 13 year old 190,000 sq ft mixed use leisure scheme in central Northampton near the Railway Station. Current tenants include an Ibis Hotel, Vue Cinemas, two gymnasiums and a two storey car park.

The price being paid is based on a value of £20.7 million and a net rental income of £1.89 million per annum. This is an off-market strategic acquisition for us in a growing town where considerable development is taking place.

In order to facilitate this transaction we have raised £20 million through a placing of ordinary shares (the "Placing Shares") with institutional and other investors at a price of £3.60 per share and have negotiated a five year loan of £11.385 million from Santander UK at 2.25% over Libor. The net initial yield is 8.86%, and the Weighted Average Unexpired Lease Term is 13.7 years to expiry, 13.5 years to breaks. The Placing Shares will not rank for the final dividend of 7.0 pence, announced by the Company today.

We continue to seek further acquisition opportunities which satisfy our criteria and have the potential to produce a return that we can recommend to our shareholders.

Future prospects

The result of the last General Election must be considered as being positive for the business community generally and the property sector in particular. In the Company's case, we focus on the UK regions and the incoming administration has made it very clear that they are keen to see growth in the areas in which we operate, particularly in the North of England.

The Board considers the appointment of a high calibre banker and economist to oversee the proposed Northern Powerhouse as positive, and it reaffirms our decision to focus our activities away from London. We see greater opportunity for value enhancement in the regions.

The Board believes the outlook for Palace remains favourable and looks forward to the future with confidence.

Conclusion

The Company has come a long way in such a short space of time. Palace Capital has a very strong management team and supportive shareholders. I would like to thank the Palace Capital staff and my fellow directors for all of their hard work throughout the year. We are an exciting Company and I relish our future prospects. I look forward to reporting on future progress and the value that we are able to create for all of our shareholders.

Strategic Report

continued

Principal Activities

The principal activity of the Company is to invest in entities operating within the property sector. Through its subsidiary undertakings, Quintain Signal Member A Limited, Property Investment Holdings Limited and Hockenhull Estates Limited, the Group has made a number of investments in the property arena. Palace Capital plc is quoted on the AIM market of the London Stock Exchange.

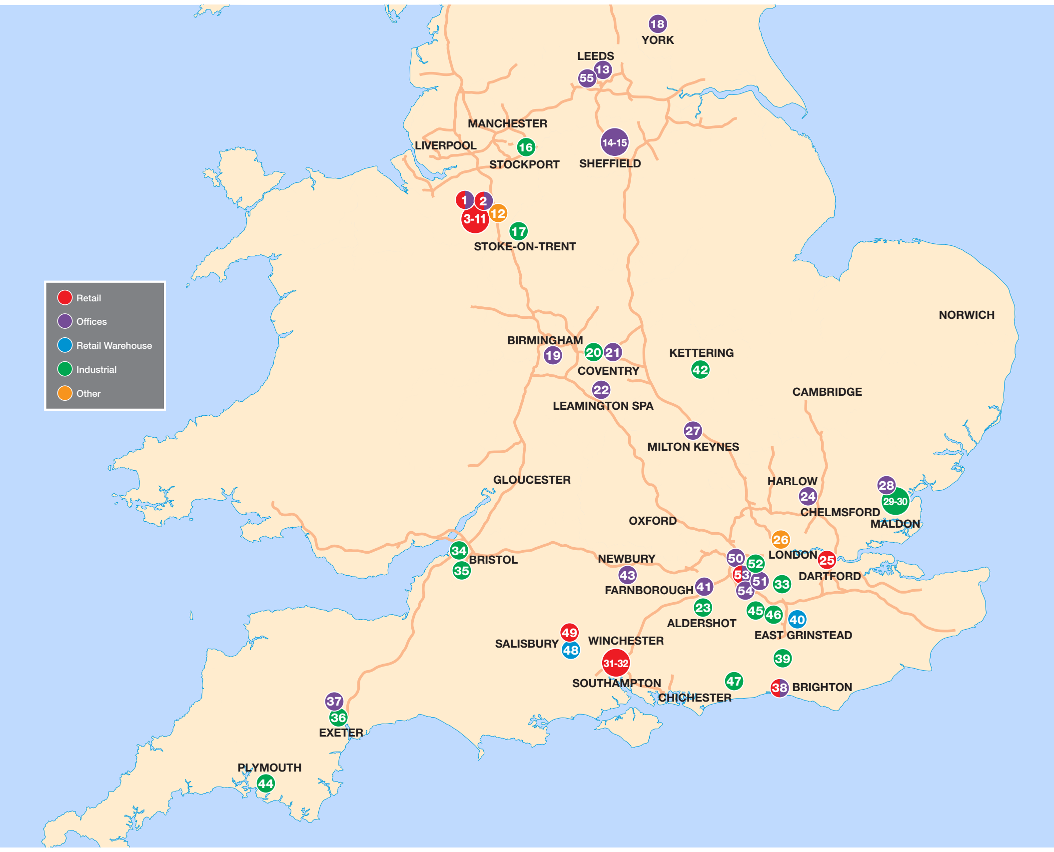
Key Performance Indicators (KPI)

The directors have identified rent receivable, investment property asset value, bank loans to investment property asset value and gearing as major KPIs of the Group.

- Rent receivable for the year was £8,636,658 (14 months ended 31 March 2014: £3,251,818).
- The investment property value at 31 March 2015 was £102,988,276 (2014: £59,440,168).
- Bank loans to investment property asset value at 31 March 2015 was 35.2% (2014: 31.8%) (note 24).
- The NAV to debt (Gearing) at 31 March 2015 was 30.9% (2014: 33.1%) (note 24).

UK Locations

Arranged in order of acquisition



Hudson House, York – "We continue to be very positive as to the potential of this property which is in a first class location, in a vibrant and growing city".

Principal Risks and Uncertainties

Set out below are certain risk factors which could have an impact on the Group's long term performance. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Group.

Property valuations

The valuation of all property assets includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions this reappraisal can lead to a reduction in property values and a loss in net asset value, amplified by the effect of gearing.

Tenant risk

As a result of adverse conditions in the wider economy, a restriction of the availability of credit for consumers and businesses could lead to lower levels of consumer spending, a higher level of business failures and difficulties for new ventures in raising start-up capital. This could adversely affect the financial viability of the Group's tenants, potentially leading to higher levels of vacancies and declines in rental values. The directors employ professional firms of property management consultants to manage the portfolio to ensure vacancies are kept to a minimum.

Interest rate risk

The Group is exposed to significant cash flow interest rate risk on borrowings and cash balances held at variable rates, resulting in variable interest cash flows. The Group is therefore relatively sensitive to changes in interest rates. The directors regularly review its position with regard to interest rates in order to minimise the Group's risk.

Liquidity risk

The Directors consider that the key financial risk is liquidity risk. This is the risk of the Company not being able to continue to operate as a going concern. The Directors' consideration of the Going Concern Basis is contained on page 20 of the Annual Report.

45 High Street, Nantwich.

Hudson House, York.

On behalf of the board

Stanley Davis
Chairman
3 June 2015

Board of Directors

Stanley Davis, 76
Non-Executive Chairman

Stanley is a successful serial entrepreneur who has been involved in the City of London since 1977. His founding company was company registration agents Stanley Davis Company Services Limited which he sold in 1988. In 1990 he became Chief Executive of a small share registration company which became known as IRG plc and acquired a number of businesses including Barclays Bank Registrars and was sold for a substantial sum to The Capita Group plc. He is Chairman of Stanley Davis Group Limited specialising in company formations, property and company searches.

Chairman of the Audit, Remuneration and Nomination Committees.

Neil Sinclair, 71
Chief Executive

Neil has over 50 years' experience in the property sector. He was a founder of Sinclair Goldsmith Chartered Surveyors which was admitted to the Official List in 1987 and subsequently merged with Conrad Ritblat in 1993, when he became Executive Deputy Chairman. Neil was appointed Non-Executive Chairman of Baker Lorenz, surveyors in 1999 and which was sold to Hercules Property Services plc in 2001. He was appointed a Non-Executive Director of Tops Estates plc, a fully listed company, in 2003 and remained so until it was sold to Land Securities plc in 2005. He was one of the founders of Mission Capital plc, now Quindell plc, which was admitted to AIM in 2005, and was Executive Chairman until February 2008. He was also featured in 'Top 100 Property People in Property Week' in 2003.

He was elected Chief Barker (Chairman) for 1991 for Variety, the Children's Charity one of the country's premier charities and is still a Trustee. He co-founded 'the PROPS', one of the industry's leading events which has raised in excess of £8 million for the Variety Children's Charity Wheelchair Programme.

Member of the Nomination Committee.

Richard Starr, 41
Executive Director

Richard obtained a degree in Surveying and Valuation Development before qualifying as a Chartered Surveyor and becoming a member of the RICS in 2000. He has worked as a senior team member of three established Central London firms of commercial property surveyors including Millar Kitching and CBGA and in the Corporate Real Estate division of what is now CBRE Global Investors, before setting up his own property consultancy in 2011. He has extensive experience of sourcing commercial investments throughout the UK.

Anthony Charles Dove, 69
Non-Executive Director

Anthony has over 30 years' experience in the corporate sector. He was a partner at the international law firm Simmons & Simmons from 1977 until 1999. In 1998 he joined the board of Tops Estates plc, a fully listed company, and remained so until 2005 when the company was acquired by Land Securities plc. From 2004 to 2013 as a Managing Director of Locate Continental Properties Kft a private Hungarian company, he undertook a number of property renovations in Budapest for investment purposes and was a trustee of the Gynaecology Cancer Research Fund from 2002 to 2009. Anthony read law at Cambridge, was admitted as a solicitor in 1969 and retired from practice in 1999.

Member of the Audit, Remuneration and Nomination Committees.

Kim Taylor-Smith, 58
Non-Executive Director

Kim, a chartered accountant, brings to Palace Capital over thirty years' experience as a company director for a range of businesses, with a particular 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 and 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. Since 2001, Mr Taylor-Smith has undertaken various property investment and development projects including the establishment of a successful serviced workspace operation which was sold to Highcross Group in 2006.

Member of the Audit, Remuneration and Nomination Committees.

Director's Report

The directors present their report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2015.

Strategic Report

The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 March 2015 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the Strategic Report can be found in pages 2 to 7. The information that fulfils the requirements of the corporate governance report can be found on page 13.

Results and Dividends

The results for the year are set out on page 16.

The Directors paid an interim dividend of 2p per ordinary 10p share on 7 May 2014, and paid a final dividend in respect of the period ending 31 March 2014 of 2.5p per ordinary 10p share on 31 July 2014. An interim dividend of 6p per ordinary 10p share was paid on 30 December 2014 and the directors recommend the payment of a final dividend is respect of the year ending 31 March 2015 of 7p per ordinary 10p share paid on 31 July 2015.

Post Balance Sheet Events

On 1 April 2015 the Group completed the acquisition of Bank House, a freehold property in Leeds. Bank House, which is a 88,000 sq ft building within two minutes of Leeds Railway Station, was acquired for £10 million, satisfied from the Company's existing cash resources. On 10 May 2015, a new loan amounting to £4,500,000 was provided by Lloyds Bank PLC. The loan carries an interest rate of 2.1% above Libor. This loan was secured on the Bank House property.

On 27 May 2015, the Group has entered into a conditional agreement to acquire the entire issued share capital of O&H Northampton Limited (O&H), the owner of Sol Central, a mixed use leisure scheme in Northampton. Under the terms of the Acquisition Agreement, the consideration payable by the Group for all of the issued shares of O&H is £1. The Company will also procure the repayment of £20.7 million of the outstanding indebtedness owed by O&H to its existing bank and other creditors. There will also be an adjustment to reflect the net assets of O&H at the date of the Acquisition. The total amount payable by the Group in connection with the acquisition of O&H is expected to be approximately £20.7 million. Sol Central is a 190,000 sq ft mixed use leisure scheme located in the town centre of Northampton. Constructed in 2002, Sol Central has two anchor tenants, a 10 screen Vue Cinema and a 151 bed Ibis Hotel. To finance the repayment of O&H's indebtedness and to provide additional capital to exploit further opportunities, the Board has announced a conditional placing of 5,555,556 Placing Shares at the Issue Price of £3.60 to raise £20 million (before expenses).

