15 November 2023

**Palace Capital plc**

("Palace Capital" or the "Company")

Interim Results for the six months ended 30 September 2023

**FOCUSED ON MAXIMISING CASH RETURNS TO SHAREHOLDERS**

Palace Capital (LSE: PCA) announces its unaudited results for the six months ended 30 September 2023.

Steven Owen, Executive Chairman, commented:

“We continue to make good progress in achieving disposals at values ahead of book enabling us to further reduce debt and leverage as we deliver on our strategy of maximising cash returns to shareholders. Proactive balance sheet management ensures Palace Capital is in a strong financial position, with net debt currently at £7.7 million and leverage at 6.5%, both having been reduced since the period end. This provides the Company with the flexibility and optionality regarding the timing of future disposals and other strategic initiatives, including various options for returning capital to shareholders. The results below reflect the disposals strategy.

“At an operational level, the Company continues to make good progress with its asset management activities notwithstanding the difficult and uncertain conditions in financial and property markets.

“Since July 2022, we have returned £21.9 million of capital to shareholders through share buybacks. It is expected that further progress regarding disposals and options for returning capital, including a potential tender offer, will be announced in a Trading Update during the first quarter of 2024.”

|  |  |  |  |
| --- | --- | --- | --- |
| **Income Statement metrics** | **Six months to****30 Sept 2023** | **Six months to****30 Sept 2022** | **Change** |
| Adjusted profit before tax  | £2.3m | £3.5m | -34.3% |
| Adjusted earnings per share  | 5.5p | 7.9p | -30.4% |
| EPRA earnings | £2.2m | £2.1m | +4.8% |
| IFRS loss before tax  | (£0.2m) | (£12.4m) |  |
| Basic earnings per share  | (0.4p) | (27.4p) |  |
| **Dividends** |  |  |  |
| Total dividend paid per share | 7.5p | 7.0p | +7.1% |
| **Balance Sheet and operational metrics** | **30 Sept 2023** | **31 March 2023** | **Change** |
| EPRA NTA per share | 294p | 296p | -0.7% |
| Net asset value | £110.0m | £128.5m | -14.4% |
| Like-for-like portfolio valuation decrease | (4.4%) | (18.6%) |  |
| EPRA occupancy rate | 87.6% | 87.7% |  |
|   **Debt** |  |  |  |
| Loan to value | 9% | 31% |  |
| Total drawn debt | £20.2m | £64.3m | -68.6% |
| Average cost of debt | 5.4% | 5.8% | -40bps |
| Average debt maturity | 1.6 years | 2.0 years |  |

**Financial highlights**

* Adjusted profit before tax of £2.3 million (September 2022: £3.5 million) reflecting the reduction in income following disposals
* IFRS loss before tax for the period of £0.2 million (September 2022: £12.4 million loss) primarily due to the valuation deficit of £5.6 million offset by the profit on property disposals of £3.5 million
* Adjusted EPS of 5.5 pence (September 2022: 7.9 pence)
* 7.5 pence per share of dividends paid, an increase of 7.1% (September 2022: 7.0p)
* Completed £15.2 million of share buybacks in the period, an 8.0 pence per share accretion to EPRA NTA
* EPRA NTA per share of 294 pence reduced by 0.7% (March 2023: 296 pence) and IFRS net assets of £110.0 million (March 2023: £128.5 million)
* Investment property portfolio valuation reduced by 4.4% on a like-for-like basis
* Portfolio ERV growth over the half year was 2.6% on a like-for-like basis
* LTV of 9% at 30 September 2023 (March 2023: 31%), which has reduced further post period-end to 6.5%
* Gross debt reduced by £44.1m or 68.6% in the period to £20.2 million (March 2023: £64.3 million). Gross debt reduced by a further £6.2 million post period-end to £14.0 million

**Operational highlights**

* In the period to 30 September 2023, sale of 12 investment properties for £66.9 million, 7% ahead of the 31 March 2023 book value
* Post period end, a further three investment properties have been sold for £6.4 million, bringing the total sales year to date to £73.3 million, 6% ahead of the March 2023 book value
* Apartment sales at Hudson Quarter, York, have been slower, reflecting the wider housing market but continue to progress. A further six apartments have been sold since 31 March 2023 for a total of £2.6 million, with aggregate proceeds of the 109 units sold totalling £40.1 million. Since 30 September two units are under offer for £1.2 million, leaving 16 units remaining
* Portfolio WAULT resilient at 4.9 years (March 2023 4.8 years)
* An additional £1.1 million of annualised net rental income was created during the half year through leasing and review activity and the associated reduction in non-recoverable property costs which was, on average 3% ahead of the 31 March 2023 ERVs. Annualised net rental income lost from lease expiries and breaks totalled £0.5 million resulting in a net additional annualised increase of £0.6 million from active asset management activity. Net rental income lost following disposals totalled £4.2 million per annum resulting in a net loss in annualised net rental income of £3.6 million
* Rent collection for the first half of the financial year was 99% (31 March 2023: 99%)
* EPRA occupancy remains stable at 87.6% (31 March 2023: 87.7%)
* Total Property Return of 2.4%, outperforming the MSCI UK Quarterly Property Index benchmark performance of -0.5%.

