PALACE CAPITAL plc

Regional property

Annual Report and Accounts 2023

Our strategy is to focus on maximising cash returns to shareholders, whilst continuing to remain mindful of consolidation in the Real Estate sector.

Contents

Interim executive Chairman's statement

Focused on maximising cash returns to shareholders

Adjusted PBT
£7.6 million

Dividends paid or declared of
15.0 pence

Introduction and update on delivery of strategic objectives

I am pleased to present my Chairman's statement on the results for the year ended 31 March 2023. This is my second statement on the annual results as Chairman of Palace Capital in what can only be described as a volatile and difficult year for the Company and for the property and financial markets.

The past year has been transformational both for the Company and for the wider macroeconomic and geo-political environment. The headwinds of the last twelve months are well documented, including the continued conflict in Ukraine, the UK's cost of living crisis, rising interest rates and inflationary pressures. Such uncertainty and volatility in the economic environment has negatively impacted the property market, particularly with regard to the reduction in property valuations due to the significant increases in both short and long term interest rates.

In July 2022, it was announced by the Company that the Board's strategy was to focus on maximising cash returns to shareholders, whilst continuing to remain mindful of consolidation in the Real Estate sector. As part of its considerations, several properties, including the industrial portfolio, were prepared and readied for sale.

However, the 'mini-budget' in September 2022 significantly accelerated the negative trends outlined above with the result that in October 2022, the Company announced that it had decided to pause the timing of significant disposals for the time being, although the sale of small, individual assets which lent themselves better to private buyers and special purchasers, would continue. Earlier this year it became evident that property market sentiment and pricing was significantly improving from the position in the last quarter of 2022 and the Company capitalised on this trend by marketing for sale certain properties that would enable it to continue to reduce its debt and therefore remain focused on maximising cash returns to shareholders.

On 5 May 2023 in its strategy and trading update, the Company announced the significant disposal of six industrial assets for £34.0 million at a NIY of 6.2%, 3.0% ahead of 31 March 2023 book value of £33.0 million as well as the exchange of contracts for the sale of an Aldi supermarket in Gosport for £5.6 million at a NIY of 5.5%, 7.3% ahead of the 31 March 2023 valuation.

Disposal activity has continued and we have recently exchanged contracts for the sale of Millbarn Medical Centre at Beaconsfield for £1.5 million, 87.5% ahead of the March 2023 book value of £0.8 million. The Company has also exchanged contracts for the sale of Princeton House, Farnborough for £2.3 million, which is 31.7% ahead of the 31 March 2023 valuation. Both properties are expected to complete in July.

The Company expects to announce further investment property disposals in a Trading Update to be released ahead of the Company's AGM on 26 July 2023 assuming that those sales currently under offer are successfully executed.

Further progress was also achieved with residential sales at Hudson Quarter, York where a further 23 apartment sales were completed for £10.1 million. A further five apartment sales have completed for £2.2 million since the year end leaving 18 units remaining.

Since the change of strategy announced on 19 July 2022, disposals (either completed or exchanged) have generated proceeds of £54.5 million, a 9% reduction over the March 2022 valuation, which was the peak of the current property cycle. If disposals are compared with the relevant March valuation prior to sale, the result is an increase of 5% ahead of such valuation.

Operationally, the business remains robust. The team has been proactive in implementing asset management plans to increase income, reduce void costs and improve our ESG performance, including EPCs, as set out in the Operating Review. Rent collection remains high and occupancy levels remain resilient.

In terms of managing our own costs, as previously announced, measures to reduce the level of administration expenses have been implemented and are continuing. Annualised cost savings are now over £1.4 million. These cost savings represent 30% of FY22 administrative expenses and 19% of FY22 EPRA earnings.

During the financial year, the Company announced two share buyback programmes and purchased 2.6 million shares. The accretion to 2023 EPRA NTA was 8.0 pence per share. Since 1 April a further 0.5 million shares have been purchased. The total cash returned to shareholders from the buyback programmes to date is £7.9 million.

Overview of results

The Group's adjusted profit before tax decreased slightly to £7.6 million (2022: £7.8 million) principally due to higher finance costs offset by an increase in net rental income and a reduction in recurring administration expenses. Trading profits from the sale of residential units realised £0.5 million (2022: £3.8 million) whilst profits from investment property sales contributed £0.8 million (2022: £4.9 million).

The deficit on the revaluation of the portfolio for the year of £42.9 million was due to softening yields across the whole portfolio although disposals since 31 March 2023 have demonstrated that some value has been recovered and realised.

Contractual payments to the former Chief Executive and Executive Property Director of £1.8 million, including associated costs, have been treated as an exceptional item.

The aggregation of the profits and losses described in the preceding paragraphs account for the decrease in profit before tax reported under IFRS to a loss for the year of £35.8 million (2022: £24.6 million profit).

Principally as a result of the revaluation deficit on the portfolio, offset by the 8 pence per share share-buyback accretion, EPRA NTA per share decreased by 24.1% to 296 pence per share (2022: 390 pence per share).

The Group's balance sheet has been significantly strengthened following the £37.5 million reduction in gross debt during the year to £64.3 million. Cash reserves were £5.5 million resulting in net debt of £58.8 million. Post period end and on completion of the disposal of currently contracted sales proforma gross and net debt are expected to be c.£34 million and c.£20 million respectively equating to a proforma LTV of c.13%.

Dividend

The Group paid or declared dividends of 15.0 pence per share (2022: 13.25 pence per share) in relation to the year ended 31 March 2023, including a proposed final fourth quarter dividend of 3.75 pence per share. The total dividend of 15.0 pence per share is covered 114% by adjusted earnings per share. The final dividend of 3.75 pence per share will be paid, subject to shareholder approval at the AGM being held on 26 July 2023, on 4 August 2023 to shareholders on the register at 7 July 2023. The entire dividend will be paid as a Property Income Distribution.

Environmental, Social and Governance ("ESG")

The Company remains committed to responsible business and ESG matters, which are at the forefront of stakeholders' considerations. Further details on the approach to responsible business can be found in the ESG section and on the website.

Board changes

On 14 June 2022, Neil Sinclair stepped down as Chief Executive and I was appointed Interim Executive Chairman. As announced on 19 July 2022, in light of the amended strategy, Paula Dillon, Kim Taylor- Smith and Mickola Wilson stepped down as Independent Non-Executive Directors. Mark Davies was appointed as an Independent Non-Executive Director and in addition was appointed Chair of the Audit and Risk Committee, Remuneration Committee and Senior Independent Director on 1 August 2022. Richard Starr stepped down as Executive Property Director on 12 August 2022.

> **Given its low leverage, the Company remains well placed regarding strategic initiatives including various options for the return of capital to shareholders"**
>
> Steven Owen

Outlook

The year ahead is likely to be further affected by continuing macroeconomic and geo-political uncertainty although the inflation outlook in the UK is expected to improve. The increases in interest rates have adversely impacted the commercial property market in relation to investment activity resulting in a re-pricing of assets as evidenced by recent transactions and published valuations. Notwithstanding this, the occupational market has remained resilient as evidenced by the increases over estimated rental values obtained on lettings, lease renewals and rent reviews together with a stable occupancy rate and high rent collection which demonstrates the resilience of the portfolio.

As previously announced, the Board's strategy remains focused on maximising cash returns to shareholders, whilst continuing to remain mindful of consolidation in the Real Estate sector. As part of its considerations, certain properties are either being marketed for sale or are being prepared and readied for sale whilst other properties are undergoing asset management initiatives in order to prepare them for sale at a future date. Given its low leverage, the Company remains well placed in terms of flexibility and optionality regarding the timing of its disposal programme and other strategic initiatives, including various options for the return of capital to shareholders.

It is expected that further progress will be announced in a Trading Update to be released on 26 July prior to the AGM.

Steven Owen

Interim Executive Chairman

At a glance
highlights

£128.5m Net asset value	**£7.6m** Adjusted profit before tax	**(11.6)%** Total property return
31% LTV	**£192.4m** Property portfolio (see note 9)	**296p** EPRA net tangible assets per share
£15.7m Contractual rental income	**87.7%** EPRA occupancy	**4.8 years** Weighted average lease length to break

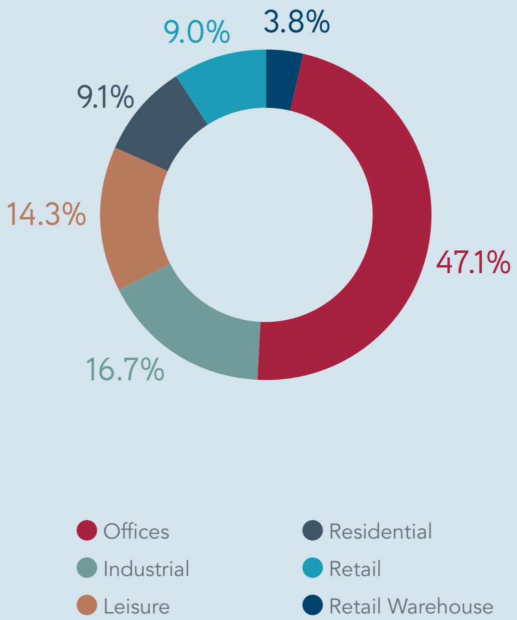
Repositioning
our portfolio

Our portfolio at
31 March 2022

£259.0m
Portfolio value

37
Number of properties

C
Average EPC Rating

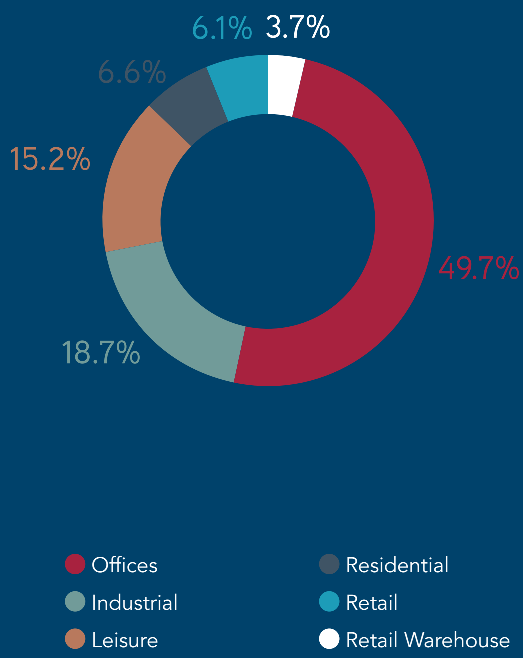


Our portfolio at
31 March 2023

£192.4m
Portfolio value

31
Number of properties

C
Average EPC Rating



Strategy
in Action

Disposals Strategy

As part of the ongoing strategy to maximise cash returns to shareholders, certain properties are either being marketed for sale or are being prepared and readied for sale whilst other properties are undergoing asset management initiatives in order to prepare them for sale at a future date.

During the year, eight investment properties were sold for £15.6 million at an average 8% ahead of the 31 March 2022 book value.

On 5 May 2023, the Company announced in a strategy and trading update the significant disposal of six industrial assets for £34.0 million at a NIY of 6.2%, 3.0% ahead of 31 March 2023 book value of £33.0 million. Five of the properties have now completed and the sixth is expected to complete in early July. The Company has also completed the sale of an Aldi supermarket, in Gosport, for £5.6 million at a NIY of 5.5%, 7.3% ahead of the 31 March 2023 valuation.

Since 5 May, the Company has exchanged contracts for the sale of Millbarn Medical Centre at Beaconsfield for £1.5 million, 87.5% ahead of the March 2023 book value of £0.8 million.

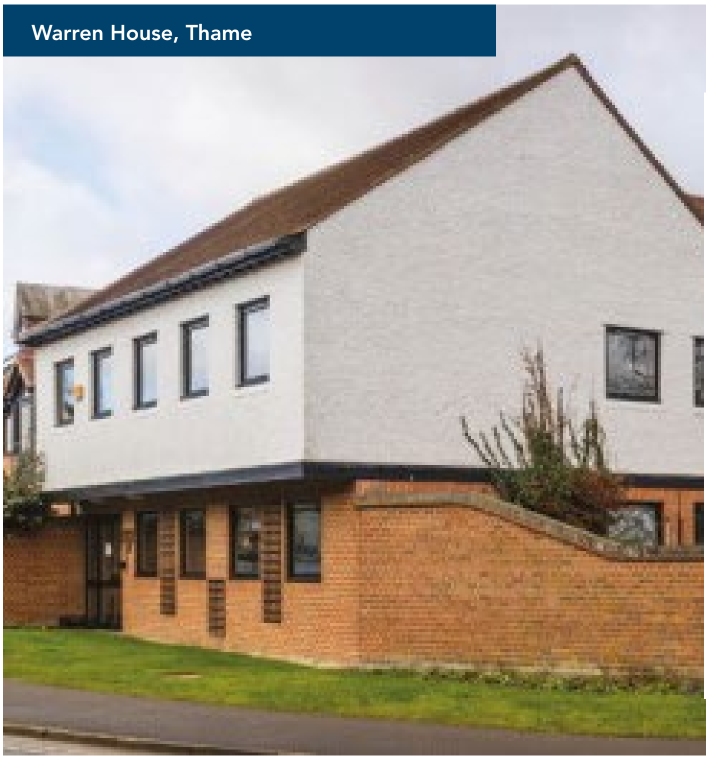
The Company has also exchanged contracts for the sale of Princeton House, Farnborough for £2.3 million, which is 31.7% ahead of the 31 March 2023 valuation. Both properties are expected to complete in July.

The Company expects to announce further investment property disposals in a Trading Update to be released ahead of the Company's AGM on 26 July assuming that those sales currently under offer are successfully executed.

Further progress was also achieved with residential sales at Hudson Quarter, York where a further 23 apartment sales were completed for a total of £10.1 million. A further five apartment sales have completed for £2.2 million since the year end leaving 18 units remaining.

Since the change of strategy announced on 19 July 2022, disposals (either completed or exchanged) have generated proceeds of £54.5 million, a 9% reduction over the March 2022 valuation which was the peak of the current property cycle. If disposals are compared with the relevant March valuation prior to sale, the result is an increase of 5% ahead of such valuation.

Warren House, Thame



Office

Sale Price

£1.6m

Variance to March 2022 Book Value

+12%

Asset Management

Purchased in 2017 as part of the Warren Acquisition. Prior to sale a new 10-year term certain was achieved at a 21% uplift to headline rent.

127 Above Bar St, Southampton

Retail

Sale Price

£3.8m

Variance to March 2022 Book Value

+21%

Asset Management

Long leasehold interest purchased as part of the Signal Portfolio in 2013, comprising a multi-let retail and leisure scheme. The freehold was acquired in 2021 for £2m (when the long leasehold had c.14 years unexpired), allowing the Group to benefit from significant marriage value on disposal of the combined interest.

St Modwen Rd, Plymouth

Industrial

Sale Price

£3.2m

Variance to March 2022 Book Value

-3%

Asset Management

Purchased as part of the PIH portfolio in 2014, a single let industrial unit. SIG has been in occupation since 2005 and the lease was renewed for 10 years (5 year break) in July 2021, achieving a 27% increase in headline rent.

Active asset management

The asset management team have continued to work diligently with existing and prospective occupiers and our advisors to drive value through leasing activity across the portfolio.

There have been 45 lease events completed totalling 228,000 sq ft of space, 11% above the 31 March 2022 ERV, generating £1.1 million of additional annualised contracted rent, which demonstrates the strong reversionary potential within the portfolio. The 45 lease events can be analysed as:

- 14 new lettings, 14% above ERV generating £0.8 million of additional annualised income,
- 15 lease renewals, 8% above ERV generating £0.1 million of additional annualised income and
- 16 rent reviews, 12% above ERV generating £0.2 million of additional annualised income.

In addition, void savings from new lettings was £0.3 million resulting in a total of £1.4 million of annualised net rental income created. This asset management activity has contributed to the Company outperforming the MSCI UK Quarterly Property Index over FY23.

Portfolio asset management activity continues to improve the EPC (Energy Performance Certificate) profile across the portfolio - 96.2% of the portfolio is now rated A-D and 72.2% is rated A-C (31 March 2022: 88.8% and 55.2% respectively).

New lettings in the year included:

- 15 year lease without break at Sol, Northampton let to Chi, an aspirational F&B operator at £85,000pa (with turnover top up) 107% above the March 2022 ERV. The unit had been vacant for over 5 years.
- 5 year lease on ground and lower ground at Regency House, Winchester to Ward Williams Associates at £47,081pa, 15% above the March 2022 ERV.
- 10 year lease at Verwood of two units at a rent of £68,600pa equivalent to £8.75psf which set a new rental tone for the estate.

Admiral House & Nicholson Gate, Fareham | Office

Two adjoining office buildings, totalling 13,017 sq ft on a total site area of 1.298 acres. The site has been granted planning consent for the change of use to allow a new build high quality 75 bed residential care home scheme, resulting in a significant valuation increase.

Sandringham House, Harlow | Office

Exela Technologies' lease of the whole building expires in November 2027 with a lease break in November 2024 and after dialogue post year end the tenant has agreed to remove the break, which increases term certain by 3 years.

Point Four Industrial Estate, Avonmouth | Industrial

The estate is now fully occupied following recent asset management activity which has pushed the new rental tone for the estate greater than £9psf. Garland Roofing leased unit 5 (7,152 sq ft) at a rent of £9.02psf which is a 14% premium to ERV. Value was also generated in the successful uplift at the August 2022 rent review at unit 7b to £8.81psf, which was a 46% premium to ERV.

25 & 27 Black Moor Road, Verwood | Industrial

Several asset management initiatives have completed at this multi let industrial estate, including a lease renewal to the key anchor tenant Global Filters a 10 year term (break at year 5) at a rent of £8.25psf which was 53% above the previous passing rent.

Active asset
management

22 Market Street, Maidenhead | Office

We have worked closely with the main office tenant Techtronic Industries and post year end successfully removed their break in August 2026 and extended their lease from August 2031 to August 2034 at an annual rent of £718,474. Maximising the term certain to over 11 years will be value accretive.

High Street, Sutton | Office

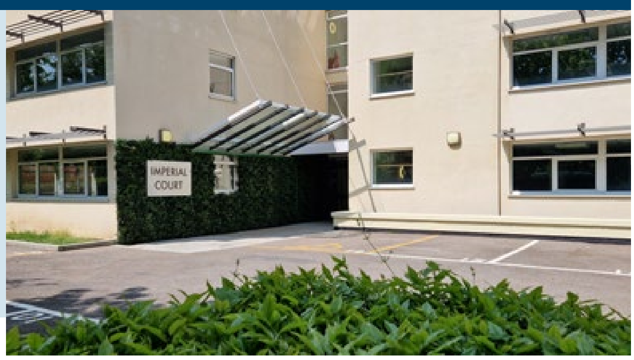
Sutton Housing Partnership (who manage council housing stock on behalf of Sutton Council) occupy all the office accommodation and they renewed their lease for a term of 5 years with no break at a rent of £282,500pa which is in line with ERV.

Sol, Northampton | Leisure

Providence Bay Restaurants Ltd (t/a Chi) acquired units 6a&b (4,833 sq ft) for a term of 15 years at a base rent of £85,000 pa / £17.50 psf (with turnover top up) which was a 107% premium to ERV. The scheme is now 98% occupied.

Imperial House, Leamington Spa | Office

The property is occupied by Ubisoft (9,985 sq ft) and Altair Engineering (8,322 sq ft) who have both renewed their leases for a further 5 years at £190,000pa (12% premium to ERV) and £143,850pa (in line with ERV) respectively.



Top 10 properties
by value at 31st March 2023

Halifax

Area – 117,767 sq ft

Rental income: £2.0m p.a.

Broad Street Plaza is a dominant city centre leisure scheme anchored by a ten-screen Vue cinema, TGI Fridays, Wetherspoons and PureGym.

Distance from train station:
0.5m 12 min

Newcastle upon Tyne

Area – 99,125 sq ft

Rental income: £1.2m p.a.

Multi-let office block in the city centre with existing tenants including UBS, Somerset Bridge and The National Lottery.

Distance from train station:
0.3m 6 min

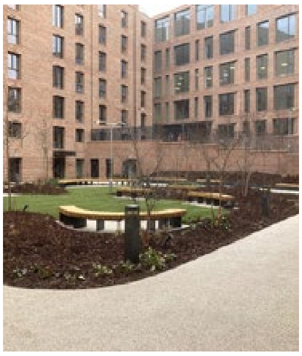
Northampton

Area – 186,552 sq ft

Rental income: £1.6m p.a.

Dominant city centre leisure scheme incorporating a Vue cinema, Ibis hotel, Gravity Fitness and Chi

Distance from train station:
0.2m 4 min



York

Area – 38,796 sq ft

Rental income: £0.7m p.a.

Hudson Quarter is a residential and office development within York's city walls comprising 127 apartments and grade A office space. The office development is 82% let, with tenants including Arcadis, GRJ and JM Finn.

Distance from train station:
0.1m 2 min

Manchester

Area – 76,420 sq ft

Rental income: £0.8m p.a.

Boulton House is an eight-storey office block in Manchester city centre within walking distance of Piccadilly mainline station.

Distance from train station:
0.3m 7 min

Liverpool

Area – 70,161 sq ft

Rental income: £1.1m p.a.

City centre office and retail property with tenants including Tesco, Pret, Medicash and Exchange Chambers.

99% occupied and let.

Distance from train station:
0.5m 11 min

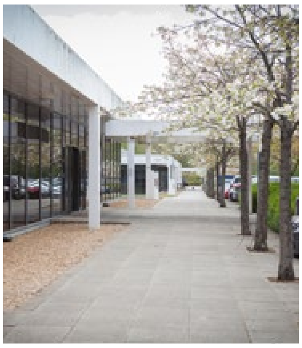
Maidenhead

Area – 21,852 sq ft

Rental income (post rent free period): £0.8m p.a.

Fully let, three storey office building with EPC rating of B. Includes two small retail units on the ground floor.

Distance from train station:
0.4m 4 min



Milton Keynes

Area – 52,819 sq ft

Rental income: £0.8m p.a.

Three buildings are let to Rockwell and BMI at low passing rents with potential for rental growth.

Distance from train station:
2.9m 8 min

Avonmouth

Area – 81,154 sq ft

Rental income: £0.6m p.a.

Multi-let industrial estate. Two vacant units were let post year end bringing occupancy to 100%.

Distance from train station:
1.1m 5 min

Coventry

Area – 77,750 sq ft

Rental income: £0.4m p.a.

Single let industrial unit and ancillary parking

Distance from train station:
2.4m 7 min

Business
model

Key Resources:

Our people

- Property and financial expertise
- Smaller Board and new Executive Committee constituted in the year
- Values of being: active, astute and ambitious
- A culture of demonstrable commitment, resilience and strong team ethos supports the delivery of the strategy

Our portfolio

- Resilient rent collection and returns
- Value-added assets with future growth potential
- Potential development or refurbishment optionality for the longer term

Our funding

- Strong balance sheet with reduced levels of debt following bank debt repayments and appropriate LTV debt level
- Core portfolio cash generation supporting dividend
- Lease lengths in excess of bank maturity dates
- Strong relationships with core UK clearing banks

What we do:

See page 8
to read more on
Active asset management

PALACE CAPITAL PLC ANNUAL REPORT AND ACCOUNTS 2023

See page 6
to read more on
Timely asset realisation

Value created:

Investors

Strong asset management and disposals enable debt repayment and return cash to shareholders via share buyback of £6.7m and dividends of 15p per share.

13.2%
% dividend increase

8p
accretion per share from buyback

Tenants

- Ongoing engagement with tenants
- We create space for modern requirements
- We aim to ensure our refurbishments are environmentally efficient

141
Tenants

99%
Rent collection

Our people

- Fair reward for company and individual successes
- Annual bonus and competitive overall remuneration packages
- Diverse backgrounds, age and experience
- Three directors and eight other members of staff of whom seven are men (including senior managers) and one woman

10%
Average employee pension contribution

100%
Full time employees receiving a bonus

The environment

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

96%
EPC of A–D in portfolio

4%
EPC of E and F in portfolio

0%
EPC of G in portfolio

Our marketplace
Overview

The regions and our properties

We are a London Stock Exchange Premium listed REIT with our properties located in English regional towns and cities with strong local and national infrastructure. Our diversified portfolio consists of income producing assets including offices, industrial, leisure, retail and retail warehouse properties, and residential apartments in York.

Our aim is to actively manage the portfolio and improve returns through strategic asset management including lease re-gears, new lettings and refurbishments whilst timing disposals in line with business plans to maximise returns to shareholders.

We pride ourselves on the strength of the relationships we have developed with our tenants, and we actively work with them to improve their physical environments.

Market conditions and the inflationary environment

There has been uncertainty across our markets across the last twelve months predominantly down to the impact of central banks raising interest rates to combat inflation which has led to the highest borrowing costs since 2008. This has led to a decline in transaction volumes with buyer sentiment negatively affected and this has impacted property valuations across all commercial sectors with industrial and offices particularly affected.

There have been signs in early 2023 that sentiment is returning to the investment market, especially in the industrial sector, where there remains a significant lack of supply and positive rental growth prospects. This has been evident in the successful disposals the Group has completed from which significant proceeds have been allocated towards debt payment.

The war in Ukraine has been at the centre of increasing geo-political tensions which has caused volatility in commodity prices resulting in a significant increase in energy & food prices and construction costs with supply chain issues a main reason behind the rapid rise in inflation. Inflation has caused a reduction in discretionary spend as people cope with higher utility and increased grocery bills, which is impacting the leisure sector.

We are mindful that this affects both landlords and tenants directly and we have continued to work closely with our tenants to navigate through the uncertain economic environment.

ESG

Globally, the real estate sector is a major contributor to GHG emissions, and ESG remains key to responsible strategies. Premiums are being achieved in the investment market for buildings with strong ESG credentials and increasingly both landlords and occupiers are demanding good energy performance and targeting lower emissions whilst creating adaptable and sustainable built environments to satisfy their ESG requirements.

We have been focusing on improving the energy performance of our portfolio working alongside our tenants and have seen significant improvement in EPC grades. We are also mindful of opportunities across the portfolio to enhance amenities and the physical environment for our tenants with an understanding that these initiatives are necessary to maintain and improve portfolio performance.

Our sectors
Overview as at 31 March 2023

Offices

The office sector continues to see a flight to quality as occupiers navigate the complexities of hybrid working models. Since the pandemic, we are seeing employees return to the office and it is expected that this trend will continue, albeit it is widely recognised that the sector has undergone a structural change in regards to hybrid working.

We are also seeing an increasing emphasis from occupiers on creating attractive working environments to draw people into their place of work and help retain talent. This has resulted in a trend of occupiers being willing to pay substantial premium rents for best in class space. There is a general shortage of Grade A supply and a limited development pipeline in most regional City centres, which we believe will be only exacerbated by the rise in construction costs and debt financing.

Our office holdings make up 49.7% of the portfolio at 31 March 2023 and are located in well connected City and town centre locations.

Industrial

The industrial sector has seen a rebalancing from the record capital growth of the last few years. Inflation and increased business rates from April 2023 have also contributed to a steadying of the occupational market. Despite this, rental growth is still being registered in regional markets, particular for small and medium size units.

Our industrial holdings made up 18.7% of the portfolio as at 31 March 2023. Despite the fall in capital values across the industrial sector, occupational demand continues to be resilient, as demonstrated by significant rental reversions being achieved at Point Four, Avonmouth & Black Moor Road, Verwood.

Leisure

High inflation and the cost of living crisis has reduced discretionary spend, disproportionately affecting the sector and investor sentiment.

Despite this, trading at both cinemas in the portfolio has improved and a significant restaurant letting was completed at Sol, Northampton. Our leisure assets make up 15.2% of the portfolio as at 31 March 2023.

Retail

Inflation, interest rates and the economic backdrop have led to a near all time low in consumer confidence on the High Street. Investor demand remains focused on prime pitches in core trading locations, with particular sensitivity to rents that have not been rebased. Retail makes up 6.1% of the portfolio at 31 March 2023 across three assets where we have continued to maintain high occupation levels.

Retail Warehousing

We believe that retail warehousing values have fallen from the peak of Q1 2022. Despite this, the occupier market particularly has been resilient and vacancy rates are substantially lower than in-town and high street retail. This has led to upward pressure on rents in good locations. The investment market has also become more active in 2023 with a number of institutional investors focusing on the asset class.

Our holding, representing 3.7% of the portfolio as at 31 March 2023, are fully let to robust, well performing tenants and are in desirable South East locations.

Operational review

£1.1 million of additional annualised rent in the year

Summary of the year

Operationally, the business remains robust. The team has been proactive in implementing asset management plans to increase income, reduce void costs and improve our ESG performance, including EPCs. Rent collection remains strong and occupancy levels remain resilient.

Total rent collection for the 12 months to 31 March 2023 was 99% (2022: 98%). During the year ended 31 March 2023, the Company disposed of eight investment properties for £15.6 million, 8% ahead of the 31 March 2022 book value.

Apartment sales at Hudson Quarter, York have continued since 1 April 2023, with a further five apartment sales having completed to the value of £2.2 million. There are 18 units remaining.

Asset Management

There have been 45 lease events completed totalling 228,000 sq ft of space, 11% above the 31 March 2022 ERV, generating £1.1 million of additional annualised contracted rent, which demonstrates the strong reversionary potential within the portfolio. The 45 lease events can be analysed as:

- 14 new lettings, 14% above ERV generating £0.8 million of additional annualised income,
- 15 lease renewals, 8% above ERV generating £0.1 million of additional annualised income,
- 16 rent reviews, 12% above ERV generating £0.2m of additional annualised income.

In addition, void savings from new lettings was £0.3 million resulting in a total of £1.4 million of annualised net rental income created. This asset management activity has contributed to the Company outperforming the MSCI UK Quarterly Property Index over FY23.

Portfolio asset management activity continues to improve the EPC (Energy Performance Certificate) profile across the portfolio - 96.2% of the portfolio is now rated A-D and 72.2% is rated A-C (31 March 2022: 88.8% and 55.2% respectively).

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- 5 year lease on ground and lower ground at Regency House, Winchester to Ward Williams Associates at £47,081pa, 15% above the March 2022 ERV.
- 10 year lease at Verwood of two units at a rent of £68,600pa equivalent to £8.75psf which set a new rental tone for the estate.
- Three lettings at Museum Street, York for a combined rent of £97,900pa at an average WAULT to break of 4 years at an average premium to March 2022 ERV of 17%.

