PALACE CAPITAL plc

Half-yearly Report

30 September 2015

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Who we are

Palace Capital is a UK AIM-listed property investment company focused on generating sustainable income returns and capital growth through astute acquisitions of properties in key regional UK towns and cities.

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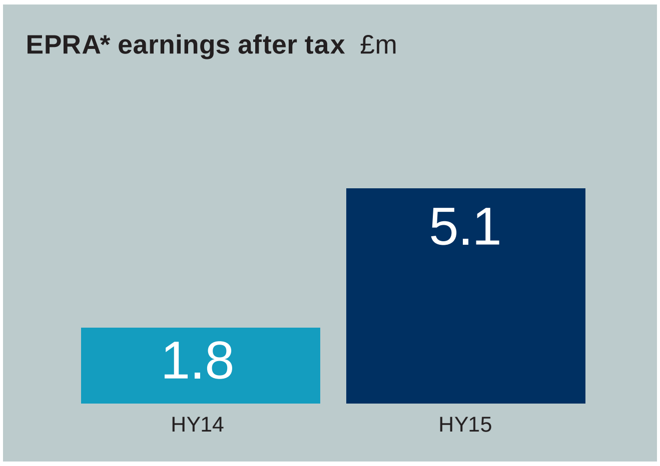
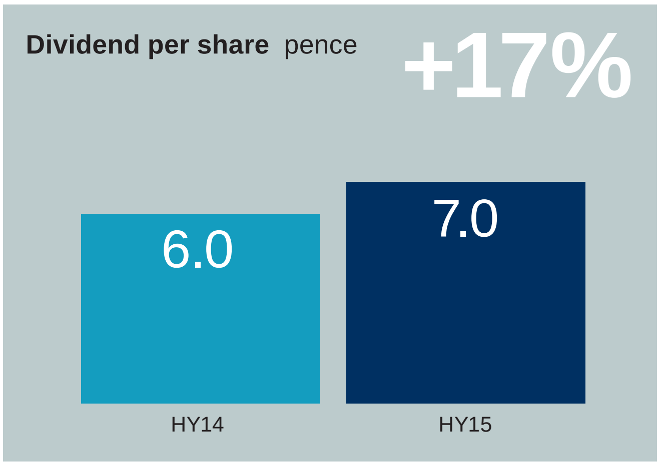
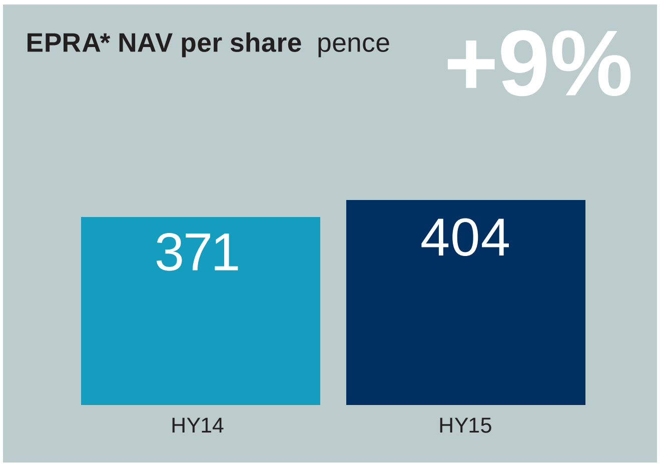
Overview

