



PALACE CAPITAL<sub>plc</sub>

2<sup>nd</sup> INTERIM REPORT 2013/14

for the 12 months ended

31 January 2014

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## **Palace Capital Plc**

### **Interim results for the 12 months ended 31 January 2014**

#### **CHAIRMAN'S STATEMENT FOR THE TWELVE MONTHS ENDED 31 JANUARY 2014**

I am pleased to report our second interim results for the twelve months ended 31 January 2014. This has been a transformational year for Palace Capital. The main event was the £39.25 million acquisition of the Sequel property portfolio that completed on 22 October 2013.

As announced previously, our year end has changed to 31 March. So this year we will be reporting our final results for a fourteen month period and we expect to make this announcement in June. This brings the Company into alignment with the majority of the other quoted real estate companies in the sector.

#### **Results**

Our profit before taxation for the 12 months ended 31 January 2014 was approximately £5.7 million. This takes into account the results of the Sequel property portfolio for approximately three months from completion of the acquisition on 22 October 2013. The properties we acquired were purchased for £39.25 million, which was funded by the issue of £24.25 million of new equity and a debt facility from Nationwide of £20 million. We were delighted with the support we received from both existing and new institutional shareholders during this transaction.

At the time of acquisition, the Sequel portfolio consisted of 24 properties situated around the UK. We estimated that the portfolio would produce a gross income of £6.45 million per annum, but this reduced to a net income of circa £5.2m per annum. The circa £1.25 million difference between gross and net income consisted of irrecoverable expenditure, which included empty rates, service charges and insurance shortfall. We identified that if we could reduce these outgoings, this represented a significant opportunity to improve the returns from the portfolio. Our style of active management has been to focus on increasing the gross income and reducing the irrecoverable expenditure.

#### **Recent disposals and lettings**

At the date of acquisition there were two office buildings which had been vacant for some time. These were Gelderd Point, Leeds comprising 20,495 sq. ft. and Argent Court, Tolworth, Surrey comprising 12,577 sq. ft. We identified that these were non-core and we marketed these for sale. Our early focus was to sell these two buildings and we are pleased that this was achieved last December and in February of this year. Both disposals were completed at a significant premium to book value. These were important transactions in that not only did we eliminate the irrecoverable expenditure, but we also reduced the interest payable to our senior lender and brought down the outstanding level of debt by £1.85 million.

Our Business Plan envisaged the sale of the freehold interest of The Bonded Warehouse, Atlantic Wharf, Cardiff a 17,375 sq. ft. office building which had not been substantially refurbished since 1987 and 9,050 sq. ft. was vacant at the time of acquisition. I am pleased to advise that, as announced on 26 March 2014, we sold the property for £1.1 million, which is 20% above book value.

We have also sold a small office building adjoining Argent Court, Tolworth as well as a small vacant office unit at Meadowcourt, Sheffield. Encouragingly, all these disposals have been achieved at prices above book value.

One of our principal assets is Hudson House, Toft Green, York a 102,700 sq. ft. office building adjacent to York Station. At the date of acquisition, about 71% of the building was vacant but, since that time, various short term lettings totalling circa 15,000 sq. ft. have been concluded. This has increased gross income by circa £150,000 per annum and reduced the irrecoverable expenditure by approximately the same amount.

With a letting concluded at our industrial estate at Avonmouth, Bristol our gross income from the Sequel portfolio is now circa £6.7 million per annum and our irrecoverable expenditure has been reduced by circa £482,000 per annum to circa £995,000 per annum. As a result, our pro forma net income has now increased to circa £5.705 million which equates to a running yield of circa 14.5% on the original purchase price.

In addition and as described below, various management initiatives have been implemented in order not only to maximise income but also to increase value where we can.

### **Current developments**

We believe that Hudson House, York, has the potential for significant upside. It is very well located in the heart of York, in an area that is benefiting from significant change. It adjoins both George Stephenson House, an 80,000 sq. ft. office building occupied by Network Rail, and the new 140,000 sq. ft. City of York Council Offices. We are planning a major refurbishment of Hudson House and have instructed a highly rated team to advise us as to what will be the most productive scheme. It is early in the process, but we will keep shareholders updated as we are excited about the prospects for this asset.