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**Cautionary Statement**

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

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

**EXECUTIVE CHAIRMAN’S STATEMENT**

**Update on delivery of strategic objectives**

At our Full Year results announced in June, it was noted that the year ahead was likely to be further affected by continuing macroeconomic and geo-political uncertainty although the inflation outlook in the UK was expected to improve. Increased interest rates continue to adversely impact the commercial property market in relation to general investment activity, although the Company has had an active first half, disposing of £66.9 million of investment properties at 7% above the 31 March 2023 valuation. This includes the office building in Maidenhead sold after the Trading Update of 26 July 2023 for £9.0 million, 9.7% ahead of the March 2023 valuation.

Since 30 September 2023, three investment properties have been sold for £6.4 million, 2% above the March 2023 valuation: the long leasehold interest of a residential block at HQ York for £1.5 million; Bank House, Leeds, for £2.65 million: and Princeton House, Farnborough, for £2.28 million. These take total investment property sales in the year to date to £73.3 million, which is 6% above the March 2023 valuation.

Unsurprisingly, activity in relation to residential sales at Hudson Quarter, York, has been more muted with a further six apartment sales completed during the half year period for £2.6 million and since 30 September two units are under offer for £1.2 million, leaving 16 units remaining.

Total investment properties sold since the change of strategy in July 2022 amount to £84.4 million or £94.5 million including residential apartments.

Operationally, the business remains robust. The team has been proactive in implementing asset management plans to increase income and reduce void costs with lettings, renewals and rent reviews on average 3% ahead of the 31 March 2023 estimated rental values. During the first half, 14 lease events comprising five new lettings, three lease renewals and six rent reviews were completed across 129,000 sq ft of space providing £0.8 million of additional annualised income. Including the associated reduction in non-recoverable property costs of £0.3 million, an additional £1.1 million of annualised net rental income was created during the first half.

There were two key lettings during the period:

Firstly, at 2 St James’ Gate, Newcastle, where Orega, a premium, flexible, serviced office workspace provider, entered into a 15 year management agreement to take the second and third floors totalling 22,500 sq ft of the seven storey, 82,500 sq ft building. Following a comprehensive refurbishment, which is currently underway, the operation is expected to open shortly, providing c.400 workstations. This letting significantly increased the occupancy at the property, taking it from 65% as at 31 March 2023 to 88% as at 30 September 2023 and, together with the letting to Softcat plc in December 2022, are the first two major lettings at St James’ Gate since the property was acquired in 2017.

Secondly, at Broad Street Plaza, Halifax, where Calderdale and Huddersfield NHS Foundation Trust entered into a new 15 year lease and took an additional 6,000 sq ft unit increasing their occupation to over 27,000 sq ft. The new rent on the combined space is over £14 psf and is 41% higher than the March 2023 ERV. The NHS now accounts for over 16% of the net income from the property and we believe that the letting was the key reason why the property increased in value as at September 2023 compared with March 2023.

In terms of managing our own costs, Palace Capital continues to reduce its level of administrative expenses in line with its strategy, with measures implemented in the period saving £0.5 million and £0.9 million in the year to date. This includes reducing headcount and relocating its head office to a smaller office in Victoria, London on expiry of its current lease term on 1 December 2023. Annual occupancy costs of the Company’s new premises will be £0.25 million lower than those of its former offices in Bury Street, SW1.

During the half year period, the Company purchased 6.2 million shares for £15.2 million, contributing an additional 8.0 pence to EPRA NTA. Since July 2022, cash returned to shareholders through the share buyback programmes to date totals £21.9 million.

**Overview of results**

The Group’s adjusted profit before tax reduced to £2.3 million (September 2022: £3.5 million) as a result of income lost through disposals. Investment property sales during the half year period totalled £66.9 million, which realised a profit of £3.4 million (September 2022: £0.9 million). Trading profits from the sale of residential units realised a profit of £0.1 million (September 2022: £0.1 million).