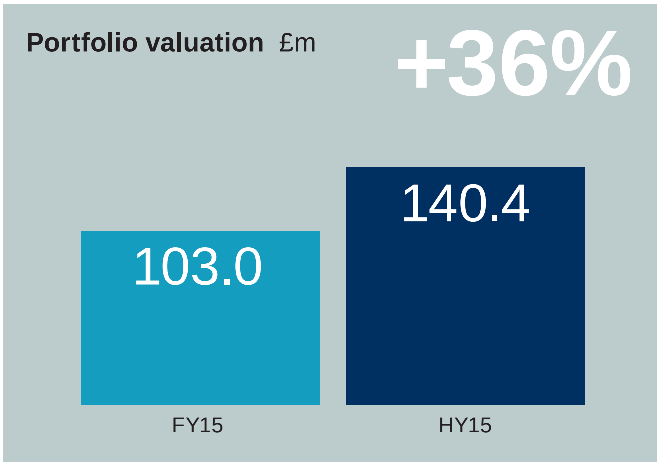
Growth across all key metrics

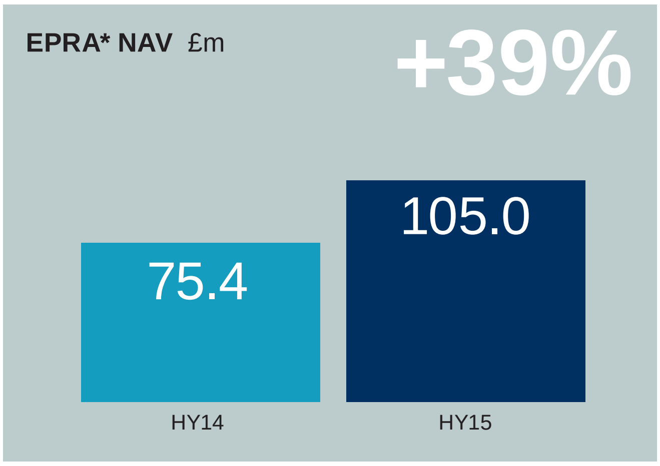
Business Highlights

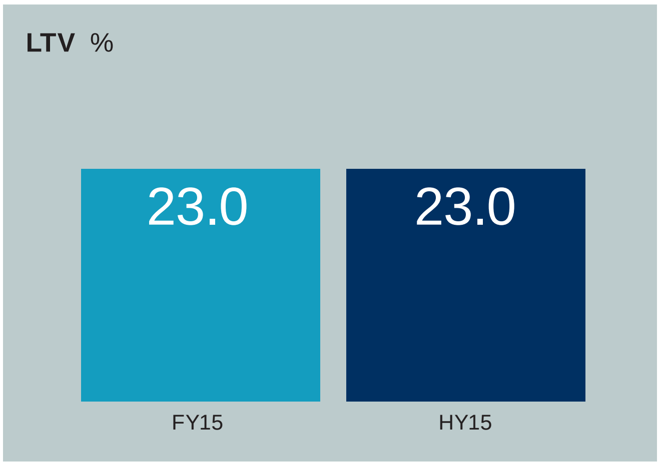












*EPRA is the European Public Real Estate Association.

Highlights

£20m equity raised and deployed in the period

Corporate Highlights

- £20m equity raised and deployed in the period
- Portfolio valuation at 30 September 2015: £140.4 million (31 March 2015: £103.0 million)
- EPRA* NAV per share: 404p at 30 September 2015 (HY 2014: 371p), having regard to 10p dilutive effect of equity raise
- EPRA* earnings: £5.1 million (HY 2014: £1.8 million)
- EPRA* EPS: 22p (HY 2014: 13p)
- Interim dividend of 7p proposed (HY 2014: 6p), fully covered by earnings

Operational Highlights

- Three acquisitions:
  - Sol Central, Northampton for £20.7 million, supported by £20.0 million equity fundraise
  - Bank House, King Street, Leeds for £10.0 million, funded from cash
  - 46-54 High Street, Sutton for £3.9 million, funded from cash
- Two sales, both well above book value:
  - Unit 1, Clayton Manor, Burgess Hill for £1.25 million
  - 54 Albert Road North, Reigate for £0.45 million
- Appointment of Stephen Silvester to the Board as Finance Director

Asset Management Highlights

- Planning application submitted to City of York Council for 82 apartments and 37,000 sq ft of offices at Hudson House, York
- Secured the surrender of a lease held by Gala Casinos at Sol Central, Northampton for £3.0 million plus £0.8m dilapidations
- Unit 3, Clayton Manor, Burgess Hill let for 15 years to Polar Audio at £120,000 pa initial rent
- Extension of lease with the Bank of England at Bank House, King Street, Leeds until 2023
- Work has started on office-to-residential conversion of 14 apartments at The Copperfields, Dartford, Kent
- Post period end: Stratton House, Bristol – new 15-year lease with Wincanton Holdings at a headline rent of £190,000 pa

Financial Highlights

- Gross debt: £51.1 million (31 March 2015: £36.2 million)
- Loan to value net of cash: 23% (31 March 2015: 23%)
- Weighted average cost of debt: 3.1% (31 March 2015: 3.9%)
- £20 million loan facility with Nationwide Building Society secured on the Sequel portfolio, renegotiated for 5 years at a reduced margin of 2.45% compared to 3.75%

*EPRA is the European Public Real Estate Association.

Chairman's Statement

for the six months ended 30 September 2015

Stanley Davis
Chairman

I am very pleased to report our interim results for the six months ended 30 September 2015, which show that the Company has made a profit before tax of £7.6m. The Company has significantly grown the scale of its real estate portfolio, both through recent acquisitions and upward revaluations. As at 30 September 2015, the portfolio was valued at £140.4m and our annual gross rent roll now stands at £11.6m.

Overview

We are continuing to make very good progress. The Board is seeking to increase shareholder value by continuing to build the scale of the Company. Our strategy is to grow by making selective acquisitions (of both portfolios and individual properties) and to actively manage our existing portfolio, which now comprises 50 properties. Our focus on growing rental income continues to have a positive impact on the valuation of our properties.