Notable lease renewals during the year were at:

- Maidenhead, where the WAULT was extended from 3.5 years to 11.5 years.
- Exeter, 10 years at £124,572pa, 8% above ERV.
- Sutton, 5 years at £282,500pa, in line with the ERV.
- Verwood, to the key anchor tenant Global Filters for a 10 year term at £130,290pa, 53% above the previous passing rent.
- Leamington Spa, Imperial House where both tenants Ubisoft and Altair Engineering renewed their leases for a further 5 years at £333,850 pa, an average of 6% above ERV.

These successful asset management initiatives are part of the process of creating value and preparing assets for sale, the timing of which is within the control of the Company.

Portfolio overview

Following the recent disposal programme of carefully selected assets, as at 31 March 2023 the portfolio comprised 31 buildings (2022: 37) with 141 occupiers (2022: 164), of higher quality with improved EPC ratings and occupancy levels.

Our diversified portfolio has had a focus on the office and industrial sectors, which made up 68% of the total holdings as at 31 March 2023. The remainder comprised leisure at 15%, retail and retail warehousing at 11% and residential at 6% (HQ York).

CBRE independently valued the portfolio as at 31 March 2023 at £192.4 million, resulting in a deficit of 18.6% on a like-for-like basis compared with the valuation at 31 March 2022. The best performing sector was retail warehouse, increasing 5.8%. The largest declines were leisure at 20.9% and offices at 20.4%. The industrial assets were down 17.5% and retail declined 16.4%. This compares to declines in the market as provided by the MSCI UK Quarterly index of -15.4% for offices, with industrial asset declines of -23.2% and retail of -12.7%.

	FY23	FY22
Portfolio value	£192.4m	£259.0m
Net initial yield	7.4%	5.6%
Reversionary yield	9.6%	7.5%
Contractual rental income	£15.7m	£16.7m
Estimated rental value	£18.8m	£19.4m
WAULT to break	4.8 years	4.7 years
EPRA vacancy rate	12.3%	11.5%

Chief Financial Officer's Report

Disposal strategy

As part of the ongoing strategy to maximise cash returns to shareholders, certain properties are either being marketed for sale or are being prepared and readied for sale whilst other properties are undergoing asset management initiatives in order to prepare them for sale at a future date.

During the year, eight investment properties were sold for £15.6 million at an average 8% ahead of March 2022 book value.

On 5 May 2023, the Company announced in a strategy and trading update the significant disposal of six industrial assets for £34.0 million at a NIY of 6.2%, 3.0% ahead of 31 March 2023 book value of £33.0 million. Five of the properties have now completed and the sixth is expected to complete in early July. The Company has also completed the sale of an Aldi supermarket, in Gosport, for £5.6 million at a NIY of 5.5%, 7.3% ahead of the 31 March 2023 valuation.

The Company has, since 5 May, exchanged contracts for the sale of Millbarn Medical Centre at Beaconsfield for £1.5 million, 87.5% ahead of the March 2023 book value of £0.8 million. The Company has also exchanged contracts for the sale of Princeton House, Farnborough for £2.3 million, which is 31.7% ahead of the 31 March 2023 valuation. Both properties are expected to complete in July.

Apartment sales at Hudson Quarter, York continued to progress, despite the uncertain economic backdrop. During the year ended 31 March 2023 the Company completed on 23 apartments for a total of £10.1 million, bringing the total residential and investment property sales for the year to £25.7 million.

Post 31 March 2023, total residential and investment sales exchanged or completed currently stand at £45.6 million and as a result, since the change of strategy announced on 19 July 2022, disposals (either completed or exchanged) have generated proceeds of £54.5 million, a 9% reduction over the March 2022 valuation (which was the peak of the current property cycle) or 5% ahead when compared with the relevant March valuation prior to sale.

ESG

In line with stakeholder requirements, buildings and occupiers increasingly need to improve their ESG impact. This includes fulfilling sustainable criteria in line with the Paris Accord net zero targets.

Central to this is the continuous improvement of our EPC ratings. The minimum rating within our portfolio as at 31 March 2023 is F at Bank House, Leeds. It is encouraging that 96.2% of our EPC's are rated A – D (2022: 88.8%).

ESG is embedded in our business and decision making. Our asset management initiatives and capital expenditure take into consideration the ESG benefits of improving buildings and we work with tenants to help them where possible reduce their utility costs, while improving the overall environmental impacts of our buildings and their use. Renewable electricity is used in 99% of landlord controlled properties.

Financial Overview

The Group's adjusted profit before tax decreased by 2.6% to £7.6 million (2022: £7.8 million), and EPRA NTA per share by 24.1% to 296 pence (2022: 390 pence). Against a backdrop of economic uncertainty, the Group continued to deliver at an operational level, by significantly reducing gross debt in a rising interest rate environment and making substantial progress in reducing administration costs, with £1.4 million of annualised cost savings made in the year.

The decrease in adjusted profit before tax to £7.6 million is principally due to the increase in interest rate costs and the loss of income through disposals in the year. However, this was largely offset by asset management letting activity increasing net rental income and a reduction in administration costs. In line with the strategy of returning capital to shareholders, the Group has increased the dividend paid or declared by 13.2% in the period to 15.0 pence per share (2022: 13.25 pence per share) and bought £6.7 million shares back in the year as part of the share buyback programme. The share buyback programme contributed 0.6 pence per share to adjusted earnings per share, which increased to 17.1p (2022: 16.9p) whilst also increasing EPRA NTA by 8.0 pence per share.

The £0.8 million (2022: £5.0 million) profit on disposal of eight investment properties, the £0.5 million realised profit on the sale of 23 residential units at Hudson Quarter and the fair value commercial property valuation deficit of £42.9 million (2022: £8.2 million surplus), contributed to the IFRS loss before tax of £35.8 million (2022: £24.6 million profit).

The fair value property revaluation deficit was largely as a result of the upward yield pressure driven by macroeconomic factors rather than underlying property performance as evidenced by a robust letting performance in the year, where asset management initiatives continue to drive rental growth above estimated rental values (ERV), contributing, amongst other factors, to an increase in adjusted earnings per share to 17.1p. The asset management performance in the year contributed to the Group outperforming the MSCI benchmark on a total property return basis, with the income outperformance being 3.1%. The Company MSCI total return for the year was -11.6% compared with -12.6% for the MSCI benchmark.

Financial
review

Gross debt reduced by £37.5 million and annualised cost savings of £1.4 million were made in the year

Financial highlights

	2023	2022
Income growth		
IFRS (loss)/profit before tax	**(£35.8m)**	£24.6m
Adjusted profit before tax	**£7.6m**	£7.8m
EPRA earnings	**£5.7m**	£7.4m
Basic EPS	**(80.2p)**	53.1p
EPRA EPS	**12.7p**	16.0p
Adjusted EPS	**17.1p**	16.9p
Dividend per share paid or declared	**15.00p**	13.25p
Capital growth		
Portfolio like-for-like value	**(18.6%)**	3.9%
Net Asset Value	**£128.5m**	£177.2m
Basic NAV per share	**294p**	383p
EPRA NTA per share	**296p**	390p
Total accounting return	**(20.4%)**	14.8%
Total property return	**(11.6%)**	12.5%
Total shareholder return	**(15.9%)**	21.1%

The summary of the Group financial results are as follows:

Income statement summary

Income Statement	**31 March 2023 £m**	**31 March 2022 £m**
Gross property income (excluding Expected Credit Loss provision)	**17.9**	17.4
Property operating expenses	**(2.6)**	(2.6)
Expected Credit Loss provision	**0.3**	0.4
Net rental income	**15.6**	15.2
Recurring administration expenditure	**(4.1)**	(4.4)
Finance costs	**(3.9)**	(3.0)
Adjusted profit before tax	**7.6**	7.8
Tax	**0.1**	(0.1)
Adjusted profit after tax	**7.7**	7.7
Hudson Quarter development loan interest	**-**	(0.2)
Payments to former Directors (including associated costs)	**(1.8)**	-
Share based payments	**(0.2)**	(0.1)
EPRA earnings	**5.7**	7.4
(Loss)/gain on revaluations	**(42.9)**	8.2
Trading profit	**0.5**	3.8
Profit on disposal of investment properties	**0.8**	5.0
Other income statement movements	**0.2**	0.1
IFRS earnings	**(35.7)**	24.5

Net rental income in the year increased marginally to £15.6 million (2022: £15.2 million). Despite the loss of income from disposals since 31 March 2022 of £1.4 million net rental income increased as a result of successful asset management initiatives. Property operating expenses remained stable at £2.6 million (2022: £2.6 million).

The Group has implemented measures to reduce its cost base, with annualised cost savings of £1.4 million being made in the year. These cost savings reflect changes in the board composition and a combination of other cost reduction measures, including the relocation of the head office in December 2022. The cost savings of £1.4 million represent 30% of FY22 administration expenses and 19% of FY22 EPRA earnings. Due to the timing of the savings and various contract notices, the subsequent impact of these costs was only reflected in the latter months of FY23. This is reflected in the recurring administration costs reducing by £0.3 million to £4.1 million (2022: £4.4 million) in the period.

Non-recurring administration expenses in the period include £1.8 million of payments, including associated costs, paid to the former Chief Executive and Executive Property Director, who stepped down in the period, under the terms of their service contracts and the Company's remuneration policy.

Finance costs increased by £0.9 million to £3.9 million (2022: £3.0 million) in the year, as a result of our swaps maturing and the Bank of England increasing interest rates in response to rising inflation.

In accordance with IFRS 9, in relation to the expected credit loss, we have assessed the risk of recoverability of our rental arrears. We reversed £0.3 million of rental arrears from trade receivables to the income statement in the financial period. This included a reversal of the £0.1 million bad debt provision made at 30 September 2022, as rent collection remained strong at 99% throughout the year as tenant financial covenant health remained robust through the economic uncertainty.

	Quarter starting Mar 22 £m	Quarter starting Jun 22 £m	Quarter starting Sep 22 £m	Quarter starting Dec 22 £m	Year ended 31 Mar 23 £m
Total demanded	4.0	4.1	4.1	4.0	**16.2**
Total collected	4.0	4.0	4.1	4.0	**16.1**
Outstanding	-	0.1	-	-	**0.1**
Current collection rates	**99%**	**99%**	**99%**	**99%**	**99%**

The March 2023 quarter rent collection rates remain robust at 99%, displaying a continuation of the strong rent collection seen throughout the year.

Shareholder value

EPRA Net Tangible Assets("NTA") decreased by 94 pence per share or 24.1% to 296 pence (2022: 390 pence) during the year. This was largely due to the revaluation deficit of £42.9 million or 96.4 pence per share, or an 18.6% reduction in the portfolio on a like-for-like basis.

Other movements to note include the buyback of shares of £6.7 million, increasing EPRA NTA by 8.0 pence per share, the profit on disposal of assets and Hudson Quarter (HQ) trading profit of £1.3 million, contributing 2.9 pence per share. These were offset by the fair value, downward adjustment of trading properties (HQ York residential) of £2.5 million, or 5.5 pence per share and the payments including associated costs to former Directors of £1.8 million reducing EPRA NTA by 4.1 pence per share. Conversely, net adjusted earnings, after dividends paid, increased EPRA NTA by a further 2.6 pence per share. Other movements contributed to a further reduction of 1.5 pence per share.

£37.5 million

reduction in gross debt

15.0 pence

dividends paid or declared in the year

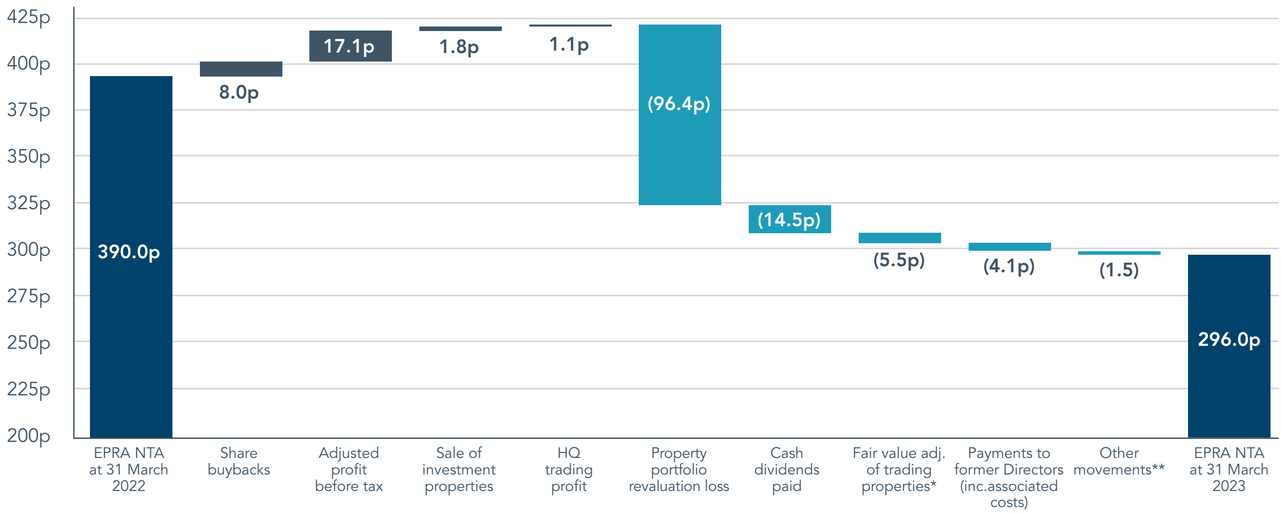
£1.4 million

annualised cost savings introduced

Financial review (continued)

EPRA Net tangible asset bridging chart

EPRA NTA per share movements in the year



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

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

EPRA NTA Movement

	£m	No. of shares (diluted)	Pence per share
EPRA NTA at 31 March 2022	**180.6**	**46,325,236**	**390.0p**
Deferred Bonus Plan award	0	11,609	0
Share buyback	(6.7)	(2,608,633)	8.0p
EPRA NTA after buyback	**173.9**	**43,728,212**	**398.0p**
Adjusted earnings	7.6		17.1p
Disposal of assets	0.8		1.8p
Hudson Quarter trading profit	0.5		1.1p
Property portfolio revaluation deficit excl. Bank House	(35.5)		(79.7p)
Bank House revaluation deficit	(7.4)		(16.7p)
Cash dividends paid	(6.5)		(14.5p)
Fair value adj. of trading properties	(2.5)		(5.5p)
Payments to former Directors including associated costs	(1.8)		(4.1p)
Other movements	0.2		(1.5p)
EPRA NTA at 31 March 2023	**129.3**	**43,728,212**	**296.0p**

Financing

Given the economic uncertainty during the year, which has seen rising inflation and multiple increases in interest rates by the Bank of England, the Group has prioritised the efficient use of its capital and maintained an appropriate capital structure. The Group has significantly reduced its drawn debt in the year by 36.8% to £64.3 million (2022: £101.8 million). The debt repayments in the year have given the Group increased headroom on its bank covenants. The Group remained compliant on all covenants on its bank facilities in the year, despite the increase in interest rates. Interest rate cover ("ICR") ratios were renegotiated on two facilities in the year, providing further headroom on the bank covenants in light of rising interest rates.

At 31 March 2023, the Group's cash and cash equivalents were £5.5 million (2022: £28.1 million). As at 12 June 2023, the cash balance was £9.6 million. The disposal proceeds from investment properties and Hudson Quarter residential sales continue to enhance cash reserves and gives the Company flexibility and optionality on how to deploy its capital.

Net debt at 31 March 2023 reduced by 20.1% to £58.8 million (2022: £73.6 million). The loan to value (LTV) ratio remained conservative at 31% (2022: 28%), despite the £42.9 million revaluation deficit on investment properties and the £6.7m share buyback programme in the year.

Since 31 March 2023, the Company has exchanged or completed on nine investment property disposals and five Hudson Quarter residential sales, with a further £24.9 million of gross bank debt being repaid. This includes the full repayment of the Lloyd's facility which was due to mature within 12 months in March 2024. This has reduced our gross debt to £39.4 million as at 12 June 2023 and our net debt to £29.8 million. The combination of the disposals and £1.2 million share buyback since 31 March 2023 has resulted in proforma LTV based on the valuation at 31 March 2023 reducing to 18.7% at 12 June 2023. On completion of the disposal of currently contracted sales proforma gross and net debt is expected to reduce further to c.£34 million and c.£20 million equating to proforma LTV of c13%.

Movement in gross debt during the year:

	2023 £m
Drawn debt at 31 March 2022	**101.8**
Repayment of debt from disposals	(35.8)
Amortisation of loans	(1.7)
Drawn debt at 31 March 2023	**64.3**
Repayment of debt from disposals	(24.5)
Amortisation of loans	(0.4)
Drawn debt at 12 June 2023	**39.4**

The average cost of debt in the year increased to 5.8% (2022: 3.2%) as a result of interest rate increases in the year. Despite the Group's two interest rate swaps maturing in the year, the Group has prioritised debt repayment to minimise the exposure and impact of interest rate increases to the Group. At 31 March 2023, the Group held £8.6 million of fixed debt (2022: £61.4 million), which was 13% of overall debt (2022: 60%), as shown in the table below:

Debt

	Fixed £m	Floating £m	Total drawn £m	Years to maturity
Barclays	-	19.4	19.4	1.2
NatWest	-	17.7	17.7	1.4
Santander	-	11.8	11.8	4.2
Lloyds	-	6.8	6.8	0.9
Scottish Widows	8.6	-	8.6	3.3
	8.6	**55.7**	**64.3**	**2.0**

Debt Metrics

	31 March 2023	31 March 2022
Net loan to value ratio	31%	28%
Debt drawn	£64.3m	£101.8m
Total fixed debt	£8.6m	£61.4m
Average cost of debt	5.8%	3.2%
Average debt maturity (yrs)	2.0yrs	1.9yrs
NAV gearing	46%	41%

Matthew Simpson

Chief Financial Officer

14 June 2023

Key performance indicators

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

Where possible, we link our performance to EPRA best practice recommendations, recognised as industry standard measures. We also consider that industry standard measures, such as those calculated by MSCI, are appropriate to use alongside certain EPRA measures and others that are relevant to our business taking into account the updated strategy. Accordingly, Gross Debt, LTV of Group Debt and Return of Capital replace dividend cover and cost of debt as being more appropriate KPIs.

MSCI

EPRA

Strategic aims

1. Maximise value from portfolio generate attractive total returns
2. Manage our assets effectively
3. Be a responsible company

Remuneration aims

1. Fixed remuneration
2. Short term variable remuneration

Adjusted Profit Before Tax

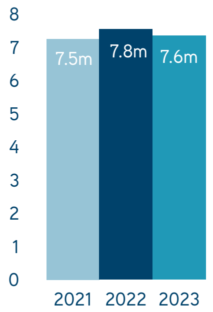
Rationale

Adjusted profit before tax strips out fair value movements and one-off costs, to get recurring income from the underlying performance of the property portfolio.

Performance

Adjusted PBT decreased marginally in the year, due to increased interest costs and income lost to disposals. However, this was partially offset by the increased net rental income from asset management activity and administration costs savings.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1 2

Adjusted Earnings per share

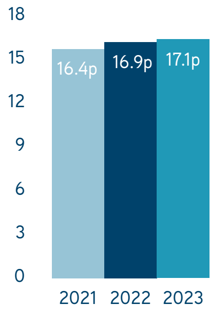
Rationale

Adjusted earnings per share is a key measure of the Company's operational performance as it excludes all fair value movements and one-off items not relevant to the underlying net income performance of the portfolio.

Performance

Adjusted earnings per share increased in the year, as a result of the accretive share buyback in the year and strong net income performance, despite higher interest costs and loss of income from disposals.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1

Total shareholder return

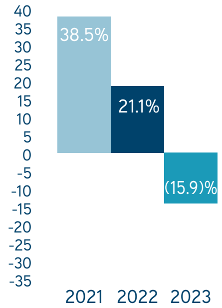
Rationale

Actual market-based returns achieved by an investor.

Performance

The share price decreased by 21.2% in the year, whilst an increase in the dividend gave a TSR of -13%. It remains a key objective to reduce discount between NAV and share price.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 2

Gross Debt

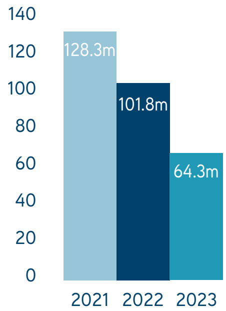
Rationale

The Board seek to maintain an appropriate level of debt in order to enhance shareholder returns. It is mindful of rising interest rates and the impact this can have on the value creation for shareholders.

Performance

The Company has repaid £37.5m of debt in the year, reducing the overall drawn debt by 36.8%.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1

EPRA vacancy rate %

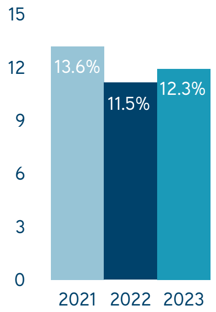
Rationale

Maintain strong occupier contentment and retention.

Performance

Remained stable at 12.3% at the year end.

Performance over the last 3 years



Link to strategy 1 2 3

Link to remuneration 1

Return of Capital

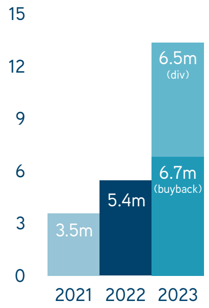
Rationale

Our strategic objective is to maximise returns and return capital to shareholders. This measures the dividends paid and the buyback amount in the year.

Performance

Dividends increased 13.2% in the year to 15.0p and bought £6.7m of shares back under the share buyback programme

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1

LTV of Group debt

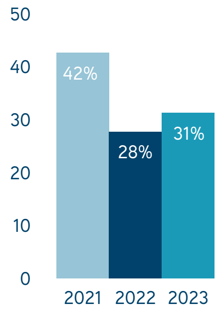
Rationale

The Company seeks to maintain an appropriate level of gearing to enhance shareholder returns limit its exposure to balance sheet risk.

Performance

Disposals of assets and debt repayment, have maintained a conservative LTV at 31%, despite the revaluation deficit.

Performance over the last 3 years



Link to strategy 1 2

Link to remuneration 1

Total property return (TPR)

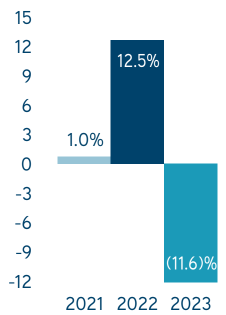
Rationale

Our objective is to outperform our peer group on a total return basis. This is the industry benchmark across the UK.

Performance

The revaluation deficit has been partially offset by a strong income return, resulting in a -11.6% TPR, outperforming the MSCI benchmark of -12.6%.

Performance over the last 3 years



Link to strategy 1 2 3

Link to remuneration 2

Average EPC rating E-G

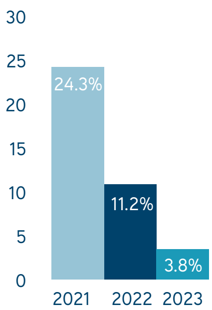
Rationale

We want to either refurbish or sell under performing assets based on our criteria.

Performance

Through disposals, capex and re-assessments, E,F and G ratings have significantly reduced

Performance over the last 3 years



Link to strategy 1 2 3

Link to remuneration 2

Risk management

Risk framework

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

Risk management is an inherent part of the Board's decision making process. This is then embedded into the business and its systems and processes. The Board reviews its overall risk appetite and regularly considers, via the Audit and Risk Committee, the principal risks facing the company, managements plans for mitigating these and emerging risks. The Committee also considers, at least annually, the effectiveness of the Company's system of risk management and internal control. Further information on the work of the Committee in this area is available in the Audit and Risk Committee report on page 51.

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

Emerging risks

If economic and geo-political stability remains uncertain or worsens, this could have an impact on the commercial property market with reduced valuations and rental income. Further cost of living issues may negatively impact consumer sentiment and inflation could reduce spending further while direct and indirect costs to the Group may increase further which may not be fully recoverable. A prolonged bout, new variants of COVID-19 or further pandemics may lead to further interruption of large parts of the economy for a significant period.

Going concern assessment

Introduction

In accordance with the 2018 UK Corporate Governance Code (the Code), the Directors have assessed the Group's position over the:

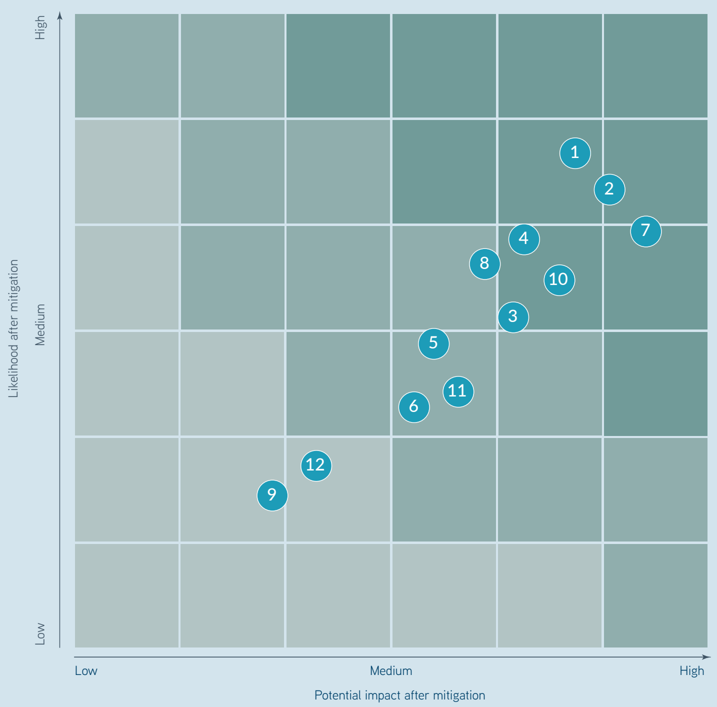
- Short-term (over the next 12 months to June 2024 as required by the 'Going concern' provision) and;
- Medium-term (a three year period to June 2026 as required by the 'Viability statement' provision)

Going concern

The Directors regularly assess the Group's ability to continue as a going concern. The Strategic report sets out in detail the Group's financial position, cash flows, liquidity position, borrowing facilities and the factors which will affect future performance. In assessing the going concern, the Directors considered:

- The Group's current financial position including cash, drawn debt, and LTV
- The Group's 12 month 'base case scenario' forecast to June 2024, which is management's best estimate of market and business changes, taking into account:
  - Disposal of investment properties
  - Residential sales
  - Higher levels of inflation and rising interest rates
  - Ability to satisfy bank covenants
  - Committed capital expenditure
  - Rent collection
- Downside scenario and stress testing on the 12 month base case scenario forecast to June 2024

The Group is in a strong financial position. At 31 March 2023, the Group had £5.5 million of cash and cash equivalents. The fair value of our property portfolio at 31 March 2023 was £192.4 million with



Risks	Score	Yearly Movement
1 Market Cycle	15	↑
2 Economic and Political	15	↑
3 Capital Structure	11	↑
4 Liquidity	12	↑
5 Portfolio Strategy	10	→
6 Asset Management	8	↑
7 Valuation	15	↑
8 Tenant Demand / Default	11	↑
9 Business Continuity / Cyber	4	→
10 People	12	→
11 Climate Change	10	→
12 Regulatory and tax	6	→

net assets of £128.5 million. During the year, the Group repaid £37.5 million of debt, funded by investment property and Hudson Quarter sales, with drawn debt at 31 March 2023 of £64.3 million (31 March 2022: £101.8 million). The Group has conservative gearing with LTV remaining stable at 31% (31 March 2022: 28%). During the year, the Group collected 99% of all rents and complied with all ICR and LTV bank covenants, despite SONIA interest rates rising from 0.75% at 31 March 2022 to 4.25% at 31 March 2023. The Group increased its quarterly dividends in the year by 13.2% to 15.0 pence per share, fully covered from rental income. There was one bank facility which was due to expire within a year of 31 March 2023 which was repaid on 31 May 2023. There is one bank facility which is due to expire at the end of June 2024, the Group currently has sufficient cash reserves to repay the majority of this facility if required. In addition to the strong financial position of the Group at 31 March 2023, the Group continued to strengthen its balance sheet post year end, with nine investment properties sold for £43.4 million and five Hudson Quarter residential units sold for £2.2 million. As at 12 June 2023 the Group had, cash of £9.6 million and gross debt and LTV of £39.4 million and 18.7% respectively.

The Directors conducted a detailed 12 month base case scenario forecast to June 2024, making various assumptions over asset sales, rising inflation and interest rates, letting assumptions, rent collection and committed capital expenditure. The forecasts indicated that the Group:

- Has strong sustainable cash flows and would be able to meet its liabilities as they fall due over the next 12 months and;
- Will comply with all ICR and LTV bank covenants

In addition to the detailed 12 month base case scenario forecast to June 2024, the Directors have considered a downside scenario in assessing the Group's ability to continue as a going concern. Sensitivity analysis and reverse stress testing were undertaken to assess the impact on the business and in particular the bank covenants.

The downside scenario assumptions used in the assessment included:

- 15% reduction in all property bank valuations
- 15% reduction in rent collection from the two leisure assets
- Significant rise in SONIA interest rates of 1.5% to 6.0%

Even on the downside scenario described above, the Group will still be able to meet its liabilities as they fall due over the next 12 months and will still be compliant on all ICR and LTV bank covenants. The stress testing on ICR and LTV bank covenants indicated that even if SONIA interest rates would reach 6.0% and bank valuations fell by 15%, the Group would still be compliant on all ICR and LTV bank covenants.

Going concern statement

Based on the analysis undertaken on the base case and downside scenario's, and the subsequent sensitivity analysis and stress testing, the Group has sufficient liquidity to meet its ongoing liabilities that fall due over the assessment period. Given the market information available, the Directors are not aware of any material uncertainty that exists that may cast doubt upon the Group's ability to continue as a going concern. As a result, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

Viability

In accordance with provision 31 of the UK Corporate Governance Code and taking into consideration the current economic uncertainty, the Directors have assessed the prospects of the Group and future viability over a three-year period to June 2026, being longer than the 12 months required by the "Going Concern" provision.

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

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

Review period

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

- The Group's working capital model, detailed budgets and cash flows consist of a rolling three-year forecast.
- It reflects the Group's asset management business plans.
- The Group's weighted average debt maturity at 31 March 2023 was 2.0 years.
- The Group's WAULT to break at 31 March 2023 was 4.8 years.

Assessment

The Directors conducted a detailed 3-Year viability assessment which included a base case scenario forecast to June 2026, making various assumptions over asset sales, rising inflation and interest rates, letting assumptions, rent collection and committed capital expenditure.