The whole portfolio was independently valued by CBRE as at 30 September 2023 at £124.5 million, a reduction of 4.4% on a like-for-like basis. The valuation deficit of £5.6 million equates to 13.5 pence per share.

The investment portfolio (excluding residential properties held as trading properties) was valued at £115.2 million and a net initial yield (NIY) of 8.1%. Within the investment portfolio the office and leisure assets, which comprise 84% of the portfolio, were valued at NIYs of 7.4% and 11.0% respectively.

The ERVs used by the valuers were, on the whole portfolio, 2.6% higher on a like-for-like basis than as at 31 March 2023. Within the portfolio the ERV growth for the office and leisure assets was 2.1% and 5.1% respectively.

EPRA NTA decreased by 2.0 pence per share or 0.7% to 294 pence (March 2023: 296 pence) during the period, principally as a result of the revaluation deficit of £5.6 million or 13.5 pence per share offset by the 8.0 pence per share share buyback accretion and the profit from the disposal of investment properties, which contributed 8.2 pence per share. The excess of dividends paid per share over adjusted earnings per share was -2.0 pence per share and other items, principally the denominator effect of the reduced number of shares at period end compared with the average for the period, was -2.7 pence per share.

The Group’s balance sheet remains strong with cash reserves of £8.9 million as at 30 September 2023. Gross debt reduced by 68.6% in the period to £20.2 million (March 2023: £64.3 million), which has resulted in the loan to value ratio reducing to 9% (March 2023: 31%). Since the half year end, gross debt has reduced by a further £6.2 million and proforma LTV has reduced to 6.5%.

**Directorate Change**

Today, the Company has announced further progress in the delivery of its strategy to focus on maximising cash returns to shareholders. In light of this, Matthew Simpson, CFO and the Board have agreed that now is the right time for Matthew to step down as a Director and from the Board. The Company’s financial circumstances (including cancellation of bank facilities and reduced portfolio size) mean that the CFO role is significantly reduced and therefore no longer requires the level of expertise and skillset that Matthew contributes.

Matthew’s CFO report is contained within this Half Year Report below.

Going forward, the financial operations of the Company will be managed by the Financial Controller and Financial Planning Analyst with operational oversight by myself as Executive Chairman and by the Audit and Risk Committee on behalf of the Board. After a short handover, Matthew will leave the Company at the end of this month.

Matthew leaves with the Board’s best wishes and gratitude for his eight years with the Company, latterly as CFO and prior to that as Financial Controller. He has supported the Board in reshaping the Company over the last sixteen months including returning cash to shareholders and reducing bank debt.

**Dividend**

The Group increased its paid dividends by 7.1% to 7.5 pence per share (September 2022: 7.0 pence per share) in relation to the period ended 30 September 2023. The Company has declared an interim dividend of 3.75 pence per share which will be paid on 29 December 2023 as a Property Income Distribution (PID). The record date will be 24 November 2023.

As previously reported, the dividend policy is that the current level of dividend is expected to be maintained and paid from adjusted profits including trading profits. As the portfolio has been significantly repositioned and cash returned to shareholders in the last 12 months, if this level of dividend cannot be achieved then, as a minimum, the dividend payment is expected to be set at the Property Income Distribution (PID) level.

**AGM update**

In line with best practice recommendations, the Company provides an update on communication with shareholders on issues where there were significant votes against a resolution at the AGM. In relation to the votes for the resolution seeking approval of my own re-election, 77% of votes cast at the AGM were in favour of the resolution. Mark Davies, Senior Independent Director contacted a major shareholder who had voted against the resolution. That shareholder subsequently confirmed that this had been an administrative error and that they had intended to vote in favour of the resolution, as they had done with all of the other resolutions proposed. Had this been correctly cast, the votes in favour of the resolution would have been 91% instead of the 77% recorded.

We continue to communicate with our major shareholders on significant issues affecting the Company and welcome constructive dialogue.

**General Meeting**

The Company has successfully used share buybacks as one method of returning capital to shareholders. Accordingly, further authority is sought for the Company to acquire its own shares, having fully utilised the authority for the market purchase of its own shares previously provided by shareholders at the AGM held on 26 July 2023. The Company will hold a General Meeting to consider this resolution with the General Meeting being held in person at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF at 1.00 p.m. on Monday 4 December 2023. The number of shares subject to the proposal is 5,634,044 shares representing approximately 15% of the issued ordinary share capital of the Company as at 14 November 2023. Full details are contained in the Notice of General Meeting which will shortly be available on the Company’s website [www.palacecapitalplc](http://www.palacecapitalplc).com. The Company is utilising the authority provided by shareholders at the 2023 AGM to hold a general meeting on a shorter timescale of 14 clear days’ notice to provide the Company with the appropriate flexibility, which is considered by the Directors to be in the best interests of the Company.