We have the ability to take advantage of many opportunities, but only if the terms satisfy our strict valuation criteria. To proceed with any acquisition, we have to be confident that we can add value through our style of active property management. Our executive management team is constantly travelling around the country assessing potential opportunities, meeting property owners and viewing properties at first hand. We decided not to move forward with a number of the opportunities that have been offered to us during the last six months, as most of them are either in locations that we do not consider desirable or they do not offer us a sufficient return.

Against the backdrop of a real estate market where there is increased competition for acquisitions, we are taking full advantage of our team's experience to make sure that we can move quickly and have the resources available when an appropriate opportunity presents itself. We continue to be very selective. Given our in-depth experience of the real estate market, we remain convinced that this policy will hold us in good stead in the months ahead. Despite our strict criteria for acquisitions, we remain very much in the market and we will continue to vigorously pursue opportunities that match our criteria.

We made three acquisitions in the six months ended 30 September 2015 with the result that our portfolio is now valued at £140.4m. With a modest level of gearing our EPRA (European Public Real Estate Association) NAV per share has increased to 404p per share (basic NAV per share is now at 407p, however EPRA NAV takes into account the dilution of outstanding share options). Our EPRA NAV at 31 March 2015 was 393p, however we raised £20m of equity in May 2015 at 360p and this diluted the EPRA NAV in May 2015 to 383p per share. EPRA NAV has therefore increased 5% since the equity raise (21p).

During the half year the Company pursued its active but prudent acquisition strategy. We completed three transactions: (i) Bank House, King Street, Leeds – an 88,000 sq ft building very close to Leeds Railway Station for £10m; (ii) Sol Central, Northampton – a large 200,000 sq ft mixed use leisure scheme built in 2002 for £20.7m; and (iii) 46-54 High Street, Sutton – a 21,200 sq ft retail and office building for £3.95m.

We are also recycling our capital. In June 2015, we sold Unit 1, Clayton Manor, Burgess Hill for £1.25m and in April of this year we sold 54 Albert Road North, Reigate for £0.45m, both at well above book value. We review our portfolio constantly to make sure that each property continues to match our criteria of adding value through active management to enhance the income potential and capital value.

Strategic Development

Palace has grown from £100,000 to c.£100 million market value in the last 5 years, and we intend to continue our policy of looking for portfolios especially where these have not been exposed to public marketing. We continue to look for opportunities to grow the Company while being keenly aware of the need to maximise value from our existing assets.

In due course it would be Palace's intention to join the Official List of the London Stock Exchange at such time as would lead to our inclusion in the All Share Index. To this end we have strengthened our Board with the appointment of a Finance Director and selective further recruitment will be made to establish a platform to support future growth. The Board has also taken the opportunity to review the remuneration structure to reflect the fact that the Company is no longer in a start-up phase and to align the longer-term rewards for key employees to the interests of shareholders. In common with listed company practice, our revised remuneration structure will be explained to shareholders in our next report and accounts. The remuneration structure has been established by the remuneration

"Palace has grown from £100,000 to c.£100 million market value in the last 5 years"

committee following advice received from remuneration consultants and consultation with our major shareholders. There are cost implications but the Board is clear that this is a key part of the retention and recruitment of high calibre individuals which is the bedrock of Palace Capital.

Portfolio activity

Our strategy remains one where we undertake the active management of our current portfolio and this is beginning to pay dividends in respect of capital growth and increased rental income. We have made good progress at a number of properties in our portfolio.