The Acquisition is conditional on, *inter alia*, O&H and Santander entering into the Facility Agreement. The Facility will provide O&H with £11.39 million, which will be used, along with part of the Placing proceeds, to repay O&H's outstanding indebtedness up to an aggregate amount of £20.7 million (subject to adjustment to reflect the net assets of O&H at the date of completion of the Acquisition).

Directors

The following directors have held office since 1 April 2014:

Stanley Davis
Neil Sinclair
Richard Starr
Anthony Dove
Roger Nagioff *Resigned 24 September 2014*
Kim Taylor-Smith *Appointed 6 October 2014*

Director's Report

continued

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 he has, 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 take 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 period ended 31 March 2015, the directors have authorised no such conflicts or potential conflicts.

Directors' Interests in Shares

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

	Ordinary shares of 10p each 31 March 2015	Ordinary shares of 10p each 31 March 2014	**Outstanding Ordinary share options of 10p each 31 March 2015**	Outstanding Ordinary share options of 10p each 31 March 2014
Stanley Davis	**1,565,287**	1,565,287	**8,668**	8,668
Neil Sinclair	**173,767**	173,767	**256,242**	256,242
Richard Starr	**82,258**	82,258	**119,433**	119,433
Anthony Dove	**75,258**	75,258	**–**	–
Kim Taylor-Smith	**–**	–	**–**	–

There have been no changes in the Directors' shareholdings since the year end.

Directors' Remuneration and Service Contracts

Neil Sinclair is the principal executive director and his service contract continues unless it is terminated by either party giving 12 months' notice. His salary from 21 October 2013 was £100,000 per annum. This was increased to £150,000 per annum on 1 September 2014. During the year Neil was paid a cash bonus of £50,000. In addition, he receives a car allowance of £10,000 per annum and a contribution towards healthcare costs of £4,800 per annum.

The letter of appointment of Stanley Davis continues until 30 July 2016 unless it is terminated by either party giving 6 months' notice. From the 21 October 2013 his fees were £30,000 per annum.

The letter of appointment of Anthony Dove continues until 8 September 2017 unless it is terminated by either party giving 6 months' notice. From 21 October 2013 his fees were £25,000 per annum.

The service contract of Richard Starr continues unless it is terminated by either party giving 8 months' notice from 21 October 2013 and his salary was £60,000 per annum. This was increased to £70,000 per annum on 1 September 2014. During the year Richard was paid a cash bonus of £20,000.

The letter of appointment of Kim Taylor-Smith continues until 6 October 2017 unless it is terminated by either party giving 6 months' notice. From 6 October 2014 his fees were £25,000 per annum.

The remuneration paid to the directors during the year ended 31 March 2015 is shown below:

	Fees/Salaries (incl. bonus) £	Share based payments £	**Year ended 31 March 2015 Total £**	14 month period ended 31 March 2014 Total £
Neil Sinclair	193,967	68,040	**262,007**	125,647
Stanley Davis	30,000	1,375	**31,375**	25,393
Richard Starr	80,833	32,645	**113,478**	27,077
Anthony Dove	25,000	–	**25,000**	20,288
Roger Nagioff	–	–	**–**	–
Kim Taylor-Smith	12,500	–	**12,500**	–
	342,300	102,060	**444,360**	198,405

Substantial Shareholdings

As at 1 June 2015, being the latest practicable date before the issue of these financial statements, the Company had been notified of the following shareholdings which constitute 3% or more of the total issued shares of the Company.

	Ordinary 10p shares No.	Shareholding %
Polar Capital European Forager Fund Ltd	2,998,000	14.82%
Schroders PLC	2,903,246	14.35%
Henderson Global Investors	2,000,000	9.89%
Quantum Partners LP	1,998,355	9.88%
Stanley Davis	1,565,287	7.74%
AXA Investment Managers SA	1,325,000	6.55%

Risk Managemnt and Internal Controls

The Group's principal financial instruments comprise cash at bank, bank loans, finance leases and various items within current assets and current liabilities that arise directly from its operations.The Directors consider that the key financial risk is liquidity risk. This risk is explained in the section headed Principal Risks and Uncertainties on page 7 and details of the risk management objectives and exposure to risk is identified in note 27.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and 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 of the profit or loss of the Group for that period.

Director's Report

continued

In preparing these 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;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- that director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Group's auditors in connection with preparing their report and to establish that the Group's auditors are aware of the information.

Auditor

The auditor, BDO LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

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

David Kaye
Company Secretary

3 June 2015

Corporate Governance Statement

The Board of Palace Capital plc appreciate the value of good corporate governance and intend to comply with the principles of the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-sized Quoted Companies 2013, as far as applicable to the Group given its current size and stage of development.

Board Structure

The Board consists of five directors of which two are executives and three non-executive.

The Board will meet as and when required and is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties. All directors are required to retire by rotation with one third of the board seeking re-election each year.

The Group has Audit, Remuneration and Nomination Committees. The following board members are members of these committees with Neil Sinclair an additional member of the Nominations Committee:

Stanley Davis

Anthony Dove

Kim Taylor-Smith

The board has undertaken a formal assessment of the auditor's independence and will continue to do so at least annually. This assessment includes:

- a review of non-audit services provided to the Company and the related fees;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and parties and staff involved in the audit, including regular rotation of the audit partner; and
- obtaining confirmation from the auditor that, in their professional judgement, they are independent.

Internal Controls

The Board is responsible for the Group's system of internal controls and for reviewing their effectiveness. The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. The Directors are satisfied that the current controls are effective with regard to the size of the Group. Any internal control system can only provide reasonable, but not absolute assurance against material mis-statement or loss.

Given the size of the Group, there is currently no need for an internal audit function.

Independent Auditor's Report

to the members of Palace Capital plc

We have audited the financial statements of Palace Capital plc for the year ended 31 March 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position and Parent Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. 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 (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at *www.frc.org.uk/auditscopeukprivate*.

Opinion on 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 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.

Michael Goldstein
Senior Statutory Auditor

For and on behalf of

BDO LLP
Statutory Auditor
London
UK

3 June 2015

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

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2015

	Note	**Year ended 31 March 2015 £**	14 month period ended 31 March 2014 £
Revenue	1	**8,636,658**	3,251,818
Cost of sales	5b	**(1,199,840)**	(648,181)
Gross profit		**7,436,818**	2,603,637
Administrative expenses	5c	**(1,438,691)**	(648,790)
Costs of acquisition		**(638,668)**	(516,569)
Gains on revaluation of investment property portfolios		**9,768,719**	19,500,531
Profit on disposal of investment properties		**177,698**	786,616
Operating profit		**15,305,876**	21,725,425
Other interest receivable and similar income	3	**18,348**	20,519
Finance costs	4	**(1,415,977)**	(593,200)
Profit before taxation		**13,908,247**	21,152,744
Tax credit on profit on ordinary activities	7	**106,559**	81,141
Profit after taxation for the year			
Attributable to equity holders of the parent		**14,014,806**	21,233,885
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**14,014,806**	21,233,885
Attributable to:			
Equity holders of the parent		**14,014,806**	21,233,885
Earnings per share			
Basic	8	**82.4p**	431.6p
Diluted		**80.1p**	403.4p
Adjusted Earnings per share (Diluted)	8	**26.9p**	27.8p

The notes on pages 20 to 54 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 March 2015

	Note	2015 £	2014 £
Non-current assets			
Goodwill	10	**5,910**	5,910
Investment properties	12	**102,988,276**	59,440,168
Tangible fixed assets	13	**51,401**	205
Deferred tax	7	**500,000**	100,000
Trade and other receivables	14	**924,077**	539,995
		104,469,664	60,086,278
Current assets			
Trade and other receivables	14	**3,374,657**	1,936,795
Cash at bank and in hand	15	**12,278,537**	5,123,337
		15,653,194	7,060,132
Total assets		**120,122,858**	67,146,410
Current liabilities			
Trade and other payables		**(3,087,310)**	(2,971,423)
Borrowings	17	**(400,000)**	(1,199,959)
Creditors: amounts falling due within one year	16	**(3,487,310)**	(4,171,382)
Net current assets		**12,165,884**	2,888,750
Non-current liabilities			
Borrowings	17	**(35,406,501)**	(17,384,179)
Obligations under finance leases	18	**(1,213,533)**	(1,215,055)
Net assets		**80,015,514**	44,375,794
Capital and reserves			
Called up share capital	19	**2,306,911**	1,528,438
Share premium account		**40,851,998**	21,856,482
Merger reserve		**3,503,482**	–
Capital redemption reserve		**65,000**	65,000
Convertible loan notes – equity		**–**	27,934
Retained earnings		**33,288,123**	20,897,940
Equity – attributable to the owners of the parent		**80,015,514**	44,375,794

These financial statements were approved by the Board of Directors and authorised for issue on 3 June 2015 and are signed on its behalf by:

Stanley Davis
Director

Consolidated Statement of Changes in Equity

for the year ended 31 March 2015

	Share Capital £	Share Premium £	Merger Reserve £	Capital redemption reserve £	Convertible loan notes equity £	Retained earnings £	Total equity £
At 31 January 2013	315,938	110,395	–	–	27,934	(332,612)	121,655
Profit for the period	–	–	–	–	–	21,233,885	21,233,885
Total comprehensive income	–	–	–	–	–	21,233,885	21,233,885
Issue of ordinary share capital net of expenses	1,212,500	21,796,087	–	–	–	–	23,008,587
Warrants issued on raising of share capital	–	(50,000)	–	–	–	50,000	–
Share based payments	–	–	–		–	11,667	11,667
Redemption of preference share capital	–	–	–	65,000	–	(65,000)	–
At 31 March 2014	**1,528,438**	**21,856,482**	**–**	**65,000**	**27,934**	**20,897,940**	**44,375,794**
Profit for the period	–	–	–	–	–	14,014,806	14,014,806
Total comprehensive income	–	–	–	–	–	14,014,806	14,014,806
Issue of ordinary share capital net of expenses	778,473	18,995,516	3,503,482	–	–	–	23,277,471
Share based payments	–	–	–	–	–	113,817	113,817
Dividends	–	–	–	–	–	(1,766,374)	(1,766,374)
Transfer on repayment of loan	–	–	–	–	(27,934)	27,934	–
At 31 March 2015	**2,306,911**	**40,851,998**	**3,503,482**	**65,000**	**–**	**33,288,123**	**80,015,514**

For the purpose of preparing the consolidated financial statement of the Group, 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 amounting to £795,684 (2014 £1,241,413).

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 convertible loan note equity reserve represents the difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component at the date of issue.

The capital redemption reserve represents the value of preference shares capital redeemed.

Consolidated Statement of Cash Flows

for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Operating activities			
Net cash generated in operations	2	**4,388,142**	1,297,372
Interest received		**18,348**	20,519
Interest and other finance charges paid		**(1,610,946)**	(410,775)
Corporation tax paid in respect of operating activities		**(14,556)**	(13,250)
Net cash flows from operating activities		**2,780,988**	893,866
Investing activities			
Payments to acquire subsidiary undertaking	11	**–**	(1)
Purchase of investment property	12	**(2,812,740)**	(750,000)
Deposit paid on purchase of investment property	26	**(1,000,000)**	–
Proceeds from disposal of investment property		**952,148**	3,282,147
Purchases of fixed assets	13	**(61,075)**	–
Net cash flow (used in)/from investing activities		**(2,921,667)**	2,532,146
Financing activities			
Other loans repaid	17	**(300,000)**	(550,000)
Bank loans repaid	17	**(28,800,137)**	(20,716,126)
Proceeds from new bank loans	17	**18,500,000**	–
Issue of new share capital		**19,663,644**	23,008,587
Redemption of Preference shares		**–**	(65,000)
Dividends paid	23	**(1,766,374)**	(18,124)
Capital element of finance lease rental payments		**(1,522)**	(708)
Net cash flow from financing activities		**7,295,611**	1,658,629
Net increase in cash and cash equivalents		**7,154,932**	5,084,641
Cash and cash equivalents at beginning of the year		**5,123,337**	38,696
Cash acquired		**268**	–
Cash and cash equivalents at the end of the year		**12,278,537**	5,123,337

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015

Basis of Accounting

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

The Company is quoted on the AIM market of the London Stock Exchange and is domiciled and registered in England and Wales and incorporated under the Companies Act 1985. The address of its registered office is 41 Chalton Street, London, NW1 1JD.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 7.