In addition to the base case scenario, the Directors have undertaken a robust scenario assessment of the risks which could threaten the 3-year viability or the operational existence of the Group. As part of the reasonable downside modelling, the Directors have stress-tested working capital model and cash flows using the same assumptions as stated above in the Going Concern assessment.

Based on the analysis undertaken on the base case and downside scenario's, and having assessed the current position of the Group, its prospects and principal risks, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Confirmation of viability

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

Risk management (continued)

Strategic risks

01

Market cycle

Risk description

Failure to react appropriately to changing market conditions and adapt our corporate strategy could negatively impact shareholder returns. A downturn in the market could reduce the appetite in the investment market, leading to lower valuations and affecting our disposal strategy and ability to return capital to shareholders.

Mitigation

The Board monitors market indicators and reviews the Group's strategy and business objectives on a regular basis. It will tailor the delivery of the Company's strategy in light of current and forecast market conditions. Disposal of other assets will continue if the market conditions allow for value to be achieved, whilst active asset management of the assets will continue to support in delivering returns to shareholders. Third party agent's advice is taken on all disposals. The Executive Committee regularly reviews market conditions.

Current position

The Board is monitoring and considering the longer term impacts of the cycle including the potential future of the office and the effects of the enhanced ESG requirements.

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

7

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

8

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

15

02

Economic and political

Risk description

Uncertainty in the UK economic landscape, global supply chain issues, inflation and interest rates, cost of energy crisis brings risks to the property market, supply chains and to occupiers' businesses. This can significantly impact market sentiment and our ability to extract value from our properties resulting in lower shareholder returns, reduced liquidity and increased occupier failure

Mitigation

The Board monitors the political and economic conditions and emerging policy and any uncertainty when setting strategy. Sensitivity modelling is undertaken against a downturn in economic outlook to test the robustness of our financial position and have regard to economic and property industry research when making significant decisions.

Current position

Our plans reflect current trading conditions and future economic headwinds facing the country which can impact on bank debt covenants and costs. We use consultants and experts so we can anticipate key planning and development policies and consider how these may impact our activities.

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

8

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

7

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

15

Financial risks

03

Capital structure

Risk description

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

Mitigation

The Board regularly reviews its capital risk management policy, gearing strategy and debt maturity profile. The Group's LTV is a maximum of 35%, and capital has been used to repay debt to reduce exposure to interest rate volatility and ensure debt compliance. Management maintains a close relationship with key lenders.

Current position

The Group's weighted average debt maturity is currently c2.0 years. The Group's LTV limit is 35%. We continue to monitor whether the use of derivatives to mitigate against interest rate rises are appropriate.

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

5

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

6

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

11

Portfolio risks

04

Liquidity

Risk description

Increasing costs of borrowing and increasing interest rates could affect the Group's ability to borrow or reduce its ability to repay its debts. Increasing inflation is causing interest rates to increase, which can reduce the cash position of the Company and its ability to fund working capital. It can have a material impact on profitability and dividend cover.

Mitigation

Undrawn bank facilities are in place to ensure sufficient funds are available to cover potential liabilities arising against projected cashflows. The Board reviews financial forecasts on a regular basis, including sensitivity against financial covenants. The Audit and Risk Committee considers the going concern status of the Group biannually. The Board considers the allocation of its capital in granular detail to ensure the most efficient use. Sales of assets can be used to repay debt, fund working capital requirements or return to shareholders.

Current position

The Company has repaid £37.5 million of bank debt in the year to 31 March 2023.

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

5

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

7

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

12

05

Portfolio strategy

Risk description

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

Mitigation

The Board regularly reviews the Group's investment strategy and asset allocation to ensure this is aligned to the overall corporate strategy.

Current position

No single asset comprises more than 15% compared to the overall portfolio's value. The Company is selectively marketing certain assets for sale, as the market stabilisation and recovery continues. Asset management initiatives utilised to maximise value. Appraisals for improving properties e.g. via refurbishment are ongoing for certain assets.

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

4

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

6

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

10

06

Asset management

Risk description

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

Mitigation

The process for reviewing asset business plans is embedded in the annual budgeting process. The Group's Capital Risk Management Policy limits development expenditure to <25% of Gross Asset Value and the core portfolio generates sustainable cash flows. Our experienced management team and use of advisors and property managers supports the execution of asset management strategies. Our active management approach and new investment system improves security of income and limits exposure to voids.

Current position

Our refurbishment pipeline is continuously assessed to ensure the right projects are being brought forward at appropriate times ensuring exposure at any one time is limited. The Executive Committee is reviewing the Group's Health and Safety systems and processes to ensure appropriate oversight of assets.

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

4

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

4

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

8

Risk management (continued)

Portfolio risks

07

Valuation

Risk description

Decreasing capital and rental values could impact the Group's portfolio valuation leading to lower returns. Higher cost of debt can lead to property yields to be pushed out and valuations to fall as a result. Increasing gilt yields, can leave property investment less attractive unless the desired return can be achieved.

Mitigation

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

Current position

Valuations of the portfolio reflect the commercial property market in general. The team continue to work to mitigate against falls in value through active asset management including ESG improvements.

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

7

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

8

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

15

08

Tenant demand and default

Risk description

Failure to adapt to changing occupier demands and/or poor tenant covenants may result in us losing significant tenants, which could materially impact income, capital values and profit. Rising inflation, interest rates and living costs could impact tenant businesses, such as the leisure industry, as demand falls for discretionary spending.

Mitigation

The Board regularly reviews the portfolio's overall tenant profile and sector diversification. Tenant diversification is high with no tenant making up more than 10% of total rental income. Management maintain close relationships with tenants understanding their needs and supporting them throughout their business cycle. Managing agents support rent collection and collection of arrears on a regular basis. Tenant due diligence and credit checks are undertaken on an ongoing basis to review covenant strength of existing and prospective tenants. The finance and property teams monitor all current tenant covenants and all future new tenants. All arrears are monitored on an ongoing basis.

Current position

Rent collection rates remain robust at 99%. The team are closely monitoring tenant covenants in high risk sectors, ensuring we are aware of any tenant distress which can impact the rental collection.

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

4

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

7

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

11

Operational risks

09

Business continuity and cyber security

Risk description

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

Mitigation

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

Current position

The Board continues to review the internal control environment and ensure good governance practices are adopted throughout the business. Cyber security arrangements have been kept under regular review to ensure we are deploying the most up to date technologies.

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

2

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

2

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

4

Environmental, social and governance risks

10

People

Risk description

An inability to attract or retain staff with the right skills and experience or failure to implement appropriate succession plans may result in significant underperformance or impact the overall effectiveness of our operations. Health and Safety of staff and others including tenants both physically and mentally and providing a safe and healthy environment in our properties is of utmost importance. Failure to do so could lead to staff and tenant ill health, litigation and regulatory issues, negative media and market sentiment against the Company.

Mitigation

We engage with staff regularly and encourage a positive working environment. We maintain an attractive reward and benefits package and undertake regular performance reviews for each employee. The Workforce Advisory Panel provides a forum that allows direct feedback to the Board on employee related matters. Insurance cover is in place for Directors. Health and Safety is undertaken both internally and via the tenants and a key issue for our property managers.

Current position

A competitive employment market and inflationary pressures are driving increased pay and benefits to ensure attraction and retention of individuals with the skills, knowledge and experience required to implement the strategy. The Group's headcount is stable with sufficient cover if any key personnel are unavailable. Employee engagement is high with regular meetings between employees and the Directors ensuring that the Board understands the views of the whole workforce.

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

5

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

7

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

12

11

Climate change

Risk description

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

Mitigation

The Group's ESG Committee oversees the execution of ESG related matters and ensures these are integrated into our business model and corporate strategy. Climate related risks are considered as part of our overall corporate risk assessment and ongoing environmental management of our buildings.

Current position

There has been an increased focus on environmental management and management have focused on asset management initiatives to increase the EPC ratings of our assets, increasing the marketability of the assets in a cost effective way.

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

5

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

5

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

10

12

Regulatory and tax

Risk description

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

Mitigation

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

Current position

Emerging corporate governance and audit reforms, require additional processes and procedures to be put in place and additional reporting on the company's resilience. The Board is overseeing these changes.

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

4

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

2

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

6

Section 172 statement

Stakeholder	Why we engage	How we engage and our actions
Investors	Our investors rely on us to allocate their capital appropriately to deliver attractive returns and return cash.	• The Chairman and Senior Independent Director have held regular meetings with key investors during the course of the year • We have an established investor relations programme with bi-annual presentations • Shareholders, focused on retail investors, are able to attend the Company's AGM where they can question Directors and vote on matters put to the meeting • Regular trading updates and announcements to the market regarding performance • Continuous monitoring of holdings with regular Shareholder analysis and review • We commenced the share buyback programme and paid quarterly dividends in the year to Shareholders
Tenants	Our business is focused on our tenants as customers and responding to how their needs are changing.	We have a proactive approach to asset management and we engage with our tenants in a variety of ways: • On-site review meetings • Dedicated building managers and asset managers • Visiting assets and listening to concerns • Periodic tenant surveys which cover general satisfaction, and opinions on how we can improve our assets
Employees	Our employees are key to implementing the Group's strategy in a way that reflects and promotes positive values and culture.	• Regular and frequent internal communications • New Executive Committee for which team members attend for relevant sections • Meetings with Directors, both formally and informally. • Social events to which all employees are invited
Suppliers, agents and consultants	We rely on a number of key partnerships to support our asset management and delivery of our strategy.	We actively engage with our suppliers and work closely with them: • Weekly meetings with our managing agents and regular contact by telephone and email • Formal review meetings • Monthly meetings with our external project managers • Sharing insights and initiatives • Ensuring payments are made within agreed terms
Communities and the environment	We are mindful of the impact our operations have on local communities and the environment.	We actively support community events and seek to have a positive impact on local areas: • Creating employment opportunities • Enhancing the built environment • Our contractors participate in schemes such as the Considerate Constructors Scheme and we consider certifications such as BREEAM to minimise the impact on our neighbours and the environment
Lenders	Our debt providers supply us with finance for our business purposes including previous acquisitions, developments and refurbishments.	• We actively engage regularly through quarterly meetings with our banks • We consistently have met our covenant and repayment obligations with all our lenders • We have strong long standing relationships with our key banks • Have drawn down periodically on the RCF to assist short term borrowings

Key interests	How we have considered stakeholders in the year
Our investors are looking for financial performance that generates a return on their investment incorporating both dividends and capital growth and maximising cash returns.	The Board and Committees have taken the views of investors into account regularly including the repayment of debt and share buybacks.
Our tenants want fit-for-purpose spaces in which they can succeed at a fair price.	We have considered the needs of our existing and future tenants during Board deliberations, for example in relation to capital expenditure on environmental improvements. The Board conducted site visits in the year and met tenants and agents to understand their needs.
We have moved into more appropriate office space with improved access for people commuting, improved infrastructure and better facilities but at significantly less cost to the Company.	Employees regularly feature in Board discussions and were a key consideration in relation to the risk management process including the need to retain and motivate employees.
Understanding of objectives and working together to achieve these with good communication and liaison is key.	The use of the asset management model with a small internal team overseeing the day to day activities and performance of our key agents is an important consideration of how the Group does business and is therefore a key issue for the Board. The Group uses consultants where external expertise is cost effective.
We aim to provide our communities with attractive, safe and environmentally friendly spaces, which enhance the local area.	Communities and the environment are a key element of the values of the Group and the Board understands the need to foster these and other stakeholders.
Our lenders wish to see a return on the money lent to the Group.	We have agreed repayments on the facilities, thereby reducing the net debt of the Group significantly as inflation and the cost has risen whilst still having the availability of the revolving credit facility should we occasionally need to utilise it.

Section 172
statement (continued)

How stakeholder interests have been considered within key strategic decisions

Stakeholder considerations - shareholders
The Board has considered shareholder views through various meetings held during the course of the year, including in the lead up to and post the AGM held on 29 July 2022.

Shareholders provided significant feedback to the Chairman regarding the proposed strategy update dated 4 July 2022. In that update, the Board undertook to reposition the Company as an ESG driven regional office market specialist, reinvesting proceeds from the sale of the industrial portfolio into improving the existing regional office portfolio and also into new opportunities in the regional office market.

In light of shareholder feedback following that update, the Company announced on 19 July that such a strategy needed amending. The Board announced that it would focus on maximising cash returns to shareholders, whilst continuing to remain mindful of consolidation in the Real Estate sector as part of its considerations.

The Board also announced that it would continue its strategy of disposing of other non-core investments and seek to complete the remaining sales of the residential apartments at York. Funds from these disposals will be aggregated with those from the sale of the industrial portfolio and distributed to shareholders.

In light of the amended strategy, Mickola Wilson (Senior Independent Director), Kim Taylor-Smith (Non-Executive Director), and Paula Dillon (Non-Executive Director) considered that it was the right time to step down from the Board and did not offer themselves for re-election at the Annual General Meeting on 29 July 2022.

The Company received significant votes against various resolutions at the AGM relating to the prior strategy including the re-election of Mr Richard Starr, formerly the Executive Property Director. Mr Starr stepped down from the Board on 12 August 2022.

The Board has subsequently pursued the strategy to dispose of non-core assets which appealed to special purchasers whilst pausing in October 2022 the sale of the Industrial Portfolio until the time was right as the market for these assets during the year became significantly more volatile as certain funds became forced sellers due to their clients withdrawing funds. We were not in the same position so we did not need to sell the assets and did not do so.

The sale of the smaller assets, together with the continued sale of residential units at Hudson Quarter which were unencumbered following the repayment of the development loan with Lloyds Bank in the year, meant that the Company could repay debt and return cash to shareholders via share buybacks and dividends. These were two key strategic initiatives that the top shareholders had been very clear in articulating to the Board, which was listened to and actioned.

The Board was mindful of the possible effect on the workforce following the amended strategy and was pleased that the key personnel were retained. In addition, corporate governance was enhanced through the establishment of a new Executive Committee, details of which are provided in the Corporate Governance Report.

Outcome and action
The results of these discussions and in particular the views of the top shareholders led to the amended strategy and new course for the Company to repay expensive debt and return cash to shareholders via sales of assets plus continued focus on cost reductions and proactive asset management of the Company's assets.

ESG
Introduction

Environmental, Social and Governance

We remain committed to ensuring that our properties are managed responsibly; that our environmental impacts are minimised and our tenants enjoy spaces which are healthy, safe and fit for purpose.

We actively collaborate with our tenants and business partners and ESG considerations remain a key consideration in our asset management initiatives. In 2020, we developed a corporate ESG strategy to mitigate the risks and explore the opportunities in terms of the impacts of our business on the environment, our communities, our tenants and our people. The main pillars are:

Environmental

- Improving the portfolio – by understanding better the environmental performance of our assets, we are actively seeking to reduce energy use and greenhouse gas emissions and improve energy efficiency. We will look at ensuring that assets are compliant.

Social

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

Governance

- Being a responsible business – by ensuring ethical business practices and sound risk management are embedded in decision making processes;

In relation to the pathway to net zero, while further work is required, we believe this will be achievable for our assets in line with statutory requirements by 2050. We have considered the pathway and believe that our buildings and the way that they have been improved and can be further improved in the future means that we can be comfortable with our assessment. We do not believe it prudent, in light of our strategy, to commit to a date earlier than this since we are progressing the sales of certain assets which the new owners will then evaluate together with their own portfolios for their pathway to net zero.

You can read more about the decisions and actions of the ESG Committee on pages 49 and 50. You can read more about how climate considerations have been integrated into our risk management framework on page 24, while you can learn more about our approach to climate resilience and associated targets in the section overleaf and within the ESG Committee Report.

As a commercial property landlord, we have a duty to consider the impact our assets have on the environment. During the year we have made positive progress in assessing, understanding and managing the environmental performance of our portfolio. We have continued focusing on data collection so that we understand our usage under scope 1,2, and 3 and the ways in which we can work with tenants to improve our overall environmental impact.

Key to this in our industry and sectors across the UK, is our EPC ratings. We now have no G or H EPC rated buildings and are looking at moving towards at least a C or B rating across our entire portfolio by the end of 2024.

Working Responsibly
Our ESG Environmental

Greenhouse gas emissions

Our GHG calculation and reporting process follows the Greenhouse Gas Protocol ("operational approach") and the DEFRA Environmental Reporting Guidelines (2013). The boundary for reporting includes emissions from sources under our control, grouped under: Scope 1 (direct) GHG emissions from owned assets; and Scope 2 (indirect) GHG emissions from landlord-controlled electricity supplies and scope 3 (indirect) GHG emissions from our tenants.

Following the change in data collection provision to Compare Your Footprint, we now recognise, in line with the guidance, that as a landlord, the bulk of our reporting is now under Scope 3 in line with the GHG Protocol's Scope 3 category 13: Downstream Leased Assets. Accordingly, we have reported prior year in the same categories as this year for comparison.

We are pleased to have reduced our direct emissions from our own office usage. Scope 1 was higher for the prior year as a result of the change in office with reduced consumption and flexible office use at Fora Victoria, and the methodology for data collection from our own landlord.

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

We have a limited amount of energy use within our control. To have a meaningful impact on greenhouse gas emissions we must ensure we engage with our tenants and encouraging them to minimise their own energy consumption. This continues to be a priority and the Company continues to collect and report its broader Scope 3 emissions as the Group looks to gain greater visibility of its total carbon footprint. We have seen a marked improvement in data collection from our agents and tenants and we are grateful to them for the provision of data. However, certain leases remain under the control of tenants for energy use and control of data collection so we continue to work with tenants to improve this.

As a result of better data collection, total emissions have increased during the year as the UK came out of the pandemic and people returned to their workplaces. Energy usage reduced, partly due to the increased cost of energy in the UK. We will work with our tenants on the strategy for overall carbon reduction as we continue to make a significant positive impact on reducing energy usage, as demonstrated in the year.

GHG emissions	**2023**	**2022**
Emissions type (tonnes of CO_2 equivalents)		
Scope 1 * estimate	**1**	16
Scope 2	**2**	14
Scope 3	**879**	742
Total	**882**	772
Average GHG Intensity ($tCO_2e/sqft^2$)		
Scope 1,2 and 3 combined	**0.001**	0.0008
Total energy use (kWh)		
Scopes 1,2,3	**8,771,692**	9,829,473

Climate Related Financial Disclosures (TCFD)

We published our findings from our consideration of the Taskforce for Climate-related Financial Disclosures (TCFD) methodology in our previous year's report, where we considered the associated physical and transition risks with a 2 degrees warming scenario, referencing the models mapped out by the Bank of England and the IMF's World Economic Outlook.

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

The Company is implementing a targeted upgrade and retrofit programme, to meet more stringent building performance and carbon emissions requirements: for example, to meet existing Government minimum energy efficiency regulations (MEES), and in anticipation of a further ratcheting up of regulatory requirements for energy performance certificate (EPC) ratings by 2030. The Company reviews this over the short, medium and long term for lettings and sales. We have risk assessed the portfolio based on building energy intensity, location, tenant composition, the potential direct and indirect impacts on revenue and operating and capital costs.

Climate-related risks have been integrated within the company's Principal Risks (see pages 26 to 29) and are regularly considered by the Audit and Risk Committee and the Board, including a confirmation annually on Principal Risks and movements in the likelihood and impact of such risks. Climate and energy performance have been fully integrated into both investment and asset management decision-making process. For example, we have identified opportunities for the Company to enhance its EPC and environmental performance its assets across our sectors (see page 15) leading to higher ERVs and capital growth compared to less well performing assets. Under a 2°C scenario, the company's strategy is considered resilient, bearing in mind the physical locations of its assets and the actions it is taking to manage transition risks. The Company will adapt its strategy accordingly to take into account the opportunities and risks from either market or regulatory impacts such as for example, accelerated programmes for EPC capital expenditure.

The Board consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans. These cover the short term - being under 2 years, medium term, being 2-5 years and longer term, being over 5 years. These are considered in overseeing major capital expenditure, and sales of assets, in line with the strategy. See pages 26 to 29 for our Principal Risks and how the Board considers risks and opportunities relating to Climate Change.

Net Zero Strategy

We are now gaining fuller visibility of our carbon footprint and are developing a realistic baseline on which to establish our net zero thinking. In light of our revised business strategy, we are focused on achieving improvements in our portfolio to ensure that the portfolio is in a good position to be net zero by 2050, in line with the UK Government's ambition.

TCFD
Being a responsible business

Overview

Compliance with the TCFD framework

In this section, we have provided an overview of our progress and priorities against the requirements of Listing Rule 9.8.6R. We have prepared our disclosures to be consistent with the TCFD recommendations and recommended disclosures, which also reflects the Annex to the Recommendations of the TCFD section C (Guidance for all sectors). We will look to enhance our ESG and TCFD reporting for future years, including reviewing Recommendations of the TCFD (supplementary guidance for non-financial sectors) and such recommendations that align with developing Shareholder and stakeholder requirements and feedback.

We have complied with the TCFD recommendations and recommended disclosures, although we recognise that further development is required in relation to the targets used by the Company in line with our strategy and risk management processes in addition to our focus on EPC improvements. We are however, satisfied that appropriate consideration is given in our current plans and risk management systems and processes to take into account the potential financial impacts of climate change on our business.

Governance

The Board assumes overall responsibility and accountability for the management of climate-related risks and opportunities. The remit of the ESG Board Committee is to oversee the Company's response to the evolving environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Company. It oversees the Group's corporate and social responsibilities and ensures its ESG activities are aligned.

The Executive Committee reviews environmental performance including EPCs at its meetings and the outputs are included in the Property Board reports for each Board meeting.

Risk management

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

The Audit and Risk Committee makes recommendations to the Board on the principal risks of relevance to the business. Climate-related issues are initially considered by the ESG Committee in terms of potential for contribution to these principal risks. The Executive committee has ongoing weekly meetings at which ESG matters are considered.

The issues considered include both the risk of physical disruption to the business from climate change such as risks to our properties from flooding, high winds and storms, transport and occupational issues, and the risks and opportunities as the UK economy transitions to significantly lower carbon emissions such as greater use of electricity rather than gas for heating.

The Company's financial planning and strategy would evolve to take into account such risks and opportunities to adapt to the revised landscape for example if greater capital expenditure is required to bring our assets to higher environmental performance.

Metrics and targets

Palace Capital started measuring its greenhouse gas emissions (GHG) in 2020. These GHG emissions cover Scope 1 direct emissions from the usage of fuel in its operations and indirect Scope 2 emissions from electricity consumption on site. We have utilised Compare Your Footprint for data analysis including the redefinition of our tenants usage to Scope 3. This includes for example aspects such as purchased goods & services (water); fuel & energy related activities; business travel; employee commuting; teleworking; and downstream leased assets.

TCFD
Being a responsible business (continued)

We continue to focus on data collection as a property landlord, particularly from our agents on behalf of our tenants, so that we understand our existing usage under scopes 1, 2 and 3. We are developing our response to the risks and opportunities arising in this area including our carbon footprint and that of our assets and tenants so we can work together to continuously improve. Failure to adapt would negatively impact financial performance as tenants look to well performing assets in respect of environmental matters.

Disclosure	Commentary
Describe the Board's oversight of climate-related risks and opportunities	Palace Capital established a Corporate Social Responsibility Committee in 2019 which was reconstituted as the ESG Committee in 2020, in recognition of the increasing importance of ESG to us, its stakeholders and broader society. The Board, supported by input from the ESG Committee, assumes overall responsibility and accountability for the management of climate-related risks and opportunities. A TCFD Working Committee was established in 2021 and its progress and findings have been reported into the ESG Committee.
Describe the management's role in assessing and managing climate-related risks and opportunities	Management has undertaken a review of the company's Enterprise Risk Management approach and climate-related issues have been integrated into the core risk management process as a principal risk. The Executive Committee meets weekly and includes climate issues in discussions and consideration for escalating as appropriate under Delegations of Authority.
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	The short-term (0-2 years) and medium-term (2-5 years) risks identified include increased utility costs; unattractiveness of buildings to potential occupiers due to poor carbon performance; and increased regulatory and policy measures. Long-term (over 5 years) risk includes raised temperatures and impacts on the UK from decarbonising. The most significant financial impacts have been considered as part of the Risk Management process to be included within the Company's internal valuations of assets. Sentiment on assets may be negatively impacted by decarbonisation of the economy over the longer term. The opportunities identified include: greater collaboration with tenants to improve environmental performance; improved commercial opportunities of owning assets which are energy efficient; and the attractiveness of assets to tenants and potential purchasers.
Describe the impact of climate-related risks and opportunities the organisation's businesses, strategy and financial planning	Climate-related risks have been integrated within the company's Principal Risks. Climate and energy performance have been fully integrated into both investment and asset management decision-making process.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	The average life-cycle of Palace Capital's assets within its ownership is short (0-2 years) to medium term (2-5 years) and the assets are exclusively located across the UK in well-connected regional transport hubs. The company is continually reviewing its exposure to climate-related risks. Under a 2°C scenario, the company's strategy is considered resilient, bearing in mind the physical locations of its assets and the actions it is taking to manage transition risks.
Describe the organisation's processes for identifying and assessing and managing climate-related risks	The Executive Committee reviews issues weekly, particularly in relation to progress on EPC ratings and escalates to the ESG Committee or Board as appropriate. Further information is contained in the ESG Committee report on pages 49 to 50.
Describe the organisation's processes for managing climate-related risks	Palace Capital considers and assesses climate-related risks and opportunities through the Executive Committee, ESG Committee and the Board.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	GHG emissions and energy consumption, are disclosed in the Annual Report including Scope 1 & 2 and are aligned to the Greenhouse Gas Protocol Corporate Standard and DEFRA Environmental Reporting Guidelines. We have redesignated Scope 3 to align with reporting requirements and are satisfied that we have improved data collection and analysis
Describe Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risk	GHG emissions are disclosed in the Annual Report throughout this section and are aligned to the Greenhouse Gas Protocol Corporate Standard. We continue to work with tenants and agents on our reporting. The related potential risks can be viewed in the Risk Management section on pages 24 to 29.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	We have collected Scope 3 emissions utilising Compare Your Footprint and are in a better position to understand the data and take action as a consequence. We have not set specific targets to date except in relation to compliance with MEES requirements and improvement of the portfolio's EPCs as demonstrated in the year (see page 17).

ESG
Improving the environmental performance of our assets

We continue to focus on data collection so that we understand our existing usage under scope 1,2 and 3. We are gaining a better understanding of our carbon footprint and that of our assets and tenants so we can work together to improve.

During the year, we have made good progress in embedding environmental considerations in all aspects of asset management and across our wider business model. Key to this is our EPC ratings. We have removed all G rated EPCs and significantly reduced E and F ratings, moving the portfolio towards MEES compliance. We have been making the ongoing improvements to properties within our portfolio.

We have:

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

100%
landlord controlled electricity from renewable sources

96.2%.
Properties in the portfolio with an EPC rating of A-D

Current EPC/MEES requirements & compliance

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

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

Through proactive review and asset disposals, all G certifications have been removed from the portfolio and 'F' certifications reduced to 1.5% (one asset with Listed Building Consent). During 2021/22, twenty five EPC's were improved and the number of EPC's rated A-D increased from 88.8% to 96.2%.

Our current EPC split is approximately:

EPC certification	%
A	2.3%
B	28.6%
C	41.3%
D	24.0%
E	2.3%
F	1.5%
G	0.0%

Letter from the Chairman

Dear Shareholder,

This Report describes how we have applied the Principles and complied with the Provisions of the UK Corporate Governance Code 2018. Where we were not compliant, we provide an explanation under the 'comply or explain' basis of reporting.

Since I became Chairman in January 2022, the Company has gone through considerable change in our governance structure which could only occur with shareholder engagement and support. I would like to thank shareholders for this.

In particular, it is worth noting that the Board of Directors was completely refreshed in less than a year, which I believe is unprecedented for a listed company outside of a takeover situation.

We have listened to shareholders, particularly around last year's Annual General Meeting and we are now right sized for the Company's strategy.

The first significant event in the year was that on 14 June 2022, Neil Sinclair, formerly Chief Executive, stepped down from the Board. Mr Sinclair had co-founded the Company and had been with the Company for 12 years.

Following feedback to me from our major shareholders on the Company's strategy, the Company announced in July 2022 that the Company would sell assets and return cash to shareholders, while being mindful of consolidation in the Real Estate sector. We also paused the sale of our Industrial Portfolio until the timing was right.

The Non-executive Directors each determined on 18 July 2022 in light of the amended strategy that it was the right time to leave the Company and stood down from the Board. This was prior to the AGM and their re-election was not voted on.

At the AGM held on 29 July 2022 there were a significant number of votes cast against several resolutions reflecting the sentiment of the major shareholders at that time. I engaged significantly with these shareholders to understand the reasons for their voting, which were largely a consequence of the previous Board's strategy and governance of the Company.

Mr Richard Starr, Executive Property Director, stood for re-election as a Director at the AGM. Mr Starr received over 44% of the votes cast against his re-election. Mr Starr decided it was the right time to leave the Board and stood down as a Director on 12 August 2022. His duties were assumed by Daniel Davies, Head of Asset Management and Thomas Hood, Head of Investment, who both report to me.

Mr Mark Davies was appointed by the Board on 1 August 2022 to fill the vacancy as an Independent Non-executive Director.

The Board from that time then consisted of myself as Interim Executive Chairman, Matthew Simpson, CFO and Mark Davies, Senior Independent Director and Chair of the Audit & Risk and Remuneration Committees.

The Board considers that this is a more appropriate sized Board for the Company to fulfil its role including overseeing the updated strategy.

In addition to the changes to the Board governance structure, I introduced a new Executive Committee consisting of myself as Chair, Matthew Simpson, Daniel Davies, Thomas Hood, Phil Higgins, Company Secretary, and Andrew Wolfe, Financial Controller. Other staff members attend by invitation.

The Executive Committee meets weekly to assist the Board with significant decisions and to oversee the operational implementation of the strategy, financial reporting, ESG, HR and corporate governance matters.

The Board adopted a new Matters Reserved and Delegations of Authority Policy and process, delegating appropriate levels of authority to management while retaining key strategic matters for the Board's approval.

Under this revised governance framework, I believe the Board and its Committees contain an appropriate combination of skills, experience and knowledge to be effective at fulfilling our responsibilities to shareholders and other stakeholders. Or governance structure enables the updated strategy to be implemented effectively, as described in the following pages.

Further information on the work of the Committees can be found in this report. Information on the Remuneration Committee is contained in the Report on pages 54 to 67.

The Nomination Committee report is on pages 47 to 48. The Audit and Risk Committee work in the year is considered at pages 51 to 53.

ESG remains a key part of doing business as a commercial property company and the ESG Committee report is on page 49 to 50.