- Ovest House, West Street, Brighton: The directors consider that this shop and office building is in a prime location. We are taking possession of most of the office space which will be refurbished. There is a shortage of office space in this expanding city so we are confident of increasing the income considerably.
- Unit 3, Clayton Manor, Burgess Hill: Our previous tenant, Body Shop, vacated this 15,500 sq ft warehouse/office unit last December. We settled a Schedule of Dilapidations and refurbished the property, which was subsequently let to Polar Audio in August 2015.
- The Copperfields, Dartford, Kent: We secured prior planning approval to convert 10,000 sq ft of vacant offices into 14 apartments. Work has started on site and these should be completed in the Spring of 2016.
- Bank House, King Street, Leeds: Soon after we completed this acquisition we negotiated an extension of lease until 2023 with the Bank of England, who occupy circa 30,000 sq ft. They will pay no less than £232,000 per annum in 2020. They are currently paying £105,000 per annum, exclusive.
- ICS Building and adjoining properties, Hall Road, Maldon, Essex: This is a large site where our principal tenant holds a lease until March 2017. We have instructed a professional team to pursue our development options upon lease expiry.
- Unit 2, Kiln Farm, Milton Keynes: The tenant has served notice to vacate this 14,500 sq ft office unit in March 2016. We completed and let the refurbished Units 3 & 4 at the same location last December and it is our intention to carry out a similar exercise on Unit 2.
- Sol Central, Northampton: We negotiated a very satisfactory surrender of the existing lease with Gala Casinos for the sum of £3.0m and in addition we also received £800,000 in lieu of dilapidations. We have seen preliminary proposals to reconfigure this space and to provide new restaurant units in the Gala premises. First indications are very encouraging.
- 124-126, Above Bar Street, Southampton: We have had positive discussions with the City of Southampton regarding redevelopment of this site, which are being progressed by our professional team.
- Victoria Road, Stoke-on-Trent: This 40,000 sq ft warehouse was vacated in late September and a satisfactory dilapidation settlement of £250,000 was reached with the outgoing tenant. The property is on the market to let and we have serious interest from potential tenants to occupy the property.
- Hudson House, Toft Green, York: We secured prior approval in December 2014 to change the use of this 103,000 sq ft building from office to residential use comprising 115 apartments. The Government has now renewed this legislation and, subject to planning consent for alterations, we have until December 2017 to complete such a scheme. We also have a planning application currently with City of York Council for 82 apartments and 37,000 sq ft of offices which is under consideration at the present time.
- Since the end of the half year we have concluded a lease surrender from Computershare at our 50,000 sq ft warehouse unit at Stratton House, Cater Road, Bristol and granted a new 15 year lease with a break at the tenth year at a headline rental of £190,000 per annum to Wincanton Holdings, now part of Restore plc.

Within our portfolio of assets we have identified certain key properties which we believe have substantial longer-term development or asset management value. Partly this is a function of their size but is also specific to location and opportunity. At the current time Bank House in Leeds, Hudson House in York and Sol Central in Northampton fall within this category.

In certain instances we may take decisions to further our interests which will have a short-term impact on our rental income. For

Bank House, Leeds. Acquired April 2015.

Chairman's Statement

continued

Hudson House, York. Acquired October 2013.

instance, at York our plans for conversion of Hudson House led us to grant short tenancies which have now expired. The total rental and void rates cost of this has to be weighed against the potential value of this site and makes this a short term price worth paying. A similar decision on seeking a letting at Bank House, Leeds now arises as AXA have vacated 13,275 square feet and where we see important long term value creation. At Sol we accepted the surrender of the Gala lease resulting in a substantial profit as a first step in a reconfiguration and revitalisation of this important leisure asset.

Lending facilities

We have recently refinanced our £20m facility with Nationwide Building Society which was originally secured on the Sequel portfolio purchased from Quintain in 2013. We now have a new £20m facility for five years at a reduced margin of 2.45% as compared to 3.75%. In addition seven of our properties, which were previously part of the Sequel portfolio, have now been removed from Nationwide's security and are unencumbered.

We now have a very conservative borrowing level of £51.1m. This represents a loan to value, net of cash, of 23% set against the current property valuations. All the properties in the portfolio, other than the former Hockenhull retail portfolio in Cheshire, have been valued by Cushman & Wakefield. The Directors' valuation of the Hockenhull retail portfolio at 30 September 2015 was unchanged at £2.26m.

Dividend

We intend to pay an interim dividend of 7p on 30 December 2015 to shareholders on the register at 11 December 2015. As we continue to grow the Company's rental income stream, the Board intends to continue to pursue a progressive dividend policy as the business develops.

Strengthening the Board

I am delighted that Stephen Silvester joined the board as Finance Director during the period. He has already made a significant contribution to the management of the Company. Part of his role is to assess the options available to the Company to create the right financing platform going forwards. The team remains tightly knit and together has created a very solid platform from which we can expand the scale of the Company.

Outlook

I am very pleased with the exciting progress that Palace Capital is making. The Company has made really good headway over the past three years. The team has completed a number of excellently timed acquisitions and is working hard on enhancing the value of all our assets via a comprehensive programme of active management.

We remain very grateful for the strong support shown by our shareholders and the Board is confident that our management team has the experience to continue to deliver further portfolio initiatives. Our ambition in the near term is to build critical mass and continue to grow our portfolio of commercial properties located outside London. The Company is extremely well placed and I look to the future with continued confidence.