Basis of Preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. These financial statements are for the year ended 31 March 2015 and are presented in pounds sterling ("GBP")

The financial statements have been prepared under the historical cost basis, as modified by valuing investment properties at fair value through the Statement of Comprehensive Income.

The principal accounting policies adopted are set out below.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. In addition, note 27 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.

The Group has reasonable financial resources together with long term contracts with a wide range of tenants. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully.

After making enquiries, and in accordance with the FRC's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

New Standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 March 2015 year end and had no material impact on the financial statements:

IFRS 10 Consolidated Financial Statements;

IFRS 11 Joint Arrangements;

IFRS 12 Disclosure of Interests in Other Entities;

IAS 27 (revised) – Separate Financial Statements;

IAS 28 (revised) – Investments in Associates and Joint Ventures;

IAS 32 (amended) – Financial Instruments: Presentation on Offsetting Financial Assets and Financial Liabilities;

IAS 36 (amended) – Impairment of Assets on Recoverable Amounts Disclosures for Non–Financial Assets; and

IAS 39 (amended) – Financial Instruments: Recognition and Measurement on Novation of Derivatives and Continuation of Hedge Accounting.

Standards Issued But Not Yet Effective

At the date of authorisation of these financial statements the following Standards and Interpretations, some of which have not been endorsed by the EU, which have not been applied in these financial statements but were in issue but not yet effective:

International Accounting Standards (IAS/IFRSs)

Endorsed by the EU:

IAS 19 Amendments: Defined Benefit Plans: Employee Contributions (Effective 1 July 2014)

Annual Improvements to IFRSs 2010–2012 Cycle (Effective 1 July 2014)

Annual Improvements to IFRSs 2011–2013 Cycle (Effective 1 July 2014)

Not yet endorsed by the EU:

IFRS 14 Regulatory Deferral Accounts (Effective 1 January 2016)

IFRS 11 Amendments: Accounting for Acquisitions of Interests in Joint Operations (Effective 1 January 2016)

IAS 16 and IAS 38 Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)

IAS27 Amendments: Equity Method in Separate Financial Statements (Effective 1 January 2016)

IFRS10 and IAS28 Amendments: Sale or contribution of assets between an investor and its associate or joint venture (Effective 1 January 2016)

IAS1 Amendments: Presentation of Financial Statements – Disclosure initiative (Effective 1 January 2016)

IFRS10, IFRS 12 and IAS 28 Amendments: Investments Entities: Applying the Consolidation Exemption (Effective 1 January 2016)

IFRS15 Revenue from Contracts with Customers (Effective 1 January 2017)

IFRS9 Financial Instruments (Effective 1 January 2018)

Annual Improvements to IFRSs 2011–2013 Cycle (Effective 1 January 2016)

IFRS Interpretations Committee (IFRIC), not yet endorsed by the EU:

IFRIC 21 Levies Interpretation: IAS37 Provisions, Contingent Liabilities and Contingent Assets (Effective 17 June 2014)

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Palace Capital plc and its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has variable returns from, its involvement with the entity and has the ability to affect those returns through its power over the entity. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group. Intragroup balances and any unrealised gains and losses arising from intragroup 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. They are deconsolidated on the date that control ceases.

Business combinations are accounted for under the acquisition method. Any excess of the consideration paid for the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

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.

Revenue

Revenue is 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 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 Income Statement 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 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.

Other income comprises insurance commission, property management fees and miscellaneous income.

Operating Profit

Operating profit is stated before interest and tax.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provision of the instrument.

Contributions to Pension Schemes

Defined Contribution Pension Scheme

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

Investment Properties

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs and thereafter are stated at fair value, which reflects market conditions at the balance sheet date. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the year in which they arise.

Investment properties are stated at fair value as determined by the Directors. The fair value of the Group's property portfolio is based upon external valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with International Valuation Standards. The fair value of each of the properties has been assessed by the directors. In determining the fair value of investment properties, the directors make use of historical and current market data as well as existing lease agreements

Additions and disposals of investment properties are recognised in the accounts when contracts are completed.

Obligations Under Finance Leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the property and the present value of the minimum 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 Income Statement 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 finance leases are subsequently carried at their fair value.

Operating Leases

Amounts payable under operating leases are charged directly to the Statement of Comprehensive Income on a straight line basis over the period of the lease. The aggregate costs of operating lease incentives provided by the Group are recognised as a reduction in rental income on a straight line basis over the lease term.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are 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 – 33% straight line

Trade and Other Receivables

Trade and other receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group 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 Group 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 Group 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.

Convertible Loan Notes

Convertible loan notes issued by the Group are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for similar non–convertible debt. The difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the respective date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Equity Instruments

Equity instruments issued by the Company are recorded at the fair value of proceeds received, net of direct issue costs.

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.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

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 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.

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.

A deferred tax liability on capital allowances linked to investment properties has not been provided as it is expected that they will not reverse when the properties are disposed of.

Share Capital

Ordinary share capital is classified as equity. Interim ordinary dividends are recognised when paid and final ordinary dividends are recognised as a liability in the period in which they are approved.

The Group's preference shares are split into debt and equity components, with the associated dividend being recognised on an accrual basis in the income statement as a finance cost.

The fair value of the debt element is established on issue of the shares, based on the discounted cash flows of the instrument to the date of maturity, and is then increased each year on an amortised cost basis through the profit and loss account in order to arrive at the redemption amount payable on maturity of the shares. On purchase and cancellation of preference shares by the Company, a gain or loss is recognised in the income statement based on the difference between the book value and fair value of the financial liability element of the instrument at the date of purchase. The difference between the book value and fair value of the equity element of the instrument is recognised as a movement in retained earnings. In addition, a transfer is made to non-distributable reserves from retained earnings in order to maintain the legal nominal value of share capital.

Share Based Payment

The Group has applied the requirements of IFRS 2 Share based payment to share options. 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, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre–tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included within intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Events after the Balance Sheet date

Post year–end events that provide additional information about a company's position at the balance sheet date and are adjusting events are reflected in the financial statements. Post year–end events that are not adjusting events are disclosed in the notes when material.

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.

Investment properties

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Statement of Financial Position. The investment property portfolio is carried at fair value, which requires a number of judgements and estimates in assessing the qualities of 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 12.

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, this will impact on the Group's results in the period in which this determination is made.

Deferred tax

In determining the quantum of deferred tax assets to be recognised, judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity in assessing the recoverability of assets recognised.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

1 Segmental Reporting

For the purpose of IFRS 8, the chief operating decision maker ("CODM") takes the form of the two executive Directors, the Chairman and the Company Secretary (the Group's Executive Committee). The Group's Executive Committee are of the opinion that the business of the Group is as follows.

The principal activity of the Group was to invest in entities operating within the property sector.

The internal financial reports received by the Group's Executive Committee contain financial information broken down into three operating portfolios. Therefore, for the purposes of IFRS 8, each property portfolio is considered to be a separate operating segment in that its performance is monitored.

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 by IFRS 8.

Operating segments

The following tables present revenue, operating profit and net assets for the Group's segments for the periods ended 31 March 2015 and 31 March 2014.

Revenue – type	**Year ended 31 March 2015 £**	14 months ended 31 March 2014 £
Rents received from investment properties	**8,180,784**	3,178,285
Management fees	**455,874**	73,533
Total revenue	**8,636,658**	3,251,818

No single tenant accounts for more than 10% of the Groups total revenue.

Operating profit – operating segment Year ended 31 March 2015	Sequel £	PIH £	Hockenhull £	Head office £	**Total £**
Rent and service charge income	6,685,669	1,758,993	191,996	–	**8,636,658**
Property operating expenses	(935,731)	(260,107)	(4,002)	–	**(1,199,840)**
Administration expenses	(261,047)	(193,521)	(18,147)	(965,976)	**(1,438,691)**
Profit on disposal of investment properties	134,216	43,482	–	–	**177,698**
Gains on revaluation of investment property	6,649,988	3,088,731	30,000	–	**9,768,719**
Costs of acquisition	–	–	–	(638,668)	**(638,668)**
Total operating profit	12,273,095	4,437,578	199,847	(1,604,644)	**15,305,876**
Other interest receivable	8,500	101	27	9,720	**18,348**
Finance costs	(1,000,810)	(334,828)	(68,920)	(11,419)	**(1,415,977)**
Profit/(loss) before tax	11,280,785	4,102,851	130,954	(1,606,343)	**13,908,247**
Tax (charge)/credit on profit	–	226,971	(20,412)	(100,000)	**106,559**
Profit/(loss) after tax	11,280,785	4,329,822	110,542	(1,706,343)	**14,014,806**

1 Segmental Reporting continued

Operating segments continued

Operating profit – operating segment 14 month period ended 31 March 2014	Sequel £	PIH £	Hockenhull £	Head office £	**Total £**
Rent and service charge income	3,038,153	–	213,665	–	**3,251,818**
Property operating expenses	(645,217)	–	(2,964)	–	**(648,181)**
Administration expenses	(148,030)	–	(25,860)	(474,900)	**(648,790)**
Profit on disposal of investment properties	786,616	–	–	–	**786,616**
Gains on revaluation of investment property	19,285,531	–	215,000	–	**19,500,531**
Costs of acquisition	–	–	–	(516,569)	**(516,569)**
Total operating profit	22,317,053	–	399,841	(991,469)	**21,725,425**
Other interest receivable	355	–	53	20,111	**20,519**
Finance costs	(470,954)	–	(83,566)	(38,680)	**(593,200)**
Profit/(loss) before tax	21,846,454	–	316,328	(1,010,038)	**21,152,744**
Tax payable on profit	–	–	(18,859)	100,000	**81,141**
Profit/(loss) after tax	21,846,454	–	297,469	(910,038)	**21,233,885**

Net operating assets – operating segment **31 March 2015**	Sequel £	PIH £	Hockenhull £	Head office £	**Total £**
Assets					
Investment property	65,808,831	34,919,445	2,260,000	–	**102,988,276**
Goodwill	–	–	5,910	–	**5,910**
Tangible fixed assets	–	34	–	51,367	**51,401**
Deferred tax	–	500,000	–	–	**500,000**
Trade and other receivables	2,269,615	942,784	10,655	1,075,680	**4,298,734**
Cash at bank and in hand	6,996,188	203,111	18,524	5,060,714	**12,278,537**
Total segmental assets	75,074,634	36,565,374	2,295,089	6,187,761	**120,122,858**
Liabilities					
Bank borrowings	19,424,310	15,194,194	1,187,997	–	**35,806,501**
Other current liabilities	1,922,448	1,045,609	32,752	86,501	**3,087,310**
Obligations under finance leases	1,213,533	–	–	–	**1,213,533**
Total segmental liabilities	22,560,291	16,239,803	1,220,749	86,501	**40,107,344**
Net assets	52,514,343	20,325,571	1,074,340	6,101,260	**80,015,514**

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

1 Segmental Reporting continued

Operating segments continued

Net operating assets – operating segment 31 March 2014	Sequel £	PIH £	Hockenhull £	Head office £	**Total £**
Assets					
Investment property	57,210,168	–	2,230,000	–	**59,440,168**
Goodwill	–	–	5,910	–	**5,910**
Tangible fixed assets	–	–	–	205	**205**
Deferred tax	–	–	–	100,000	**100,000**
Trade and other receivables	2,432,807	–	3,176	40,807	**2,476,790**
Cash at bank and in hand	3,938,379	–	52,755	1,132,203	**5,123,337**
Total segmental assets	63,581,354	–	2,291,841	1,273,215	**67,146,410**
Liabilities					
Bank borrowings	17,093,560	–	1,199,959	–	**18,293,519**
Other loans	–	–	–	290,619	**290,619**
Other current liabilities	2,867,796	–	24,158	79,469	**2,971,424**
Obligations under finance leases	1,215,055	–	–	–	**1,215,055**
Total segmental liabilities	21,176,411	–	1,224,117	370,088	**22,770,616**
Net assets	42,404,943	–	1,067,724	903,127	**44,375,794**