Finally, I would like to thank our shareholders for their feedback and support for new management and to thank our team for the hard work they have put in to implement the updated strategy.

We continue our active engagement with shareholders who are invited to attend our AGM in person this year which will be at the offices of CMS, Cannon Place 78 Cannon Street, London EC4N 6AF on 26 July 2023 at 10.00 am.

Non-compliance with the Provisions of the Code. As outlined in this report, the Company did not comply with the following provisions:

9: in relation to the combined role I have undertaken as Interim Executive Chairman

17: as I am not deemed independent, the Nomination Committee is not constituted with a majority of independent directors

20: open advertising / search consultants were not used for the appointment of the Senior Independent Director due to time constraints following the stepping down of the Non-Executive Directors in July 2022

24 and 32: as the Audit and Risk Committee and Remuneration Committee consist of the Senior Independent Director and myself, as I am not considered independent

Steven Owen
Interim Executive Chairman

Governance overview

Statement by the Directors on compliance with the UK Corporate Governance Code

The UK Corporate Governance Code 2018 (the Code) applied to the Group for the financial year ended 31 March 2023. The Board considers that it applied the Principles of the Code but that certain Provisions were not complied with due to the Board's new governance structure which it believes is appropriate for the size of the Company and its strategy. The explanations for such non-compliance, in line with the 'comply or explain' basis of reporting, are provided in the following pages and are summarised in the Interim Executive Chairman's introduction to the Governance report.

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

Applying the principles of the code

Section of the code	How we have applied the Principles
Board leadership and Company purpose The Board is responsible for leading the business in a way which promotes the long-term sustainable success of the Company, generating value for Shareholders and contributing to wider society.	• The Board establishes the Company's purpose, values and strategy and reviews these regularly • The Board assesses and monitors culture • There is a regular programme of meetings for the Board and its Committees • A formal schedule of matters is reserved for Board approval and regularly reviewed • The Board has oversight of stakeholder engagement
Division of responsibilities The Board includes an appropriate combination of executive and independent Non-Executive Directors. The chair leads the Board and is responsible for its overall effectiveness in directing the company.	• We have a right sized Board for the Company including an appropriate mix of Executive and Non-Executive directors, noting that the Interim Executive Chairman (IEC), has, since 14 June 2022, combined certain aspects of the Chief Executive and Chair's role. The Company recognises that it was therefore not compliant with the Code • The IEC leads the Board and Chairs the Executive Committee and the CFO is an Executive Director with executive finance and corporate responsibilities • The Senior Independent Director Chairs both the Remuneration and the Audit & Risk Committees and engages with shareholders independently of the IEC and CFO • The IEC and Independent Non-Executive Director provide constructive challenge, strategic guidance, offer specialist advice and hold executive management to account
Composition, succession and evaluation The Nomination Committee ensures Board appointments are subject to a formal, rigorous and transparent process	• All Directors submit themselves at each AGM for election or re-election to the Board • The Nomination Committee leads the process for appointments, based on merit, and succession plans for the Board and Senior Management • There is an annual evaluation of the performance of the Board and Committees
Audit, risk and internal control The Audit & Risk Committee monitors the integrity of the Financial Statements and oversees the risk management process and internal control environment.	• We have two Non-executive Directors, both chartered accountants, on the Audit & Risk Committee providing appropriate experience and expertise. As Mr Owen, IEC, is a member of the Committee, the Company recognises that the Committee is not constituted with only independent Non-Executive Directors and that the Company was therefore not compliant with the Code. Mr Owen was considered independent on appointment as Chairman • The Audit & Risk Committee supports the Board and advises on whether the Annual Report and Accounts is fair, balanced and understandable • There is regular robust assessment of the Company's emerging and principal risks • There are clear policies and processes to ensure the independence and effectiveness of the external audit and whether an internal audit is required
Remuneration Our remuneration policies and practices are designed to support the business strategy and promote the success of the Company.	• The Remuneration Committee determines the policy and implementation of the Chief Financial Officer, Senior Executives and oversees wider employee remuneration • The Remuneration Committee appointed Korn Ferry as new remuneration advisors during the year to assist the Committee

Board of Directors

Steven Owen
Interim Executive Chairman

Date of appointment

Appointed Chairman 1 January 2022 and Interim Executive Chairman on 14 June 2022

Expertise

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

External appointments

Chairman of PHP

Matthew Simpson
Chief Financial Officer

Date of appointment

Appointed as Chief Financial Officer in November 2021

Expertise

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

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

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

External appointments

None

Mark Davies
Senior Independent Director

Date of appointment

Joined the Group on 1 August 2022 as Independent Non-executive Director

Expertise

Mark is a highly experienced FTSE250 executive, with extensive experience as Chairman, CEO and CFO in listed companies and private equity. He was a Co-founder Director of New River REIT plc and helped take the Company from IPO to the FTSE250 in seven years. He was CFO of New River for over twelve years and, working alongside his role as CFO, was also CEO/Chairman of Hawthorn Leisure Limited for five years. Mark stood down from the Board of New River following the announcement of the sale of Hawthorn in July 2021 but remained as CEO of Hawthorn until its successful sale to Admiral Taverns in August 2021.

Mark is chair of both the Audit & Risk and the Remuneration Committees and is the Senior Independent Director.

External appointments

None

Board composition

Neil Sinclair stepped down as Chief Executive with effect from 14 June 2022
Mickola Wilson, Paula Dillon and Kim Taylor-Smith stepped down as Independent Non-Executive Directors on 18 July 2022
Mark Davies was appointed as Senior Independent Director on 1 August 2022

Richard Starr stepped down from the Board as Executive Property Director on 12 August 2022

Committee membership

A Audit and Risk Committee

N Nomination Committee

R Remuneration Committee

E ESG Committee

Executive
Committee

Steven Owen
Interim Executive Chairman

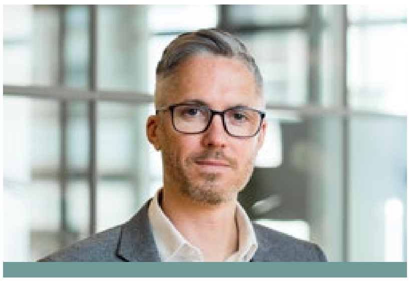
Date of appointment
Joined the Group on 1 January 2022

Expertise
See Board profile.

Matthew Simpson
Chief Financial Officer

Date of appointment
Appointed as Chief Financial Officer in November 2021

Expertise
See Board profile.



Daniel Davies
Head of Asset Management

Date of appointment
Joined the Group in January 2018

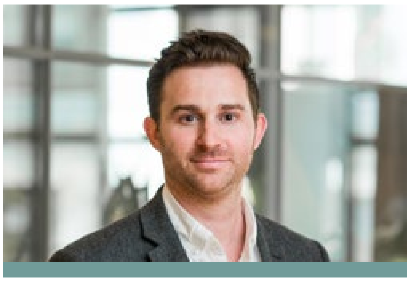
Expertise
Daniel is a Chartered Surveyor with over 20 years of real estate experience and joined Palace Capital in 2018. Daniel brings extensive experience of asset management having spent 12 years at Telereal Trillium, one of the UK's largest private property companies.. Prior to this position, he spent four years at Nelson Bakewell, where his role included investment, agency and management.

Tom Hood
Head of Investment

Date of appointment
Joined the Group in September 2019

Expertise
Tom joined Palace Capital in September 2019 from Mansford LLP where he was a Director in the Asset Management and Investment Team, responsible for the full life cycle across a diversified UK portfolio. He held previous roles at GVA and BNP Paribas in their Central London Investment Teams.

Tom is a Chartered Surveyor with an MSc in Real Estate from The University of Reading and an LLB from Durham University. He also holds the CFA UK IMC.



Andrew Wolfe
Financial Controller

Date of appointment
Joined the Group in June 2018

Expertise
Andrew Wolfe is a Chartered Accountant having spent 3 years at PricewaterhouseCoopers in the Financial Services sector, having an array of investment banking and private equity clients, most notably Barclays Investment Bank. Andrew was also selected to spend 6 months in Stockholm, working at SEB bank, one of the biggest investment banks in Scandinavia and also spent 2 years at EasyHotel, a listed property company.

Phil Higgins
Company Secretary

Date of appointment
Phil was appointed Company Secretary in December 2021

Expertise
Phil was previously acting Company Secretary at Kier Group plc and has significant experience in the listed property sector having been Deputy Company Secretary at Land Securities Group plc and intu properties plc. Phil has wide ranging senior level experience in FTSE100 and FTSE250 companies and professional services firms during his 25 years as a governance professional. He holds an LLM in Commercial Law and is a Fellow of the Corporate Governance Institute.

Governance framework

Board and committees

Board of Directors as at 31 March 2023

Interim Executive Chairman (IEC): Steven Owen

One Executive Director and two Non-Executive Directors (including the IEC)

Summary of its role under the UK Corporate Governance Code:
"Collectively responsible for devising the purpose, vision and long-term strategy and overseeing its implementation in order to promote the long term sustainable success of the company, generating value for shareholders and contributing to wider society."

Board committees

Audit & Risk Committee

Chair:
Mark Davies

Comprises:
Two Non-Executive Directors

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

Remuneration Committee

Chair:
Mark Davies

Comprises:
Two Non-Executive Directors

Summary of Role:
- Set Remuneration policy and oversee its implementation
- Review Directors' remuneration packages and incentives
- Approve incentives, bonus and salaries

Nomination Committee

Chair:
Steven Owen

Comprises:
Two Non-Executive Directors

Summary of Role:
- Recommend Board appointments
- Succession planning
- Board composition skills and diversity
- Board performance evaluation

ESG Committee

Chair:
Matthew Simpson

Comprises:
Executive Director and Two Non-Executive Directors

Summary of Role:
- Develop the strategy for ESG matters
- Oversee ESG implementation
- Stakeholder engagement

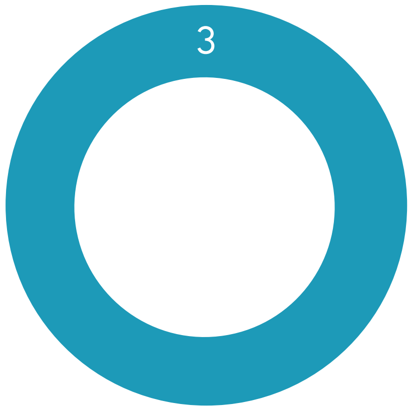
Board composition and division of responsibilities

Key responsibilities

Roles	Responsibilities
Interim Executive Chairman	• Leads the Board and Chairs the Executive Committee • Sets the Board and Executive Committee agenda and meeting schedule • Oversees the culture of the Board including diversity of opinion, ensures all the Directors are properly briefed and are able to take a full and constructive part in Board discussions • Responsible for evaluating the performance of the Board, Executive management and of the other Non-Executive Director • Engages with advisors and meets with shareholders to understand their concerns and views and consider implications for the strategy of the Company • Has a prime role in appointing and removing Directors • Line management of Head of Asset Management and Head of Investment
Senior Independent Director	• Provides a sounding board for the Interim Executive Chairman and serves as an intermediary for the Executive Director • Available to discuss concerns with Shareholders that cannot be resolved through the normal channels of communication with the Interim Executive Chairman • Responsible for reviewing the Interim Executive Chairman's performance • Brings a wide perspective and experience to provide independent judgement and objectivity to the Board's deliberations and decision making • Scrutinises and holds to account the performance of management

Board composition at 31 March 2023

Gender diversity Male Female



Independence Independent
Interim Executive Chairman (independent on appointment)
Executive Director (CFO)

PALACE CAPITAL PLC ANNUAL REPORT AND ACCOUNTS 2023

Board performance evaluation

Board performance evaluation

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

This year's review process was led by the Interim Executive Chairman with support from the Company Secretary.

As part of the review, the Board

- reviewed the results of the board performance evaluation process that relate to the composition of the board, its diversity and how effectively the members of the board work together to achieve objectives;
- reviewed the results of the performance evaluation of the Committees; and
- reviewed the time required from Non-Executive Directors, including the Interim Executive Chairman and Senior Independent Director.

Process

The evaluation was conducted in March 2023 via a questionnaire sent to each Board member to obtain their feedback. This covered:

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

The process included a review of the effectiveness of the Remuneration, Nomination and Audit & Risk Committees.

A report was compiled based on the findings. This was considered in April 2023.

The Board was considered to be of the right size for the Company. This reflected the updated strategy adopted in the year and the requirements of the business. The Board was thought to have the appropriate mix of skills and experience to execute the strategy in line with shareholder expectations, taking into account in particular shareholder concerns on the Company's previous strategy and costs.

Decision making

It was felt that the Board was more efficient and that decision making was quicker and generally more agile. A number of additional Board and Committee meetings were held during the year to consider issues outside the scheduled annual meeting schedule and the Interim Executive Chairman and Senior Independent Director made themselves available for such meetings.

In the year, the Board was more involved in overseeing the implementation of the strategy. The new Executive Committee was helpful to support the Interim Executive Chairman for the provision of operational information and the day to day running of the business.

It was considered that employees and shareholders understood and supported the new Board structure and the roles and responsibilities, though this had been an area of development in the year as employees became used to the new governance structure.

Communication

Employees have now got a better understanding of the differences between an Executive Committee and the Board and the relevant information requirements of each. Board papers are considered to be of good standard with more signposting on the key issues via Executive Summaries being encouraged. Communication was considered to have improved both from and to employees as Board members encouraged an open culture. This has included informal events where staff could discuss matters with the Interim Executive Chairman and Senior Independent Director personally.

Administration

The Board and Committee agendas' focus was appropriate for the Company being focused on the key issues. Papers provided the right information for the Board and Committees to consider and make appropriate decisions, including those matters reserved for the Board and escalated from management and the Executive Committee. Papers were now provided up to a week in advance of meetings via a secure Board portal.

Looking forwards

The Board agreed that it should continue to monitor shareholder views while implementing the articulated strategy.

Board activities and Committee attendance

The Board has a culture of diligent preparation for meetings, whether virtual or in person, constructive discussion on matters and appropriate challenge. The Non-Executive Directors are considered to be independent and free from any relationship that could affect the exercise of their independent judgement. It is felt that their knowledge and understanding are fundamental to the Board's deliberations. The Board is led by the Interim Executive Chairman.

The profiles of the Board members can be found on pages 41 of this Report. They demonstrate a complementary diversity of skills, backgrounds and experience, which enables the Group to be led effectively.

The Directors' interests in the shares of the Company are set out on page 63. The Board met four times during the financial year in accordance with its usual meeting programme. A significant number of further meetings were convened to deal with specific strategic and corporate matters.

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

	Board[1]	Audit and Risk	Remuneration	Nomination	ESG
Steven Owen (Chairman)	4/4	2/2	3/3	1/1	1/1
Mark Davies	3/3	2/2	2/2	1/1	-
Matthew Simpson	4/4	–	–	–	1/1
Neil Sinclair[2]	0/1	-	-	-	-
Richard Starr[4]	1/1	-	-	-	1/1
Kim Taylor-Smith[3]	1/1	1/1	1/1	-	1/1
Mickola Wilson[3]	1/1	1/1	1/1	-	1/1
Paula Dillon[3]	1/1	1/1	1/1	-	1/1

1 In addition to scheduled meetings noted above, the Board and Remuneration Committee held ad hoc meetings virtually and in person during the year to discuss specific strategic and operational and leaving arrangements for the Executive Directors who stepped down in the year

2 Stepped down from the Board 14 June 2022

3 Stepped down from the Board 18 July 2022

4 Stepped down from the Board 12 August 2022

Culture

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

The management team drives the embedding of the desired culture and ensures that the expected values and beliefs are sufficiently understood and upheld. During the year, the Board, in its considerations, took into account the views of the workforce via the Workforce Advisory Panel and held regular discussions and updates on the strategy via the Executive Committee. In addition, the Board keeps the values, beliefs, policies and practices that encapsulate the Group's culture under review. It assessed reports from management and the output of the Workforce Advisory Panel. It monitored adherence to Group policies and compliance with the internal corporate governance requirements of the Company and under the Code and regulatory requirements.

For further information regarding the Company's approach to investing in and rewarding its workforce, please see page 59.

Nomination Committee report

Members

- Steven Owen (Chair)
- Mark Davies

Total meetings held:

One

Steven Owen

Chair of Nomination Committee

Key actions

- Considering Board and Executive Committee composition
- Considering terms of reference
- Board Evaluation

Areas of focus

Succession plans

Director training and development

Dear Shareholder,

In accordance with the Code, at least a majority of members of the Committee should be Independent Non-Executive Directors. While I was independent on appointment, from August 2022 we have not been compliant with this aspect of the Code.

On 18 July the three independent Non-Executive Directors stepped down from the Board and on 1 August 2022, Mark Davies was appointed as an Independent Non-Executive Director and joined the Committee. Since that date, the Committee has therefore consisted of myself as Chair and Mark Davies as independent Non-Executive Director member. The CFO may attend Committee meetings by invitation.

The Committee met formally once during the year (details of attendance are set out on page 46) .

The Nomination Committee leads the process for appointments to the Board and overseas the plans for orderly succession to both the Board and senior management positions.

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

Board changes

Chief Executive

In line with the Committee's terms of reference, the Committee considered and agreed with Neil Sinclair that he would step down from the Board in the summer of 2022. We agreed that it was appropriate in these circumstances that Steven Owen, then Chairman, would become Interim Executive Chairman. The changes took effect on 14 June 2022.

Non-Executive Directors

On 18 July 2022, Paula Dillon, Kim Taylor-Smith and Mickola Wilson, Independent Non-Executive Directors, stepped down from the Board.

On 1 August 2022, Mark Davies was appointed as Senior Independent Director.

Executive Property Director

On 12 August 2022, following the AGM on 29 July 2022, Richard Starr, Executive Property Director, stepped down from the Board.

Nomination Committee report (continued)

Evaluation

A formal and rigorous internal evaluation of the Board's performance was carried out , the process and findings of which are set out on page 45. The Committee oversaw the evaluation process ensuring that a clear action plan was put in place.

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

Diversity

The Committee is very conscious that the current Board consists of three men, albeit of different ages, experience and backgrounds. The Committee considers that the Board has the right mix for the Company at present due to its strategy and the need for extensive property and listed company experience but commits to taking into account diversity in its broadest sense for any future appointments.

Such considerations would also apply for changes to the Executive Committee, being senior management, noting that the appointments to the Committee in the year were made from existing staff. These people, albeit all men, were considered appropriate to be members of the Committee based on their experience, expertise and suitability for the role and I believe that the Committee is working well in delivering the strategy in operational and financial terms. It was not appropriate for the Company's strategy to recruit new members of staff as existing staff members had shown the capability and desire to take on these roles.

As Interim Executive chairman, I lead the Executive Committee and am very keen to involve the wider employee group to add their voice to discussions and considerations of their areas of responsibility.

AGM

In accordance with the Code, each of the Directors will submit themselves for election or re-election at the 2023 AGM. The Committee, on behalf of the Board, is satisfied that all Board members put forward for election or re-election have, and continue to commit the time required to discharge their roles effectively.

The Committee believes that, despite non-compliance with the Code, the Board has the appropriate balance of skills, experience, independence and knowledge to oversee the particular strategy of the Company and Shareholders are requested to support the resolutions proposed by the Board.

Steven Owen

Chair of Nomination Committee

14 June 2023

Environmental Social and Governance Committee report

Members

- Matthew Simpson (Chair)
- Steven Owen
- Mark Davies

Total meetings held:

One

Matthew Simpson

Chair of ESG Committee

Key actions

- Oversaw the overall governance of ESG matters
- Reviewed the development of EPC improvements and net zero pathway
- Oversaw implementation of new third party web based data collection platform to improve efficiency of data collection and interpretation
- Oversaw specialist advice on ESG matters

Areas of focus

The remit of the Environmental, Social and Governance ('ESG') Committee is to oversee the Company's response to the evolving environmental, health and safety, corporate social responsibility, corporate governance, sustainability, and other public policy matters relevant to the Company.

Dear Shareholder,

The Committee met formally once during the year with discussions at an operational level taking place regularly at Executive Committee meetings. The ESG Committee agenda includes updates from management in relation to the progress against the Board's ESG strategy and its three fundamental objectives, which are to:

- Improve the portfolio's EPC ratings
- Foster a culture of inclusivity and consideration of stakeholders' interests
- Be a responsible business

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

Committee role

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

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

Environmental Social and Governance Committee report (continued)

Strategy and linkage to ESG

Palace Capital has made good progress during the year including improved EPC ratings and a better understanding of its carbon footprint and scope 1, 2 and 3 reporting. Environmental factors are a key part of our asset management planning as described earlier in the Strategic Report.

ESG strategy

A key aspect of the ESG strategy is centred on the environmental performance of the Group's assets and improving the portfolio in a cost effective manner to adapt to changing occupier demands. The Principal Risk Register (see pages 26 to 29) includes such risks. The Committee believes that management have made good progress in the year to embed ESG considerations into the business.

The Committee has reviewed the processes for collecting data in relation to the environmental performance of the Group's assets, which have been enhanced further during the year and embedded in the Company's processes including through the use of a new platform for the recording and calculation of data called 'Compare Your Footprint'. This allows our assets' managing agents to input the data directly and enhances the efficiency of our data collection and interpretation going forwards so we may take action as appropriate.

We have considered the pathway to net zero as part of the Company's asset plans. We consider the appropriate timeframe for our assets, taking into consideration our strategy, to be in line with the legislation which is therefore 2050.

Matthew Simpson

Chair of ESG Committee

14 June 2023

Audit and Risk Committee report

Members

- Mark Davies (Chair)
- Steven Owen

Total meetings held:

Three

Mark Davies

Chair of Audit and Risk Committee

Key actions

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

Areas of focus

The Committee will continue to meet with the valuers to further review their independent valuations for the full year and half year

The Committee will review the possible capital costs of ESG matters and the Company's provision of these

Dear Shareholder,

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

The Committee has supported the Board by monitoring the integrity of the Company's financial and narrative reporting and the robustness of the Group's risk management and internal control framework, taking into account that the Company does not have an internal audit function. Due to the size and relative lack of complexity of the business, the Committee recommended to the Board that no internal audit function was required. We have however, worked closely with the external auditors, reviewing key accounting judgements and policies, and ensuring an effective external audit process. I am pleased to report that no material uncertainty disclosure has been included in the valuations issued by the independent valuer of our properties, CBRE in April 2023.

Overall, we are pleased with the Company's robust reporting processes and its approach to considering and mitigating its Principal Risks, as described more fully on pages 26 to 29.

Composition

Due to the size of the Board, the Committee is not constituted in accordance with the Code as the Interim Executive Chairman is a member of the Committee. The Code requirement is that all members are Independent Non-Executive Directors. The CFO regularly attends Committee meetings by invitation. The Committee is satisfied that its composition is appropriate, that I bring recent and relevant financial experience as a Chartered Accountant and many years as a FTSE250 Director, and considers that all members have the necessary competence relevant to the sector in which the Company operates, as required by the Code, since the Interim Executive Chairman and I have many year's experience in the real estate sector.

Audit and Risk Committee report (continued)

Financial reporting and significant matters

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

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

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

Viability statement

The Committee reviewed the viability statement and the period for which the Board should assess the prospects of the Group. Following the review, the Committee concluded that a three year period was appropriate, in line with the Company's internal forecasting horizon. Further details are provided on page 25.

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

Internal Control Framework

External auditor

BDO LLP was first appointed as external Auditor in respect of the year ended 31 March 2015. In accordance with the EU Audit Regulation and Directive, the Group will be required to put the external audit contract out to tender in 2024.

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

In the year ended 31 March 2023 the only non-audit services provided to the Group related to the independent review of the half-year results.

The Committee will only authorise non-audit services on the basis that they are permissible under regulations relating to a Public Interest Entity and the Company has a formal non-audit services Policy.

Audit fees

Fees payable to the Group's Auditors for audit and non-audit services are set out in note 3 on page 91 and 92. Total fees related to non-audit services represented less than 5% of the total fees for audit services (2022: 5.6%).

Risk management and internal controls

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

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

Internal audit

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

Whistleblowing procedures

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

Mark Davies

Chair of Audit and Risk Committee

14 June 2023

Directors' remuneration report

Members

- Mark Davies (Chair)
- Steven Owen

Total meetings held:

Three

Mark Davies
Chair of the Remuneration Committee

Key actions

- Reviewed the Remuneration Policy and proposals for a new Realisation Plan to be put to shareholders at the 2023 AGM to motivate and retain management to implement the updated strategy and deliver alignment with shareholders
- Considered the leaving arrangements for the former Chief Executive and Executive Property Director
- Reviewed Executive Director and Senior Management Remuneration including for promotions in the year for certain executives below Board level
- Determined that no awards would be made in FY23 under the Long Term Incentive Plan
- Appointed Korn Ferry as advisors
- Reviewed wider workforce remuneration arrangements including overall levels of salary, bonus, pensions and benefits
- Engaged with Shareholders on remuneration including possible changes to the Remuneration Policy and new Realisation Plan
- Engaged with the workforce on how executive remuneration aligns with wider company pay policy

Dear Shareholder,

The Committee's primary objective is to ensure that the Group's remuneration policies and practices that apply to Board members and Senior Executives support the successful delivery of the strategy. This report provides details of how the Committee has taken action in the year to achieve this.

Committee membership and meetings

Following the changes in the Board in July 2022, the Committee consisted of myself an Independent Non-Executive Director, as Chair, and the Interim Executive Chairman. Although we were not compliant with the Code, (which requires that members of the Committee are Independent Non-Executive Directors), we believe that the Committee has sufficient independence and experience to oversee executive management remuneration.

In relation to the meetings held, and actions taken, it is worth noting that Steven Owen's remuneration as Interim Executive Chairman was decided by the Board and he was not involved in the discussions relating to the fees for his services. The Chief Financial Officer may attend Committee meetings by invitation but is not involved in deliberations relating to his own remuneration. The Committee appointed Korn Ferry as independent advisors in the year, who are invited to attend meetings.

The Committee met three times during the year (details of attendance are set out on page 46). In addition, ad hoc meetings were held to consider the leaving arrangements of the Executive Directors who stepped down in the year.

Advisors

The Committee was previously advised by MM&K who did not provide services in FY23 and therefore did not receive a fee. Korn Ferry were appointed as advisors to the Committee during the year ended 31 March 2023 and were paid £22,210 (2022: nil) for advice including a new Remuneration Policy and Realisation Plan. Korn Ferry are also remuneration advisors to the Remuneration Committee of PHP where the Interim Executive Chairman was Chairman in the year. Mr Owen retired from the Remuneration Committee of PHP on 31 December 2022. Otherwise, Korn Ferry do not have any other connection with the Company or Directors personally. The Committee is satisfied that the advice is objective and independent and thanks Korn Ferry for their assistance.

Remuneration policy

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

The Directors' Remuneration Policy was last approved at the Company's AGM held in July 2021 and a summary of the policy can be found on pages to 56 to 58. Remuneration arrangements in the year were made under the existing Policy.

As announced in July 2022, the strategy of the Company has changed significantly since the Policy was introduced and is focussed on returning cash to Shareholders, while being mindful of consolidation in the sector. Accordingly, the Committee has undertaken a review, in consultation with large Shareholders, of the Policy and is actively considering a revised Remuneration Policy to be put to Shareholders for approval at the 2023 AGM to reflect the new strategy. This includes proposing a new incentive plan – a 'Realisation Plan' which would, if approved by Shareholders, replace the Long Term Incentive Plan and reward management for implementing the return of cash to Shareholders and value creation. In return for awards under the Realisation Plan, it is anticipated that the maximum amount of annual bonus for staff will be reduced by 50% and there will be no future LTIP awards. The adoption of the Realisation Plan would require an amendment to the Policy, so this would also be put to Shareholders.

Performance outcomes for FY23

The 12 months to 31 March 2023 were challenging with a difficult economic backdrop. Despite this, the Group achieved 99% rent collection, a resilient adjusted profit before tax, ahead of budget, as well as reducing our net debt levels and returning cash to shareholders via the share buyback.

In light of the uncertainty that has existed in the year, the Committee delayed setting the targets for Mr Simpson's annual bonus for the year ended 31 March 2023. After reviewing the financial and corporate performance for the year, a total of 34% of the maximum potential target was achieved by Mr Simpson. In line with the updated strategy, the Committee determined that the bonus would be fully paid in cash.

The Long Term Incentive awards that were granted in 2019 had a normal vesting date of 23 June 2022. The performance conditions were not met and the awards lapsed. Full details can be found on page 61.

The Committee determined to delay the grant of awards under the Long Term Incentive Plan, following the adoption of the updated strategy by the Company announced in July 2022 and no awards were made under the Plan in FY23.

Implementation in FY24

Subject to Shareholder approval of the Realisation Plan and new Remuneration Policy, the existing Remuneration Policy will remain in effect. Due to the updated strategy, no awards under the Long-Term Incentive Plan will be made in FY24.

The salary increase for the Chief Financial Officer is 2.9% for the period commencing 1 April 2023, in accordance with the Remuneration Policy. This is below the average salary increase for the workforce. Details are provided on page 66. In accordance with the existing Remuneration Policy, the maximum bonus opportunity for the CFO will not be more than 100% of salary. It is anticipated that, if the Realisation Plan is approved, then the maximum potential under a revised Remuneration Policy will be 50% of salary. The Committee ensures that individual metrics are aligned to the business strategy and are sufficiently stretching.

Concluding remarks

The remuneration arrangements provide alignment with shareholders through the use of financial and operational objectives. The framework applies in a very similar way across the workforce in terms of types of benefits and variable pay and reflects their importance to the Company and valued contribution. Accordingly it is anticipated that all employees will be eligible to participate in the proposed Realisation Plan.

The Committee will take into consideration a range of stakeholders' interests especially those of our Shareholders when making remuneration decisions. Accordingly, on behalf of the Committee, I would like to thank Shareholders for their engagement and continued support.

Mark Davies

Chair of Remuneration Committee

14 June 2023

Remuneration policy

This policy report summarises the Directors' Remuneration Policy applicable to the Executive Director and the Non-Executive Directors, details of which were contained in that year's Annual Report and approved at the Company's AGM on 29 July 2021. That Policy is effective for a period of up to three years. It is anticipated that a new Policy will be put to shareholders for approval at the 2023 AGM and details will be provided in the Notice of AGM. Until a new Policy is approved, the existing Policy will remain in effect.