Stanley Davis
Chairman

30 November 2015.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 September 2015

	Notes	**Unaudited 6 months to 30 September 2015 £000**	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Gross rental income	3	**8,364**	3,732	8,637
Property operating expenses		**(880)**	(769)	(1,200)
Net property income	3	**7,484**	2,963	7,437
Administrative costs		**(985)**	(586)	(1,325)
Share-based payments		**(50)**	(5)	(114)
Acquisition costs		**(413)**	(639)	(639)
Gains on revaluation of investment property	8	**2,308**	7,292	9,769
Profit on disposal of investment properties		**208**	–	178
Operating profit		**8,552**	9,025	15,306
Finance income		**8**	4	18
Finance costs		**(991)**	(593)	(1,416)
Profit before taxation		**7,569**	8,436	13,908
Taxation	4	**(396)**	(10)	107
Profit for the period and total comprehensive income		**7,173**	8,426	14,015
Earnings per ordinary share				
Basic	6	**30.6p**	60.5p	82.4p
Diluted	6	**30.4p**	57.5p	80.1p
EPRA basic	6	**21.7p**	12.7p	27.7p

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

Condensed Consolidated Statement of Financial Position

30 September 2015

	Notes	**Unaudited 30 September 2015 £000**	Unaudited 30 September 2014 £000	Audited 31 March 2015 £000
Non current assets				
Goodwill		**6**	6	6
Investment properties	8	**140,350**	99,840	102,988
Tangible fixed assets		**44**	31	52
Deferred tax		**500**	100	500
Trade and other receivables	9	**935**	498	924
		141,835	100,475	104,470
Current assets				
Trade and other receivables	9	**4,144**	1,873	3,375
Cash and cash equivalents		**18,689**	11,451	12,279
Total current assets		**22,833**	13,324	15,654
Total assets		**164,668**	113,799	120,124
Current liabilities				
Trade and other payables	10	**(7,132)**	(3,548)	(3,087)
Borrowings	11	**(850)**	(400)	(400)
Total current liabilities		**(7,982)**	(3,948)	(3,487)
Net current assets		**14,851**	9,376	12,167
Non current liabilities				
Borrowings	11	**(49,678)**	(33,608)	(35,407)
Obligations under finance leases		**(2,070)**	(1,214)	(1,214)
Net Assets		**104,938**	75,029	80,016
Equity				
Share capital	13	**2,862**	2,292	2,307
Share premium account		**59,412**	40,374	40,852
Merger reserve		**3,503**	3,503	3,503
Capital redemption reserve		**65**	65	65
Share based payments		**194**	64	144
Retained earnings		**38,902**	28,731	33,145
Equity shareholders' funds		**104,938**	75,029	80,016
Basic NAV per ordinary share	7	**407p**	374p	396p
Diluted NAV per ordinary share	7	**404p**	371p	393p
EPRA NAV per ordinary share	7	**404p**	371p	393p

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

The condensed consolidated interim financial statements were approved by the Board of Directors on 27 November 2015.

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 September 2015

	Notes	**Unaudited 6 months to 30 September 2015 £000**	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Operating activities				
Profit before tax		**7,569**	8,436	13,908
Adjustments for non cash items:				
Profit on sale of investment properties		**(208)**	–	(178)
Gain on revaluation of investment properties		**(2,308)**	(7,292)	(9,769)
Depreciation		**10**	1	10
Share-based payment		**50**	5	113
Net finance costs		**983**	589	1,398
Cash generated by operations		**6,096**	1,739	5,482
Changes in working capital		**3,006**	33	(1,094)
Cash flows from operations		**9,102**	1,772	4,388
Interest received		**16**	4	18
Corporation tax paid		**(137)**	(9)	(14)
Interest and other finance costs paid		**(1,187)**	(883)	(1,611)
Cash flows from operating activities		**7,794**	884	2,781
Investing activities				
Purchase of tangible fixed assets		**(1)**	(32)	(61)
Purchase of investment property		**(14,944)**	(933)	(3,813)
Proceeds from disposal of investment properties		**1,654**	–	952
Cash flows from investing activities		**(13,291)**	(965)	(2,922)
Financing activities				
Issue of ordinary share capital		**19,115**	19,364	19,664
Dividends paid	5	**(1,416)**	(562)	(1,766)
Other loans repaid		**(3,219)**	(318)	(300)
Bank loan received		**15,885**	16,000	18,500
Bank loan repaid		**(18,457)**	(28,074)	(28,800)
Capital element of finance lease		**(1)**	(1)	(1)
Cash flows from financing activities		**11,907**	6,409	7,297
Net increase in cash		**6,410**	6,328	7,156
Opening cash and cash equivalents		**12,279**	5,123	5,123
Closing cash and cash equivalents		**18,689**	11,451	12,279