2 Reconciliation of Operating Profit

Reconciliation of operating profit to cash utilised in operations

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Profit before taxation	**13,908,247**	21,152,744
Finance income	**(18,348)**	(20,519)
Finance costs	**1,415,977**	593,200
Gains on revaluation of investment property portfolio	**(9,768,719)**	(19,500,531)
Profit on disposal of investment properties	**(177,698)**	(786,616)
Depreciation	**9,952**	242
Share based payments	**113,817**	11,667
Increase in receivables	**(281,091)**	(982,382)
Increase/(decrease) in payables	**(813,995)**	829,567
Net cash utilised in operations	**4,388,142**	1,297,372

3 Other Interest Receivable and Similar Income

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Profit recognised on acquisition of loan at below par	–	20,111
Bank interest received	**18,348**	408
	18,348	20,519

4 Interest Payable and Similar Charges

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Interest on bank loans	**1,284,219**	507,714
Interest on other loans	**11,419**	32,256
Interest on finance leases	**120,339**	46,806
Preference share dividend	–	6,424
	1,415,977	593,200

5 Profit for the Period

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

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Depreciation of tangible fixed assets:	**9,952**	242
Auditor's remuneration:		
Fees payable to the auditor for the audit of the Group's annual accounts	**27,500**	30,000
Fees payable to the auditor for the audit of the subsidiary annual accounts	**10,000**	–
Fees payable to the auditor and its related entities for other services:		
Corporate advisory services	**50,000**	35,098
Tax services	–	3,000
	87,500	68,098

Amounts payable to BDO LLP (2014: Crowe Clark Whitehill) in respect of audit and non-audit services are disclosed in the table above.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

5 Profit for the Period continued

b) The Group's cost of sales comprise the following:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Void property costs	**613,604**	595,451
Repairs and maintenance expenses	**403,569**	52,730
Legal and consultancy	**45,568**	–
Service charge expenses	**137,099**	–
	1,199,840	648,181

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

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Staff costs	**508,227**	240,343
Share based payments	**113,817**	11,667
Legal and professional fees	**176,576**	102,426
Accounting and audit fees	**86,057**	52,000
Rent, Rates and other office costs	**87,069**	–
Property management fees	**163,363**	70,617
Bad debt expense	**24,647**	303
PR and marketing costs	**112,815**	35,157
Other overheads	**156,168**	136,035
Depreciation	**9,952**	242
	1,438,691	648,790

6 Employees and Directors' Remuneration

Staff costs during the period were as follows:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Non-Executive Directors' fees	**67,500**	42,473
Wages and salaries	**368,415**	173,086
Pensions	**23,699**	–
Social security costs	**48,613**	24,784
Share based payments	**113,817**	11,667
	622,044	252,010

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

	Year ended 31 March 2015 Number	14 month period ended 31 March 2014 Number
Directors and management	**6**	5

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

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Short-term employee benefits:		
Emoluments for qualifying services	**342,300**	188,780
Social security costs	**40,476**	22,192
Share based payments	**102,060**	9,625
	484,836	220,597

There are no retirement benefits accruing to any of the Directors.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

6 Employees and Directors' Remuneration continued

The amounts set out above include remuneration in respect of the highest paid director as follows:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Short-term employee benefits		
Emoluments for qualifying services	**193,967**	119,230
Share based payments	**68,040**	6,417
	262,007	125,647

7 Taxation

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Current income tax charge	**20,412**	18,859
Deferred tax	**(126,971)**	(100,000)
Tax credit	**(106,559)**	(81,141)

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Profit on ordinary activities before tax	**13,908,247**	21,152,744
Based on profit for the period:		
Tax at 21.0% (2014: 23%)	**2,920,732**	4,865,131
Effect of:		
Expenses not deductible for tax purposes	**134,120**	142,518
Capital losses and indexation used in the period	**(2,090,323)**	(4,666,044)
Capital allowances in excess of depreciation	**(252,760)**	(45,258)
Other adjustments	**40,285**	(5,372)
Deferred tax not previously recognised	**(126,971)**	(100,000)
Trading losses used in the period	**(731,642)**	(272,116)
Tax credit for the period	**(106,559)**	(81,141)

7 Taxation continued

Deferred taxes at 31 March relates to the following:

	2015 £	2014 £
Deferred tax assets		
Losses available to carry forward	**500,000**	100,000
Deferred tax asset	**500,000**	100,000

	2015 £	2014 £
Deferred tax asset – brought forward	**100,000**	–
Deferred tax credit for the period	**126,971**	100,000
Deferred tax recognised on acquisition	**273,029**	–
Deferred tax asset – carried forward	**500,000**	100,000

At 31 March 2015, the Group had tax losses of £7,117,799 (2014: £1,225,952) available to carry forward to future periods. A deferred tax asset of £500,000 (2014: £100,000) has been recognised as it is expected to be utilised in the foreseeable future and a deferred tax asset of £923,560 (2014: £157,450) has not been recognised in the financial statements due to the uncertainty as to whether it can be utilised against future profits.

Capital allowances have been claimed on improvements to investments properties amounting to £8,676,012 (2014: £7,133,720). A deferred tax liability amounting to £1,735,202 (2014: £1,327,337) has not been recognised in the financial statements as it is expected that they will not reverse when the properties are disposed of.

A deferred tax liability on the revaluation of investment properties to fair value has not been provided 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 no capital gain tax would be payable if the properties were disposed of at their fair value as the potential capital gains after indexation of approximately £4,900,000 are offset by potential losses of £10,500,000. As at 31 March 2015 the Group also had approximately £6,900,000 (2014: £474,219) of realised capital losses to carry forward.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

8 Earnings Per Share

Basic earnings per share

Basic earnings per share has been calculated on profit after tax attributable to ordinary shareholders for the period (as shown on the Consolidated Statement of Comprehensive Income) and the weighted average number of ordinary shares in issue during the period (see below table).

Diluted earnings per share

Diluted earnings per share has been calculated on profit after tax attributable to ordinary shareholders for the period (as shown on the Consolidated Income Statement) and the diluted weighted average number of ordinary shares in issue during the period (see below table):

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Profit after tax attributable to ordinary shareholders for the period	**14,014,806**	21,233,885
Weighted average number of shares for basic earnings per share	**17,010,762**	4,920,006
Dilutive effect of share options	**478,140**	344,294
Weighted average number of shares for diluted earnings per share	**17,488,902**	5,264,300
Earnings per ordinary share		
Basic	**82.4p**	431.6p
Diluted	**80.1p**	403.4p

Adjusted diluted earnings per share

In order to give a truer reflection of the underlying profits of the Company the directors have decided to present an adjusted earnings per share calculation excluding costs of acquisitions, revaluation gains and gains on property disposals.

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Profit after tax attributable to ordinary shareholders for the period	**14,014,806**	21,233,885
Cost of acquisition	**638,668**	516,569
Gains on revaluation of investment property portfolio	**(9,768,719)**	(19,500,531)
Profit on disposal of investment properties	**(177,698)**	(786,616)
Adjusted profit after tax for the period	**4,707,057**	1,463,307
Adjusted earnings per ordinary share		
Basic	**27.7p**	29.7p
Diluted	**26.9p**	27.8p

9 Net Assets per Share

	2015 £	2014 £
Net assets at the end of the period	**80,015,514**	44,375,794
Diluted net assets at end of the period	**80,124,698**	45,244,308
Number of ordinary issued shares issued at the end of the period	**20,225,673**	12,440,937
Number of ordinary issued shares for diluted net assets per share	**20,674,427**	13,252,688
Net assets per ordinary share		
Basic	**395.6p**	356.7p
Diluted	**387.6p**	341.4p

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

10 Intangible Fixed Assets

	Goodwill £
Cost	
At 1 February 2013 and 31 March 2014	5,910
On acquisitions (note 11)	–
Carrying value at 31 March 2015	**5,910**

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

11 Business Combinations

Acquisition in year ended 31 March 2015

On 26 August 2014 the Group acquired 100% of the share capital of Property Investment Holdings Limited (PIH) for a consideration of £3,613,828. The consideration was satisfied by issuing 1,103,459 ordinary 10p shares at a fair value price of £3.275. PIH is a property investment company which was acquired to expand the Group's property portfolio.

	Carrying value at acquisition date £	Adjustments £	Fair value at acquisition date £
Investment properties	29,385,000	2,356,099	31,741,099
Tangible fixed assets	73	–	73
Deferred tax asset	–	273,029	273,029
Receivables and prepayment	26,112	278,901	305,013
Cash at bank and in hand	268	–	268
Payables and other creditors	(732,378)	–	(732,378)
Bank loans and overdraft	(27,973,276)	–	(27,973,276)
Deferred tax	(401,342)	401,342	–
Net assets	304,457	3,309,371	3,613,828
Consideration			3,613,828
Goodwill on acquisition			–

The acquired subsidiary contributed £4,102,851 to the profit before tax of the Group. If these acquisitions had occurred on 1 April 2014, Group revenue would have been an estimated £9.7m and Group profit before tax would have been an estimated £14.4m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2014.

Capital allowances amounting to £1,744,967 have been claimed by PIH on improvements to investments properties. A deferred tax liability amounting to £348,993 has not been recognised in the fair value as it is expected that they will not reverse when the properties are disposed of.

Deferred tax asset amounting to £273,029 was recognised as a fair value adjustment at the acquisition date being management's estimate, based on budgets and forecasts, of the future utilisation of tax losses of approximately £9m that were available to carry forward following the refinancing of the bank loans of the PIH which took place at acquisition. The deferred tax asset was increased to £500,000 at 31 March 2015 as a result of the restructuring of PIH and the repayment of £10m of intra group loans which has resulted in increasing the anticipated future annual profits of PIH.

No deferred tax has been recognised on the adjustments to fair value as a result of the historical cost of the investment properties exceeding their fair value.

The fair value of the investment properties at acquisition was based on a valuation performed at the time of the acquisition amounting to £32,020,000 obtained from DTZ Debenham Tie Leung Limited less a lease incentive balance which has been included in prepayments amounting to £278,901.

A fair value adjustment to prepayments amounting to £278,901 was made to bring the revenue recognition policy of PIH into line with that of the Group so that the rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease.

11 Business Combinations continued

Acquisition related costs

The Group incurred acquisition related costs of £638,668 (2014: £516,569) related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non–underlying administrative expenses in the Group's consolidated income statement.

Acquisition in 14 month period ended 31 March 2014.

On 21 October 2013 the Group acquired 100% of the share capital of Quintain (Signal) Member A Limited (Sequel) and its subsidiary undertakings for a consideration of £1 from Quintain Estates and Development PLC. Quintain Estates and Development PLC waived sufficient intercompany debt to bring the net asset value of the Company to £1 at the date of acquisition.

On the same day the Group also acquired from Buckingham Properties Trading Limited, a 1.5% share of Signal Property LLP which was not already owned by Quintain (Signal) Member A Limited together with a loan owing from Signal Property Investments LLP, a subsidiary undertaking of Quintain (Signal) Member A Limited, amounting to £220,111 for a consideration of £200,000.

In a separate transaction, Buckingham Properties Trading Limited used these proceeds to subscribe for 100,000 Ordinary 10p shares in the Group at a price of £2.00 per share and Quintain Estates and Development PLC subscribed for 275,000 Ordinary 10p shares in the Group at a price of £2.00 per share.

Sequel is a property investment company which was acquired to expand the Group's property portfolio in the UK secondary property market outside London.

	Carrying value at acquisition date £	Adjustments £	Fair value at acquisition date £
Investment properties	38,450,000	1,220,168	39,670,168
Receivables and prepayment	1,475,320	197,462	1,672,782
Cash at bank and in hand	–	–	–
Payables and other creditors	(1,678,083)	–	(1,678,083)
Other loans	(478,715)	–	(478,715)
Finance leases	–	(1,215,763)	(1,215,763)
Bank loans	(37,815,390)	(154,998)	(37,970,388)
Net assets	(46,868)	46,869	1
Consideration			1
Goodwill on acquisition			–

No deferred tax has been recognised on the adjustments to fair value as a result of the historical cost of the investment properties exceeding their fair value.