We have a number of lease expiries and break clauses operative this year but we are in discussions with all our tenants. With one exception we are in negotiation for all of the tenancies to continue. At Leamington Spa, we own Imperial Court and Imperial House comprising 38,004 sq. ft. of offices. One of our tenants, Freestyle Games Ltd (part of the Vivendi Group) had an option to break their lease on 1 March 2013 but elected not to do so. This tenancy continues until September 2019 at a rental of £150,065 per annum.

### **Portfolio valuation**

We completed the acquisition of the Sequel Portfolio in October 2013 for £39.25 million. The properties were valued individually by Cushman & Wakefield, as at 30 August 2013, at a total of £44.2 million. Demand for regional secondary investments has become much more competitive since our purchase of the Sequel portfolio with more buyers and lenders entering the market. This has had the effect of compressing yields, which should be reflected in an uplift in the value of our properties after the next valuation. It will therefore be our intention to instruct our valuers to provide updated figures for the 14 months ending 31 March 2014,

not only of the Sequel Portfolio but also of the properties in Cheshire owned by our subsidiary, Hockenhull Estates Limited, acquired in October 2011.

The Hockenhull Portfolio comprises nine properties in Crewe and Nantwich, Cheshire, which are fully let, save for one small retail unit. This portfolio has performed much better than expected, producing a yield on cost of in excess of 11%. The Hockenhull portfolio was last valued at £2.015 million as at 6 July 2011, shortly before its acquisition by the Company.

### **Future plans**

We are keen to grow Palace Capital by selective acquisition as well as organically and we have been looking at a number of portfolios. Shareholders will be updated as appropriate.

### **Borrowings**

Since acquiring the Sequel portfolio we have been successful in disposing of a number of, mostly vacant, properties while enhancing the income and cash flows from the portfolio. This has resulted in a reduction in the level of bank borrowings from £21.2 million to £18.5 million as at the current date.

### **Board**

Further to the announcement made on 16 January 2014, I wish to take this opportunity to welcome Roger Nagioff to our Board. He has a wealth of experience and contributes fully at our Board Meetings. I believe that he will make a valuable contribution to Palace Capital.

### **Dividend**

In the Company's admission document dated 2 October 2013, the Board stated its intention to recommend the payment of a dividend of 4p per share in respect of the period from completion of the acquisition of the Sequel portfolio to 31 March 2014. However, to reflect the significant progress made to date in terms of property disposals, reduction in debt and increases in both gross and net income from the portfolio, the Board has decided to accelerate the payment of dividends and is declaring a dividend of 2p per share in respect of the period since completion of the Sequel acquisition to 31 January 2014. This will be paid on 7 May 2014 to those shareholders on the register on 4 April 2014. The intention is therefore to recommend the payment of a further 2p per share when reporting the full year results for the fourteen month period ending 31 March 2014.

### **Outlook**

We continue to identify and review further acquisition opportunities and I look forward to reporting on progress in this area and on our full year results in June. The management team is delivering on our strategy to create shareholder value and I am excited about our future prospects.

STANLEY DAVIS  
CHAIRMAN, PALACE CAPITAL PLC

26 March 2014

Palace Capital Plc  
CONSOLIDATED INCOME STATEMENT  
for the twelve months ended 31 January 2014