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

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 September 2015

	Share Capital £000	Share Premium £000	Merger reserve £000	Capital redemption reserve £000	Convertible loan equity reserve £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
As at 31 March 2014	1,528	21,857	–	65	28	75	20,823	44,376
Profit for the period	–	–	–	–	–	–	8,426	8,426
Share based payments	–	–	–	–	–	5	–	5
Issue of new shares	764	18,517	3,503	–	–	–	–	22,784
Dividends	–	–	–	–	–	–	(562)	(562)
Transfer on exercise of warrants	–	–	–	–	–	(16)	16	–
Transfer on repayment of loan	–	–	–	–	(28)	–	28	–
As at 30 September 2014	2,292	40,374	3,503	65	–	64	28,731	75,029
Share based payments	–	–	–	–	–	108	–	108
Profit for the period	–	–	–	–	–	–	5,589	5,589
Issue of new shares	15	478	–	–	–	–	–	493
Transfer on exercise of warrants	–	–	–	–	–	(28)	28	–
Dividends	–	–	–	–	–	–	(1,203)	(1,203)
As at 31 March 2015	2,307	40,852	3,503	65	–	144	33,145	80,016
Share based payments	–	–	–	–	–	50	–	50
Profit for the period	–	–	–	–	–	–	7,173	7,173
Issue of new shares	555	18,560	–	–	–	–	–	19,115
Dividends	–	–	–	–	–	–	(1,416)	(1,416)
As at 30 September 2015	**2,862**	**59,412**	**3,503**	**65**	**–**	**194**	**38,902**	**104,938**

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

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 September 2015

1 General information

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

The Company's shares are admitted to trading on AIM, a market operated by the London Stock Exchange plc. The Company 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 that of property investment in the UK mainly through corporate acquisitions.

Basis of preparation

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

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

The accounting policies and methods of computations used are consistent with those as reported in the Group's Annual Report for the year ended 31 March 2015 and are expected to be used in the Group's Annual Report for the year ended 31 March 2016.

The financial information for the year ended 31 March 2015 presented in these unaudited condensed group interim financial statements does not constitute the Company's statutory accounts for that period but has been derived from them. The Report and Accounts for the year ended 31 March 2015 were audited and have been filed with the Registrar of Companies. The Independent Auditor's Report on the Report and Accounts for the year ended 31 March 2015 was unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. The financial information for the periods ended 30 September 2014 and 30 September 2015 are unaudited and have not been subject to a review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board.

The interim report was approved by the Board of Directors on 27 November 2015.

Copies of this statement are available to the public for collection at the Company's Registered Office at 41 Chalton Street, London, NW1 1JD and on the Company's website, www.palacecapitalplc.com.

Going Concern

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

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

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

2 Segmental reporting

In prior periods the Group has reported on segments, being the original portfolios acquired. However, as a result of the growing size of the business, Management no longer report on the historical portfolio basis but rather on a property by property basis. During the period the Group operated in one business segment, being property investment in the UK and as such no further information is provided.

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 30 September 2015

3 Net property income

	Unaudited 6 months to 30 September 2015 £000	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Rent receivable	**5,364**	3,732	8,637
Surrender premium	**3,000**	–	–
Gross rental income	**8,364**	3,732	8,637
Service charge & vacant rates	**(580)**	(514)	(650)
Repairs and dilapidation costs	**(154)**	(159)	(357)
Other property costs	**(146)**	(96)	(193)
Net property income	**7,484**	2,963	7,437

4 Taxation

	Unaudited 6 months to 30 September 2015 £000	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Current income tax charge	**396**	10	20
Deferred tax	**–**	–	(127)
Tax charge/(credit)	**396**	10	(107)

5 Dividends

	Unaudited 6 months to 30 September 2015 £000	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Ordinary dividends paid			
2014 Interim dividend: 2.0p per share	**–**	249	249
2014 Final dividend: 2.5p per share	**–**	313	313
2015 Interim dividend: 6p per share	**–**	–	1,204
2015 Final dividend: 7p per share	**1,416**	–	–
	1,416	562	1,766

	Unaudited 6 months to 30 September 2015 £000	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Proposed dividends			
2016 Interim dividend: 7p per share	**1,805**	–	–

On 30 November 2015 the Group announced it would pay an interim dividend of 7 pence per share to ordinary shareholders on the register on 11 December 2015, the ex-dividend date will be 10 December 2015 and the dividends will be paid on 30 December 2015.

6 Earnings per share

The European Public Real Estate Association (EPRA) has issued Best Practices Recommendations, the latest update of which was issued in December 2014, which give guidelines for performance measures.

EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains or losses on disposals, changes in the fair value of financial instruments, associated close-out costs and share-based payments and one-off exceptional items. EPRA earnings is calculated on the basis of the basic number of shares in line with IFRS earnings as the dividends to which they give rise accrue to current shareholders and therefore it is more appropriate to use the basic number of shares. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised.

Palace Capital also report on an adjusted earnings measure which is based on recurring earnings after tax and on the basis of the basic number of shares.