Acquisition related costs

The Group incurred acquisition related costs of £516,569 related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

The Group issued 248,715 warrants to its Nominated Advisors and Brokers to subscribe for shares at a price of 200p per share. The directors have valued these warrants at £50,000.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

12 Investment Properties

	Freehold Investment properties £	Leasehold Investment properties £	Total £
At 1 February 2013	2,015,000	–	2,015,000
Arising on acquisition of subsidiary undertaking	27,295,547	12,374,621	39,670,168
Additions	750,000	–	750,000
Gains on revaluation of investment property	14,054,984	5,445,547	19,500,531
Disposals	(2,495,531)	–	(2,495,531)
At 1 April 2014	41,620,000	17,820,168	59,440,168
Arising on acquisition of subsidiary undertaking	31,741,099	–	31,741,099
Additions	2,801,540	11,200	2,812,740
Gains on revaluation of investment properties	9,179,699	589,020	9,768,719
Disposals	(774,450)	–	(774,450)
At 31 March 2015	**84,567,888**	**18,420,388**	**102,998,276**

Investment properties are stated at fair value as determined by the Directors. The fair value of the Group's property portfolio is based upon external valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms–length transaction at the date of valuation, in accordance with International Financial Reporting Standard 13. The fair value of each of the properties has been assessed by the Directors. In determining the fair value of investment properties, the Directors make use of historical and current market data as well as existing lease agreements.

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

A reconciliation of the valuations carried out by the external valuers to the carrying values shown in the balance sheet was as follows:

	2015 £	2014 £
Scanlans Consultant Surveyors LLP	**2,260,000**	2,230,000
Cushman & Wakefield LLP	**65,215,000**	55,990,000
DTZ Debenham Tie Leung Limited	**35,280,000**	–
Fair value	**102,755,000**	58,220,000
Adjustment in respect of minimum payment under head leases separately included as a liability in the balance sheet	**1,220,168**	1,220,168
Less lease incentive balance included in prepayments	**(986,892)**	–
Carrying value	**102,988,276**	59,440,168

Investment properties with a carrying value of £101,768,108 (2014: £58,220,000) are subject to a first charge to secure the Group's bank loans amounting to £36,205,461 (2014: £18,532,319).

The historical cost of the Group's investment properties, at the cost the properties were acquired by the relevant subsidiary undertaking, as at 31 March 2015 was £98,251,403 (2014: £60,015,591).

12 Investment Properties continued

The valuations of all investment property held by the Group is classified as Level 3 as they are based on unobservable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

Valuation process

The valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgment and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

The executive director responsible for the valuation process, verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The key assumptions made in the valuation of the Group's investment properties are:

- the amount and timing of future income streams;
- anticipated maintenance costs and other landlord's liabilities; and
- an appropriate yield.

Valuation technique

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

	Significant unobservable inputs		
31 March 2015	Sequel	PIH	Hockenhull
Value of investment properties	£65,215,000	£35,280,000	£2,260,000
Area (sq ft)	1,095,327	301,392	22,820
Gross Estimated Rental Value	£6,703,332	£2,740,900	£195,653
Net Initial Yield			
Minimum	13.5%	3.2%	7.5%
Maximum	(6.4)%	10.8%	10.0%
Weighted average	7.6%	6.5%	8.5%
Reversionary Yield			
Minimum	6.0%	5.9%	7.5%
Maximum	16.3%	9.6%	10.0%
Weighted average	6.4%	7.0%	8.5%
Equivalent Yield			
Minimum	0.9%	6.0%	7.5%
Maximum	13.5%	9.0%	10.0%
Weighted average	9.0%	7.2%	8.5%

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

12 Investment Properties continued

31 March 2014	Significant unobservable inputs Sequel	Hockenhull
Value of investment properties	£55,990,000	£2,230,000
Area (sq ft)	1,097,920	22,820
Gross Estimated Rental Value	£6,620,000	£190,000
Net Initial Yield		
Minimum	18.3%	7.5%
Maximum	(5.4)%	10.0%
Weighted average	9.4%	8.5%
Reversionary Yield		
Minimum	6.5%	7.5%
Maximum	20.2%	10.0%
Weighted average	7.3%	8.5%
Equivalent Yield		
Minimum	1.2%	7.5%
Maximum	15.6%	10.0%
Weighted average	10.1%	8.5%

Sensitivity of measurement to variations in the significant unobservable inputs.

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

The relationship between the unobservable inputs and their impact on the fair value measurement is not certain. Changes to the tenancies and/or income profile of an investment asset may also impact the fair value outside one or more of the above inter-relationships according to individual circumstances.

12 Investment Properties continued

Reconciliation of fair value of investment properties:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Opening balance	**59,440,168**	2,015,000
Acquisitions of at fair value	**31,741,099**	39,670,168
Other purchases	**2,812,740**	750,000
Disposal of properties	**(774,450)**	(2,495,531)
Gains recognised in profit or loss	**9,768,719**	19,500,531
Closing balance	**102,988,276**	59,440,168

In addition to the gain on revaluation of investment properties included in the table above, realised gains of £177,698 (2014: £786,616) relating to investment properties disposed of during the year were recognised in profit or loss.

13 Tangible Fixed Assets

	IT and fixtures and fittings £
At 1 February 2013	670
Additions	–
At 1 April 2014	670
Assets acquired	73
Additions	61,075
At 31 March 2015	**61,818**
Depreciation	
At 1 February 2013	223
Provided during the period	242
At 1 February 2014	465
Provided during the year	9,952
At 31 March 2015	**10,417**
Net book value at 31 March 2015	**51,401**
Net book value at 31 March 2014	205

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

14 Trade and Other Receivables

	2015 £	2014 £
Current		
Trade receivables	**1,938,281**	1,499,278
Less: allowance for doubtful trade receivables	**(90,178)**	(88,946)
Other taxes	**5,150**	36,925
Deposit on purchase of investment property (note 26)	**1,000,000**	–
Other debtors	**26,880**	71,806
Accrued income	**62,815**	135,126
Prepayments	**431,709**	282,606
	3,374,657	1,936,795

	2015 £	2014 £
Non-current		
Accrued income	**924,077**	539,995
	924,077	539,995

Accrued income relates to rents recognised in advance 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. Together with £62,815 (2014: £135,126), which was included as current assets within trade and other receivables, these amounts totalled £986,892 at 31 March 2015 (2014: £675,121).

Movements in the provision for impairment of trade receivables were as follows:

	2015 £	2014 £
Brought forward	**88,946**	–
Arising on acquisition	**10,000**	107,443
Utilised in the period	**(33,415)**	(49,362)
Provisions increased	**24,647**	30,865
	90,178	88,946

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

	2015 £	2014 £
0–30 days	**1,599,224**	1,265,874
31–60 days	**(33,981)**	346
61–90 days	**52,265**	12,604
91–120 days	**203,763**	42,706
More than 120 days	**26,832**	88,802
	1,848,103	1,410,332

15 Cash and Cash Equivalents

All of the Group's cash and cash equivalents at 31 March 2015 and 31 March 2014 are in sterling and held at floating interest rates.

	2015 £	2014 £
Cash and cash equivalents	**12,278,537**	5,123,337

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

16 Trade and Other Payables

	2015 £	2014 £
Trade payables	**242,327**	338,812
Bank loans (note 17)	**400,000**	1,199,959
Other taxes	**573,687**	827,280
Income tax	**13,324**	7,468
Other payables	**21,283**	46,103
Deferred rental income	**1,842,561**	1,406,053
Accruals	**394,128**	345,707
	3,487,310	4,171,382

17 Borrowings

	2015 £	2014 £
Current		
Bank loans	**400,000**	1,199,959
Non-current liabilities		
Convertible loan notes (note 22)	**–**	290,619
Bank loans	**35,406,501**	17,093,560
Total non-current liabilities	**35,406,501**	17,384,179
Total borrowings	**35,806,501**	18,584,138

	2015 £	2014 £
Non-current liabilities		
Bank loans	**35,805,461**	17,332,360
Unamortised lending costs	**(398,960)**	(238,800)
	35,406,501	17,093,560

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

17 Borrowings continued

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

	2015 £	2014 £
Within one year	**400,000**	1,199,959
From one to two years	**20,002,964**	300,000
From two to five years	**15,802,497**	17,332,360
	36,205,461	18,832,319

Included within bank loans is an amount of £1,199,997 (2014: £1,199,959) which is secured on the investment properties in the Hockenhull portfolio. Interest is charged at a rate of 4% above the 1 month Libor rate with a minimum rate of 5% and is payable monthly. The loan was renewed during the year and the new facility is repayable on 30 September 2017.

Included within bank loans is an amount of £19,602,964 (2014: £17,332,360) which is secured on the investment properties in the Sequel portfolio. An additional amount of £2,500,000 was drawn down on this facility on 19 March 2015. Interest is charged at a rate of 3.75% above the 1 month Libor rate and is payable monthly. The loan is repayable on 21 October 2016.

Included within bank loans is an amount of £15,402,500 (2014: £nil) which is secured on the investment properties in the PIH portfolio. Interest is charged at a rate of 2.75% above the National Westminster Bank plc base rate and is payable quarterly. The loan is repayable at a rate of £100,000 quarterly with the balance of the loan repayable at the end of the term of the loan on 26 August 2019.

The convertible loan notes of £300,000 were repaid during the year to a pension scheme of which Stanley Davis is a beneficiary at an interest rate of 4%. The interest accrued during the period amounted to £2,032 (2014: £13,940).

The Group has no unused loan or overdraft facilities (2014: £nil).

18 Leases

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

	2015 £	2014 £
Within one year	**8,268,635**	5,870,048
From one to two years	**6,984,156**	5,360,652
From two to five years	**12,999,454**	10,019,084
From five to 25 years	**12,139,090**	6,852,408
After 25 years	**692,872**	700,697
	41,084,207	28,806,889

Operating lease payments in respect of rents payable on leasehold properties were payable as follows:

	2015 £	2014 £
Within one year	**44,800**	–
From one to two years	**44,800**	–
From two to five years	**12,028**	–
	101,628	–

18 Leases continued

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

	2015 Minimum lease payments £	2015 Interest £	2015 Present value of minimum lease payments £	2014 Present value of minimum lease payments £
Within one year	**86,980**	**(85,346)**	**1,634**	1,521
From one to two years	**86,980**	**(85,226)**	**1,754**	1,634
From two to five years	**260,940**	**(254,864)**	**6,076**	5,660
From five to 25 years	**1,707,100**	**(1,643,436)**	**63,664**	65,375
After 25 years	**6,316,120**	**(5,175,715)**	**1,140,405**	1,140,865
	8,458,120	**(7,244,587)**	**1,213,533**	1,215,055

The net carrying amount of the leasehold properties is shown in note 12.

The Group has over 150 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise and vary considerably from short term leases of less than 1 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 the both the current and prior periods.

19 Share Capital

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

	2015 £	2014 £
20,225,673 ordinary shares of 10p each (2014: 12,440,937)	**2,022,567**	1,244,094
315,937 deferred shares of 90p each (2014: 315,937)	**284,344**	284,344
	2,306,911	1,528,438

The deferred shares have the following rights and restrictions. As regards income the Deferred Shares shall not entitle the holders thereof to receive any dividend or other distribution unless and until the holders of the Ordinary Shares shall have received in aggregate amongst them the sum of £100,000,000 in respect of such dividend or distribution. As regards voting the Deferred Shares shall not entitle the holders thereof to receive notice of or to attend or vote at any General Meeting of the Company. As regards capital on a return of capital on a winding up the holders of Deferred Shares shall only entitled to receive the amount paid up on such shares after the holders of the Ordinary Shares have received the sum of £1,000,000 for each Ordinary Share held by them and shall have no other right to participate in the assets of the Company.

Reconciliation of movement in ordinary share capital:

	2015 £	2014 £
At start of period	**1,244,094**	959,750
Issued in the period	**778,473**	284,344
At end of period	**2,022,567**	1,244,094

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for the year ended 31 March 2015 continued

19 Share Capital continued

On 23 June 2014 79,665 warrants were exercised and as a result the Company issued 79,665 ordinary 10p shares at a price of £2.00.

On 26 August 2014 the Company issued 6,451,612 ordinary 10p shares at a price of £3.10. Issue costs amounting to £795,684 were incurred and have been deducted from the share premium account.

In addition, on the same day the Company issued 1,103,459 ordinary 10p shares in exchange for 100% of the share capital of Property Investment Holdings Limited. The fair value of these shares was £3.275 per share.

On 18 February 2015 150,000 warrants were exercised and as a result the Company issued 150,000 ordinary 10p shares at a price of £2.00.