Executive Director policy table

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

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

Remuneration policy (continued)

Dividend equivalents for share-based awards

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

Malus and clawback

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

How the committee will use its discretion

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

Non-Executive Directors and Chairman policy table

Element and link with strategy	Operation and maximum potential value	Performance framework
Fees To provide competitive fees to attract the right Non-Executives.	Fees are normally reviewed every two years following the advice of the Company's remuneration advisors. Additional fees are payable for the chairing of Board Committees. No maximum is specified.	Not applicable.

Approach to recruitment remuneration

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

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

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

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

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

Service contracts and policy on payments for loss of office

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

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

Statement of consideration of employment conditions elsewhere in the company

Remuneration throughout the Group is considered when setting the directors' remuneration policy. Benefits for employees are similar to those provided to the Executive Director, except that the pension available for employees is higher than that for the Executive Director. Individual salaries and awards of bonuses will vary according to the employees' level of responsibility.

Statement of consideration of shareholder views

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

Decision making process for determination, review and implementation of directors' remuneration policy

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

The Committee manages conflicts of interest by ensuring that the relevant member of management or the Committee are not present when their own remuneration is determined or discussed. The Committee will receive input from the Chief Financial Officer on remuneration related matters. The Company Secretary acts as Secretary to the Committee. The Committee is satisfied that the advice received by Korn Ferry in relation to executive remuneration matters is objective and independent.

Annual remuneration report

This report was prepared by the Remuneration Committee and approved by the Board for the financial year ended 31 March 2023

Directors' total remuneration (audited)

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2023, with a comparison to the previous financial year.

Executive Directors	Year	Salary £	Taxable benefits £	Bonus Cash £	Bonus Shares £	Long term incentive plan £	Pension £	Total fixed pay £	Total variable pay £	Total pay £
Neil Sinclair[2]	**2023**	**65,980**	**2,467**	**–**	**–**	**–**	**–**	**68,447**	**–**	**68,447**
	2022	303,000	17,773	98,475	53,025	118,402	–	320,773	269,902	590,675
Richard Starr[3]	**2023**	**87,957**	**3,258**	**59,500**	**–**	**–**	**4,398**	**95,613**	**59,500**	**155,113**
	2022	229,500	8,525	74,588	40,163	89,314	11,475	249,500	204,065	453,565
Matthew Simpson[1]	**2023**	**238,000**	**9,150**	**80,800**	**–**	**–**	**11,900**	**259,050**	**80,800**	**339,850**
	2022	61,973	3,628	52,000	28,000	–	3,122	68,723	80,000	148,723
Stephen Silvester[4]	**2023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	176,425	1,747	–	–	74,775	6,490	184,662	74,775	259,437
Total	**2023**	**391,937**	**14,875**	**140,300**	**–**	**–**	**16,298**	**423,110**	**140,300**	**563,410**
	2022	770,898	31,673	225,063	121,188	282,491	21,087	823,658	628,741	1,452,400

1 Matthew Simpson was appointed Chief Financial Officer on 11 November 2021.

2 Neil Sinclair stepped down from the Board on 14 June 2022. After leaving, Mr Sinclair was paid £374,758 in lieu of notice period, £639,780 as compensation for loss of office and the payment of his legal fees. Bonus shares awarded in the prior year were settled in cash.

3 Richard Starr stepped down from the Board on 12 August 2022. After leaving Mr Starr received £299,350 in lieu of notice period, £11,900 representing his pension, £80,000 as compensation for loss of office and the payment of his legal fees. He received salary and benefits from 12 August 2022 until 30 September 2022 as an employee to assist with the handover of responsibilities.

4 Stephen Silvester left the Board as Chief Financial Officer on 29 October 2021.

Non-Executive Directors	Fees to 31 March 2023 £	Fees to 31 March 2022 £
Steven Owen[1]	**221,500**	27,500
Mark Davies[2]	**40,000**	–
Kim Taylor-Smith[4]	**13,327**	45,000
Mickola Wilson[4]	**13,327**	45,000
Paula Dillon[4]	**11,846**	40,000
Stanley Davis[3]	**–**	37,500
Total	**300,000**	195,000

1 Steven Owen was appointed Chairman on 1 January 2022 on a fee of £110,000 and became Interim Executive Chairman on 14 June 2022 at an increased fee of £130,000 per annum plus additional fees of £10,000 per month for the extra responsibilities time commitment of the role

2 Mark Davies was appointed as Senior Independent Director on 1 August 2022

3 Stanley Davis retired as Chairman on 31 December 2021

4 Kim Taylor-Smith, Paula Dillon and Mickola Wilson stepped down from the Board on 18 July 2022

Annual bonus

The Group's remuneration policy for the year ended 31 March 2023 caps bonus payments to the Executive Director at 100% of salary. Bonuses are awarded depending on whether Company and individual performance achieve the relevant criteria, as determined by the Committee at its discretion.

For the year ended 31 March 2023, the Chief Financial Officer was evaluated on the financial performance of the Company including on its Key Performance Indicators. These included debt reduction and reductions in annualised administration costs of £1.4 million. In terms of individual performance the Committee took into account the Chief Financial Officer's corporate leadership and management of the finance function in addition to the engagement with banks and Shareholders to reduce debt and negotiate covenants where applicable.

Based on the performance criteria, the Executive Director achieved 34% of the maximum award.

At the discretion of the Company, in light of the updated strategy, the Committee determined to pay the FY23 bonus to the Chief Financial Officer wholly in cash.

Long-Term Incentive Plan

Executives have historically been able to participate in the Group's Long Term Incentive Plan. The LTIP awards that were granted in June 2019 had a normal vesting date on 23 June 2022. The performance criteria over a three-year period was not achieved so all options lapsed. Performance was measured against total shareholder return and return of the property portfolio as calculated by IPD measured over a three-year period.

Outstanding scheme interests

The Executive Director has the following outstanding awards under the Long-term Incentive Plan.

	At 31 March 2023	Granted	Vested and exercised	Lapsed	As at 31 March 2022	Share price at date of award	Grant date	Vesting date
Matthew Simpson	–							
	–	–	–	17,875	17,875	£2.96	25/06/2019	25/06/2022
	30,223	–	–	–	30,223	£1.90	14/10/2020	14/10/2023
	64,856		–	–	64,856	£2.47	16/11/2021	16/11/2024
Total	**95,079**				112,954			

Awards granted from 2018 onwards are subject to a two-year holding period following vesting. Mr Simpson's LTIP awards prior to joining the Board were based on 50% of salary. The awards made in 2019 to Mr Simpson and other LTIP recipients did not vest in line with the performance conditions attached to them.

Awards under the LTIP made in 2020 and 2021 are subject to the Performance Conditions of those awards being:

Vesting of 50% of the Award will be determined by the Total Shareholder Return ("TSR") of the Company over the Performance Period beginning on 14 October 2020 and ending on 13 October 2023;

Vesting of the remaining 50% of the Award will be determined by the growth in the Portfolio Value ("PV") of the Company over the Performance Period beginning on 31 March 2020 and ending on 31 March 2023, using the Total Property Return ("TPR") as calculated by MSCI for the Group as compared with the TPR for the MSCI IPD Index (the "Comparator") over the same period.

Vesting of Shares awarded under the 2021 LTIP is subject to Total Shareholder Return ("TSR") and Total Property Return ("TPR") as calculated by MSCI measured over a three-year period. The TSR aspect of the award will be subject to a downward adjustment according to the Company's share price discount to Net Asset Value at the time of vesting.

Further details of the LTIP awards and performance criteria are contained in the 2021 and 2022 Annual Reports.

In line with the strategy announced in July 2022, no awards of LTIPs were made in FY23.

Annual remuneration report (continued)

Deferred bonus plan

The Palace Capital Deferred Bonus Plan provides that 35% of any bonuses awarded may be deferred for a year and options over shares to the value of the deferred bonus amount allocated plus dividends accruing at the discretion of the Remuneration Committee. The Executive Director will have a further year from the vesting date to exercise their options. The Deferred Bonus Plan awards do not have any performance criteria attached to them. In respect of the year ended 31 March 2023, 35% of the bonuses due to the Executive Director was deferred and the details of the outstanding awards are as follows:

	At 31 March 2023	Granted	Vested and exercised	Lapsed	As at 31 March 2022	Share price at date of award	Grant date	Vesting date
Matthew Simpson	**9,831**	9,831	-	–	**–**	£2.85	18/08/2022	18/08/2023

Total pension entitlements

The Company makes pension contributions into a defined contribution scheme on behalf of the Director. For the year ending 31 March 2023, in line with the Remuneration Policy, contributions were paid at a rate of 5% of basic salary.

Payments to past directors

Payments to past Directors in the year ended 31 March 2023 are as disclosed below for Mr Sinclair and Mr Starr. In relation to Mr Kim Taylor-Smith, Ms Paula Dillon and Mrs Mickola Wilson who stepped down in the year, payments those are disclosed in the table for payments made in the year.

Payments for loss of office

Mr Sinclair stepped down as Chief Executive on 14 June 2022. He received the following in line with his service agreement: he received a payment in lieu of his 12 month notice period, contractual benefits and holiday that would have accrued during the notice period together with a payment of accrued but outstanding holiday, together representing an aggregate amount of £374,758.

Mr Sinclair received an annual bonus for the year to 31 March 2022 of £151,500, fully settled in cash (without an award under the Deferred Bonus Plan). As compensation for loss of employment and office and in settlement of all potential claims arising out of his departure, he received a payment of £639,780. The Company also agreed to pay his reasonable legal fees in relation to his termination arrangements. Mr Sinclair has awards outstanding, subject to performance and malus and clawback provisions under the LTIP Rules of: 2021 LTIP - 23,645; and awards under the 2020 LTIP of 88,577 shares.

Mr Starr stepped down as Executive Property Director on 12 August 2022. He received the following in line with his contract: Mr Starr continued to be employed and received his normal salary and benefits until 30 September 2022. In accordance with his service agreement, Richard received a payment in lieu of his 12 month notice period, contractual benefits and holiday that would have accrued during the notice period together with a payment of accrued but outstanding holiday to the termination date, together representing an aggregate amount of £299,350, which was paid in two tranches with the first tranche paid shortly after 30 September 2022 and the second tranche paid in March 2023. In accordance with his service agreement, the Company made a payment in the aggregate amount of £11,900 in lieu of the Company pension contributions Richard would have received during the notice period into Richard's pension. Richard received a pro-rated annual bonus for the year to 31 March 2023 of £59,500, fully settled in cash (without an award under the Deferred Bonus Plan). As compensation for loss of employment and office and in settlement of all potential claims arising out of his departure, he received a payment of £80,000. The Company also agreed to pay his reasonable legal fees in relation to his termination arrangements. Mr Starr has awards outstanding, subject to performance and malus and clawback provisions under the LTIP Rules of: 2021 LTIP - 27,077 shares; and awards under the 2020 LTIP of 78,989 shares.

In line with the Remuneration Policy, shares awarded under a share plan may be subject to a holding period of two years after receipt and Directors are to engage with the Company regarding disposals of shares to maintain an orderly market.

Statement of directors' shareholding and share interests

Directors' interests in the shares of the Company, including family interests, were as follows. Directors are encouraged to acquire shares in the Company up to 100% of salary over time. Shares vesting under share plans may be required by the Remuneration Committee to be retained for this purpose.

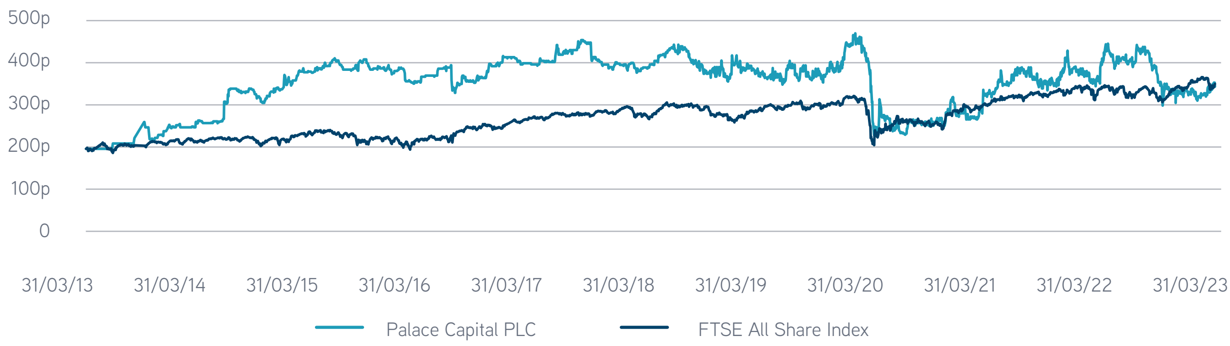
	Ordinary shares of 10p each 31 March 2023*	Ordinary shares of 10p each 31 March 2022	Outstanding Ordinary share options of 10p each 31 March 2023*	Outstanding Ordinary share options of 10p each 31 March 2022
Steven Owen	-	–	-	–
Matthew Simpson	**15,531**	7,060	**104,910**	112,954
Mark Davies	-	-	-	–
Neil Sinclair*	**306,425**	306,425	**112,222**	396,334
Richard Starr*	**232,831**	232,831	**106,066**	300,045
Kim Taylor-Smith*	**10,000**	10,000	-	-
Mickola Wilson*	**10,000**	10,000	-	-
Paula Dillon*	**10,000**	10,000	-	-

* As at date of stepping down.

As at 12 June 2023 there were no changes in Directors' shareholdings

Review of past performance

The following graph shows the Group's Total Shareholder Return (TSR) for the ten year period to 31 March 2023 as compared with the FTSE All Share Index. The Committee has chosen the FTSE All Share Index as the Company's shares are a constituent of this index. Total Shareholder Return measures share price growth with dividends deemed to be reinvested on the ex-dividend date.



GOVERNANCE

Annual remuneration report (continued)

Percentage changes in Chief Executive's remuneration

The percentage change in the previous Chief Executive's remuneration received from the previous year (2022) compared with the average change in remuneration for all other employees is as follows:

	Salary	Taxable benefit	Annual bonus
Chief Executive	(79)%	(79)%	-
Other employees (excl. Chief Executive and other directors)	16%	0%	79%

Historical Chief Executive's remuneration

Year to 31 March	Total remuneration £	Annual bonus (as a % of the maximum payout)	LTIP vesting (as a % of the maximum possible)
2023	68,447	-	-
2022	590,675	50	50.00
2021	424,996	35.2	–
2020	598,406	62	50.00
2019	479,432	40	32.75
2018	683,379	95	16.66
2017	412,975	63	–
2016	362,629	[2]	–
2015	262,007	[2]	–
2014[1]	125,467	[2]	–

1 Fourteen month period ended 31 March 2014

2 No policy for annual bonuses in place

Relative importance of spend on pay

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

	2023 £	2022 £	% change
Employee costs	**2,536,630**	2,895,000	(12)%
Dividends	**6,542,274**	5,426,862	21%
Share buybacks	**6,697,892**	-	-

Percentage change in Directors' Remuneration in the year

	Salary / fee	Benefits	Bonus
Neil Sinclair[3]	(79)%	(79)%	N/A
Richard Starr[3]	(48)%	(50)%	(48)%
Matthew Simpson[1]	49%	0%	1%
Steven Owen[2]	18%	N/A	N/A
Kim Taylor-Smith	(70)%	N/A	N/A
Mickola Wilson	(70)%	N/A	N/A
Paula Dillon	(70)%	N/A	N/A
Total Directors change (%)	(37)%	(52)%	(28)%
Average change for employees (%)	16%	0%	79%

Percentage change in Directors Remuneration in FY22

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

Percentage change in Directors Remuneration in FY21

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

1 Matthew Simpson was appointed CFO on 11 November 2021. The % increase in the table above compares the full FY23 salary v salary paid for part of the year in the prior year.

2 Steven Owen was appointed Chairman on 1 January 2022 and the comparison is against base fees.

3 Mr Sinclair and Mr Starr stepped down in the year. The % decrease compares the amount received in FY23 v full year salary received FY22.

Annual remuneration report (continued)

Service contracts and letters of appointment

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

Name	Date of appointment	Original contract date	Current contract date	Notice period	Termination arrangements
Matthew Simpson	11 November 2021	18 January 2016	11 November 2021	12 months	An immediate payment of 50% of salary followed by monthly payments after six months in the event that alternative employment has not been secured.

Chairman and Non-Executive Directors

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

Name	Date of letter for current appointment	Date term due to expire
Steven Owen	1 January 2022	31 December 2024
Mark Davies	1 August 2022	31 July 2025

Implementation of remuneration policy in 2023/24

In respect of the year ending 31 March 2024, the Committee intends to implement the Executive and Non-Executive Director remuneration policy, subject to the consultation on the Realisation Plan and Remuneration Policy which the Company is consulting on with major shareholders. Such plan would be subject to shareholder vote and details will be included in the Notice of AGM. It is proposed that Mr Owen undertake the role of Executive Chairman (currently Interim Executive Chairman) and that he then becomes an Executive Director, with a service agreement with the Company. Mr Owen is currently a Non-Executive Director under a Letter of Appointment. The Board will consider the terms of such appointment and this is subject to the proposed amendments to the Remuneration Policy an Realisation Plan to be put to shareholders at the 2023 AGM.

Salary

Executive Directors

The average salary increase across the workforce (excluding the Chief Financial Officer) from 1 April 2023 was 9%.

	Salary	Change
Matthew Simpson	£245,000	2.9%

Non-Executive Directors

Non-Executive Director fees for the year are as follows noting that Mr Owen has been paid an additional £10,000 per month from June 2022 to reflect his additional responsibilities and time commitment as Interim Executive Chairman. This will be reviewed for FY24 after the AGM being held in July 2023, when it is currently proposed that, subject to the Remuneration Policy proposals being approved by Shareholders, Mr Owen becomes Executive Chairman and will become an Executive Director. The Board determined to increase the fee for Mr Davies by £10,000 to reflect his additional time commitment

Name	Role	2024 fee	Change
Steven Owen	Interim Executive Chairman	£133,800	2.9%

Name	Role	2024 fee	Change
Mark Davies	Non-Executive Director • Chair of Audit and Risk Committee • Chair of Remuneration Committee • Senior Independent Director	£70,000	17%

Pension and benefits

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

Annual bonus

Under the existing Remuneration Policy, the 2024 bonus is capped at 100% of salary. This level is under review by the Committee and may reduce should shareholders approve the Realisation Plan. Performance metrics for a bonus are determined by the Remuneration Committee.

Long-term incentive plan

No awards will be made under the Long-Term Incentive Plan.

Statement of voting at annual general meeting

The table below sets out the results of the voting in respect of the Directors' Remuneration Report at the 2022 AGM. The Committee noted the significant number of votes against the Resolution and has engaged extensively with major shareholders subsequently regarding the strategy and more recently in relation to proposed changes to the Remuneration Policy and a possible Realisation Plan.

	Percentage of votes cast		Number of votes cast		
	For and discretion	Against	For and discretion	Against	Withheld[1]
Remuneration Report	62.52	37.48	20,680,734	12,400,313	162,034

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

Approval

This report was approved by the Board of Directors on 14 June 2023 and signed on its behalf by:

Mark Davies

Chair of Remuneration Committee

Directors' report and additional disclosures

The Directors present their report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 March 2023.

Statutory information contained elsewhere in the Annual Report

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

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

- Strategic report pages 1 to 37
- Financial Review pages 17 to 21
- Risk Management pages 24 to 29
- Going Concern & Viability page 24 and 25
- Section 172 Statement pages 30 to 32
- Remuneration Report pages 54 to 67
- Financial instruments page 103
- Related party transactions page 110

Results and dividends

The results for the year are set out in the financial statements. The Company paid interim dividends of 3.75p per Ordinary share in October 2022, December 2022 and April 2023. The Directors recommend the payment of a final dividend in respect of the year ended 31 March 2023 of 3.75p per Ordinary share to be paid on 4 August 2023 to the Shareholders on the register on 7 July 2023.

Share capital

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

Purchase of own shares by the company

At the Annual General Meeting of the Company, held on 29 July 2022, authority was granted to the Directors to purchase, in the market, the Company's own shares, up to the limit of 10% of the issued share capital. The authority was expressed to run until the conclusion of the next Annual General Meeting of the Company. 813,633 share purchases were made pursuant to this authority during the year ended 31 March 2023. Renewal of this authority will be proposed at the forthcoming Annual General Meeting.

Directors

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

Details of the Directors of the Company who served during the year ended 31 March 2023 and up to the date of the financial statements, are set out on page 41, and their interests in the Ordinary share capital of the Company and details of options granted under the Group's share schemes are set out in the Annual Remuneration Report on page 63. The interests of the Directors in the shares in the Company have not changed since the end of the financial year to 12 June 2023, the latest practicable date. No member of the Board had a material interest in any contract of significance with the Company, or any of its subsidiaries, at any time during the year.

In accordance with the UK Code, all Directors offer themselves for re-election at the AGM on 26 July 2023. The Directors' service contract terms are set out in the Annual Remuneration Report on page 66.

Political donations

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

Post balance sheet events

Details of post balance sheet events are provided in note 25 on page 110 of the financial statements.

Future developments

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

Going concern

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

Substantial shareholdings

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

As at 12 June 2023	Ordinary 10p shares No.	Shareholding
Peter Gyllenhammar AB	4,833,375	11.02%
Winton Capital Management Ltd	3,700,000	8.44%
JO Hambro Capital Management Ltd	3,528,860	8.1%
Premier Fund Managers Limited	2,851,506	6.5%
Harwood Capital LLP	2,802,000	6.39%
Mr Mark Harrison	2,344,153	5.34%
M&G Investment Management	1,900,830	4.33%
Hargreaves Lansdown Stockbrokers	1,706,760	3.92%
Davis S H Esq	1,665,287	3.8%
Charles Stanley & Co	1,630,985	3.74%

As at 31 March 2023	Ordinary 10p shares No.	Shareholding
Peter Gyllenhammar AB	4,833,375	11.02%
Winton Capital Management Limited	3,700,000	8.44%
JO Hambro Capital Management Ltd	3,599,549	8.21%
Premier Fund Managers Limited	2,851,506	6.5%
Harwood Capital LLP	2,802,000	6.39%
Mr Mark Harrison	2,344,153	5.34%
M&G Investment Management	1,900,830	4.33%
Hargreaves Lansdown Stockbrokers	1,726,870	3.94%
Davis S H Esq	1,665,287	3.8%
Charles Stanley & Co	1,660,510	3.79%

Directors' indemnities and Directors' and Officers' liability insurance

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

Financial risk management

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

Authorisation of conflicts of interest

Under the Articles of Association of the Company and in accordance with the provisions of the Companies Act 2006, a Director must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. However, the Directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only Directors who have no interest in the matter being considered will be able to make the relevant decision, and the Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Change of control

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

Greenhouse gas emissions

The Group's GHG emission report can be found on page 34.

Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant Audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. The Auditor, BDO LLP, has indicated their willingness to continue in office. The Board, on the advice of the Audit and Risk Committee, recommends their re-appointment at the Annual General Meeting.

2023 Annual General Meeting (AGM)

The 2023 AGM will be held on 26 July 2023 at 10.00 a.m. The resolutions are set out in the Notice of Meeting, together with explanatory notes. This report was approved by the Board and signed on its behalf.

Phil Higgins

Company Secretary

Palace Capital plc. Incorporated, registered and domiciled in England and Wales company number 5332938
Fora Victoria, 6-8 Greencoat Place, London SW1P 1PL

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with UK adopted international accounting standards ('IFRS-UK') and applicable law, and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

- confirm that the financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, IFRS-UK and applicable law, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with UK GAAP, subject to any material departure disclosed and explained in the parent company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business; and
- under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

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

Directors' responsibilities statement

The Directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and Company;
- the Strategic Report includes a fair review of the development and performance of the business and the financial position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's and Company's performance, business model and strategy.

On behalf of the Board

Phil Higgins

Company Secretary

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Palace Capital plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Independence
Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors on 1 April 2015 to audit the financial statements for the year ended 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is nine years, covering the years ended 31 March 2015 to 31 March 2023. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

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

- Obtaining Directors' going concern assessment and supporting projection model. We tested the integrity of the assessment by reviewing its arithmetic accuracy and testing the formulas within the projection model and held corroborative inquiries with Directors.
- Challenging the appropriateness of assumptions made within this model by comparing forecast results to our expectations based on our knowledge of the business, most recent performance and current economic factors.
- Considering the appropriateness of the sensitivities applied in the model through assessing the impact of 'stress tests' scenarios such as rent reductions as well as fall in investment property values. This included considering the impact of these to loan covenants or cash flow deficits and determining the likelihood of those scenarios occurring.
- Where bank loans mature in the 12 month period from the date of our audit report, we have discussed with Directors their plans to repay or refinance the debt and corroborated these to repayments or agreements that were reached subsequent to the year end to corroborate that the assumptions made by the Directors are appropriate.
- Reviewing the disclosures to check that they are in line with the detailed assessment undertaken by the Board, including that it is accurate and complete.
- Enquiring of Directors and those charged with governance as to any future events or conditions that may affect the Group's ability to continue as a going concern.

Independent Auditor's report
to the members of Palace Capital plc (continued)

- Validated the cash inflows from the disposals of a number of investment properties which took place during the year and post year end by agreeing to the supporting sales agreement, completion report and bank statement.
- We assessed the intercompany debtors in the parent company's balance sheet for recoverability by reviewing the financial position of each subsidiary. We also assessed the parent company's ability to pay the intercompany creditors by reviewing its liquidity as at the year end.

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

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

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

Overview

Coverage	100% (2022: 100%) of Group revenue		
	100% (2022: 100%) of Group investment property		
	100% (2022: 100%) of Group trading properties		
	99.9% (2022: 99.9%) of Group total assets		
	99.9% (2022: 99.9%) of Group profit before tax		
Key audit matters		2023	2022
	KAM 1	Revenue recognition- accuracy and existence of rental income and residential sales	Revenue recognition- accuracy and existence of rental income and residential sales
	KAM 2	Valuation of investment and trading properties	Valuation of investment and trading properties
	KAM 3	-*	Going concern and loan covenants
Materiality	**Group financial statements as a whole**		
	£2.01m (2022: £2.89m), which was set at 1% (2022: 1%) of Group total assets.		

* Going concern and loan covenants was not considered to be a key audit matter due to the change in the Group's strategy which resulted in significant cash inflows from the disposal of investment properties.

An overview of the scope of our audit

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

The Group operates in one segment, investment property, structured through a number of subsidiary entities and therefore we treated the Group as one significant component. The Group audit engagement team performed all the work necessary to issue the Group and Parent Company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified in the key audit matters section below.

Climate change

Our work on the assessment of potential impacts on climate-related risks on the Group's operations and financial statements included:

- Enquiries and challenge of Directors to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the annual report;
- Our own qualitative risk assessment taking into consideration the sector in which the Group operates and how climate change affects this particular sector; and
- Review of the minutes of Board and the Audit and Risk Committee meeting and other papers related to climate change and performed a risk assessment as to how the impact of the Group's commitment as set out in the Strategic Report may affect the financial statements and our audit.

We challenged the extent to which climate-related considerations, including the expected cash flows from the initiatives and commitments have been reflected, where appropriate, in the Directors' going concern assessment and viability assessment.

We also assessed the consistency of Directors' disclosures included as Statutory Other Information with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks and related commitments.

Key audit matters

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

Independent Auditor's report
to the members of Palace Capital plc (continued)

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition – accuracy and existence of rental income and residential sales Refer to accounting policy on revenue on page 84. Refer to note 1 in relation to Revenue.	The Group has several property managers and multiple tenants across its properties. Rental income is recognised on a straight line basis over the lease term for the Group's properties based upon rental agreements that are in place. Directors judgement is required to determine the term over which lease incentives should be recognised. There is a risk that the revenue recognised as rental income is not supported by underlying tenancy agreements or is inappropriately recognised. We consider this to be a Key Audit Matter ('KAM') based on factors including the fact that there are approximately 250 leases and a large number of lease incentives. There is also a presumed fraud risk as manipulating lease terms will impacts on the revenue recorded. This exists for existing and new leases. A risk also exists that the disposals of Hudson Quarter units are not correctly accounted for and not recorded within the correct period.	We obtained the tenancy schedule and Directors' analysis of revenue recognised for each tenant and the reconciliation of this analysis to the financial statements and performed the following: • We checked the integrity of the formulae used to calculate the expected revenue based on the tenancy schedule; • We analysed the current year tenancy schedule compared to prior year to highlight changes in the year to check that no income has been omitted from being recognised in the financial statements; • We analysed the amount of rental income recognised in the financial statements in respect of each tenant and compared this to our expectations for the year based on the prior year tenancy schedule to determine the accuracy. This highlighted changes to existing tenant agreements and also any new agreements entered into during the current year. The changes, including those relating to new tenant agreements, were investigated and agreed to the underlying lease documentation and rent review memoranda; • We inspected any tenancies with break clauses for the past 6 months and checked whether any tenants have exercised this clause. We corroborated this to supporting documentations such as correspondence from the tenant confirming whether they are going to exercise the break or not; • We obtained Directors' schedule of lease incentive adjustments, including rent free periods and, for a sample, we recalculated the adjustment and agreed the inputs to the underlying lease documentation. We considered the completeness of the schedule based on information included in the tenancy schedule and the underlying lease information obtained; • We traced a sample of lease receipts for a period for each tenant selected to Directors agent statements and bank statements to test the existence and accuracy of the revenue recognised; • We obtained a breakdown of other revenue recognised in the year including service charge and car park income. For a sample of these transactions we agreed the revenue recognised to supporting documentation to confirm its existence and accuracy; and • With regards to service charge income, we have verified the split of revenue and cost of sales in the current year by tracing a sample of revenue back to supporting documentation to confirm existence and accuracy of amounts recognised as revenue. We performed the following audit procedures with regards to the revenue from trading properties: • For each sale, we agreed the revenue recognised to completion statements and cash receipts; • We considered the accounting for these sales and checked whether sales were recorded accurately and within the correct accounting period; • We reviewed the accounting policy for open market residential sales and confirmed that the policy is in accordance with UK adopted international accounting standards; and • We agree that the gross profit recognised on the open market sales is consistent with the allocation of the inventory value being held in respect of each unit. **Key observations:** Based on the audit procedures performed, we did not identify any matters to suggest that the accuracy and existence of revenue from rental income and sale of trading properties was inappropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of investment and trading properties Refer to accounting policies on investment properties and trading properties on page 87. Refer to note 9 in relation to the property portfolio and note 10 as regards the trading properties.	The Group has opted to carry its investment properties at fair value rather than cost while the trading properties (the Hudson Quarter residential units) which are classified as inventory, are carried at the lower of cost and net realisable value. The valuation of each property requires consideration of the individual nature of the asset, its location, cash flows and comparable market transactions. Determination of the fair value of investment properties, and the assessment of whether trading properties are impaired, is considered a significant audit risk due to the subjective nature of assumptions inherent in each valuation. Thus, fraud risk could arise given the level of subjectivity. The Group engages independent external experts, CBRE to value these properties at each reporting period. The valuation uses a cash flow methodology with key inputs including detailed data on the underlying assets and the market environment for each asset. The valuation models applied are complex and require consideration of the existing market conditions including yields and estimates regarding current and future rental income, occupancy and property costs. There is a risk that the observable inputs to the valuation are not complete or accurate. Furthermore, these inputs could be subject to manipulation by Directors giving rise to fraud risk. For these reasons, the valuation of investment and trading properties was considered to be a key audit matter.	We obtained the valuation report prepared by Directors' independent external valuer and discussed the basis of the valuations with them, confirming that the approach was consistent with the requirements of accounting standards. We had a discussion with the external valuer to understand the assumptions and methodologies used in valuing these properties. We have also corroborated these assumptions to market evidence. We also checked how rent concessions impacted the valuation assumptions. We challenged the valuation assumptions, methodologies and the unobservable inputs used by establishing our own range of expectations for the changes in valuation of investment property based on externally available metrics, comparable organisations and wider economic and commercial factors. We considered whether the overall movement in the investment property valuation indicates potential Directors bias to either overstate or understate the valuation. We also compared the values of properties from prior year. We obtained an explanation from CBRE to understand the reason behind material movements and corroborated their explanation to supporting documentations. We assessed the competency, independence and objectivity of the valuer which included making enquiries regarding interests and relationships that may create a threat to the valuer's objectivity. We obtained a copy of the instructions provided to the valuer and reviewed for any limitations in scope or for evidence of Directors bias. We considered whether the sales during the year and those that have been agreed or are being negotiated after the year end support or contradict the valuations being reported for those properties. We also checked the ownership of each properties to the title deeds and checked for any new charges against these properties. We checked whether the trading property is measured at the lower of cost and net realisable value by agreeing net realisable value to prices achieved for current unit sales as the development has been concluded. **Review of key inputs to the valuation schedule** We agreed the key observable valuation inputs used by the external valuer back to source documentation, which includes title deeds and lease agreements that are tested as part of our revenue audit procedures. We agreed the capital expenditure to Directors forecasts and enquired as to whether there are any further capital plans for assets. We compared the purchaser costs to generally accepted market percentages. We compared the Estimated Rental Value ('ERV') on void units with similar other units as well as assumptions as regards the time to occupancy with the valuer and compared the ERV to the income as per the tenancy schedule. **Key observations:** The results of our audit procedures indicated that the estimates and assumptions used in the property valuations were appropriate and therefore, the investment and trading properties are appropriately valued.