**Outlook**

The commercial property market remains challenging but the disposals in the current financial year to date represent a further significant step forward in reducing debt and leverage and demonstrate continued progress in our strategy of maximising cash returns to shareholders. The Company is in a strong financial position and its current low leverage of 6.5% provides it with the flexibility and optionality regarding the timing of further disposals and other strategic initiatives, including various options for returning capital to shareholders.

At an operational level, the Company continues to make good progress with its asset management activities notwithstanding the difficult and uncertain conditions in financial and property markets.

It is expected that further progress regarding disposals and options for returning capital, including a potential tender offer, will be announced in a Trading Update during the first quarter of 2024.

## Steven Owen

Executive Chairman

**CHIEF FINANCIAL OFFICER’S REPORT**

**Financial Overview**

The Company’s adjusted profit before tax reduced by 34.3% to £2.3 million (September 2022: £3.5 million) and EPRA NTA per share by 0.7% to 294 pence (March 2023: 296 pence). Against a backdrop of economic uncertainty, Palace Capital continued to deliver at an operational level, by reducing gross debt in a rising interest rate environment and making continued progress in reducing administration costs. In line with the strategy of returning capital to shareholders, the Company has increased the dividend paid by 7.1% in the period compared with the previous half year and completed £15.2 million of share buybacks in the period, which was accretive to EPRA NTA by 8.0 pence per share. The summary of the Company’s financial results are as follows:

**Income Statement Summary**

|  |  |  |
| --- | --- | --- |
| **Income Statement** | **30 Sept 2023** | **30 Sept 2022** |
|  | **£m** | **£m** |
| Gross property income (excluding ECL provision) | 6.9 | 8.7 |
| Property operating expenses | (1.5) | (1.3) |
| Expected Credit Loss provision | - | (0.1) |
| **Net property income (excluding trading profit)** | **5.4** | **7.3** |
| Recurring administration expenditure | (1.7) | (2.0) |
| Finance income | 0.2 | - |
| Finance costs | (1.6) | (1.8) |
| **Adjusted profit before tax** | **2.3** | **3.5** |
| Tax | - | 0.1 |
| **Adjusted profit after tax** | **2.3** | **3.6** |
| Payments to former Directors (including associated costs) | - | (1.4) |
| Share based payments | (0.1) | (0.1) |
| **EPRA earnings** | **2.2** | **2.1** |
| Loss on revaluations | (5.6) | (15.6) |
| Trading profit | 0.1 | 0.1 |
| Profit on disposal of investment properties | 3.4 | 0.9 |
| Change in fair value of interest rate derivatives | - | 0.2 |
| Debt termination costs | (0.3) | - |
| **IFRS earnings** | **(0.2)** | **(12.3)** |

Net property income in the period reduced to £5.4 million (September 2022: £7.3 million) as result of the twelve investment property disposals in the period, which were 7% ahead of the 31 March 2023 book value. Property operating expenses have risen by £0.2 million as a result of inflationary pressures on service charge and insurance costs on our void units. Rent collection has remained consistently high at 99% throughout the period.

The Company has continued to reduce its cost base, with annualised cost savings of £0.5 million in the period and £0.9 million in the year to date. As a result of cost savings implemented in the prior year of £1.4 million, total savings for FY23 and FY24 to date are £2.3 million. Recurring administrative costs reduced by 15% to £1.7 million (September 2022: £2.0 million) for the period

Finance costs have reduced by 11.1% or £0.2 million to £1.6 million (September 2022: £1.8 million) following the significant reduction in our debt in the period, despite the increases in Bank of England base rates.

**EPRA NTA Movement**

EPRA NTA decreased by 2 pence per share or 0.7% to 294 pence (March 2023: 296 pence) during the period. The revaluation deficit of £5.6 million or 13.5 pence per share reduced EPRA NTA as a result of a 4.4% like-for-like reduction in the property portfolio. This was offset by the £15.2 million of shares purchased through the share buyback programme in the period, which was accretive by 8.0 pence per share, and the profit from the disposal of investment properties which contributed 8.2 pence per share. These disposals were 7% ahead of the 31 March 2023 book value.