Share options

Reconciliation of movement in outstanding share options:

	2015 No. of options	2014 No. of options
At start of period	**811,752**	191,594
Issued in the period	**–**	646,825
Exercised in the period	**(229,665)**	–
Lapsed in the period	**(133,333)**	(26,667)
At end of period	**448,754**	811,752

As at 31 March 2015, the Company had the following outstanding unexpired options.

Description of unexpired share options

	2015		2014	
	No. of options	**Weighted average Option price**	No. of options	Weighted average Option price
Senior executive plan (note 20)	**429,704**	**17p**	429,704	17p
Options on convertible loans	**–**	**–**	133,333	225p
Warrants issued to Nominated advisors and Broker	**19,050**	**200p**	248,715	200p
Total	**448,754**	**25p**	811,752	107p
Exercisable	**19,050**	**200p**	382,048	209p
Not exercisable	**429,704**	**17p**	429,704	17p

Warrants issued to the Groups Nominated advisors and Broker

No new share options were issued to the Group's Nominated advisor or Broker during the year. The Group's Nominated advisor and Broker received 248,715 options in 2014 in exchange for part of the fee charged by the brokers for the share issue that occurred during that year and the directors considered the fair value of the service to be £50,000. These options were exercisable at a price of £2.00 per share.

A total of 229,665 share options issued to the Group's Broker were exercised during the year (2014: nil). The average share price at the date of exercise was £3.48 per share.

19 Share Capital continued

Option on convertible loans

As part of the loan agreements (see note 17) 133,333 options were granted to convert £300,000 of loans to shares. Following the repayment of this loan on 23 June 2014 these options lapsed (2014: 26,667 option on loan notes lapsed).

The weighted average remaining contractual life of the options outstanding at 31 March 2015 was 2 years (2014: 2).

20 Share Based Payment

Senior executive plan

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

	Number of options	Exercise price	Date from which exercisable	Expiry date
Outstanding at 1 February 2013	31,594	225p	3 Oct 2014	3 Oct 2021
Issued during the period (LTIP 2014)	398,110	0p	31 Mar 2017	31 Mar 2017
Outstanding at 31 March 2014 and 2015	429,704	17p		

LTIP 2014

The options are awarded to management on achievements against target on 2 separate measures over the three financial years ending 31 March 2017. Half the options will be awarded based on the first target and half based on the achievement of the second.

Earnings per share (EPS) growth: is based on a proforma profit after tax excluding property revaluations and disposal profits/losses for the financial year. This target will measure the compound growth in EPS over the three year period ending 31 March 2017.

Total shareholder return (TSR) measures the total shareholder return (price rise plus dividends) over the period from 21 October 2013 to 31 March 2017. The base price being £2.00 per share which was the placing price on that day.

Average annual TSR (compounded) over the TSR performance period	Vesting %	Average annual EPS growth (compounded) over the EPS performance period	Vesting %
<20%	0	<15%	0
Equal to 20%	33.33	Equal to 15%	50
Equal to 25%	66.66	Equal to 30%	100
Equal to 30%	100		

For the TSR measure, the achievement of between 25 per cent and 30 per cent compound growth will result in the number of Ordinary shares vesting to be calculated on a straight line basis between 66.66 per cent and 100 per cent. A similar rule will apply between 20% and 25% and for the EPS condition between 15% and 30%.

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for the year ended 31 March 2015 continued

20 Share Based Payment continued

The fair value of grants was measured at the grant date using a Black-Scholes pricing model, 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 the Black–Scholes pricing model are as follows:

	Grant date 18 October 2013
Exercise price	0p
Term years	3.4 years
Expected volatility	25%
Expected dividend yield	4%
Risk free rate	1%
Expected forfeiture p.a.	0%

For the portion of the options subject to market conditions (TSR measure), it has been assessed that there was an 82% likelihood of the options vesting.

Palace Capital No 1 share option scheme

On 3 October 2011 31,594 share options were issued at an exercise price of £2.25. The fair value of grants is measured at the grant date using a Black-Scholes pricing model, 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 the Black-Scholes pricing model are as follows:

	Grant date 3 October 2011
Exercise price	225p
Term years	10 years
Expected volatility	25%
Expected dividend yield	0%
Risk free rate	1%
Expected forfeiture p.a.	0%

The expense recognised for employee services received during the period is shown in the following table:

	2015 £	2014 £
Palace Capital No 1 share option scheme	**5,000**	11,667
LTIP 2014	**108,817**	–
Total expense arising from share-based payment transactions	**113,817**	11,667

21 Related Party Transactions

A convertible loan note amount of £300,000, provided by a pension scheme in which Stanley Davis is a beneficiary, was repaid on 23 June 2014. Interest charged during the period amounted to £2,032 (2014: £13,940). Accrued unpaid interest on this loan amounted to £nil (2014: £29,885).

Accounting services amounting to £56,057 (2014: £22,000) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a director.

22 Convertible Loan Notes

Loan notes amounting to £300,000 were convertible at the option of the loan note holder into ordinary shares of the Company at any time between the date of issue of the loan notes and their maturity date of 3 October 2015 at 225p per share. These loan notes were repaid on 23 June 2014 and the options lapsed on this date.

The effective rate of interest used to calculate the interest charged on the loan notes to the income statement was 6%. Interest of 4% per annum was payable quarterly.

There were no transaction costs incurred on the issue of these loan notes. The proceeds from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group as follows:

	2015 £	2014 £
Convertible loan notes issued	–	300,000
Equity component	–	(21,197)
Liability component at date of issue	–	278,803
Interest charged	–	41,728
Interest payable	–	(29,912)
	–	290,619

23 Dividends

	Payment date	Dividend per share	**2015 £**	2014 £
Current year				
2015 final dividend	31 July 2015	7.00	–	–
2015 interim dividend	30 December 2014	6.00	**1,204,504**	–
Distribution of current year profit		13.00	**1,204,540**	–
Prior year				
2014 final dividend	31 July 2014	2.50	**313,015**	–
2014 interim dividend	7 May 2014	2.00	**248,819**	–
Distribution of prior year profit		4.50	**561,834**	–
Dividends reported in the Group statement of changes in equity			**1,766,374**	–

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

23 Dividends continued

Proposed Dividends

	2015 **£**	2014 £
2015 final dividend :7p (2014 interim: 2p and final dividend: 2.5p)	**1,415,797**	561,834

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 March.

24 Gearing and Loan to Value Ratio

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

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Net asset value	**80,015,514**	44,375,794
Borrowings	**35,806,501**	18,584,138
Obligations under finance leases	**1,213,533**	1,215,055
Cash and cash equivalents	**(12,278,537)**	(5,123,337)
Net Debt	**24,741,497**	14,675,856
NAV Gearing	**30.9%**	33.1%

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

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Fair value of Property portfolio	**102,755,000**	58,220,000
Borrowings – Bank loans	**36,205,461**	18,532,319
Loan to value ratio	**35.2%**	31.8%

25 Capital Commitments

At 31 March 2015 the Group had exchanged contracts to purchase an additional investment property for £10m (see note 26). As at 31 March 2015 the Company has paid a deposit of £1,000,000 against this contract.

Contracts for the repair or maintenance of investment properties and not provided for in the accounts amounted to £46,957 (2014: £nil). There were no obligations for capital expenditure relating to the construction, development or enhancement of investment properties entered into by the Group at 31 March 2015 (2014 £nil).

26 Post Balance Sheet Event

On 1 April 2015 the Group completed the acquisition of Bank House, a freehold property in Leeds. Bank House, which is a 88,000 sq ft building within two minutes of Leeds Railway Station, was acquired for £10 million, satisfied from the £1,000,000 deposit paid prior to the year end and the remainder payable from the Company's existing cash resources.

On 10 May 2015, a new loan amounting to £4,500,000 was provided by Lloyds Bank PLC. The loan carries an interest rate of 2.1% above Libor. This loan is secured on the Bank House property and is repayable on 9 May 2019.

On 27 May 2015, the Group has entered into a conditional agreement to acquire the entire issued share capital of O&H Northampton Limited (O&H), the owner of Sol Central, a mixed use leisure scheme in Northampton. Under the terms of the Acquisition Agreement, the consideration payable by the Group for all of the issued shares of O&H is £1. The Company will also procure the repayment of £20.7 million of the outstanding indebtedness owed by O&H to its existing bank and other creditors. There will also be an adjustment to reflect the net assets of O&H at the date of the Acquisition. The total amount payable by the Group in connection with the acquisition of O&H is expected to be approximately £20.7 million. Sol Central is a 190,000 sq ft mixed use leisure scheme located in the town centre of Northampton. Constructed in 2002, Sol Central has two anchor tenants, a 10 screen Vue Cinema and a 151 bed Ibis Hotel. To finance the repayment of O&H's indebtedness and to provide additional capital to exploit further opportunities, the Board has announced a conditional placing of 5,555,556 Placing Shares at the Issue Price of £3.60 to raise £20 million (before expenses).

The Acquisition is conditional on, inter alia, O&H and Santander entering into the Facility Agreement. The Facility will provide O&H with £11.39 million, which will be used, along with part of the Placing proceeds, to repay O&H's outstanding indebtedness up to an aggregate amount of £20.7 million (subject to adjustment to reflect the net assets of O&H at the date of completion of the Acquisition).

27 Categories of Financial Instruments

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.

All financial assets are classified as loans and receivables and all financial liabilities are measured at amortised cost.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk and liquidity risk.

The Group's senior management oversee the management of these risks, and the Board of Directors has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Capital risk management

The Group considers its capital to comprise its share capital, share premium, other reserves and retained earnings which amounted to £80,015,514 at 31 March 2015 (2014: £44,375,794). 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.

The Group has covenanted to maintain a specified consolidated leverage ratio and a consolidated net interest expense coverage ratio, the terms of which have been adhered to during the year.

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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27 Categories of Financial Instruments continued

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed on pages 20 to 25 to these financial statements.

Foreign currency risk

The Group has minimal exposure to the differing types of foreign currency risk. It has no foreign currency denominated monetary assets or liabilities and does not make sales or purchases from overseas countries.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2015 and 2014 were:

	Nil rate assets £	Floating rate assets £	Fixed rate liability £	Floating rate liability £	Total £
As at 31 March 2015					
Trade and other receivables	2,874,983	–	–	–	2,874,983
Cash and cash equivalents	–	12,278,537	–	–	12,278,537
Trade and other payables	(657,738)	–	–	–	(657,738)
Bank borrowings	–	–	–	(35,806,501)	(35,806,501)
Obligation under finance leases	–	–	(1,213,533)	–	(1,213,533)
	2,217,245	**12,278,537**	**(1,213,533)**	**(35,806,501)**	**(22,524,252)**

	Nil rate assets £	Floating rate assets £	Fixed rate liability £	Floating rate liability £	Total £
As at 31 March 2014					
Trade and other receivables	1,482,138	–	–	–	1,482,138
Cash and cash equivalents	–	5,123,337	–	–	5,123,337
Trade and other payables	(730,622)	–	–	–	(730,622)
Bank borrowings	–	–	–	(18,293,519)	(18,293,519)
Other borrowings	–	–	(290,619)	–	(290,619)
Obligation under finance leases	–	–	(1,215,055)	–	(1,215,055)
	751,516	**5,123,337**	**(1,505,674)**	**(18,293,519)**	**(13,924,340)**

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 around £12m (2014: £5m). The income statement would be affected by £120,000 (2014: £50,000) by a reasonably possible one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £36,205,461 (2014: £18,532,319) which have interest payable at rates linked to the 1 month Libor interest rates or bank base rates. A 1% increase in the Libor or base rate will have the effect of increasing interest payable by £362,055 (2014: £185,323).

The Group is therefore relatively sensitive to changes in interest rates. The directors regularly review its position with regard to interest rates in order to minimise the Group's risk.

27 Categories of Financial Instruments continued

Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group.

Palace Capital plc has its cash held on deposit with two large banks in the United Kingdom. At 31 March 2015 the concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £12,075,426 (2014: £2,994,106). 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 lease amounts to 7% (2014: 9%) of the Group's anticipated income. The directors assess a tenants' credit worthiness 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 2015 was £2,874,983 (2014: £1,482,138). The details of the provision for impairment are shown in note 14.