Independent Auditor's report
to the members of Palace Capital plc (continued)

Our application of materiality

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

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

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

	Group financial statements		**Parent company financial statements**	
	Group financial statements		Parent company financial statements	
	2023 £m	2022 £m	2023 £m	2022 £m
Materiality	2.01	2.89	1.34	1.66
Basis for determining materiality	Materiality for the Group and Parent Company's financial statement was set at 1% (2022: 1%) of total assets.			
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for the users of the financial statements in assessing the financial performance of the Group and the Parent Company.			
Performance materiality	1.51	2.16	1.01	1.05
Basis for determining performance materiality	On the basis of our risk assessment, together with our assessment of the Group and Parent Company's overall control environment, our judgement was that overall performance materiality for the Group and Parent Company should be 75% (2022: 75%) of materiality, which reflects our assessment of the risk associated with the audit due to the limited number of audit adjustments identified in previous audits.			

Specific materiality
We also determined that for particular classes of transactions, balances or disclosures, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. In this context, we applied a specific materiality of £280,000 (2022: £590,000) to those items which may affect profit before tax, including revenue, cost of sales, administrative expenses, finance cost and finance income, and taxation. The specific materiality represents 5% (2022: 5%) of profit before tax before revaluation of investments and gains on investment property sales (EPRA earnings) (2022: adjusted EPRA earnings). We further applied a performance materiality level of 75% (2022: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit and Risk Committee that we would report to them all individual audit differences in excess of £100,000 (2022: £55,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Corporate governance statement

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

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

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 24 to 25; and • The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 25.
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 52; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 24; • The section of the annual report that describes the review of effectiveness of risk Directors and internal control systems set out on page 24; and • The section describing the work of the Audit and Risk Committee set out on pages 51 to 53.

Independent Auditor's report
to the members of Palace Capital plc (continued)

Other Companies Act 2006 reporting

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations
We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We performed our own checks of compliance with relevant requirements including, but not limited to, the applicable accounting framework, the Companies Act 2006, the UK Listing Rules, the REIT tax regime requirements and legislation relevant to the rental of properties. We considered compliance by the Group by obtaining their papers on compliance, in addition to performing our own review.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation where relevant, review of Board and Committee meeting minutes, and enquiries with Directors , the Directors, and the Audit and Risk Committee as to their identification of any non-compliance with laws and regulations and fraud.

Fraud
We considered the potential for material misstatement in the financial statements, including those arising from fraud, and believed the areas in which fraud could occur were, Directors override of controls, revenue recognition, accounting for lease incentives and inputs on the investment property valuation.

We addressed the risk of Directors override of controls by testing a sample of journals processed during and subsequent to the year by tracing these back to supporting documentation and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Procedures to address the fraud risk on revenue recognition, accounting for lease incentives and inputs on the investment property valuation are discussed within the KAM section above.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Charles Ellis

Senior Statutory Auditor

For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom

14 June 2023

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 2023

	Note	2023 £'000	2022 £'000
Revenue	1	**32,973**	49,064
Cost of sales	3b	**(17,147)**	(30,408)
Movement in expected credit loss	13	**327**	360
Net property income		**16,153**	19,016
Dividend income from listed equity investments		**–**	64
Administrative expenses	3c	**(6,094)**	(4,623)
Operating profit before gains and losses on property assets and listed equity investments		**10,059**	14,457
Profit on disposal of investment properties		**819**	4,946
(Loss)/gain on revaluation of investment property portfolio	9	**(42,900)**	8,222
Loss on disposal of listed equity investments		**–**	(80)
Operating (loss)/profit		**(32,022)**	27,545
Finance income		**26**	–
Finance expense	2	**(3,970)**	(3,196)
Debt termination costs		**(15)**	(63)
Changes in fair value of interest rate derivatives		**210**	329
(Loss)/profit before taxation		**(35,771)**	24,615
Taxation	5	**67**	(67)
(Loss)/profit after taxation for the year and total comprehensive (loss)/income attributable to owners of the Parent		**(35,704)**	24,548
Earnings per ordinary share			
Basic	6	**(80.2p)**	53.1p
Diluted	6	**(80.2p)**	53.0p

All activities derive from continuing operations of the Group. The notes form an integral part of these financial statements.

Consolidated Statement of Financial Position
as at 31 March 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Investment properties	9	**176,504**	232,717
Right of use asset	12	**132**	17
Property, plant and equipment	12	**23**	45
		176,659	232,779
Current assets			
Trading property	10	**11,055**	20,287
Trade and other receivables	13	**8,550**	7,412
Cash and cash equivalents	14	**5,509**	28,143
		25,114	55,842
Total assets		**201,773**	288,621
Current liabilities			
Trade and other payables	15	**(8,339)**	(8,912)
Borrowings	17	**(8,545)**	(32,749)
Lease liabilities for right of use asset	20	**(132)**	–
Derivative financial instruments	16	**–**	(47)
Creditors: amounts falling due within one year		**(17,016)**	(41,708)
Net current assets		**8,098**	14,134
Non-current liabilities			
Borrowings	17	**(55,129)**	(68,488)
Deferred tax liability	5	**(76)**	(143)
Lease liabilities for investment properties	20	**(1,077)**	(1,078)
Net assets		**128,475**	177,204
Equity			
Called up share capital	21	**4,639**	4,639
Treasury shares		**(7,343)**	(717)
Merger reserve		**3,503**	3,503
Capital redemption reserve		**340**	340
Capital reduction reserve		**118,477**	125,019
Retained earnings		**8,859**	44,420
Equity – attributable to the owners of the Parent		**128,475**	177,204
Basic NAV per ordinary share	7	**294p**	383p
Diluted NAV per ordinary share	7	**294p**	383p

These financial statements were approved by the Board of Directors and authorised for issue on 14 June 2023 and are signed on its behalf by:

Matthew Simpson

Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 31 March 2023

	Note	Share Capital £'000	Treasury Share Reserve £'000	Other Reserves £'000	Capital Reduction Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2021		4,639	(1,288)	3,843	125,019	25,618	157,831
Total comprehensive income for the year		–	–	–	–	24,548	24,548
Share-based payments	22	–	–	–	–	162	162
Exercise of share options		–	571	–	–	(571)	–
Issue of deferred bonus share options		–	–	–	–	90	90
Dividends paid	8	–	–	–	–	(5,427)	(5,427)
At 31 March 2022		4,639	(717)	3,843	125,019	44,420	177,204
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**(35,704)**	**(35,704)**
Share-based payments	22	**–**	**–**	**–**	**–**	**177**	**177**
Exercise of share options		**–**	**71**	**–**	**–**	**(71)**	**–**
Issue of deferred bonus share options		**–**	**–**	**–**	**–**	**37**	**37**
Dividends paid	8	**–**	**–**	**–**	**(6,542)**	**–**	**(6,542)**
Share buyback		**–**	**(6,697)**	**–**	**–**	**–**	**(6,697)**
At 31 March 2023		**4,639**	**(7,343)**	**3,843**	**118,477**	**8,859**	**128,475**

The share capital represents the nominal value of the issued share capital of Palace Capital plc.

Treasury shares represents the consideration paid for shares bought back from the open market.

Other reserves comprise the merger reserve and the capital redemption reserve.

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006.

The capital redemption reserve represents the nominal value of cancelled preference share capital redeemed.

The capital reduction reserve represents distributable profits generated as a result of the share premium reduction.

Consolidated Statement of Cash Flows
as at 31 March 2023

	Note	2023 £'000	2022 £'000
Operating activities			
(Loss)/profit before taxation		**(35,771)**	24,615
Finance income		**(26)**	–
Finance expense	2	**3,970**	3,196
Changes in fair value of interest rate derivatives		**(210)**	(329)
Loss/(gain) on revaluation of investment property portfolio	9	**42,900**	(8,222)
Profit on disposal of investment properties		**(819)**	(4,946)
Loss on disposal of listed equity investments		**–**	80
Debt termination costs		**15**	63
Depreciation of tangible fixed assets	12	**30**	48
Amortisation of right of use asset	12	**82**	148
Share-based payments	22	**177**	162
(Increase)/decrease in receivables		**(1,140)**	2,289
Decrease in payables		**(415)**	(2,929)
Decrease in trading property		**9,233**	21,972
Net cash generated from operations		**18,026**	36,147
Interest received		**26**	–
Interest and other finance charges paid		**(3,427)**	(3,417)
Corporation tax paid in respect of operating activities		**(171)**	(48)
Net cash flows from operating activities		**14,454**	32,682
Investing activities			
Purchase of investment properties		**–**	(9,870)
Capital expenditure on refurbishment of investment property		**(1,371)**	(6,519)
Proceeds from disposal of investment property		**15,410**	31,221
Disposal of non-current asset – equity investment		**–**	3,169
Dividends from listed equity investments		**–**	64
Purchase of property, plant and equipment	12	**(8)**	(22)
Net cash flow generated from investing activities		**14,031**	18,043
Financing activities			
Bank loans repaid	19	**(37,419)**	(38,033)
Proceeds from new bank loans	19	**–**	11,472
Loan issue costs paid	19	**(461)**	(11)
Dividends paid	8	**(6,542)**	(5,427)
Share buyback		**(6,697)**	–
Net cash flow used in financing activities		**(51,119)**	(31,999)
Net (decrease)/increase in cash and cash equivalents		**(22,634)**	18,726
Cash and cash equivalents at beginning of the year		**28,143**	9,417
Cash and cash equivalents at the end of the year	14	**5,509**	28,143

Notes to the Consolidated Financial Statements

Basis of accounting

The consolidated financial statements of the Group comprise the results of Palace Capital plc ("the Company") and its subsidiary undertakings.

The Company is quoted on the Main Market of the London Stock Exchange and is domiciled and registered in England and Wales and incorporated under the Companies Act. The address of its registered office is Fora Victoria, 6-8 Greencoat Place, London, SW1P 1PL.

Basis of preparation

The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards, (the 'applicable framework'), and have been prepared in accordance with the provisions of the Companies Act 2006 (the 'applicable legal requirements'). The Group financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and financial assets held at fair value.

Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern which included the current economic headwinds created by rising inflation and rising interest rates, coupled with the Group's cash resources, borrowing facilities, rental income, disposals of investment properties, committed capital and other expenditure and dividend distributions.

The Group's business activities, together with the factors likely to affect its future performance and position, are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

As at 31 March 2023 the Group had £5.5m of unrestricted cash and cash equivalents, a conservative loan to value of 31% and a property portfolio with a fair value of £192.4m. The Directors have reviewed the forecasts for the Group taking into account the impact of rising inflation and rising interest on trading over the 12 months from the date of signing this annual report. The forecasts have been assessed against a possible downside scenario incorporating lower levels of income and increased interest rates. See Going Concern and Viability Statement on pages 24 to 25 for further details.

The Directors have a reasonable expectation that the Group have adequate resources to continue in operation for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

New standards adopted during the year

New standards effective for the year ended 31 March 2023 did not have a material impact on the financial statements and were not adopted.

New standards issued but not yet effective
There are no other standards that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on the foreseeable future transactions.

Significant accounting policies

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Palace Capital plc and its subsidiaries as at the year-end date.

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls an entity when the following three elements are present: power to direct the activities of the entity; exposure to variable returns from the entity; and the ability of the Company to use its power to affect those variable returns. Where necessary, adjustments have been made to the financial statements of subsidiaries and associates to bring the accounting policies used and accounting periods into line with those of the Group. Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control until the date that control ceases.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

If the consideration is less than the fair value of the assets and liabilities acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Where an acquired subsidiary does not meet the definition of a business, it is accounted for as an asset acquisition rather than a business combination. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Revenue
Revenue is primarily derived from property income and represents the value of accrued charges under operating leases for rental of the Group's investment properties. Revenue is measured at the fair value of the consideration received. All income is derived in the United Kingdom.

Rental income from investment properties leased out under operating leases is recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Contingent rent reviews are recognised when such reviews have been agreed with tenants. Lease incentives, rent concessions and guaranteed rent review amounts are recognised as an integral part of the net consideration for use of the property and amortised on a straight-line basis over the term of lease. Judgement is exercised when determining the term over which the lease incentives should be recognised.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Group Statement of Comprehensive Income when the right to receive them arises. Surrender premium income are payments received from tenants to surrender their lease obligations and are recognised immediately in the Group's Consolidated Statement of Comprehensive Income.

Insurance commissions are recognised as performance obligations are fulfilled in terms of the individual performance obligations within the contract with the insurance provider. Revenue is determined by the transaction price in the contract and is measured at the fair value of the consideration received. Revenue is recognised once the underlying contract between insured and insurer has been signed.

Revenue from the sale of trading properties is recognised when control of the trading property, along with the significant risks and rewards, have transferred from the Group, which is usually on completion of contracts and transfer of property title.

Service charge income relates to expenditure that is directly recoverable from tenants. Service charge income is recognised as revenue in the period to which it relates as required by IFRS 15 Revenue from Contracts with Customers. Dividend income comprises dividends from the Group's listed equity investments and is recognised when the Shareholder's right to receive payment is established. Revenue is measured at the fair value of the consideration received. All income is derived in the United Kingdom.

The disposal of investment properties is recognised when significant risks and rewards attached to the property have transferred from the Group. This will ordinarily occur on completion of contract, with such transactions being recognised when this condition is satisfied. The profit or loss on disposal of investment property is recognised separately in the Consolidated Statement of Comprehensive Income and is the difference between the net sales proceeds and the opening fair value asset plus any capital expenditure during the period to disposal.

Deferred income
Where invoices to customers have been raised which relate to a period after the Group year end, being 31 March 2023, the Group will recognise deferred income for the difference between revenue recognised and amounts billed for that contract.

Cost of sales
Cost of sales includes direct expenditure relating to the construction of the trading properties, capitalised interest, and selling costs incurred as a result of residential sales. Selling costs includes agent and legal fees. Cost of sales is expensed to the income statement and is recognised on completion of each residential unit. The cost for each unit is calculated using the ratio of the unit selling price, over the total forecasted sales proceeds of all residential units. This ratio is then applied to the total forecasted development cost to get the cost of sale per unit.

Service charges and other such receipts arising from expenses recharged to tenants are as stated in note 3b. Notwithstanding that the funds are held on behalf of the occupiers, the ultimate risk for paying and recovering these costs rests with the Group.

Notes to the Consolidated Financial Statements
continued

Borrowing costs
Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

Borrowing costs directly attributable to development properties are capitalised and not recognised in profit or loss in the Consolidated Statement of Comprehensive Income. The capitalisation of borrowing costs is suspended if there are prolonged periods when development activity is interrupted and cease at the completion of the development. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Interest associated with trading properties is capitalised from the start of the development work until the date of practical completion. The rate used is the rate on specific associated borrowings. Interest is then expensed through the income statement post completion of the development.

When the Group refinances a loan facility, the Group considers whether the new terms are substantially different from a quantitative and a qualitative perspective. From a quantitative perspective, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Modifications that would be considered substantial from a qualitative perspective are those that result in a significant value transfer and/or a new underwriting/pricing assessment of the financial instrument.

If it is deemed to be a substantial modification of terms, this is accounted for as an extinguishment, and any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Where the modification is not considered to be substantial, the loan continues to be measured at amortised cost using the original effective interest rate. Where the modification is substantial, the new effective interest rate is used.

Financial assets
The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives (see "Financial liabilities" section for out-of-the-money derivatives classified as liabilities). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income in the finance income or expense line.

Amortised cost

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

Listed equity investments
Listed equity investments are classified at fair value through profit and loss. Listed equity investments are subsequently measured using Level 1 inputs, the quoted market price, and all fair value gains or losses in respect of those assets are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

Fair value hierarchy

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives (see "Financial assets" for in-the-money derivatives where the time value offsets the negative intrinsic value). They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

Amortised cost

Trade payables and accruals are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Other financial liabilities

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payment while the liability is outstanding.

Contributions to pension schemes

The Company operates a defined contribution pension scheme. The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

Investment properties

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

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

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

The Group recognises investment property as an asset when it is probable that the economic benefits that are associated with the investment property will flow to the Group and it can measure the cost of the investment reliably. This is usually the date of completion of acquisition or completion of construction if the development is a mixed-use scheme.

Investment properties cease to be recognised on completion of the disposal or when the property is withdrawn permanently from use and no future economic benefit is expected from disposal.

The Group evaluates all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property. Any costs deemed as repairs and maintenance or any costs associated with the day-to-day running of the property are recognised in the Consolidated Statement of Comprehensive Income as they are incurred.

Investment properties under construction are initially recognised at cost (including any associated costs), which reflects the Group's investment in the assets. The Group undertakes certain works including demolition, remediation and other site preparatory works to bring a site to the condition ready for construction of an asset. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment properties under construction is estimated as the fair value of the completed asset less any costs still payable in order to complete, and an appropriate developer's margin. Consideration is also give to recent market transactions and offers received for properties.

Trading properties

Trading property is developed for sale or held for sale after development is complete, and is carried at the lower of cost and net realisable value. Trading properties are derecognised on completion of sales contracts. Costs include direct expenditure and capitalised interest. Cost of sales, including costs associated with off-plan residential sales, are expensed to the Consolidated Statement of Comprehensive Income as incurred.

Notes to the Consolidated Financial Statements
continued

Right of use asset
Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease.

The rate of amortisation for right of use assets is over the period of the lease.

Lease liabilities
Lease obligations include lease obligations relating to investment properties and lease obligations relating to right of use assets.

Lease obligations relating to investment properties are capitalised at the lease's commencement and are measured at the present value of the remaining lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the Consolidated Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Investment properties classified as held under lease liabilities are subsequently carried at their fair value.

Lease obligations relating to right of use assets are measured at the present value of the contractual payments due to the lessor over the lease term, discounted at the Group's incremental borrowing rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonable certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option, being exercised.

Property, plant and equipment and depreciation
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Fixtures, fittings and equipment 25% – 33% straight-line

Current taxation
Current tax assets and liabilities for the period not under UK REIT regulations are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This was enacted by the Finance Bill 2021 on 10 June 2021.

Dividends to equity holders of the parent
Interim ordinary dividends are recognised when paid and final ordinary dividends are recognised as a liability in the period in which they are approved by the Shareholders.

Share-based payments
The fair value of the share options are determined at the grant date and are expensed on a straight-line basis over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that ultimately the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair values of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Commitments and contingencies
Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. A contingent asset is recognised when the realisation of the income is virtually certain.

Equity
The share capital represents the nominal value of the issued share capital of Palace Capital plc.

Treasury share reserve represents the consideration paid for shares bought back from the open market.

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006.

The capital redemption reserve represents the nominal value of cancelled preference share capital redeemed.

The capital reduction reserve represents distributable profits generated as a result of the share premium reduction.

Critical accounting judgements and key sources of estimation and uncertainty
The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Estimates

Property Valuation

The key source of estimation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Consolidated Statement of Financial Position. The investment property portfolio is carried at fair value, which requires a number of estimates in assessing the Group's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in the accounting policies and note 9.

Trading properties are held at the lower of cost and net realisable value. Net realisable value is the value of an asset that can be realised upon the sale of the asset, less a reasonable estimate of the costs associated with the eventual sale or disposal of the asset.

The Group has valued the investment properties at fair value. To the extent that any future valuation affects the fair value of the investment properties and assets held for sale, this will impact on the Group's results in the period in which this determination is made.

Expected credit loss model

The Group applies the IFRS 9 simplified approach to the expected credit loss model, using 12 months of historic rental payment information for tenants, and adjusting risk profile rates based on forward-looking information. We remain cautious as rising inflation and interest rates continue to create economic uncertainty.

During the year, the Group collected 99% of all rents, and collected a large amount of historic arrears where payment plans were agreed with tenants. This has resulted in the ECL provisions calculated at 31 March 2023 being lower than in previous periods (refer to note 13).

In arriving at our estimates, we have considered the tenants at higher risk, particularly in the leisure and retail sectors, those in administration or CVA, and those tenants who have been impacted financially who are not necessarily in high-risk sectors.

Notes to the Consolidated Financial Statements
continued

Estimates and Judgements

Share-based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life, and is expensed over the vesting period. Some of the inputs used are not market observable and are based on estimates derived from available data. The models utilised are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options (see note 22 on page 108 for further details). The variables used to measure the fair value of share-based payments could have a significant impact on that valuation, and the determination of these variables requires a significant amount of professional judgement. A minor change in a variable which requires professional judgement, such as volatility or expected life of an instrument, could have a quantitatively material impact on the fair value of the share-based payments granted, and therefore will also result in the recognition of a higher or lower expense in the Consolidated Statement of Comprehensive Income.

Judgement is also exercised in assessing the number of options subject to non-market vesting conditions that will vest.

1. Rental and other income

The chief operating decision maker ("CODM") takes the form of the Executive Directors (the Group's Executive Committee). The Group's Executive Committee are of the opinion that the principal activity of the Group is to invest in commercial real estate in the UK.

Operating segments are identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the CODM.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. Additionally, information is provided to the Group's Executive Committee showing gross property income and property valuation by individual property. Therefore, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Directors have considered the requirements of IFRS 8 as to aggregation of operating segments into reporting segments. All of the Group's revenue is generated from investment and trading properties located outside of London. The properties are managed as a single portfolio by an asset management team whose responsibilities are not segregated by location or type but are managed on an asset-by-asset basis.

The route to market is determined by reference to the current economic circumstances that fluctuate through the life cycle of the portfolio. The Group holds a diversified portfolio across different sectors including office, industrial, retail, leisure, retail warehouse and residential. The Group does from time to time engage in development projects. The Directors view the Group's development activities as an integral part of the life cycle of each of its assets rather than a separate business or division.

The Directors therefore consider that the individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment under the provision of IFRS 8.

All of the Group's properties are based in the UK. No geographical grouping is contained in any of the internal financial reports provided to the Group's Executive Committee and, therefore, no geographical segmental analysis is required.

Revenue – type	2023 £'000	2022 £'000
Gross rental income	**17,425**	16,670
Dilapidations and other property related income	**401**	732
Insurance commission	**68**	92
Gross property income	**17,894**	17,494
Service charge income	**4,974**	4,155
Trading property income	**10,105**	27,415
Total revenue	**32,973**	49,064

No single tenant accounts for more than 10% of the Group's total rents received from investment properties. Similarly, there was no individual or corporate that accounts for more than 10% of the trading property income.

2. Interest payable and similar charges

	2023 £'000	2022 £'000
Interest on bank loans	**3,643**	2,748
Amortisation of loan arrangement fees	**317**	305
Other finance charges	**10**	143
	3,970	3,196

3. Profit for the year

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

	2023 £'000	2022 £'000
Depreciation of tangible fixed assets and amortisation of right of use assets:	**112**	196
Auditor's remuneration:		
Fees payable to the Auditor for the audit of the Group's annual accounts	**195**	165
Fees payable to the Auditor for the audit of the subsidiaries' annual accounts	**36**	29
Additional fees payable to the Auditor in respect of the 2022 audit	**15**	–
Fees payable to the Auditor and its related entities for other services:		
Audit related assurance services in respect of the interim results	**11**	11
	257	205

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

	2023 £'000	2022 £'000
Void, investment and development property costs	**2,076**	2,310
Legal, lettings and consultancy costs	**502**	328
Property operating expenses	**2,578**	2,638
Service charge expenses	**4,974**	4,155
Trading property cost of sales	**9,595**	23,615
	17,147	30,408

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

	2023 £'000	2022 £'000
Recurring staff costs	**2,560**	2,895
Payments to former Directors (including associated costs)	**1,835**	–
Other overheads	**624**	595
Accounting and audit fees	**318**	269
Stock Exchange costs	**207**	235
Share-based payments	**177**	162
PR and marketing costs	**108**	150
Legal and professional fees (excluding costs associated with payments to former Directors)	**82**	62
Amortisation of right of use asset	**82**	148
ESG Costs	**71**	59
Depreciation of tangible fixed assets	**30**	48
	6,094	4,623

Details and nature of payments to former Directors can be found on page 62 of the Remuneration Report.

Other overheads consist of rents, rates, service charge, consultancy, recruitment and other office costs.

Notes to the Consolidated Financial Statements
continued

3. Profit for the year continued

d) EPRA cost ratios are calculated as follows:

	2023 £'000	2022 £'000
Gross property income	**17,894**	17,494
Administrative expenses	**6,094**	4,623
Property operating expenses	**2,578**	2,638
Movement in expected credit loss	**(327)**	(360)
EPRA costs (including property operating expenses)	**8,345**	6,901
EPRA cost ratio (including property operating expenses)	**46.6%**	39.4%
Less property operating expenses	**(2,578)**	(2,638)
EPRA costs (excluding property operating expenses)	**5,767**	4,263
EPRA cost ratio (excluding property operating expenses)	**32.2%**	24.4%
Total expense ratio	**3.0%**	1.6%

4. Employees and directors' remuneration

Staff costs during the period were as follows:

	2023 £'000	2022 £'000
Non-Executive Directors' fees	**300**	195
Wages and salaries	**1,828**	2,357
Pensions	**147**	116
Social security costs	**262**	227
Payments to former Directors (incl. NI and pension contributions)	**1,677**	–
	4,214	2,895
Share-based payments	**177**	162
	4,391	3,057

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

	2023 Number	2022 Number
Directors	**3**	7
Senior management and other employees	**8**	9
	11	16

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

	2023 £'000	2022 £'000
Emoluments for qualifying services	**711**	1,423
Social security costs	**117**	185
Pension	**35**	25
Payments to former Directors (incl. NI and pension contributions)	**1,677**	–
	2,540	1,633
Share-based payments	**32**	116
	2,572	1,749

One Director accrues benefits under the Group's defined benefit pension scheme.

5. Taxation

	2023 £'000	2022 £'000
Current income tax charge	–	152
Deferred tax	(67)	(85)
Tax (credit)/charge	(67)	67

	2023 £'000	2022 £'000
(Loss)/profit on ordinary activities before tax	(35,771)	24,615
Based on (loss)/profit for the period: Theoretical Tax at 19% (2022: 19%)	(6,797)	4,677
Effect of:		
Net expenses not deductible for tax purposes	41	51
Deferred tax released to profit and loss on Hudson Quarter residential sales	(67)	(85)
Residual losses not recognised for deferred tax	–	(345)
Gain on appropriation for Hudson Quarter	–	119
REIT exempt income	(1,775)	(1,985)
Non-taxable items	8,531	(2,365)
Tax (credit)/charge for the period	(67)	67

Non taxable items include fair value movements of the property portfolio, profit on disposals, share based payments and other expenditure not subject to tax.

As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax, as are any gains it makes from the disposal of its properties, provided they are not held for trading. The Group is otherwise subject to UK corporation tax at the prevailing rate.

Deferred taxes relate to the following:

	2023 £'000	2022 £'000
Deferred tax liability – brought forward	(143)	(228)
Tax rate increase from 19% to 25%	–	(34)
Overprovided in prior year	(21)	–
Deferred tax release on sale of trading property	88	119
Deferred tax liability – carried forward	(76)	(143)

	2023 £'000	2022 £'000
Investment property unrealised valuation gains	(76)	(143)
Deferred tax liability – carried forward	(76)	(143)

The deferred tax liability of £76,000 (2022: £143,000) relates to investment properties transferred into trading stock, prior to the Group becoming a REIT. As at 31 March 2022 the Group had approximately £5,915,000 (2022: £5,915,000) of realised capital losses to carry forward. There has been no deferred tax asset recognised as the Directors do not consider it probable that future taxable profits will be available to utilise these losses.

Finance Act 2021 sets the main rate of UK corporation tax at 19%, with an increase in the main rate to 25% with effect from 1 April 2023. The deferred tax liability relates to trading properties and has been calculated on the basis of 25%.