The earnings per ordinary share for the period is calculated based upon the following information:

	Unaudited 6 months to 30 September 2015 £000	Unaudited 6 months to 30 September 2014 £000	Audited Year to 31 March 2015 £000
Profit for the period	**7,173**	8,426	14,015
Adjustments to arrive at EPRA profit			
Gains on revaluation of investment properties	**(2,308)**	(7,292)	(9,769)
Profit on disposal of investment properties	**(208)**	–	(178)
Cost of acquisitions	**413**	639	639
EPRA earnings for the period	**5,070**	1,773	4,707
Adjustments to arrive at Adjusted earnings			
Share-based payment	**50**	5	113
Surrender premium received	**(3,000)**	–	–
Adjusted earnings for the period	**2,120**	1,778	4,820

	Unaudited 6 months to 30 September 2015 000s	Unaudited 6 months to 30 September 2014 000s	Audited Year to 31 March 2015 000s
Weighted average number of ordinary shares	**23,413**	13,929	17,011
Dilutive effect of share options & warrants	**221**	725	478
Diluted weighted average number of ordinary shares	**23,634**	14,654	17,489
Earnings per ordinary share			
Basic	**30.6p**	60.5p	82.4p
Diluted	**30.4p**	57.5p	80.1p
EPRA basic	**21.7p**	12.7p	27.7p
EPRA diluted	**21.5p**	12.1p	26.9p
Adjusted EPS	**9.1p**	12.8p	28.3p

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 30 September 2015

7 Net asset value per share

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

Net asset value is calculated using the following information:

	Unaudited 30 September 2015 £000	Unaudited 30 September 2014 £000	Audited 31 March 2015 £000
Net assets at the end of the period	**104,938**	75,029	80,016
Effect of exercise of share options	**109**	338	109
Diluted net assets	**105,047**	75,367	80,125
Exclude fair value of financial instruments & exclude deferred tax on latent capital gains	**–**	–	–
EPRA NAV	**105,047**	75,367	80,125
Include fair value of financial instruments & include deferred tax on latent capital gains	**–**	–	–
EPRA NNNAV	**105,047**	75,367	80,125

	Unaudited 30 September 2015 000s	Unaudited 30 September 2014 000s	Audited 31 March 2015 000s
Number of ordinary shares of 10p each issued as at the end of the period	**25,781**	20,076	20,226
Number of unexpired share options	**221**	249	186
Number of diluted ordinary shares	**26,002**	20,325	20,412
Basic NAV per ordinary share	**407p**	374p	396p
Diluted NAV per ordinary share	**404p**	371p	393p
EPRA NAV per ordinary share	**404p**	371p	393p
EPRA NNNAV per ordinary share	**404p**	371p	393p

8 Investment Properties

	Freehold Investment properties £000	Leasehold Investment properties £000	Total £000
At 1 April 2014	41,620	17,820	59,440
Arising on acquisition of subsidiary undertaking	31,741	–	31,741
Additions	2,802	11	2,813
Gains on revaluation of investment properties	9,180	589	9,769
Disposals	(775)	–	(775)
At 31 March 2015	84,568	18,420	102,988
Arising on acquisition of subsidiary undertaking	20,700	–	20,700
Additions	10,916	4,885	15,801
Gains on revaluation of investment properties	1,197	1,111	2,308
Disposals	(1,447)	–	(1,447)
At 30 September 2015	**115,934**	**24,416**	**140,350**

Investment properties are stated at fair value based upon external valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with IFRS 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.

At 30 September 2015, the Group's freehold and leasehold investment properties were externally valued by Royal Institution of Chartered Surveyors ("RICS") registered valuers. A reconciliation of the valuations carried out by the external valuers to the carrying values shown in the balance sheet was as follows:

	Unaudited 30 September 2015 £000	Unaudited 30 September 2014 £000	Audited 31 March 2015 £000
Fair value	**139,315**	98,620	102,755
Adjustment in respect of minimum payment under head leases included as a liability	**2,076**	1,220	1,220
Less lease incentive balance in prepayments	**(1,041)**	–	(987)
Carrying value	**140,350**	99,840	102,988

Investment properties with a carrying value of £136,366,651 (31 March 2015: £101,768,108) are subject to a first charge to secure the Group's bank loans amounting to £51,092,960 (31 March 2015: £36,205,461).

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 30 September 2015

8 Investment Properties continued

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 period valuation report and holds discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

The key assumptions made in the valuation of the group's investment properties are:
– The amount and timing of future income streams;
– Anticipated maintenance costs and other landlord's liabilities; and
– An appropriate yield.