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 finance leases.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	On demand £	0 – 1 years £	1 to 2 years £	2 to 5 years £	> 5 years £	Total £
As at 31 March 2015						
Interest bearing loans	–	1,695,692	20,961,402	16,974,092	–	39,631,186
Finance leases	–	86,980	86,980	260,940	8,023,220	8,458,120
Trade and other payables	657,738	–	–	–	–	657,738
	657,738	**1,782,672**	**21,048,382**	**17,235,032**	**8,023,220**	**48,747,044**

	On demand £	0 – 1 years £	1 to 2 years £	2 to 5 years £	> 5 years £	Total £
As at 31 March 2014						
Interest bearing loans	–	1,897,921	956,046	17,695,627	–	20,549,594
Finance leases	–	86,980	86,980	260,940	8,110,200	8,545,100
Trade and other payables	730,622	–	–	–	–	730,622
	730,622	**1,984,901**	**1,043,026**	**17,956,567**	**8,110,200**	**29,825,316**

Notes to the Consolidated Financial Statements

for the year ended 31 March 2015 continued

27 Categories of Financial Instruments continued

Derivative financial instruments

The Group does not currently use derivative financial instruments as hedging is not considered necessary. Should the Group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems, as approved by the Directors, will be implemented.

In accordance with IAS 39, "Financial instruments: recognition and measurement", the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

Fair value measurements

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2015 **£**	2014 £	**2015** **£**	2014 £
Financial assets				
Trade and other receivables	**2,874,983**	1,482,138	**2,874,983**	1,482,138
Cash and cash equivalents	**12,278,537**	5,123,337	**12,278,537**	5,123,337
	15,153,520	6,605,475	**15,153,520**	6,605,475
Current financial liabilities				
Trade payables	**242,347**	338,812	**242,347**	338,812
Other payables	**21,283**	46,105	**21,283**	46,105
Accruals	**394,128**	345,707	**394,128**	345,707
Borrowings – bank loan	**35,806,501**	18,293,519	**35,806,501**	18,293,519
Borrowings – other loans	**–**	290,619	**–**	290,619
Obligations under finance leases	**1,213,533**	1,215,055	**1,213,533**	1,215,055
	37,677,792	20,529,817	**37,677,792**	20,529,817

It is our view that the fair value of the Group's financial instruments are not materially different to their carrying value. This view was formed on the basis that, as indicated in note 17 of the financial statements, the bank loans and the loan notes attracted a variable rate of interest and that the cash deposits, and trade payables and receivables, are short term in nature. Consequently, in accordance with paragraph 29(a) of IFRS 7, no fair value information has been disclosed and the information in paragraph 97 of IFRS 13 is not required.

Company Balance Sheet

As at 31 March 2015

	Note	2015 £	2014 £
Fixed assets			
Tangible fixed assets	5	**51,367**	205
Investments	4	**14,421,719**	807,889
Loans to subsidiary undertakings	6	**23,013,471**	20,488,377
		37,486,557	21,296,471
Current assets			
Trade and other receivables	6	**6,318,710**	3,071,566
Cash at bank and in hand		**5,060,714**	1,132,203
		11,379,424	4,203,769
Creditors: amounts falling due within one year	7	**(55,601)**	(79,469)
Net current assets		**11,323,823**	4,124,300
Non-current liabilities			
Borrowings	8	**–**	(290,619)
Net assets		**48,810,380**	25,130,152
Capital and reserves			
Called up share capital	9	**2,306,911**	1,528,438
Share premium account	10	**40,851,998**	21,856,482
Merger reserve	13	**3,503,482**	–
Capital redemption reserve	11	**65,000**	65,000
Convertible loan notes – equity	12	**–**	27,934
Profit and loss account	14	**2,082,989**	1,652,298
Equity – attributable to the owners of the parent	15	**48,810,380**	25,130,152

The financial statements were approved by the Board of Directors and authorised for issue on 3 June 2015 and are signed on its behalf by:

Stanley Davis
Director

Notes to the Company Financial Statements

for the year ended 31 March 2015

Basis of Accounting

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom accounting standards. The principal accounting policies are described below. They have all been applied consistently throughout the year and preceding year. The Company has also taken advantage of the exemption from presenting a cash flow statement under the terms of FRS1 'Cash Flow Statements'.

Going Concern

The Company has reasonable financial resources together with the profits it will generate from the loans made to its subsidiary undertakings to support its business for the foreseeable future. As a consequence, the Directors believe that the Company is well placed to manage its business risk successfully.

After making enquiries, and in accordance with the FRC's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are 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

Leased Assets

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Taxation arising on disposal of a revalued asset is split between the profit and loss account and the statement of total recognised gains and losses on the basis of the tax attributable to the gain or loss recognised in each statement.

Convertible Loan Notes

Convertible loan notes issued by the Company are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for similar non-convertible debt. The difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the respective date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

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.

The Company's profit after tax for the year was £2,055,314 (2014: 14 month period £2,171,356).

The Company's profit for the financial year has been arrived at after charging auditor's remuneration payable to BDO LLP (2014 –Crowe Clark Whitehill LLP) for audit services to the Company of £27,500 (2014: £30,000). Fees payable to the auditor for the audit of subsidiary undertakings amounted to £10,000 (2014: £nil) and for other services amounted to £50,000 (2014: £38,098).

2 Employees' and Directors' Remuneration

Staff costs during the period were as follows:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Directors' fees	**67,500**	42,473
Wages and salaries	**306,300**	173,086
Social security costs	**44,271**	24,784
Share based payments	**113,817**	11,667
	531,888	252,010

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

	Year ended 31 March 2015	14 month period ended 31 March 2014
Directors and management	**6**	5

Notes to the Company Financial Statements

for the year ended 31 March 2015 continued

2 Employees' and Directors' Remuneration continued

Remuneration in respect of directors was as follows:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Short term employee benefits:		
Emoluments for qualifying services	**342,300**	188,780
Share based payments	**102,060**	9,625
	444,360	198,405

There are no retirement benefits accruing to any of the Directors.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Short term employee benefits:		
Emoluments	**193,967**	119,230
Share based payments	**68,040**	6,417
	262,007	125,647

3 Taxation

Staff costs during the period were as follows:

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Current corporation tax charge	**–**	–
Deferred tax charge/(credit)	**100,000**	(100,000)
Tax charge/(credit)	**100,000**	(100,000)

Deferred taxes at 31 March relates to the following:

	2015 £	2014 £
Deferred tax assets		
Losses available to carry forward	**–**	100,000
Deferred tax asset	**–**	100,000

At 31 March 2015, the Company had tax losses of £nil (2014: £477,915) available to carry forward to future periods. A deferred tax asset of £100,000 was recognised at 31 March 2014 as it was expected that they would be utilised in the foreseeable future. These losses have been utilised in the year ended 31 March 2015.

4 Investments

	Subsidiary undertakings £
Cost:	
At 1 February 2014	1,813,218
Acquisitions	3,613,828
Issue of new share capital	10,000,000
At 31 March 2015	**15,427,046**

	£
Provision for diminution in value:	
At 1 February 2014	1,005,329
Provided during the year	(2)
At 31 March 2015	**1,005,327**
Net book value at 31 March 2015	**14,421,719**
Net book value at 31 January 2014	807,889

On 26 August 2014 the Company acquired 100% of the share capital of Property Investment Holdings Limited for a consideration of £3,613,828. The consideration was satisfied by issuing 1,103,459 ordinary 10p shares in the Company at a fair value price of £3.275 per share.

On 31 March 2015 the Company purchased an additional 10,000,000 ordinary £1 shares at par in Property Investment Holdings Limited in order to refinance the subsidiary.

During the year Equalgold Limited ceased to become a dormant company and commenced trade as a property investment company. On 19 January 2015 it changed its name to Palace Capital (Leeds) Limited.

The Company owns more than 20% of the following undertakings, all of which are incorporated in the United Kingdom unless shown otherwise:

	Class of share held	% shareholding	Principal activity
Subsidiary undertaking:			
Palace Capital (Leeds) Limited	Ordinary	100	Property Investments
Hockenhull Estates Limited **	Ordinary	100	Property Investments
Quintain (Signal) Member A Limited	Ordinary	100	Holding
Quintain (Signal) Member B Limited*	Ordinary	100	Holding
Signal Property Investments LLP*	Member	100	Property Investments
Signal Investments LLP*	Member	100	Holding
Property Investment Holdings Limited	Ordinary	100	Property Investments
Meadowcourt Management (Meadowhall) Limited*	Ordinary	50	Property Management

* held indirectly
** Incorporated in Isle of Man

Notes to the Company Financial Statements

for the year ended 31 March 2015 continued

5 Tangible Fixed Assets

	IT and fixtures and fittings £
At 1 April 2014	670
Additions	61,075
At 31 March 2015	**61,745**
Depreciation	
At 1 April 2014	465
Provided during the period	9,913
At 31 March 2015	**10,378**
Net book value at 31 March 2015	**51,367**
Net book value at 31 March 2014	205

6 Trade and Other Receivables

	2015 £	2014 £
Current		
Amounts owed by subsidiary undertakings	**5,149,998**	2,930,759
Deferred tax	**–**	100,000
Other debtors	**26,880**	–
Other taxes and social security	**–**	36,925
Accrued interest on amounts owed by subsidiary undertakings	**1,123,933**	–
Prepayments	**17,899**	3,882
	6,318,710	3,071,566

	2015 £	2014 £
Non-current		
Amounts owed by subsidiary undertakings	**23,013,471**	20,488,377
	23,013,471	20,488,377

A loan amounting to £2,502,094 remains outstanding at 31 March 2015 (2014: nil) from Property Investment Holdings limited. Interest on this loan is charged at a fixed rate of 5% per year and the loan is repayable on 27 August 2019.

A loan amounting to £20,488,377 remains outstanding at 31 March 2015 (2014: £20,488,377) from Signal Property Investment LLP. Interest on this loan is charged at a fixed rate of 5% per year. This loan is repayable on 21 October 2017.

All other amounts owed by subsidiary undertakings are interest free and are repayable on demand.

7 Creditors: amounts falling due within one year

	2015 £	2014 £
Trade creditors	**1,270**	18,580
Deferred tax	**13,231**	7,860
Prepayments	**41,100**	53,029
	55,601	79,469

8 Borrowings

	2015 £	2014 £
Convertible loan notes	**–**	290,619
	–	290,619

The convertible loan notes amounting to £300,000 which were provided by Stanley Davis, a director of the Company, were repaid on 23 June 2014. Interest was charged at a rate of 4%. The interest accrued during the period amounted to £2,039 (2014: £13,940).

9 Share Capital

	2015 £	2014 £
20,225,673 ordinary shares of 10p each (2014: 12,440,937)	**2,022,567**	1,244,094
315,937 deferred shares of 90p each (2014: 315,937)	**284,344**	284,344
	2,306,911	1,528,438

On 23 June 2014 79,665 warrants were exercised and as a result the Company issued 79,665 ordinary 10p shares at a price of £2.00.

On 26 August 2014 the Company issued 6,451,612 ordinary 10p shares at a price of £3.10. Issue costs amounting to £795,684 were incurred and have been deducted from the share premium account.

In addition, on the same day the Company issued 1,103,459 ordinary 10p shares in exchange for 100% of the share capital of Property Investment Holdings Limited. The fair value of these shares was £3.275 per share.

On 18 February 2015 150,000 warrants were exercised and as a result the Company issued 150,000 ordinary 10p shares at a price of £2.00.

Share options
As at 31 March 2015, the Company had outstanding unexpired options of 811,752 shares (2014: 811,752). The Company granted no share options during the year (2014: 646,815). A total of 229,665 share options issued to the Group's Broker were exercised during the year (2014: nil) and 133,333 share options lapsed during the year (2014: 26,667). See notes 19 and 20 of the consolidated financial statements for further details.

Option on convertible loans
As part of the convertible loan agreements (see note 8) 133,333 options were granted to convert £300,000 of loans to shares. Following the repayment of this loan on 23 June 2014 these options lapsed.