Adjusted earnings before tax of £2.3 million increased EPRA NTA by 5.5 pence per share, this was offset by the dividends paid in the period of 7.5 pence per share. Hudson Quarter trading profit (net of fair value adjustment to trading properties) increased EPRA NTA by 0.1 pence per share, whilst other movements contributed to a reduction of 2.8 pence per share.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  **£m** | **No. of shares (diluted)** |  **Pence per share** |
| **EPRA NTA at 31 March 2023** | **129.3** | **43,728,212** | **296.0p** |
| Share buyback | (15.2) | (6,160,000) | 8.0p |
| **EPRA NTA after share buyback** | **114.1** | **37,568,212** | **304.0p** |
| Profit on sale of investment properties | 3.4 |  | 8.2p |
| Adjusted earnings before tax | 2.3 |  | 5.5p |
| Hudson Quarter trading profit | 0.1 |  | 0.4p |
| Loss on revaluation of investment property | (5.6) |  | (13.5p) |
| Cash dividends paid | (3.2) |  | (7.5p) |
| Fair value adj. of trading properties | (0.1) |  | (0.3p) |
| Other movements\* | (0.4) | (8,259) | (2.8p) |
| **EPRA NTA at 30 September 2023** | **110.6** | **37,559,953** | **294.0p** |

*\*Other movements include debt termination costs, shares purchased by EBT, the denominator effect of the reduced number of shares at period end compared with the average for the period and* *the effect of rounding.*

**FINANCING**

The Company has made further significant progress in reducing its drawn debt which has been reduced by £44.1 million, or 68.6% to £20.2 million (March 2023: £64.2 million). This includes the repayment of the Santander and Lloyds debt facilities, which had drawn debt at 31 March 2023 of £11.8 million and £6.8 million respectively. The repayment of these two facilities enabled the release from charge of £34.0 million of property, giving the Group further flexibility and optionality regarding the timing of the sales of such properties.

The Company prioritises the efficient use of its capital, and the £44.1 million reduction in debt has resulted in an LTV of 9% at 30 September 2023 (March 2023: 31%) and reduced our average cost of debt to 5.4% (March 2023: 5.8%). The Company has remained compliant with all covenants on its bank facilities in the period.

At 30 September 2023 cash and net debt was £8.9 million (March 2023: £5.5 million) and £11.3 million (March 2023: £58.8 million) respectively, with the disposal proceeds from Hudson Quarter residential sales continuing to enhance cash reserves, as this cash is unfettered and free from bank debt.

Since 30 September 2023, the Company has repaid a further £6.2 million of drawn debt, resulting in a net debt of £7.7 million and an LTV of 6.5%. This includes the full repayment of the NatWest term loan and the cancellation of the undrawn Revolving Credit Facility of £20.0 million.

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

|  |  |
| --- | --- |
|  | **£m** |
| **Drawn debt at 31 March 2023** | **64.3** |
| Repayment of debt from disposals | (43.2) |
| Amortisation of loans | (0.9) |
| **Drawn debt at 30 September 2023** | **20.2** |
| Repayment of debt from disposals | (5.9) |
| Amortisation of loans | (0.3) |
| **Drawn debt at 14 November 2023** | **14.0** |

At 30 September 2023 we held £8.4 million of fixed rate debt (March 2023: £8.6 million) which was 42% of overall drawn debt (March 2023: 13%), as shown in the table below:

**DEBT AT 30 SEPTEMBER 2023**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Fixed****£m** | **Floating****£m** | **Total drawn****£m** | **Years to****maturity** |
| Barclays | - | 5.9 | 5.9 | 0.7 |
| NatWest | - | 5.9 | 5.9 | 0.9 |
| Scottish Widows | 8.4 | - | 8.4 | 2.8 |
|  | **8.4** | **11.8** | **20.2** | **1.6** |

Following the repayment of the NatWest facility the percentage of fixed rate debt has increased to 60% from 42%.

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

**DEBT METRICS**

|  |  |  |
| --- | --- | --- |
|  | **30 September****2023** | **31 March****2023** |
| Net loan to value ratio | 9% | 31% |
| Debt drawn | £20.2m | £64.3m |
| Total fixed debt | £8.4m | £8.6m |
| Average cost of debt | 5.4% | 5.8% |
| Average debt maturity | 1.6yrs | 2.0yrs |
| NAV gearing | 10% | 46% |