	Notes	12 months ended 31 January 2014 (unaudited) £	12 months ended 31 January 2013 (audited) £
Revenue	- continuing operations	182,902	199,785
	- acquisitions	<u>1,945,913</u>	<u>-</u>
		2,128,815	199,785
Cost of sales		<u>(446,141)</u>	<u>(5,442)</u>
GROSS PROFIT		1,682,674	194,343
Gains on revaluation of investment property		4,937,531	-
Profit on disposal of investment properties		480,715	-
Costs of acquisitions		(561,569)	-
Administrative expenses		<u>(500,940)</u>	<u>(225,403)</u>
Continuing operations		(124,178)	(31,060)
Acquisitions		<u>6,162,589</u>	<u>-</u>
PROFIT/(LOSS) BEFORE INTEREST		6,038,411	(31,060)
Other interest receivable		204	105
Finance costs		<u>(351,997)</u>	<u>(113,733)</u>
PROFIT/(LOSS) BEFORE TAX		5,686,618	(144,688)
Taxation		<u>(15,259)</u>	<u>(13,034)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>5,671,359</u>	<u>(157,722)</u>
PROFIT/(LOSS) PER ORDINARY SHARE			
Basic	3	153.1.p	(49.9p)
Diluted	3	142.7.p	(49.9p)

# Palace Capital Plc

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 January 2014

	Notes	31 January 2014 (unaudited) £	31 January 2013 (audited) £
<b>NON-CURRENT ASSETS</b>			
Goodwill		5,910	5,910
Investment properties	5	46,677,168	2,015,000
Tangible fixed assets		224	447
		<u>46,683,302</u>	<u>2,021,357</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	6	1,858,007	29,483
Cash and cash equivalents		3,580,717	38,696
		<u>5,438,724</u>	<u>68,179</u>
<b>CURRENT LIABILITIES</b>			
Redeemable preference shares		-	(65,000)
Trade and other payables	7	(3,134,666)	(140,507)
		<u>(3,134,666)</u>	<u>(205,507)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			
		2,304,058	(137,328)
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	8	(20,175,759)	(1,762,374)
		<u>28,811,601</u>	<u>121,655</u>
<b>NET ASSETS</b>			
<b>EQUITY</b>			
Share capital	10	1,528,438	315,938
Share premium account		21,856,482	110,395
Capital redemption reserve		65,000	-
Convertible loan notes – equity		27,934	27,934
Share based payments		73,333	13,333
Profit and loss account		5,260,414	(345,945)
		<u>28,811,601</u>	<u>121,655</u>
<b>EQUITY – attributable to the owners of the parent</b>			
		<u>28,811,601</u>	<u>121,655</u>

**Palace Capital Plc**  
**CONSOLIDATED CASH FLOW STATEMENT**  
for the twelve months ended 31 January 2014

	Notes	12 months ended 31 January 2014 (unaudited) £	12 months ended 31 January 2013 (audited) £
<b>OPERATING ACTIVITIES</b>			
Net cash out flow from operations	4	(93,314)	(7,304)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		<u>(93,314)</u>	<u>(7,304)</u>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		204	105
Interest paid		(318,647)	(99,599)
		<u>(318,443)</u>	<u>(99,494)</u>
<b>TAXATION</b>			
Corporation tax paid		(13,250)	-
<b>INVESTING ACTIVITIES</b>			
Payments to acquire subsidiary undertakings		(1)	-
Adjustments to fixed assets		-	135
Purchase of investment property		(750,000)	-
Proceeds from disposal of investment properties		1,176,247	-
<b>NET CASH INFLOW FROM INVESTING ACTIVITIES</b>		<u>426,246</u>	<u>135</u>
<b>FINANCING ACTIVITIES</b>			
Issue of ordinary share capital		23,008,587	-
Redemption of Preference shares		(65,000)	-
Other loans repaid		(262,500)	-
Bank loan repaid		(19,140,305)	(19)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>		<u>3,540,782</u>	<u>(19)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>3,542,021</u>	<u>(106,682)</u>
Cash and cash equivalents at beginning of period		38,696	145,378
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<u><u>3,580,717</u></u>	<u><u>38,696</u></u>

# Palace Capital Plc

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the twelve months ended 31 January 2014