Notes to the Company Financial Statements

for the year ended 31 March 2015 continued

10 Share Premium Account

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Balance brought forward	**21,856,482**	110,395
Premium on issue of new shares	**18,995,516**	21,746,087
Balance carried forward	**40,851,998**	21,856,482

11 Capital Redemption Reserve

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Balance brought forward	**65,000**	–
Transfer from profit and loss account on redemption of preference shares	**–**	65,000
Balance carried forward	**65,000**	65,000

12 Convertible Loan Notes – Equity Reserve

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Balance brought forward	**27,934**	27,934
Transfer to profit and loss account on repayment of loan	**(27,934)**	–
Balance carried forward	**–**	27,934

13 Merger Reserve

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Balance brought forward	**–**	–
Issue of share capital as consideration for acquisition of subsidiary	**3,503,482**	–
Balance carried forward	**3,503,482**	–

14 Profit and Loss Account

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Balance brought forward	**1,652,298**	(515,725)
Profit for financial period	**2,055,314**	2,171,356
Dividends paid during the year	**(1,766,374)**	–
Share based payments	**113,817**	61,667
Transfer from convertible loan notes – equity reserve	**27,934**	–
Transfer to capital redemption reserve	**–**	(65,000)
Balance carried forward	**2,082,989**	1,652,298

15 Reconciliation of Movements in Shareholders' Funds

	Year ended 31 March 2015 £	14 month period ended 31 March 2014 £
Profit for the financial period	**2,055,314**	2,171,356
Dividends paid during the period	**(1,766,374)**	–
Net increase in shareholders' funds	**288,940**	2,171,356
Issue of new shares	**23,277,471**	23,008,587
Share based payments	**113,817**	11,667
Opening Shareholders' funds	**25,130,152**	(61,458)
Closing Shareholders' funds	**48,810,380**	25,130,152

16 Leases

The annual amount payable under operating leases in respect of rents on leasehold properties occupied by the Company are as follows:

	2015 £	2014 £
Within one year	**–**	–
From one to two years	**–**	–
From two to five years	**44,800**	–
	44,800	–

17 Post Balance Sheet Event

On 27 May 2015, the Company has entered into a conditional agreement to acquire the entire issued share capital of O&H Northampton Limited (O&H), the owner of Sol Central, a mixed use leisure scheme in Northampton. Under the terms of the Acquisition Agreement, the consideration payable by the Company for all of the issued shares of O&H is £1. The Company will also procure the repayment of £20.7 million of the outstanding indebtedness owed by O&H to its existing bank and other creditors. There will also be an adjustment to reflect the net assets of O&H at the date of the Acquisition. The total amount payable by the Company in connection with the acquisition of O&H is expected to be approximately £20.7 million. Sol Central is a 190,000 sq ft mixed use leisure scheme located in the town centre of Northampton. Constructed in 2002, Sol Central has two anchor tenants, a 10 screen Vue Cinema and a 151 bed Ibis Hotel. To finance the repayment of O&H's indebtedness and to provide additional capital to exploit further opportunities, the Board has announced a conditional placing of 5,555,556 Placing Shares at the Issue Price of £3.60 to raise £20 million (before expenses).

The Acquisition is conditional on, inter alia, O&H and Santander entering into the Facility Agreement. The Facility will provide O&H with £11.39 million, which will be used, along with part of the Placing proceeds, to repay O&H's outstanding indebtedness up to an aggregate amount of £20.7 million (subject to adjustment to reflect the net assets of O&H at the date of completion of the Acquisition).

Notice of Annual General Meeting

Palace Capital plc (the "Company")

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

Notice is hereby given that the Annual General Meeting (Meeting) of the Company will be held at the offices of Hamlins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD at 10.00 a.m. on 8 July 2015.

You will be asked to consider and vote on the resolutions below. Resolutions 1 to 7 will be proposed as ordinary resolutions and resolution 8 will be proposed as a special resolution.

Ordinary Resolutions

1. **To receive the accounts and reports for the financial period ended 31 March 2015.**

2. **To re-appoint MR NEIL SINCLAIR as an executive director.**

   Biography
   Neil has over 50 years' experience in the property sector. He was a founder of Sinclair Goldsmith Chartered Surveyors which was admitted to the Official List in 1987 and subsequently merged with Conrad Ritblat in 1993, when he became Executive Deputy Chairman. Neil was appointed Non-Executive Chairman of Baker Lorenz, surveyors in 1999 and which was sold to Hercules Property Services plc in 2001. He was appointed a Non-Executive Director of Tops Estates plc, a fully listed company, in 2003 and remained so until it was sold to Land Securities plc in 2005. He was one of the founders of Mission Capital plc, now Quindell plc, which was admitted to AIM in 2005, and was Executive Chairman until February 2008. He was also featured in 'Top 100 Property People in Property Week' in 2003.

   He was elected Chief Barker (Chairman) for 1991 for the Variety Club Children's Charity one of the country's premier charities and is still a Trustee. He co-founded 'the PROPS', one of the industry's leading events which has raised in excess of £8 million for the Variety Children's Charity Wheelchair Programme.

   Proposal for Re-appointment
   The Board recommends Mr Sinclair's re-appointment as an executive director. The Board has conducted a performance evaluation for Mr Sinclair. His performance continues to be effective while demonstrating commitment to the role.

3. **To re-appoint MR STEPHEN SILVESTER as finance director.**

   Biography
   Stephen Silvester, a Chartered Accountant, brings to Palace Capital over ten years' experience as a finance professional, with a background across a range of markets, including real estate.

   Since 2012, he has served as Group Financial Controller at NewRiver Retail Ltd. an AIM-listed REIT specialising in the UK Retail Sector. He was involved in debt restructuring, numerous property portfolio acquisitions, capital raising and securing credit facilities from major institutions.

   Prior to NewRiver, Mr Silvester was Group Financial Controller for St Hilliers Pty Ltd., a large real estate company based in Australia with construction and property development operations in both the residential and commercial sectors. Before 2008, Stephen was a senior accountant and business advisor for PKF Chartered Accountants in Australia.

   Proposal for Re-appointment
   On 7 May 2015 the appointment of Stephen was announced with an effective date of 1 July 2015. In accordance with the Company's Articles of Association Mr Silvester will be required to seek re-election notwithstanding that at the Annual General Meeting he will only have held office for 8 days. The Board recommends his re-appointment.

4. **To re-appoint MR KIM TAYLOR-SMITH as a non-executive director.**

   Biography
   Kim, a Chartered Accountant, brings to Palace Capital over thirty years' experience as a company director for a range of businesses, with a particular 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 and 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. Since 2001, Mr Taylor-Smith has undertaken various property investment and development projects including the establishment of a successful serviced workspace operation which was sold to Highcross Group in 2006.

   Proposal for Re-appointment
   The Board recommends Mr Taylor-Smith's re-appointment as a non-executive director. The board has conducted a performance evaluation for Mr Taylor-Smith His performance continues to be effective while demonstrating commitment to the role.

5. **To re-appoint BDO LLP as auditors of the Company and to authorise the directors to fix their remuneration.**

6. **To declare a final dividend of 7p per ordinary share in respect of the period ended 31 March 2015. This dividend will be paid on 31 July 2015 to the holders of ordinary shares.**

7. **That, in accordance with section 551 Companies Act 2006 (CA 2006), the directors of the Company are generally and unconditionally authorised, and in substitution for any previous authority to allot Relevant Securities (as defined in this resolution) comprising equity securities (as defined in section 560 CA 2006) up to an aggregate nominal amount of £859,375.30, such authority, unless previously revoked or varied by the Company in general meeting, to expire at the close of the Company's next annual general meeting, except that the directors of the Company may allot Relevant Securities pursuant to an offer or agreement made before the expiry of the authority. In this notice, Relevant Securities means any shares in the capital of the Company and the grant of any right to subscribe for, or convert any security into, shares in the capital of the Company.**

   Section 551 of the Companies Act 2006 provides that the directors of a Company cannot issue new shares in its capital without the approval of the shareholders. Accordingly, the purpose of this resolution is to give the directors of the Company authority to issue new shares in the capital of the Company up to a maximum nominal amount of £859,375.30 (representing approximately one third of the issued ordinary share capital of the Company as at the date of this notice). This resolution will allow the directors of the Company flexibility to act in the best interests of the Company and its shareholders by issuing new shares in appropriate circumstances. The number of treasury shares held by the Company as at the date of this notice is nil. The directors intend to seek renewal of the authority and powers set out in resolution 7 at each annual general meeting.

Special Resolution

8. **That, subject to the passing of resolution 7, under section 570 CA 2006, the directors of the Company are authorised, in substitution for any previous authority, to allot equity securities, as defined in section 560 CA 2006, wholly for cash for the period commencing on the date of this resolution and expiring on the date of the Company's next annual general meeting, as if section 561 CA 2006 did not apply to such allotment, except that the directors of the Company may allot Relevant Securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to:**

   8.1 **the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where their holdings are proportionate, as nearly as possible, to the respective number of ordinary shares held, or deemed to be held, by them, but subject to any exclusions or arrangements the directors think necessary or expedient for the purpose of dealing with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; or**

   8.2 **the allotment of equity securities up to a maximum nominal value of £257,812.30.**

   If shares are to be allotted by the Company, Section 561 of the Companies Act 2006 requires that except to the extent dis-applied by shareholders, those shares be offered first to existing shareholders in proportion to their shareholdings. However it may sometimes be in the interest of the Company for the directors to have greater flexibility. This resolution would allow the directors to allot shares to allot shares for cash up to an aggregate nominal value of £257,812.30 representing approximately one tenth of the Company's issued share capital as at the date of this notice, without first offering such shares to shareholders in proportion to their shareholding. The authorities sought and the limit set by this resolution will also apply to any sale or transfer of treasury shares. The directors consider it prudent to have the flexibility to buy back shares into treasury and to be able to subsequently sell or transfer them if appropriate. This will enable them to act on short notice in appropriate circumstances should that be in the best interest of the Company. The directors intend to seek renewal of the authority and powers set out in resolution 8 at each annual general meeting.

By order of the board

David M Kaye
Company Secretary

3 June 2015

Registered office
41 Chalton Street
London
NW1 1JD

Notice of Annual General Meeting

continued

Notes to the Notice of Annual General Meeting

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at:

   - 10.00 a.m. on 6 July 2015; or,
   - if this Meeting is adjourned, at 48 hours (excluding any part of a day that is not a working day) prior to the adjourned Meeting,

   shall be entitled to attend and vote at the Meeting.

Attending in person

2. If you wish to attend the Meeting in person, please arrive at the offices of Hamlins LLP, Roxburghe House, 273-287 Regent Street, London W1B 2AD (the nearest underground station is Oxford Circus) at 09:30 a.m. on 8 July 2015 (commencement of registration); the Meeting will commence at 10.00 am. Please bring this notice with you. Representatives of corporate shareholders will have to produce evidence of their proper appointment when attending the Meeting. Please contact the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, if you require further guidance on this.

Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

4. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.

5. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

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

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

   - completed and signed;
   - sent or delivered to Company's Registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and
   - received by Capita Asset Services no later than 10.00 am on 6 July 2015.

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

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

Appointment of proxies through CREST

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

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (**EUI**) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (IDRA10) by 10.00 am on 6 July 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

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

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

Appointment of proxy by joint members

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

Changing proxy instructions

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

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

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

Termination of proxy appointments

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

    The revocation notice must be received by Capita Asset Services no later than 10.00 am on 6 July 2015.

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

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

Corporate representatives

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

Officers and Professional Advisers

Directors

Stanley Davis Chairman
Neil Sinclair Chief Executive
Richard Starr Director
Anthony Dove Non-executive Director
Kim Taylor-Smith Non-executive Director

Secretary

David Kaye F.C.I.S.

Registered Office

41 Chalton Street
London
NW1 1JD

Registered Number: 05332938 (England and Wales)

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Legal Adviser

Hamlins LLP
Roxburghe House
273-287 Regent Street
London
W1B 2AD

Nominated Adviser And Brokers

Allenby Capital
3 St. Helen's Place
London
EC3A 6AB

Arden Partners plc
125 Old Broad Street
London
EC2N 1AR

Registrars

Capita Registrars Limited

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Bankers

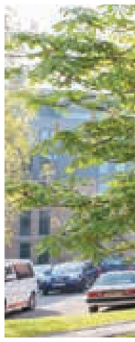
Barclays Bank Plc
69 Albion Street
Leeds
LS1 5AA

Close Brothers Property Finance
10 Crown Place
London
EC2A 4FT

Nationwide Building Society
Kings Park Road
Moulton Park
Northampton
NN3 6NW

National Westminster Bank Plc
16 The Boulevard
Crawley
West Sussex
RH10 1XU

Designed by RDA. Printed by Royle Financial Print.



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