**Matthew Simpson**

**CHIEF FINANCIAL OFFICER**

14 November 2023

**Statement of Principal Risks**

We consider there has been no material changes to the Company's principal risks, as set out in the Annual Report and Accounts for the year ended 31 March 2023 and summarised below. However, several risks continue to be elevated as a result of the ongoing economic outlook for the UK.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **01****MARKET CYCLE** |  | **02****ECONOMIC AND POLITICAL** |  | **03****CAPITAL STRUCTURE** |
| **Risk description**Failure to react appropriately to changing market conditions and adapt our corporate strategy could negatively impact shareholder returns.  |  | **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. |  | **Risk description**An inappropriate level of gearing or failure to comply with debt covenants or manage re-financing events could put pressure on cash resources and lead to a funding shortfall for operational activities. |
|  **04****LIQUIDITY** |  | **05****PORTFOLIO STRATEGY –**  |  | **06****ASSET MANAGEMENT** |
| **Risk description**Increasing costs of borrowing due to increasing interest rates could affect the Company's ability to borrow or reduce its ability to repay its debts  |  | **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 |  | **Risk description**Failure to implement asset business plans and elevated risks associated with refurbishment could lead to longer void periods, higher arrears and overall investment performance, adversely impacting returns and cashflows. |
| **07****VALUATION** |  | **08****TENANT DEMAND****AND DEFAULT** |  | **09****BUSINESS CONTINUITY AND CYBER SECURITY** |
| **Risk description**Decreasing capital and rental values could impact the Company's portfolio valuation leading to lower returns. |  | **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.  |  | **Risk description**Business disruption as a result of physical damage to buildings, Government policy and social distancing measures implemented in response to pandemics, cyber attacks or other operational or IT failures or unforeseen events may impact income and profits. |
| **10****PEOPLE** |  | **11****CLIMATE CHANGE** |  | **12****REGULATORY AND TAX** |
| **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.  |  | **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 Company's assets becoming obsolete or unable to attract occupiers. |  | **Risk description**Non-compliance with the legal and regulatory requirements of a public real estate company, including the REIT regime could result in convictions or fines and negatively impact reputation.  |

**Statement of Directors’ Responsibilities**

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

• an indication of important events that have occurred during the first six months and their impact on the condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

• material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

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

By order of the Board

**Phil Higgins**

Company Secretary

14 November 2023

Palace Capital plc

**Condensed consolidated statement of comprehensive income**

For the six months ended 30 September 2023

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Notes |  | **Unaudited** **6 months to****30 September****2023****£000** | Unaudited 6 months to30 September2022£000 | Audited Year to31 March 2023£000 |
|  |  |  |  |  |  |
| Revenue |  |  3 |  | **12,108** | 14,340 | 32,973 |
| Cost of sales |  |  4 |  | **(6,551)** | (6,934) | (17,147) |
| Movement in expected credit loss |  |  | **-** | - | 327 |
| **Net property income** |  |  | **5,557** | 7,406 | 16,153 |
|  |  |  |  |  |  |
| Administrative expenses |  |  | **(1,816)** | (3,529) | (6,094) |
| Operating profit before gains and losses on property assets |  |  | **3,741** | 3,877 | 10,059 |
|  |  |  |  |  |  |
| Profit on disposal of investment properties |  |  | **3,383** | 882 | 819 |
| Loss on revaluation of investment properties | 9 |  | **(5,613)** | (15,587) | (42,900) |
| **Operating profit/(loss)** |  |  | **1,511** | (10,828) | (32,022) |
|  |  |  |  |  |  |
| Finance income |  |  | **176** | 2 | 26 |
| Finance expenseDebt termination costs |  |  | **(1,552)** | (1,725)(6) | (3,970) |
| **(324)** | (15) |
| Changes in fair value of interest rate derivatives |  |  | **-** | 184 | 210 |
| **Loss before taxation** |  |  | **(189)** | (12,373) | (35,771) |
|  |  |  |  |  |  |
| Taxation |  5 |  | **16** | 31 | 67 |
| **Loss after taxation for the period and total comprehensive loss attributable to owners of the Parent** |  |  | **(173)** | (12,342) | (35,704) |
|  |  |  |  |                   |                    |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Earnings per ordinary share** |  |  |
| Basic  | 6 |  | (0.4p) | (27.4p) | (80.2p) |
| Diluted  | 6 |  | (0.4p) | (27.4p) | (80.2p) |