	Share Capital £	Share Premium £	Capital redemption reserve £	Convertible loan equity reserve £	Share based payment reserve £	Profit and loss account £	Total equity £
As at 31 January 2012	315,938	110,395	-	27,934	3,333	(188,223)	269,377
Share based payments	-	-	-	-	10,000	-	10,000
Loss for the period	-	-	-	-	-	(157,722)	(157,722)
As at 31 January 2013	315,938	110,395	-	27,934	13,333	(345,945)	121,655
Issue of new shares	1,212,500	21,796,087	-	-	-	-	23,008,587
Warrants issued on raising of new shares	-	(50,000)	-	-	50,000	-	-
Redemption of preference shares	-	-	65,000	-	-	(65,000)	-
Share based payments	-	-	-	-	10,000	-	10,000
Profit for the period	-	-	-	-	-	5,671,359	5,671,359
As at 31 January 2014	1,528,438	21,856,482	65,000	27,934	73,333	5,260,414	28,811,601

# Palace Capital Plc

## NOTES TO THE INTERIM FINANCIAL INFORMATION (Continued) for the twelve months ended 31 January 2014

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### 1 BASIS OF PREPARATION

The financial information contained in this interim report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The figures for the period ended 31 January 2013 have been extracted from the audited statutory accounts. The interim results, which have not been audited or reviewed by the company's auditors, 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 also collectively referred to as "IFRS".

The accounting policies and methods of computations used are consistent with those used in the Group Annual Report for the year ended 31 January 2013 and are expected to be used in the Group Annual Report for the 14 month period ended 31 March 2014.

Statutory accounts for the year ended 31 January 2013 were prepared and filed with the Registrar of Companies and received an unqualified audit report.

The interim report was approved by the Board of Directors on 26 March 2014.

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](http://www.palacecapitalplc.com).

### 2 SEGMENTAL ANALYSIS

	12 months ended 31 January 2014 (unaudited)	12 months ended 31 January 2013 (audited)
<b>Revenue – operating and geographic segment</b>		
Rents received from investment properties in the United Kingdom	2,093,914	199,785
Management fees in the United Kingdom	34,901	-
Total Revenue	<u>2,128,815</u>	<u>199,785</u>

# Palace Capital Plc

## NOTES TO THE INTERIM FINANCIAL INFORMATION (Continued)

for the twelve months ended 31 January 2014

### 3 LOSS PER SHARE

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

	12 months ended 31 January 2014 (unaudited)	12 months ended 31 January 2013 (restated)
Weighted average number of shares for basic profit/(loss) per share	3,704,294	315,937
Weighted average number of shares for diluted profit/(loss) per share	3,974,798	507,531
Profit/(Loss) for the period	5,671,359	(157,722)

In accordance with IAS 38 where there is a loss for the year, there is no dilutive effect from share options and therefore there is no difference between the basic and diluted loss per share.

### 4 RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	12 months ended 31 January 2014 (unaudited) £	12 months ended 31 January 2013 (audited) £
Profit/(loss) for the period	5,686,618	(144,688)
Adjustments for:		
Finance income	(204)	(105)
Finance costs	351,997	113,733
Gains on revaluation of investment property	(4,937,531)	-
Profit on disposal of investment properties	(480,715)	-
Share based payments	10,000	10,000
Operating cash flow before movements in working capital	630,165	(21,060)
Depreciation	223	223
(Increase)/decrease in debtors	(363,598)	6,190
Increase/(decrease) in creditors	(360,104)	7,343
Net cash flow from operating activities	(93,314)	(7,304)

# Palace Capital Plc

## NOTES TO THE INTERIM FINANCIAL INFORMATION (Continued) for the twelve months ended 31 January 2014

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### 5 INVESTMENT PROPERTIES

	31 January 2014 (unaudited)	31 January 2013 (audited)
Opening balance	2,015,000	2,015,000
Arising on acquisition of subsidiary undertakings	39,670,168	-
Additions	750,000	-
Gains on revaluation of investment property portfolio	4,937,531	-
Disposals	<u>(695,531)</u>	<u>-</u>
Closing balance	<u>46,677,168</u>	<u>2,015,000</u>

Investment properties are stated at fair value as determined by the Directors. The Directors have decided that the fair value of the Signal portfolio assets at acquisition was £40,420,168 and at 31 January 2014 was £44,662,168, as supported by an independent valuation. The fair value of the Hockenhull portfolio of assets amounted to £2,015,000 (2013 - £2,015,000). 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.