Valuation technique

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

9 Trade and other receivables

	Unaudited 30 September 2015 £000	Unaudited 30 September 2014 £000	Audited 31 March 2015 £000
Current			
Trade receivables	**3,197**	1,503	1,848
Deposit on purchase of investment property	**–**	–	1,000
Prepayments and accrued income	**861**	220	495
Other receivables	**86**	150	32
	4,144	1,873	3,375
Non-Current			
Accrued income	**935**	498	924
	935	498	924

10 Current trade and other payables

	Unaudited 30 September 2015 £000	Unaudited 30 September 2014 £000	Audited 31 March 2015 £000
Trade payables	**184**	683	242
Accruals	**1,967**	1,460	394
Deferred rental income	**2,756**	653	1,843
Taxes	**2,219**	630	587
Other payables	**6**	122	21
	7,132	3,548	3,087

11 Borrowings

	Unaudited 30 September 2015 £000	Unaudited 30 September 2014 £000	Audited 31 March 2015 £000
Current borrowings	**850**	400	400
Non current borrowings	**49,678**	33,608	35,407
Total borrowings	**50,528**	34,008	35,807
Secured bank loans drawn	**51,092**	34,432	36,207
Unamortised facility fees	**(564)**	(424)	(400)
	50,528	34,008	35,807

Facility and arrangement fees

As at 30 September 2015

Secured borrowings	Margin %	Maturity date	Facility drawn £000	Unamortised facility fees £000	Loan Balance £000
Santander Bank plc	2.25%	Jun 2020	11,335	(168)	11,167
Lloyds Bank plc	2.10%	Apr 2020	4,437	(77)	4,360
National Westminster Bank plc	2.75%	Aug 2019	14,517	(185)	14,332
Nationwide Building Society*	3.75%	Oct 2016	19,603	(124)	19,479
Close Brothers Group plc	4.00%	Sep 2017	1,200	(10)	1,190
			51,092	(564)	50,528

*On 11 November 2015 the Group refinanced its debt facility with Nationwide for a 5 year term until November 2020 at an increased facility of £20.0 million and at a reduced margin of 2.45%.

Notes to the Condensed Consolidated Financial Statements continued

for the six months ended 30 September 2015

12 Business combinations

On 17 June 2015 the group acquired 100% of the share capital of O&H Northampton Limited for a cash consideration of £1.

	Carrying value at acquisition date £000	Adjustments £000	Fair value at acquisition date £000
Investment properties	20,700	–	20,700
Receivables and prepayment	444	–	444
Cash at bank	228	–	228
Payables and other creditors	(344)	–	(344)
Corporation tax	(128)	–	(128)
Accrued interest	(822)	–	(822)
Other loans	(3,441)	–	(3,441)
Bank loans	(16,637)	–	(16,637)
Net assets	–	–	–
Consideration			–
Goodwill on acquisition			–

Management determined that the acquisition should be accounted for as a business combination in accordance with IFRS 3 ‘Business Combinations’. The fair value of £1 was considered equal to the carrying value representing the entity’s net assets. The fair value of the investment property at acquisition was based on a valuation performed at the time of the acquisition amounting to £20,700,000 obtained from DTZ Debenham Tie Leung Limited.

Acquisition related costs

The Group incurred acquisition related costs of £413,115 related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in the Group’s consolidated income statement.

13 Share capital

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

	Unaudited 30 September 2015	Unaudited 30 September 2014	Audited 31 March 2015
Ordinary 10p shares	**25,781,229**	20,075,673	20,225,673
Deferred 90p shares	**315,937**	315,937	315,937
Share capital – number of shares in issue	**26,097,166**	20,391,610	20,541,610
Share capital – £000's	**2,862**	2,292	2,307

On 17 June 2015 the Company issued 5,555,556 ordinary 10p shares at a price of £3.60. Issue costs amounting to £885,383 were incurred and have been deducted from the share premium account.

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.

Movement in ordinary authorised share capital		Number of ordinary shares issued 000s	Price per share pence	Total number of shares 000s
As at 1 April 2014				12,441
Exercise of warrants	June 2014	80	200	12,521
Equity issue	August 2014	7,555	310	20,076
As at 30 September 2014				20,076
Exercise of warrants	February 2015	150	200	20,226
As at 1 April 2015				20,226
Equity issue	June 2015	5,555	360	25,781
Carried forward at 30 September 2015				25,781

14 Retained earnings & Reserves

For the purpose of preparing the consolidated financial statement of the Group, the following reserves are held:

- 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.
- The Merger Reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006.
- The Capital Redemption Reserve represents the value of preference shares redeemed.
- Share based payment reserve represents the fair value of share options expensed through the income statement to date but not exercised.

15 Post balance sheet events

On 11 November 2015 the Group refinanced its debt facility with Nationwide for a further 5 years until November 2020 at an increased facility of £20.0 million and at a reduced margin of 2.45%.

Officers and Professional Advisers

Directors

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

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David Kaye F.C.I.S.

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