Notes to the Consolidated Financial Statements
continued

6. Earnings per share

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

	2023 £'000	2022 £'000
(Loss)/profit after tax attributable to ordinary Shareholders for the year	**(35,704)**	24,548

	2023 No. of shares	2022 No. of shares
Weighted average number of shares for basic earnings per share	**44,525,518**	46,257,514
Dilutive effect of share options	**–**	36,766
Weighted average number of shares for diluted earnings per share	**44,525,518**	46,294,280
Earnings per ordinary share		
Basic	**(80.2p)**	53.1p
Diluted	**(80.2p)**	53.0p

Key Performance Measures
The Group financial statements are prepared under IFRS which incorporates non-realised fair value measures and non-recurring items. Alternative Performance Measures ("APMs"), being financial measures which are not specified under IFRS, are also used by management to assess the Group's performance. These include a number of European Public Real Estate Association ("EPRA") measures, prepared in accordance with the EPRA Best Practice Recommendations reporting framework the latest update of which was issued in November 2019. The Group reports a number of these measures (detailed in the glossary of terms) because the Directors consider them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

EPRA EPS and EPRA Diluted EPS
EPRA Earnings is a measure of operational performance and represents the net income generated from the operational activities. It is intended to provide an indicator of the underlying income performance generated from the leasing and management of the property portfolio. EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains and losses on disposals, changes in fair value of financial instruments and one-off finance termination costs. EPRA earnings is calculated on the basis of the basic number of shares in line with IFRS earnings as the dividends to which they give rise accrue to current Shareholders.

Adjusted profit before tax and Adjusted EPS
The Group also reports an adjusted earnings measure which is based on recurring earnings before tax and the basic number of shares. This is the basis on which the Directors consider dividend cover. This takes EPRA earnings as the starting point and then adds back tax and any other fair value movements or one-off items that were included in EPRA earnings. This includes share-based payments being a non-cash expense, as well as payments to former Directors, which is a one-off exceptional item. The corporation tax charge (excluding deferred tax movements, being a non-cash expense) is deducted in order to calculate the adjusted earnings per share, if the charge is in relation to recurring earnings.

6. Earnings per share continued

The EPRA and adjusted earnings per share for the period are calculated based upon the following information:

	2023 £'000	2022 £'000
(Loss)/profit after tax for the year	(35,704)	24,548
Adjustments:		
Loss/(gain) on revaluation of investment property portfolio	42,900	(8,222)
Profit on disposal of investment properties	(819)	(4,946)
Trading profit	(510)	(3,800)
Loss on disposal of listed equity investments	–	80
Debt termination costs	15	63
Fair value gain on derivatives	(210)	(329)
EPRA earnings for the year	5,672	7,394
Payments to former Directors (including associated costs)	1,835	–
Share-based payments	177	162
Hudson Quarter development loan interest	–	189
Adjusted profit after tax for the year	7,684	7,745
Tax excluding deferred tax on EPRA adjustments and capital gain charged	(67)	67
Adjusted profit before tax for the year	7,617	7,812
EPRA and adjusted earnings per ordinary share		
EPRA Basic	12.7p	16.0p
EPRA Diluted	12.7p	16.0p
Adjusted EPS	17.1p	16.9p

7. Net asset value per share

The Group has adopted the EPRA NAV measures which came into effect for accounting periods starting 1 January 2020. EPRA issued best practice recommendations (BPR) for financial guidelines on its definitions of NAV measures. The NAV measures as outlined in the BPR are EPRA net tangible assets (NTA), EPRA net reinvestment value (NRV) and EPRA net disposal value (NDV).

The Group considered EPRA Net Tangible Assets (NTA) to be the most relevant NAV measure for the Group and we are now reporting this as our primary NAV measure, replacing our previously reported EPRA NAV and EPRA NNNAV per share metrics. EPRA NTA excludes the intangible assets and the cumulative fair value adjustments for debt-related derivatives which are unlikely to be realised.

As at 31 March 2023

	EPRA NTA £'000	EPRA NRV £'000	ERPA NDV £'000
Net assets attributable to Shareholders	128,475	128,475	128,475
Include:			
Fair value adjustment of trading properties	730	730	730
Real estate transfer tax	–	11,922	–
Fair value of fixed interest rate debt	–	–	863
Exclude:			
Deferred tax on latent capital gains and capital allowances	76	76	–
EPRA NAV	129,281	141,203	130,068
Number of ordinary shares issued for diluted and EPRA net assets per share	43,728,212	43,728,212	43,728,212
EPRA NAV per share	296p	323p	297p

The adjustments made to get to the EPRA NAV measures above are as follows:

- Fair value adjustment of trading properties: Difference between development property held on the balance sheet at cost and fair value of that development property.
- Real estate transfer tax: Gross value of property portfolio as provided in the Valuation Certificate (i.e. the value prior to any deduction of purchasers' costs).

7. Net asset value per share continued

- Fair value of fixed interest rate debt: Difference between any financial liability and asset held on the balance sheet of the Group and the fair value of that financial liability or asset.
- Fair value of derivatives: Exclude fair value financial instruments that are used for hedging purposes where the company has the intention of keeping the hedge position until the end of the contractual duration.
- Deferred tax on latent capital gains and capital allowances: Exclude the deferred tax as per IFRS balance sheet in respect of the difference between the fair value and the tax book value of investment property, development property held for investment, intangible assets, or other non-current investments as this would only become payable if the assets were sold.

As at 31 March 2022

	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000
Net assets attributable to Shareholders	177,204	177,204	177,204
Include:			
Fair value adjustment of trading properties	3,188	3,188	3,188
Real estate transfer tax	–	17,049	–
Fair value of fixed interest rate debt	–	–	413
Exclude:			
Fair value of derivatives value	47	47	–
Deferred tax on latent capital gains and capital allowances	143	143	–
EPRA NAV	180,582	197,631	180,805
Number of ordinary shares issued for diluted and EPRA net assets per share	46,325,236	46,325,236	46,325,236
EPRA NAV per share	390p	427p	390p

	2023 No of shares	2022 No of shares
Number of ordinary shares issued at the end of the year (excluding treasury shares)	**43,718,381**	46,288,470
Dilutive effect of share options	**9,831**	36,766
Number of ordinary shares issued for diluted and EPRA net assets per share	**43,728,212**	46,325,236
Net assets per ordinary share		
Basic	**294p**	383p
Diluted	**294p**	383p
EPRA NTA	**296p**	390p

8. Dividends

	Payment date	Dividend per share	**2023 £'000**	2022 £'000
2023				
Interim dividend	13 January 2023	3.75	**1,651**	–
Interim dividend	14 October 2022	3.75	**1,651**	–
		7.50	**3,302**	–
2022				
Final dividend	05 August 2022	3.75	**1,736**	–
Interim dividend	14 April 2022	3.25	**1,504**	–
Interim dividend	31 December 2021	3.25	**–**	1,504
Interim dividend	15 October 2021	3.00	**–**	1,389
		13.25	**3,240**	2,893
2021				
Final dividend	05 August 2021	3.00	**–**	1,382
Interim dividend	09 April 2021	2.50	**–**	1,152
		5.50	**–**	2,534
Dividends reported in the Group Statement of Changes in Equity			**6,542**	5,427

8. Dividends continued

Proposed Dividends

	2023 £'000	2022 £'000
August 2023 final dividend in respect of year end 31 March 2023: 3.75p (2022 final dividend: 3.75p)	**1,621**	1,736
April 2023 interim dividend in respect of year end 31 March 2023: 3.25p (2022 interim dividend: 3.25p)	**1,645**	1,504
	3,266	3,240

Proposed final dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 March 2023.

9. Property portfolio

	Freehold investment properties £'000	Leasehold investment properties £'000	Total investment properties £'000
At 1 April 2021	219,141	16,713	235,854
Additions – refurbishments	2,351	2,543	4,894
Additions - new properties	10,022	–	10,022
Gain on revaluation of investment properties	6,886	1,336	8,222
Disposals	(22,290)	(3,985)	(26,275)
At 31 March 2022	216,110	16,607	232,717
Additions – refurbishments	**1,026**	**156**	**1,182**
Loss on revaluation of investment properties	**(38,663)**	**(4,237)**	**(42,900)**
Disposals	**(14,495)**	**–**	**(14,495)**
At 31 March 2023	**163,978**	**12,526**	**176,504**

	Standing investment properties £'000	Investment properties under construction £'000	Total investment properties £'000	Trading properties £'000	Total property portfolio £'000
At 1 April 2021	223,904	11,950	235,854	42,719	278,573
Additions – refurbishments	4,894	–	4,894	–	4,894
Additions - new properties	10,022	–	10,022	–	10,022
Additions – trading property	–	–	–	1,182	1,182
Transfer from investment property under construction	11,950	(11,950)	–	–	–
Gain on revaluation of properties	8,222	–	8,222	–	8,222
Disposals	(26,275)	–	(26,275)	(23,614)	(49,889)
At 31 March 2022	232,717	–	232,717	20,287	253,004
Additions – refurbishments	**1,182**	**–**	**1,182**	**–**	**1,182**
Additions – trading property	**–**	**–**	**–**	**363**	**363**
Loss on revaluation of properties	**(42,900)**	**–**	**(42,900)**	**–**	**(42,900)**
Disposals	**(14,495)**	**–**	**(14,495)**	**(9,595)**	**(24,090)**
At 31 March 2023	**176,504**	**–**	**176,504**	**11,055**	**187,559**

The property portfolio has been independently valued at fair value. The valuations have been prepared in accordance with the RICS Valuation – Global Standards July 2017 ("the Red Book") and incorporate the recommendations of the International Valuation Standards and the RICS valuation – Professional Standards UK January 2014 (Revised April 2015) which are consistent with the principles set out in IFRS 13. At 31 March 2023, the Group's freehold and leasehold investment properties were externally valued by CBRE for the first time, a Royal Institution of Chartered Surveyors ("RICS") registered independent valuer.

The valuer in forming its opinion makes a series of assumptions, which are typically market related, such as net initial yields and expected rental values, and are based on the valuer's professional judgement. The valuer has sufficient current local and national knowledge of the particular property markets involved and has the skills and understanding to undertake the valuations competently.

In addition to the loss on revaluation of investment properties included in the table above, realised gains of £819,000 (2022: £4,946,000) relating to investment properties disposed of during the year were recognised in profit or loss.

Notes to the Consolidated Financial Statements
continued

9. Property portfolio continued

The Group has developed a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of commercial units which the Group holds for leasing. During the development the commercial element of the scheme was classified as investment properties under construction. As a result of achieving practical completion in April 2021, the commercial element of the scheme is now classified as investment properties.

For investment properties under construction and trading properties, no borrowing costs have been capitalised in the year (2022: £51,674).

A reconciliation of the valuations carried out by the independent valuers to the carrying values shown in the Statement of Financial Position was as follows:

	2023 £'000	2022 £'000
CBRE (property portfolio) (Cushman & Wakefield LLP 2022)	**192,355**	259,040
Adjustment in respect of minimum payment under head leases	**1,077**	1,078
Less trading properties at lower of cost and net realisable value	**(11,055)**	(20,287)
Less lease incentive balance included in accrued income	**(5,143)**	(3,926)
Less fair value uplift on trading properties	**(730)**	(3,188)
Carrying value of investment properties	**176,504**	232,717

The valuations of all investment property held by the Group is classified as Level 3 in the IFRS 13 fair value hierarchy as they are based on unobservable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

Valuation process – investment properties
The valuation reports produced by the independent valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment.

In addition, the valuation reports are based on assumptions and valuation models used by the independent valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observations. Each property is considered a separate asset, based on its unique nature, characteristics and the risks of the property.

The Head of Investment, responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the independent valuers.

When this process is complete, the valuation report is recommended to the Audit & Risk Committee, which considers it as part of its overall responsibilities.

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

- The amount and timing of future income streams;
- Anticipated maintenance costs and other landlord's liabilities;
- An appropriate yield; and
- For investment properties under construction: gross development value, estimated cost to complete and an appropriate developer's margin.

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

9. Property portfolio continued

31 March 2023	Office	Industrial	Significant unobservable inputs Leisure	Other	Total
Fair value of property portfolio	95,615,000	35,855,000	29,290,000	31,595,000	192,355,000
Area (sq ft)	622,905	339,470	304,319	84,851	1,351,545
Gross Estimated Rental Value	11,050,952	2,820,749	3,324,009	1,556,403	18,752,113
Net Initial Yield					
Minimum	0.3%	3.7%	10.5%	5.3%	0.3%
Maximum	24.4%	8.1%	12.3%	9.9%	24.4%
Weighted average	6.6%	6.3%	11.5%	7.2%	7.4%
Reversionary Yield					
Minimum	6.9%	6.6%	8.7%	5.3%	5.3%
Maximum	26.2%	8.4%	12.0%	10.0%	26.2%
Weighted average	10.8%	7.4%	10.5%	7.2%	9.6%
Equivalent Yield					
Minimum	6.8%	6.3%	10.0%	6.0%	6.0%
Maximum	9.9%	7.1%	10.6%	9.8%	10.6%
Weighted average	9.4%	6.6%	10.3%	7.4%	9.0%

The "other" sector includes Residential, Retail and Retail Warehousing sectors.

31 March 2022	Office	Industrial	Significant unobservable inputs Leisure	Other	Total
Fair value of property portfolio	£122,125,000	£43,345,000	£36,990,000	£56,580,000	£259,040,000
Area (sq ft)	633,591	345,586	303,993	169,762	1,452,932
Gross Estimated Rental Value	£10,952,762	£2,608,500	£3,270,645	£2,586,276	£19,418,183
Net Initial Yield					
Minimum	(5.1%)	3.5%	7.8%	3.5%	(5.1%)
Maximum	9.6%	5.6%	9.2%	11.1%	11.1%
Weighted average	4.7%	4.5%	8.4%	7.2%	5.6%
Reversionary Yield					
Minimum	4.5%	4.6%	7.3%	3.4%	3.4%
Maximum	11.3%	6.3%	9.1%	10.4%	11.3%
Weighted average	8.0%	5.5%	8.2%	7.2%	7.5%
Equivalent Yield					
Minimum	4.5%	4.5%	8.4%	3.4%	3.4%
Maximum	8.8%	5.9%	9.8%	9.9%	9.9%
Weighted average	7.6%	5.4%	9.6%	7.2%	7.4%

Negative net initial yields arise where properties are vacant or partially vacant and void costs exceed rental income.

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining fair values:

Market comparable method
Under the market comparable method (or market comparable approach), a property's fair value is estimated based on comparable transactions in the market.

Unobservable input: estimated rental value
The rent at which space could be let in the market conditions prevailing at the date of valuation (range: £81,443–£1,971,755 per annum).

Rental values are dependent on a number of variables in relation to the Group's property. These include: size, location, tenant, covenant strength and terms of the lease.

Notes to the Consolidated Financial Statements
continued

9. Property portfolio continued

Unobservable input: net initial yield
The net initial yield is defined as the initial gross income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase.

Sensitivities of measurement of significant unobservable inputs
As set out within significant accounting estimates and judgements above, the Group's property Portfolio Valuation is open to judgements inherently subjective by nature.

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross Estimated Rental Value	Increase	Decrease
Net Initial Yield	Decrease	Increase
Reversionary Yield	Decrease	Increase
Equivalent Yield	Decrease	Increase

	-5% in passing rent (£m)	+5% in passing rent (£m)	+0.25% in net initial yield (£m)	-0.25% in net initial yield (£m)
(Decrease)/increase in the fair value of investment properties as at 31 March 2023	**(9.63)**	**9.63**	**(6.14)**	**6.92**
(Decrease)/increase in the fair value of investment properties as at 31 March 2022	(10.76)	10.76	(9.74)	12.36

Valuation technique: properties under construction
Development assets are valued using the gross development value of the asset less any costs still payable in order to complete, and an appropriate developer's margin.

10. Trading property

	Total £'000
At 1 April 2021	42,719
Costs capitalised	1,182
Disposal of trading properties	(23,614)
At 1 April 2022	20,287
Additions	**363**
Disposal of trading properties	**(9,595)**
At 31 March 2023	**11,055**

The Group developed a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of residential units which the Group is in the process of selling. As a result, the residential element of the scheme is classified as trading property.

11. Listed equity investments

	Total £'000
At 1 April 2021	3,249
Disposal of equity investment	(3,249)
At 31 March 2022 and 31 March 2023	**–**

12. Property, plant and equipment

	IT, fixtures and fittings £'000	Right of use asset £'000
At 1 April 2021	274	461
Additions	22	–
At 1 April 2022	296	461
Additions	**8**	**197**
At 31 March 2023	**304**	**658**
Depreciation		
At 1 April 2021	203	296
Provided during the year	48	148
At 1 April 2022	251	444
Provided during the year	**30**	**82**
At 31 March 2023	**281**	**526**
Net book value at 31 March 2023	**23**	**132**
Net book value at 31 March 2022	45	17

13. Trade and other receivables

	2023 £'000	2022 £'000
Current		
Gross amounts receivable from tenants	**2,550**	2,624
Less: expected credit loss provision	**(653)**	(980)
Net amount receivable from tenants	**1,897**	1,644
Other taxes	**97**	156
Other debtors	**993**	1,022
Accrued income	**5,143**	3,926
Prepayments	**420**	664
	8,550	7,412

Accrued income amounting to £5,143,000 (2021: £3,926,000) relates to rents recognised in advance of receipt as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts over the expected terms of their respective leases.

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

As at 31 March 2023 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 90 days past due £'000	Total £'000
Expected loss rate	2%	3%	4%	92%	
Gross carrying amount	1,810	39	32	669	**2,550**
Loss provision	33	1	1	618	**653**

Changes to credit risk management

Impairment calculations have been carried out on trade receivables using the IFRS 9 simplified approach, using 12 months of historic rental payment information, and adjusting risk profiles based on forward-looking information. In addition, the Group has reviewed its register of tenants at higher risk, particularly in the leisure and retail sectors, those in administration or CVA and the top 50 tenants by size with the remaining tenants considered on a sector by sector basis.

Notes to the Consolidated Financial Statements
continued

13. Trade and other receivables continued

Concentration of credit risk
The credit risk in respect of trade receivables is not concentrated as the Group operates in many different sectors and locations around the UK, and has a wide range of tenants from a broad spectrum of business sectors. The Group predominantly operates in the office and industrial sectors. 69% of the ECL provision relates to tenants in the leisure sector.

How forward looking information was incorporated
In calculating the ECL provision, the Group used forward looking information when assessing the risk profiles of each tenant, most notably around the assessment over the likelihood of tenants having the ability to pay rent as demanded, as well as the likelihood of rent deferrals and rent frees being offered to tenants.

Key sources of estimation uncertainty
The Group's risk profile rates form a key part when calculating the ECL provision. Default rates were applied to each tenant based on the ageing of the outstanding receivable. Tenants were classified as either low (default range of 0.5% - 8%), medium (default range of 20% - 50%), high (default range of 65% - 80%), or extremely high risk (set default range of 100%), with default rates applied to each risk profile. These rates have been calculated by using historic and forward-looking information and is inherently subjective.

A sensitivity analysis performed to determine the impact on the Group Statement of Comprehensive Income from a 10% increase in each of the risk profile rates would result in a decrease in profit by £207,769.

The Group does not hold any material collateral as security.

As at 31 March 2022 the lifetime expected credit loss provision for trade receivables and contract assets is as follows:

	Current £'000	More than 30 days past due £'000	More than 60 days past due £'000	More than 90 days past due £'000	Total £'000
Expected loss rate	7%	82%	0%	90%	
Gross carrying amount	1,668	12	–	944	**2,624**
Loss provision	124	10	–	846	**980**

Movement in the expected credit loss provision was as follows:

	2023 £'000	2022 £'000
Brought forward	**980**	1,340
Receivables written off during the year as uncollectable	**(50)**	(158)
Provisions released	**(305)**	(276)
Provisions increased	**28**	74
	653	980

14. Cash and cash equivalents

All of the Group's cash and cash equivalents at 31 March 2023 and 31 March 2022 are in sterling and held at floating interest rates.

	2023 £'000	2022 £'000
Cash and cash equivalents	**5,509**	28,143

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

15. Trade and other payables

	2023 £'000	2022 £'000
Trade payables	**508**	604
Other taxes	**646**	1,167
Other payables	**1,484**	1,136
Deferred rental income	**3,359**	3,368
Accruals	**2,342**	2,637
	8,339	8,912

The deferred rental income in the year ended 31 March 2022 of £3,368,000 was recognised as income in the year to 31 March 2023.

The Directors consider that the carrying amount of trade and other payables measured at amortised cost approximates to their fair value.

16. Derivatives

The Group adopts a policy of entering into derivative financial instruments with banks to provide an economic hedge to its interest rate risks and ensure its exposure to interest rate fluctuations is mitigated.

The contract rate is the fixed rate the Group is paying for its interest rate swaps.

The valuations of all derivatives held by the Group are classified as Level 2 in the IFRS 13 fair value hierarchy as they are based on observable inputs. There have been no transfers between levels of the fair value hierarchy during the year.

At 31 March 2023, the Group has no derivative financial instruments as they matured within the financial year.

Further details on interest rate risks are included in note 26.

Bank	Notional principal	Expiry date	Contract rate %	Valuation rate %	2023 Fair value £'000	2022 Fair value £'000
Barclays Bank plc	–	–	1.3420	–	**–**	3
Santander plc	–	–	1.3730	–	**–**	(50)
	–				**–**	(47)

17. Borrowings

	2023 £'000	2022 £'000
Current liabilities		
Bank loans	**8,563**	32,813
Unamortised lending costs	**(18)**	(64)
	8,545	32,749
Non-current liabilities		
Bank loans	**55,770**	68,940
Unamortised lending costs	**(641)**	(452)
	55,129	68,488
Total borrowings		
Bank loans	**64,333**	101,753
Unamortised lending costs	**(659)**	(516)
	63,674	101,237

Notes to the Consolidated Financial Statements
continued

17. Borrowings continued

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

	2023 £'000	2022 £'000
Within one year	8,563	32,813
From one to two years	37,027	1,218
From two to five years	18,743	67,722
	64,333	101,753

Facility and arrangement fees
As at 31 March 2023

Secured Borrowings	All in cost	Maturity date	Total Facility £'000	Unused loan facilities £'000	Facility drawn £'000	Unamortised facility fees £'000	Loan Balance £'000
Santander Bank plc	6.38%	May 2027	11,750	–	11,750	(337)	11,413
Lloyds Bank plc	6.13%	March 2024	6,845	–	6,845	(18)	6,827
National Westminster Bank plc	6.28%	August 2024	37,724	(20,000)	17,724	(171)	17,553
Barclays	6.13%	June 2024	19,385	–	19,385	(62)	19,323
Scottish Widows	2.90%	July 2026	8,629	–	8,629	(71)	8,558
			84,333	(20,000)	64,333	(659)	63,674

As at 31 March 2022

Secured Borrowings	All in cost	Maturity date	Total Facility £'000	Unused loan facilities £'000	Facility drawn £'000	Unamortised facility fees £'000	Loan Balance £'000
Santander Bank plc	3.71%	August 2022	24,750	–	24,750	(29)	24,721
Lloyds Bank plc	2.64%	March 2023	6,845	–	6,845	(35)	6,810
National Westminster Bank plc	2.79%	August 2024	40,000	(7,957)	32,043	(230)	31,813
Barclays	3.41%	June 2024	29,168	–	29,168	(128)	29,040
Scottish Widows	2.90%	July 2026	8,947	–	8,947	(94)	8,853
			109,710	(7,957)	101,753	(516)	101,237

Investment properties with a carrying value of £162,420,000 (2022: £218,780,000) are subject to a first charge to secure the Group's bank loans amounting to £64,333,000 (2022: £101,753,000). Trading properties with a carrying value of £11,055,000 (2022: £20,286,000) are no longer subject to a first charge to secure the Group's bank loans following the repayment of the Barclays loan in November 2021.

The Group has unused loan facilities amounting to £20,000,000 (2022: £7,957,000). A facility fee is charged on this balance at a rate of 1.05% p.a. and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited, Palace Capital (Properties) Limited and Palace Capital (Leeds) Limited as part of the NatWest loan.

The Group constantly monitors its approach to managing interest rate risk. The Group has fixed £8,629,000 (2022: £61,386,000) of its debt in order to provide surety of its interest cost and to mitigate interest rate risk.

The Group has a loan with Scottish Widows for £8,629,000 (2022: £8,947,000) which is fully fixed at a rate of 2.9%.

The Group has a loan with Barclays Bank plc for £19,385,000 (2022: £29,168,000), of which £Nil (2022: £33,848,000) is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at a margin of 1.95% plus SONIA.

The Group has a loan with Santander plc for £11,750,000 (2022: £24,750,000), of which £Nil (2022: £18,592,000) is fixed using an interest rate swap (see note 16). The floating rate portion of the loan is charged at a margin of 2.2% plus SONIA.

The Group has a loan with Lloyds Bank plc for £6,845,000 (2022: £6,845,000) which is fully charged at a floating rate margin of 1.95% plus SONIA.

The Group has a loan with National Westminster Bank plc for £17,724,000 (2022: £32,043,000) which is fully charged at a floating rate margin of 2.1% plus SONIA.

17. Borrowings continued

The fair value of borrowings held at amortised cost at 31 March 2023 was £64,537,000 (2022: £101,650,000). The difference in the fair value and carrying value of borrowings reflects the valuation of the fixed rate debt being higher than its carrying value. This is a level 2 fair value valuation of the fixed rate debt and was determined by an independent third party. The valuation is based on a net present value of the difference between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry date.

The Group's bank loans are subject to various covenants including Loan to Value, Interest Cover, Debt Service Cover and debt Yield requirements. During the year, the Group met all of its covenants.

18. Gearing and loan to value ratio

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

	2023 £'000	2022 £'000
EPRA net asset value (note 7)	**129,281**	180,582
Borrowings (net of unamortised issue costs)	**63,674**	101,237
Lease liabilities for investment properties	**1,077**	1,078
Cash and cash equivalents	**(5,509)**	(28,143)
Net gearing	**59,242**	74,172
NAV gearing	**46%**	41%

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

	2023 £'000	2022 £'000
Fair value of investment properties	**180,570**	235,565
Fair value of trading properties	**11,785**	23,475
Fair value of property portfolio	**192,355**	259,040
Borrowings	**64,333**	101,753
Cash at bank	**(5,509)**	(28,143)
Net debt	**58,824**	73,610
Loan to value ratio	**31%**	28%

19. Reconciliation of liabilities to cash flows from financing activities

	Bank borrowings £'000
Balance at 1 April 2021	127,285
Cash flows from financing activities:	
Bank borrowings drawn	11,472
Bank borrowings repaid	(38,033)
Loan arrangement fees paid	(11)
Non-cash movements:	
Amortisation of loan arrangement fees	305
Capitalised loan arrangement fees	219
Balance at 1 April 2022	101,237
Cash flows from financing activities:	
Bank borrowings repaid	**(37,419)**
Loan arrangement fees paid	**(461)**
Non-cash movements:	
Amortisation of loan arrangement fees	**317**
Balance at 31 March 2023	**63,674**

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Notes to the Consolidated Financial Statements
continued

20. Leases

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

	2023 £'000	2022 £'000
Within one year	15,524	15,765
From one to two years	13,277	15,109
From two to three years	13,046	13,000
From three to four years	12,030	12,357
From four to five years	8,742	10,787
From five to 25 years	42,755	49,821
	105,374	116,839

Lease liabilities are classified as follows:

	2023 £'000	2022 £'000
Lease liabilities for investment properties	1,077	1,078
Lease liabilities for right of use asset	132	–
	1,209	1,078

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

	Lease payments £'000	Interest £'000	2023 Present value of lease payments £'000	2022 Present value of lease payments £'000
Within one year	54	(54)	–	–
From one to two years	54	(54)	–	–
From two to five years	162	(161)	1	–
From five to 25 years	595	(591)	4	8
After 25 years	5,244	(4,172)	1,072	1,070
	6,109	(5,032)	1,077	1,078

Lease obligations in respect of rents payable on right of use assets were payable as follows:

	Lease payments £'000	Interest £'000	2023 Present value of lease payments £'000	2022 Present value of lease payments £'000
Within one year	134	(2)	132	–

The net carrying amount of the leasehold properties is shown in note 9.

The Group has over 160 leases granted to its tenants. These vary depending on the individual tenant and the respective property and demise and vary considerably from short-term leases of less than one year to longer-term leases of over 10 years.

A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs.

21. Share capital

Authorised, issued and fully paid share capital is as follows:	2023 £'000	2022 £'000
46,388,515 ordinary shares of 10p each (2022: 46,388,515)	**4,639**	4,639
	4,639	4,639

Reconciliation of movement in ordinary share capital	2023 £'000	2022 £'000
At start of year	**4,639**	4,639
Issued in the year	**–**	–
At end of year	**4,639**	4,639

Movement in ordinary authorised share capital	Price per share pence	Number of ordinary shares issued	Total number of shares
As at 31 March 2021, 31 March 2022 and 31 March 2023	**–**	–	**46,388,515**

Movement in treasury shares		Number of ordinary shares issued	Total number of shares
As at 31 March 2022			99,587
Shares transferred to EBT	31 May 2022	**(40,000)**	
Share buyback	11 July 2022	**2,300,000**	
Share buyback	20 March 2023	**171,000**	
Share buyback	29 March 2023	**137,633**	
As at 31 March 2023			**2,668,220**
Total number of shares excluding the number held in treasury at 31 March 2023			**43,720,295**

Year ended 31 March 2023

On 31 May 2022, 40,000 shares were transferred into the employee benefit trust.

On 11 July 2022, 2,300,000 shares were purchased by the Group from the open market and transferred into treasury reserves.

On 20 March 2023, 171,000 shares were purchased by the Group from the open market and transferred into treasury reserves.

On 29 March 2023, 137,633 shares were purchased by the Group from the open market and transferred into treasury reserves.

Prior year figures included shares and transfers in the employee benefit trust.