Investment properties in the Hockenhull portfolio with a carrying value of £2,015,000 are subject to a first charge to secure a bank loan amounting to £1,200,000.

Investment properties in the Signal portfolio with a carrying value of £44,662,168 are subject to a first charge to secure a bank loan amounting to £18,925,039.

Included in investment property values are the freehold interest of leasehold properties amounting to £1,220,168 (2013 - £nil)

### 6 CURRENT TRADE AND OTHER RECEIVABLES

	31 January 2014 (unaudited)	31 January 2013 (audited)
Trade receivables	829,965	15,477
Other taxes	50,467	3,774
Other receivables	71,806	-
Prepayments and accrued income	905,769	10,232
	<u>1,858,007</u>	<u>29,483</u>

# Palace Capital Plc

## NOTES TO THE INTERIM FINANCIAL INFORMATION (Continued)

for the twelve months ended 31 January 2014

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### 7 CURRENT TRADE AND OTHER PAYABLES

	31 January 2014 (unaudited)	31 January 2013 (audited)
Convertible loan notes	60,000	60,000
Other loans	65,000	-
Trade creditors	88,153	10,500
Bank loans	1,199,963	-
Other creditors	208,604	-
Income tax	3,868	1,859
Other taxes	358,054	2,651
Accruals and deferred income	1,151,024	65,497
	<u>3,134,666</u>	<u>140,507</u>

Included within bank loans is an amount of £1,199,963 which is secured on the Hockenhull portfolio of investment properties. Interest is charged at a rate of 5% above the 1 month Libor rate with a minimum rate of 6% and is payable monthly. The loan is repayable on 30 September 2014.

### 8 NON CURRENT LIABILITIES

	31 January 2014 (unaudited)	31 January 2013 (audited)
Convertible loan notes	289,801	284,893
Loan notes	-	277,500
Bank Loans	18,670,667	1,199,981
Obligations under finance leases	1,215,291	-
	<u>20,175,759</u>	<u>1,762,374</u>

Included within bank loans is an amount of £18,925,039 which is secured on the Signal portfolio of investment properties. Interest is charged at a rate of 3.76% above the 3 month Libor rate. The loan is repayable on 21 October 2016. Loan arrangement fees amounting to £254,372 are spread over the term of the loan and have been deducted from the bank loan balance.

The loan notes amounting to £277,500 were provided by Stanley Davis, a director of the company, at an interest rate of 5% above the 1 month Libor rate fixed for each interest period. The loan was repaid on 4 November 2013.

The convertible loan notes of £300,000 were provided by a pension scheme of which Stanley Davis is a beneficiary at an interest rate of 4%. The loan is repayable on 3 October 2015 but can be converted to ordinary shares at any time at an exercise price of 225p per share.

# Palace Capital Plc

## NOTES TO THE INTERIM FINANCIAL INFORMATION (Continued)

for the twelve months ended 31 January 2014

### 9 BUSINESS COMBINATIONS

On 21 October 2013 the group acquired 100% of the share capital of Quintain (Signal) Member A Limited and its subsidiary undertakings for a consideration of £1. The group also acquired, on the same day, 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.

	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			-

### 10 SHARE CAPITAL

	31 January 2014 (unaudited)	31 January 2013 (audited)
Ordinary 1p shares	-	315,938
12,440,937 ordinary 10p shares	1,244,094	-
315,937 deferred 90p shares	284,344	-
Share capital	1,528,438	315,938
Redeemable £1 preference shares	-	65,000

On 31 January 2014 the company redeemed 65,000 preference shares at par.

On 21 October 2013 the company consolidated the 31,593,733 ordinary 1p shares into 315,937 ordinary 10p shares and 315,937 deferred 90p shares.

On 21 October 2013 the company issued 12,125,000 ordinary 10p shares at a price of £2.00.