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

Palace Capital plc

**Condensed consolidated statement of financial position**

For the six months ended 30 September 2023

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | Notes | **Unaudited** **30 September****2023****£000** | Unaudited 30 September2022£000 | Audited31 March 2023£000 |
| **Non-current assets** |  |  |  |  |  |
| Investment properties |  | 9 | **111,337** | 213,928 | 176,504 |
| Right of use asset |  |  | **33** | - | 132 |
| Property, plant and equipment |  |  | **16** | 34 | 23 |
|  |  |  | **111,386** | 213,962 | 176,659 |
|  |  |  |  |  |  |
| **Current assets** |  |  |  |  |  |
| Trading property |  | 10 | **8,713** | 17,005 | 11,055 |
| Trade and other receivables |  | 11 | **8,079** | 8,191 | 8,550 |
| Cash and cash equivalents |  | 12 | **8,870** | 12,888 | 5,509 |
| Derivative financial instruments |  | 15 | **-** | 252 | - |
|  |  |  | **25,662** | 38,336 | 25,114 |
| **Total assets** |  |  | **137,048** | 252,298 | 201,773 |
|  |  |  |  |  |  |
| **Current liabilities** |  |  |  |  |  |
| Trade and other payables |  | 13 | **(6,962)** | (7,408) | (8,339) |
| Borrowings |  | 14 | **(11,951)** | (1,718) | (8,545) |
| Lease liabilities for right of use asset |  |  | **(33)** | - | (132) |
| **Creditors: amounts falling due within one year** |  |  | **(18,946)** | (9,126) | (17,016) |
| **Net current assets** | **6,716** | 29,210 | 8,098 |
|  |  |  |  |  |  |
| **Non-current liabilities** |  |  |  |  |  |
| Borrowings |  | 14 | **(8,078)** | (86,247) | (55,129) |
| Deferred tax liability |  |  | **(61)** | (113) | (76) |
| Lease liabilities for investment properties |  |  | **-** | (1,077) | (1,077) |
| **Net Assets** |  |  | **109,963** | 155,735 | 128,475 |
|  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |
| Called up share capital |  | 16 | **4,639** | 4,639 | 4,639 |
| Merger reserve |  |  | **3,503** | 3,503 | 3,503 |
| Capital redemption reserve |  |  | **340** | 340 | 340 |
| Treasury share reserve |  |  | **(22,457)** | (6,669) | (7,343) |
| Capital reduction reserve |  |  | **115,249** | 121,779 | 118,477 |
| Retained earnings |  |  | **8,689** | 32,143 | 8,859 |
| **Equity shareholders’ funds** | **109,963** | 155,735 | 128,475 |
|  |  |  |  |  |  |
| Basic NAV per ordinary share |  | 7 | **293p** | 354p | 294p |
| Diluted NAV per ordinary share |  | 7 | **293p** | 354p | 294p |
| EPRA NTA per ordinary share |  | 7 | **294p** | 356p | 296p |

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

The condensed consolidated interim financial statements were approved by the Board of Directors on 14 November 2023.

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

Palace Capital plc

**Condensed consolidated statement of changes in equity**

For the six months ended 30 September 2023

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Share Capital £000 | Treasury Shares Reserve£000 | OtherReserves£000 | Capital reduction reserve £000 | Retained Earnings £000 | Total equity  £000 |
| As at 31 March 2022 | 4,639 | (717) | 3,843 | 125,019 | 44,420 | 177,204 |
|  |  |  |  |  |  |  |
| Total comprehensive loss for the period | - | - | - | - | (12,342) | (12,342) |
| Share based payments | - | - | - | - | 100 | 100 |
| Exercise of share options | - | 73 | - | - | (73) | - |
| Issue of deferred bonus share options | - | - | - | - | 38 | 38 |
| Dividends paid | - | - | - | (3,240) | - | (3,240) |
| Share buyback | - | (6,025) | - | - | - | (6,025) |
|  |  |  |  |  |  |  |
| As at 30 September 2022 | 4,639 | (6,669) | 3,843 | 121,779 | 32,143 | 155,735 |
|  |  |  |  |  |  |  |
| Total comprehensive loss for the period | - | - | - | - | (23,362) | (23,362) |
| Share based payments | - | - | - | - | 77 | 77 |
| Exercise of share options | - | (2) | - | - | 2 | - |
| Issue of deferred bonus share options | - | - | - | - | (1) | (1) |
| Dividends paid | - | - | - | (3,302) | - | (3,302) |
| Share buyback | - | (672) | - | - | - | (672) |
|  |  |  |  |  |  |  |
| As at 31 March 2023 | 4,639 | (7,343) | 3,843 | 118,477 | 8,859 | 128,475 |
|  |  |  |  |  |  |  |
| Total comprehensive loss for the period | **-** | **-** | **-** | **-** | **(173)** | **(173)** |
| Share based payments | **-** | **-** | **-** | **-** | **68** | **68** |
| Exercise of share options | **-** | **65** | **-** | **-** | **(65)** | **-** |
| Dividends  | **-** | **-** | **-** | **(3,228)** | **-** | **(3,228)** |
| Share buyback | **-** | **(15,179)** | **-** | **-** | **-** | **(15,179)** |
|  |  |  |  |  |  |  |
| **As at 30 September 2023** | **4,639** | **(22,457)** | **3,843** | **115,249** | **8,689** | **109,963** |