Shares held in Employee Benefit Trust

Authorised, issued and fully paid share capital is as follows:	2023 No. of options	2022 No. of options
Brought forward	**458**	19,238
Transferred under scheme of arrangement	**40,000**	200,000
Shares exercised under deferred bonus share scheme	**(38,544)**	(90,049)
Shares exercised under employee LTIP scheme	**–**	(134,814)
Shares purchased by EBT	**–**	6,083
At end of year	**1,914**	458

Notes to the Consolidated Financial Statements continued

21. Share capital continued

Share options:

Reconciliation of movement in outstanding share options	2023 No. of options	2022 No. of options
At start of year	**1,078,826**	1,193,984
Issued in the year	**–**	402,717
Exercised in the year	**–**	(134,814)
Lapsed in the year	**(544,727)**	(329,778)
Prior period accrued dividends on vested options	**32,491**	–
Deferred bonus share options issued	**9,831**	36,766
Deferred bonus share options exercised	**(38,544)**	(90,049)
At end of year	**537,877**	1,078,826

As at 31 March 2023, the Company had the following outstanding unexpired options:

	2023		2022	
Description of unexpired share options	No. of options	Weighted average option price	No. of options	Weighted average option price
Employee benefit plan	**528,046**	**0p**	1,042,060	0p
Deferred bonus share scheme issued	**9,831**	**0p**	36,766	0p
Total (note 22)	**537,877**	**0p**	1,078,826	0p
Exercisable	**–**	**0p**	–	0p
Not exercisable	**537,877**	**0p**	1,078,826	0p

The weighted average remaining contractual life of share options at 31 March 2023 is 1.0 years (2022: 1.7 years).

22. Share-based payments

Employee benefit plan

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

	Number of options	Exercise price	Average share price at date of exercise	Grant date	Vesting date
Outstanding at 31 March 2021	1,193,984	0p			
Exercised during the year (LTIP 2018)	(134,814)	0p	254p	13 July 2018	13 July 2021
Issued during the year (LTIP 2021)	402,717	0p	247p	16 November 2021	16 November 2024
Deferred bonus share options issued	36,766	0p	253p	15 June 2021	15 June 2022
Deferred bonus share options exercised	(90,049)	0p	254p	14 July 2020	14 July 2021
Lapsed during year (LTIP 2018)	(114,405)	0p			
Lapsed during year (LTIP 2019)	(70,826)	0p			
Lapsed during year (LTIP 2020)	(144,547)	0p			
Outstanding at 31 March 2022	1,078,826	0p			
Deferred bonus share options issued	9,831	0p	285p	18 August 2022	18 August 2023
Deferred bonus options exercised	(38,544)	0p	263p	15 June 2021	15 June 2022
Prior period accrued dividends on vested options	32,491	0p			
Lapsed during year (LTIP 2019)	(241,147)	0p			
Lapsed during year (LTIP 2020)	(124,123)	0p			
Lapsed during year (LTIP 2021)	(179,457)	0p			
Outstanding at 31 March 2023	537,877	0p			

22. Share-based payments continued

LTIP 2020

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. The options are subject to a two-year holding period following vesting. Half the options will be awarded based on the first target and half based on the achievement of the second.

Total property return growth is based on the increase in the total property return of the Company compared with an increase in the MSCI IPD UK Quarterly Index (PV growth) as at 31 March 2020. This target will measure the annualised growth in total property return over the three-year period ending 31 March 2023 (PV performance period), and comparing this with the annualised total property return growth of the MSCI IPD UK Quarterly Index.

Total Shareholder return (TSR) measures the total Shareholder return (price rise plus dividends) over the period from 14 October 2020 to 13 October 2023. The base price is £1.88 per share which was the market price at the grant date.

Annualised TSR over the TSR performance period	Vesting %	PV growth over the PV performance period	Vesting %
<5%	0	<0.5%	0
Equal to 5%	20	Equal to 0.5%	20
Between 5% and 9%	20–100	Between 0.5% and 2.5%	20–100
Equal to 9%	100	Equal to 2.5%	100

LTIP 2021

The options are awarded to employees on achievements against targets on two separate measures over the three-year period. For directors, the options are subject to a two-year holding period following vesting. Half the options will be awarded based on the first target and half based on the achievement of the second.

Total property return growth is calculated as Total Property Return of the Company over the Performance Period beginning on 31 March 2021 and ending on 31 March 2024, using the Total Property Return ("TPR") as calculated by MSCI for the Group as compared with the TPR for the MSCI IPD Index (the "Comparator") over the same period. The TPR for the Group and the Comparator will be its percentage increase over the three-year Performance Period.

Total Shareholder return (TSR) measures the total Shareholder return (price rise plus dividends) over the period from 16 November 2021 to 15 November 2024. The percentage of the TSR metric will be adjusted downwards according to the Company's share price discount to net asset value at the time of vesting. Share Price Discount will be calculated with reference to the closing share price on 15 November 2024 and EPRA Net Tangible Assets as at 30 September 2024. The base price is £2.44 per share which was the market price at the grant date.

Annualised TSR over the TSR performance period	Vesting %	TPR equivalent total over the performance period	Vesting %
<5%	0	<0.5%	0
Equal to 5%	20	Equal to 0.5%	20
Between 5% and 9%	20–100	Between 0.5% and 2.5%	20–100
Equal to 9%	100	Equal to 2.5%	100

The fair value of grants was measured at the grant date using a Black–Scholes pricing model for the TPR tranche and using a Monte Carlo pricing model for the TSR tranche, taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. The main assumptions of both the Black–Scholes and Monte Carlo pricing models are as follows:

Notes to the Consolidated Financial Statements
continued

22. Share-based payments continued

	Monte Carlo TSR Tranche	Black-Scholes PV Tranche
Grant date	16 November 2021	16 November 2021
Share price	£2.44	£2.44
Exercise price	0p	0p
Term	5 years	5 years
Expected volatility	38.03%	38.03%
Expected dividend yield	0.00%	0.00%
Risk free rate	0.59%	0.59%
Time to vest (years)	3.0	3.0
Expected forfeiture p.a.	0%	0%
Fair value per option	£1.28	£2.44

The expense recognised for employee share-based payment received during the period is shown in the following table:

	2023 £'000	2022 £'000
LTIP 2018	**–**	42
LTIP 2019	**15**	9
LTIP 2020	**87**	72
LTIP 2021	**75**	39
Total expense arising from share-based payment transactions	**177**	162

23. Related party transactions

Charitable donations amounting to £6,000 (2022: £Nil) have been made by the Group to Variety, the Children's Charity, a charity where Neil Sinclair is a Trustee.

Dividend payments made to Directors amounted to £27,598 (2022: £262,265) during the year. See note 4 on page 92 for further details of key management remuneration.

24. Capital commitments

The obligation for capital expenditure relating to the construction, development or enhancement of investment properties entered into by the Group amounted to £456,901 (2022: £395,952).

25. Post balance sheet events

On 4 May 2023, the Group exchanged on the disposal of Courtauld House, Coventry, for a total consideration of £7.4m. The property is charged against the loan facility with Barclays Bank plc and as a result, £3.5m of the total consideration will be used to repay the loan facility. Completion of the sale is due to take place no earlier than 5 July 2023.

On 9 May 2023 the Group exchanged on the disposal of Millbarn Medical Centre, Beaconsfield, for a total consideration of £1.5m. The property is charged against the loan facility with Barclays Bank plc and as a result, £0.5m of the total consideration will be used to repay the loan facility. Completion of the sale is due to take place by 7 July 2023.

On 23 May 2023, the Group exchanged on the disposal of Princeton House, Farnborough, for a total consideration of £2.3m. The property is charged against the loan facility with NatWest plc and as a result, £0.9m of the total consideration will be used to repay the loan facility. Completion of the sale is due to take place by 31 July 2023.

On 26 May 2023, the Group completed the disposal of five industrial assets, for a total consideration of £26.6m. The properties disposed of were Point Four Industrial Estate, Avonmouth, Clayton Industrial Estate, Burgess Hill, Saxon House, Kettering, Bone Lane, Newbury and Black Moor Road, Verwood. The properties were charged against the loan facilities with NatWest plc and Barclays Bank plc. £9.8m of the total consideration was used to repay the loan facility with NatWest plc and £4.1m was used to repay the loan facility with Barclays Bank plc on 30 May 2023.

25. Post balance sheet events continued

On 31 May 2023, the Group repaid the £6.8m loan facility with Lloyds Bank plc in full.

On 1 June 2023, the Group completed the disposal of Aldi, Gosport, for a total consideration of £5.6m. The property was charged against the loan facility with Barclays Bank plc and as a result, £3.7m of the total consideration was used to repay the loan facility on 2 June 2023.

Post year end, the Group purchased 505,000 ordinary shares from the open market for a total consideration of £1.2m. These shares have been transferred to treasury following the purchases.

Post year end, the Group completed on a further five residential unit sales at Hudson Quarter for a total consideration of £2.2m.

26. Financial risk management

The Group's principal financial liabilities are loans. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

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

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

The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to Shareholders, return capital to Shareholders or issue new shares.

Capital risk management

The Group considers its capital to comprise its share capital, share premium, other reserves and retained earnings which amounted to £128,475,000 at 31 March 2023 (2022: £177,204,000). The Group's capital management objectives are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to provide an adequate return to Shareholders by pricing its services commensurately with the level of risk.

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

Market risk

Market risk arises from the Group's use of interest bearing, and tradable instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or other market factors.

Interest rate risk

The interest rate exposure profile of the Group's financial assets and liabilities as at 31 March 2023 and 31 March 2022 were:

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2023					
Trade and other receivables	2,890	–	–	–	2,890
Cash and cash equivalents	–	5,509	–	–	5,509
Trade and other payables	(4,334)	–	–	–	(4,334)
Bank borrowings	–	–	(8,558)	(55,116)	(63,674)
Lease liabilities	–	–	(1,209)	–	(1,209)
	(1,444)	5,509	(9,767)	(55,116)	(60,818)

Notes to the Consolidated Financial Statements
continued

26. Financial risk management continued

	Nil rate assets and liabilities £'000	Floating rate assets £'000	Fixed rate liability £'000	Floating rate liability £'000	Total £'000
As at 31 March 2022					
Trade and other receivables	2,666	–	–	–	2,666
Cash and cash equivalents	–	28,143	–	–	28,143
Trade and other payables	(4,377)	–	–	–	(4,377)
Interest rate swaps	–	–	(47)	–	(47)
Bank borrowings	–	–	(61,386)	(39,851)	(101,237)
Lease liabilities	–	–	(1,078)	–	(1,078)
	(1,711)	28,143	(62,511)	(39,851)	(75,930)

The Group's interest rate risk arises from borrowings issued at floating interest rates. The Group's interest rate risk is reviewed throughout the year by the Directors. The Board monitor the appropriate use of interest rate swaps to align with strategy and the level of drawn debt, to mitigate the risk of an increase in interest rates but also to allow the Group to benefit from a fall in interest rates. Interest rate swaps are used to mitigate the risk of an increase in interest rates but also to allow the Group to benefit from a fall in interest rates. 13% of the Group's interest rate exposure is fixed and the remainder held on a floating rate. The Group has employed an external adviser when contracting hedging to advise on the structure of the hedging.

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. The cash balances of the Group at the year end were £5,509,000 (2022: £28,143,000). Interest receivable in the income statement would be affected by £55,000 (2022: 281,000) by a one percentage point change in floating interest rates on a full year basis.

The Group has loans amounting to £55,116,000 (2022: £39,851,000) which have interest payable at rates linked to the SONIA interest rates or bank base rates. A 1% increase in the SONIA or base rate will have the effect of increasing interest payable by £551,000 (2022: £399,000).

The Group has interest rate swaps with a nominal value of £Nil (2022: £52,939,449).

The Directors regularly review the Group's position with regard to interest rates in order to minimise its risk.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has its cash held on deposit with four large banks in the United Kingdom. At 31 March 2023 the cash balances of the Group were £5,509,000 (2022: £28,143,000). The concentration of credit risk held with Barclays Bank plc, the largest of these banks, was £2,997,000 (2022: £20,281,000).

Credit risk also results from the possibility of a tenant in the Group's property portfolio defaulting on a lease. The largest tenant by contractual income amounts to 6.0% (2022: 5.7%) of the Group's anticipated income. The Directors assess a tenant's creditworthiness prior to granting leases and employ professional firms of property management consultants to manage the portfolio to ensure that tenants debts are collected promptly and the Directors in conjunction with the property managers take appropriate actions when payment is not made on time.

The carrying amount of financial assets (excluding cash balances) recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. The carrying amount of these assets at 31 March 2023 was £2,890,000 (2022: £2,666,000). The details of the provision for expected credit loss are shown in note 13.

26. Financial risk management continued

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. 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 working capital model. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bank loans, term loans, loan notes, overdrafts and lease liabilities.

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

	On demand £'000	**0–1 years £'000**	**1–2 years £'000**	**2–5 years £'000**	**> 5 years £'000**	**Total £'000**
As at 31 March 2023						
Interest bearing loans	**–**	**12,161**	**38,606**	**19,598**	**–**	**70,365**
Lease liabilities	**–**	**54**	**54**	**162**	**5,839**	**6,109**
Trade and other payables	**4,334**	**–**	**–**	**–**	**–**	**4,334**
	4,334	**12,215**	**38,660**	**19,760**	**5,839**	**80,808**

	On demand £'000	0–1 years £'000	1–2 years £'000	2–5 years £,000	> 5 years £'000	Total £'000
As at 31 March 2022						
Interest bearing loans	–	35,044	3,409	70,257	–	108,710
Lease liabilities	–	54	54	162	5,894	6,164
Derivative financial instruments	–	–	(3)	50	–	47
Trade and other payables	4,377	–	–	–	–	4,377
	4,377	35,098	3,460	70,469	5,894	119,298

Company Statement of Financial Position
as at 31 March 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Investments in subsidiaries	2	**104,730**	122,864
Property, plant and equipment	4	**22**	43
		104,752	122,907
Current assets			
Trade and other receivables	5	**30,155**	42,576
Cash at bank and in hand		**1,049**	479
		31,204	43,055
Total assets		**135,956**	165,962
Current liabilities			
Creditors: amounts falling due within one year	6	**(33,660)**	(28,953)
Net current assets		**(2,456)**	14,102
Total assets less current liabilities		**102,296**	137,009
Equity			
Called up share capital	7	**4,639**	4,639
Treasury shares		**(7,343)**	(717)
Merger reserve		**3,503**	3,503
Capital redemption reserve		**340**	340
Capital reduction reserve		**118,477**	125,019
Accumulated losses/retained earnings		**(17,320)**	4,225
Equity – attributable to the owners of the Parent		**102,296**	137,009

The Company's loss after tax for the year was £21,688,000 (2022: £1,706,000).

The financial statements were approved by the Board of Directors and authorised for issue on 14 June 2023 and are signed on its behalf by:

Matthew Simpson

Chief Financial Officer

Company Statement of Changes in Equity
as at 31 March 2023

	Share Capital £'000	Treasury Share Reserve £'000	Other Reserves £'000	Capital Reduction Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 31 March 2021	4,639	(1,288)	3,843	125,019	11,677	143,890
Total comprehensive loss for the year	–	–	–	–	(1,706)	(1,706)
Transactions with Equity Holders						
Share-based payments	–	–	–	–	162	162
Exercise of share options	–	571	–	–	(571)	–
Issue of deferred bonus share options	–	–	–	–	90	90
Dividends	–	–	–	–	(5,427)	(5,427)
At 31 March 2022	4,639	(717)	3,843	125,019	4,225	137,009
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(21,688)**	**(21,688)**
Transactions with Equity Holders						
Share-based payments	**–**	**–**	**–**	**–**	**177**	**177**
Exercise of share options	**–**	**71**	**–**	**–**	**(71)**	**–**
Issue of deferred bonus share options	**–**	**–**	**–**	**–**	**37**	**37**
Dividends	**–**	**–**	**–**	**(6,542)**	**–**	**(6,542)**
Share buyback	**–**	**(6,697)**	**–**	**–**	**–**	**(6,697)**
At 31 March 2023	**4,639**	**(7,343)**	**3,843**	**118,477**	**(17,320)**	**102,296**

Treasury shares represents the consideration paid for shares bought back from the open market.

Other reserves comprise the merger reserve and the capital redemption reserve.

The merger reserve represents the excess over nominal value of the fair value consideration for the acquisition of subsidiaries satisfied by the issue of shares in accordance with S612 of the Companies Act 2006.

The capital redemption reserve represents the nominal value of cancelled preference share capital redeemed.

The capital reduction reserve represents distributable profits generated as a result of the share premium reduction.

Notes to the Company Financial Statements

Accounting policies

Palace Capital plc is a company incorporated in England and Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Group's operations and its principal activities are set out in the Strategic Report. The financial statements of the Company have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgement in applying the Company's accounting policies (as detailed below). The Statement of Financial Position heading relating to the Company's investments and property, plant and equipment is in accordance with the balance sheet formats of the Companies Act 2006. Assets are classified in accordance with the definitions of fixed and current assets in the Companies Act instead of the presentation requirements of IAS 1 Presentation of Financial Statements.

Dividends revenue

Revenue is recognised when the Company's right to receive payment is established, which is generally when Shareholders of the paying company approve the payment of the dividend.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Listed equity investments

Listed equity investments have been classified as being at fair value through profit and loss. Listed equity investments are subsequently measured using Level 1 inputs, the quoted market price, and all fair value gains or losses in respect of those assets are recognised in the profit and loss.

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

Deferred taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are recognised in respect of timing differences that have originated but not reversed on the balance sheet date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax balances are not recognised in respect of permanent differences between the fair value of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This was enacted by the Finance Act 2021 on 10 June 2021.

Trade and other receivables

Trade and other receivables and intercompany receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables concerned.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Parent company disclosure exemptions

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- no cash flow statement has been presented for the Parent Company;
- disclosures in respect of the Parent Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- disclosures in respect of the Parent Company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- disclosure has been given for the aggregate remuneration of the key management personnel of the Parent Company as their remuneration is included in the totals for the Group as a whole.

Judgements in applying accounting policies and key sources of estimation uncertainty

Investments and loans to subsidiary undertakings (see note 3)
The most critical estimates, assumptions and judgements relate to the determination of carrying value of unlisted investments in the Company's subsidiary undertakings and the carrying value of the loans that the Company has made to them. The nature, facts and circumstance of the investment or loan are taken into account in assessing whether there are any indications of impairment.

Provisions provided in the year reflect the reduction in net asset value of subsidiaries for the year ended 31 March 2023. Write-down of investments reflect the winding up of subsidiaries within the year.

Notes to the Company Financial Statements
continued

1. Profit for the financial period

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently a profit and loss account for the Company alone has not been presented.

2. Investments in subsidiaries

Cost:	Investments in subsidiaries £'000	Loans to subsidiaries £'000	Total £'000
At 1 April 2021	183,614	–	183,614
Write-down of investments	(2,658)	–	(2,658)
At 1 April 2022	180,956	–	180,956
Write-down of investments	**–**	**–**	**–**
At 31 March 2023	**180,956**	**–**	**180,956**
Provision for impairment:			
At 1 April 2021	58,047	–	58,047
Provided during the year	45	–	45
At 1 April 2022	58,092	–	58,092
Provided during the year	**18,134**	**–**	**18,134**
At 31 March 2023	**76,226**	**–**	**76,226**
Net book value at 31 March 2023	**104,730**	**–**	**104,730**
Net book value at 31 March 2022	122,864	–	122,864

The Group comprises a number of companies; all subsidiaries included within these financial statements are noted below:

Subsidiary undertaking:	Class of share held	% shareholding	Principal activity
Palace Capital (Leeds) Limited	Ordinary	100	Property Investments
Palace Capital (Northampton) Limited	Ordinary	100	Property Investments
Palace Capital (Properties) Limited	Ordinary	100	Property Investments
Palace Capital (Developments) Limited	Ordinary	100	Property Investments
Palace Capital (Halifax) Limited	Ordinary	100	Property Investments
Palace Capital (Manchester) Limited	Ordinary	100	Property Investments
Palace Capital (Liverpool) Limited	Ordinary	100	Property Investments
Palace Capital (Signal) Limited	Ordinary	100	Property Investments
Property Investment Holdings Limited	Ordinary	100	Property Investments
Palace Capital (Dartford) Limited	Ordinary	100	Property Management
Palace Capital (Newcastle) Limited	Ordinary	100	Property Investments
Palace Capital (York) Limited	Ordinary	100	Property Management
Associate Company:			
HBP Services Limited*	Ordinary	21.4	Property Management
Clubcourt Limited*	Ordinary	40	Property Management

* Held indirectly

The results of the associates are immaterial to the Group.

The registered addresses for the subsidiaries across the Group are consistent based on their country of incorporation and are as follows:

UK entities: Fora Victoria, 6-8 Greencoat Place, London, SW1P 1PL

3. Listed equity investments

	Total £'000
At 31 March 2021	3,249
Disposal of listed equity investment	(3,249)
At 31 March 2022 and 31 March 2023	**–**

4. Property, plant and equipment

	IT, fixtures and fittings £'000
At 31 March 2021	269
Additions	22
At 31 March 2022	291
Additions	**8**
At 31 March 2023	**299**
Depreciation	
At 31 March 2021	201
Provided during the period	47
At 31 March 2022	248
Provided during the period	**29**
At 31 March 2023	**277**
Net book value at 31 March 2023	**22**
Net book value at 31 March 2022	43

Notes to the Company Financial Statements
continued

5. Trade and other receivables

	2023 £'000	2022 £'000
Amounts owed by subsidiary undertakings	**28,034**	36,374
Trade debtors	**1,703**	5,607
Other debtors	**47**	44
Accrued interest on amounts owed by subsidiary undertakings	**309**	309
Prepayments	**62**	242
	30,155	42,576

Trade debtors represent amounts owed from subsidiary undertakings in relation to management charges.

All amounts that fall due for repayment within one year and are presented within current assets as required by the Companies Act. The amounts owed by subsidiary undertakings are repayable on demand with no fixed repayment date, although it is noted that a significant proportion of the amounts may not be sought for repayment within one year depending on activity in the subsidiary undertakings.

A loan amounting to £14,023,501 remains outstanding at 31 March 2023 (2022: £28,888,501) from Palace Capital (Developments) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £153,534 remains outstanding at 31 March 2023 (2022: £519,534) from Palace Capital (Leeds) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £1,079,417 remains outstanding at 31 March 2023 (2022: £2,781,417) from Palace Capital (Halifax) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £1,645,430 remains outstanding at 31 March 2023 (2022: £4,034,646) from Palace Capital (Properties) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £4,945,582 remains outstanding at 31 March 2023 (2022: £150,000) from Palace Capital (Northampton) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £3,084,996 remains outstanding at 31 March 2023 (2022: £Nil) from Palace Capital (Manchester) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £3,101,452 remains outstanding at 31 March 2023 (2022: £Nil) from Palace Capital (Newcastle) Limited. No interest is charged on this loan. This loan is repayable on demand.

6. Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	**124**	168
Amount owed to subsidiary undertaking	**32,143**	27,528
Other taxes	**268**	278
Other creditors	**15**	5
Accruals and deferred income	**1,110**	974
	33,660	28,953

A loan amounting to £19,264,032 remains outstanding at 31 March 2023 (2022 £10,113,143) to Palace Capital (Signal) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £10,612,686 remains outstanding at 31 March 2023 (2022: £16,314,718) to Property Investment Holdings Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £2,146,000 remains outstanding at 31 March 2023 (2022: £1,100,000) to Palace Capital (Liverpool) Limited. No interest is charged on this loan. This loan is repayable on demand.

A loan amounting to £120,000 remains outstanding at 31 March 2023 (2022: £Nil) to Palace Capital (York) Limited. No interest is charged on this loan. This loan is repayable on demand.

7. Share capital

The details of the Company's share capital are provided in note 21 of the notes to the Consolidated Financial Statements.

8. Leases

Operating lease payments in respect of rents on leasehold properties occupied by the Company are payable as follows:

	2023 £'000	2022 £'000
Within one year	**134**	19
	134	19

9. Post balance sheet events

Post year end, the Company purchased 505,000 ordinary shares from the open market for a total consideration of £1.2m. These shares have been transferred to treasury following the purchases.

Officers and Professional Advisors
continued

Directors

Steven Owen	Interim Executive Chairman
Matthew Simpson	Chief Financial Officer
Mark Davies	Non-Executive Director

Secretary

Phil Higgins

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National Westminster Bank plc
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Santander UK plc
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Glossary

Adjusted EPS: Is adjusted profit before tax less corporation tax charge on recurring earnings (excluding deferred tax movements) divided by the average basic number of shares in the period.

Adjusted profit before tax: Is the IFRS profit before taxation excluding investment property revaluations, gains/losses on disposals, acquisition costs, fair value movement in derivatives, share-based payments and exceptional items.

Assets Under Management (AUM): Is a measure of the total market value of all properties owned and managed by the Group.

Balance sheet gearing: Is the balance sheet net debt divided by IFRS net assets.

Building Research Establishment Environmental Assessment Methodology (BREEAM) rating: A set of assessment methods and tools designed to help construction professionals understand and mitigate the environmental impacts of the developments they design and build. Performance is measured across a series of ratings: Good, Very Good, Excellent and Outstanding.

Dividend cover: Is the Adjusted profit before tax plus trading profit divided by dividends paid in the period, expressed as a percentage.

Employee Benefit Trust (EBT): Employee Benefits Trust, administrator for the Company share plans.

Expected credit loss (ECL): In accordance with IFRS 9, the risk of recoverability of our rental arrears are assessed. This is done using a probability weighted estimate of credit losses, being the difference between the cash flows that are due in accordance with the contract and the cash flows that the Group expects to receive. This replaced the previous bad debt provision.

EPRA: Is the European Public Real Estate Association.

EPRA cost ratio (including direct vacancy costs): Is a proportionally consolidated measure of the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA cost ratio (excluding direct vacancy costs): Is the ratio calculated above, but with direct vacancy costs removed from the net overheads and operating expenses balance.

EPRA diluted EPS: Is EPRA earnings divided by the average diluted number of shares in the period.

EPRA earnings: Is the IFRS profit after taxation excluding investment property revaluations and gains/losses on disposals and changes in fair value of financial derivatives.

EPRA EPS: Is EPRA earnings divided by the average basic number of shares in the period.

EPRA net assets (EPRA NAV): Are the balance sheet net assets according to the definitions of the various NAV measures defined in the EPRA Best Practice Recommendations that came into effect for accounting periods starting 1 January 2020.

EPRA net tangible assets (EPRA NTA): Is the NAV adjusted to reflect the fair value of trading properties and to exclude deferred taxation and derivatives.

EPRA NTA per share: Is EPRA NTA divided by the diluted number of shares at the period end.

EPRA occupancy rate: Is the ERV of occupied space divided by ERV of the whole portfolio, excluding developments and residential property.

EPRA topped-up net initial yield: Is the current annualised rent, net of costs, topped up for contracted uplifts, where these are not in lieu of rental growth, expressed as a percentage of capital value.

EPRA vacancy rate: Is the ERV of vacant space divided by ERV of the whole portfolio, excluding developments and residential property.

Equivalent yield: Is the net weighted average return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the external valuers) assume rent received annually in arrears.

Estimated rental value (ERV): Is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

IAS/IFRS: Is the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the UK.

Interest cover ratio (ICR): Is the number of times net interest payable is covered by underlying profit before net interest payable and taxation.

Investment Property Databank (IPD): A wholly-owned subsidiary of MSCI producing an independent benchmark of property returns and the Group's portfolio returns.

Key Performance Indicators (KPIs): Are the most critical metrics that measure the success of specific activities used to meet business goals – measured against a specific target or benchmark, adding context to each activity being measured.

Like-for-like net rental income: Is the change in net rental income on properties owned throughout the current and previous periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period, properties with guaranteed rent reviews, asset management determinations and surrender premiums.

Like-for-like valuation: Is the change in the fair value of properties owned throughout the entire year.

This excludes properties acquired during the year and disposed of during the year but includes capital expenditure spent on the properties.

Loan to value (LTV): Is the ratio of principal value of gross debt less cash, short-term deposits and liquid investments to the aggregate fair value of properties and investments.

Glossary

MSCI Inc. (MSCI IPD): Is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

Net asset value (NAV) per share: Is the equity attributable to owners of the Group divided by the number of ordinary shares in issue at the period end.

Net initial yield (NIY): Is the current annualised rent, net of costs, expressed as a percentage of capital value, after adding notional purchaser's costs.

Net rental income: Is the rental income receivable in the period after payment of net property outgoings. Net rental income will differ from annualised net rents and passing rent due to the effects of income from rent reviews, net property outgoings and accounting adjustments for fixed and minimum contracted rent reviews and lease incentives.

Net reversionary yield (NRY): Is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Passing rent: Is the gross rent, less any ground rent payable under head leases.

Peer Group: A selection of small/medium sized property companies within the listed real estate sector with a diversified portfolio.

Portfolio Valuation: The value of the Company's property portfolio, including all investment and trading properties as valued by our independent valuers, CBRE.

Property Income Distribution (PID): A dividend received by a Shareholder of the principal company in respect of profits and gains of the Property Rental Business of the UK resident members of the REIT Group or in respect of the profits or gains of a non-UK resident member of the REIT Group.

Property Portfolio: The total fair value of all investment properties and trading properties as determined by the third party valuer, CBRE.

Real Estate Investment Trust (REIT): A UK Real Estate Investment Trust must be a company listed on a recognised stock exchange with at least three-quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90% of those profits to Shareholders. Tax is payable on profits from non-qualifying activities of the residual business.

SONIA: Is the Sterling Overnight Index Average, the interest rate charged by one bank to another for lending money.

Special Purpose Vehicle (SPV): Is a separate legal entity created by an organisation. The SPV is a distinct company with its own assets and liabilities, as well as its own legal status. Usually, they are created for a specific objective, often which is to isolate financial risk. As it is a separate legal entity, if the Parent Company goes bankrupt, the special purpose vehicle can carry its obligations.

Tenant (or lease) incentives: Are any incentives offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free period, or a cash contribution to fit-out or similar costs. Under accounting rules the value of lease incentives given to tenants is amortised through the Income Statement on a straight-line basis to the lease expiry.

Total Accounting Return (TAR): Is the increase or decrease in EPRA NAV per share plus dividends paid in the year, and this can be expressed as a percentage of EPRA NAV per share at the beginning of the period.

Total Expense Ratio: Is calculated as total administrative costs for the year divided by the total asset value in the year.

Total Property Return (TPR): Total property return is a performance measure calculated by the MSCI IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as "the percentage value change plus net income accrual, relative to the capital employed".

Total Shareholder Return (TSR): Is calculated as the movement in the share price for the period plus dividends paid in the year, divided by opening share price.

Weighted average debt maturity: Is measured in years when each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.

Weighted average interest rate: Is the loan interest per annum at the period end, divided by total debt in issue at the period end.

Weighted average unexpired lease term (WAULT): Is the average lease term remaining to first break, or expiry, across the portfolio weighted by rental income. This is also disclosed assuming all break clauses are exercised at the earliest date, as stated.

WiredScore: Wired Certification is a commercial real estate rating system that empowers landlords to understand, improve, and promote their buildings' digital infrastructure. Connectivity is measured across a series of ratings: Platinum, Gold, Silver and Certified.

The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.

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