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

Palace Capital plc

**Condensed consolidated statement of cash flows**

For the six months ended 30 September 2023

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Notes | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
| **Operating activities** |  |  |  |  |
| Loss before taxation |  | **(189)** | (12,373) | (35,771) |
| Finance income |  | **(176)** | (2) | (26) |
| Finance expense |  | **1,552** | 1,725 | 3,970 |
| Changes in fair value of interest rate derivatives |  | **-** | (184) | (210) |
| Loss on revaluation of investment property portfolio | 9 | **5,613** | 15,587 | 42,900 |
| Profit on disposal of investment properties |  | **(3,383)** | (882) | (819) |
| Debt termination costs |  | **324** | 6 | 15 |
| Depreciation of tangible fixed assets |  | **7** | 17 | 30 |
| Amortisation of right of use asset |  | **99** | 17 | 82 |
| Share-based payment |  | **68** | 100 | 177 |
| Increase in trade and other receivables |  | **(680)** | (779) | (1,140) |
| Decrease in trade and other payables |  | **(1,231)** | (1,411) | (415) |
| Decrease in trading property |  | **2,342** | 3,282 | 9,233 |
| Net cash generated from operations |  | **4,346** | 5,103 | 18,026 |
| Interest received |  | **176** | 2 | 26 |
| Interest and other finances charges paid |  | **(1,818)** | (1,619) | (3,427) |
| Corporation tax paid in respect of operating activities |  | **-** | (106) | (171) |
| **Net cash flows from operating activities** |  | **2,704** | 3,380 | 14,454 |
|  |  |  |  |  |
| **Investing activities** |  |  |  |  |
| Capital expenditure on refurbishment of investment property | 9 | **(2,657)** | (608) | (1,371) |
| Proceeds from disposal of investment properties | 9 | **65,835** | 4,692 | 15,410 |
| Purchase of property, plant and equipment |  | **-** | (6) | (8) |
| **Cash flows from investing activities** |  | **63,178** | 4,078 | 14,031 |
|  |  |  |  |  |
| **Financing activities** |  |  |  |  |
| Bank loan repaid |  | **(44,096)** | (13,037) | (37,419) |
| Loan issue costs |  | **(18)** | (411) | (461) |
| Dividends paid | 8 | **(3,228)** | (3,240) | (6,542) |
| Share buyback |  | **(15,179)** | (6,025) | (6,697) |
| **Cash flows from financing activities** |  | **(62,521)** | (22,713) | (51,119) |
|  |  |  |  |  |
| **Net increase/(decrease) in cash**  |  | **3,361** | (15,255) | (22,634) |
| Opening cash and cash equivalents | 12 | **5,509** | 28,143 | 28,143 |
| **Closing cash and cash equivalents** | 12 | **8,870** | 12,888 | 5,509 |
|  |  |                  |                  |                 |
|  |  |  |  |  |

Palace Capital plc

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023

1. **General information**

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

The Company’s shares are admitted to trading on the Main Market of the London Stock Exchange. The Company is domiciled and registered in England and Wales and incorporated under the Companies Act 2006. The address of its registered office is Fora Victoria, 6-8 Greencoat Place, London, SW1P 1PL.

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

**Basis of preparation**

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

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

The accounting policies and methods of computations used are consistent with those as reported in the Group’s Annual Report for the year ended 31 March 2023 and are expected to be used in the Group’s Annual Report for the year ended 31 March 2024.

The financial information for the year ended 31 March 2023 presented in these unaudited condensed Group interim financial statements does not constitute the Company’s statutory accounts for that period but has been derived from them. The Report and Accounts for the year ended 31 March 2023 were audited and have been filed with the Registrar of Companies. The Independent Auditor’s Report on the Report and Accounts for the year ended 31 March 2023 was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006. The financial information for the periods ended 30 September 2022 and 30 September 2023 are unaudited and have not been subject to a review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board.

The interim report was approved by the Board of Directors on 14 November 2023.

Copies of this statement are available to the public for collection at the Company’s Registered Office at Fora Victoria, 6-8 Greencoat Place, London, SW1P 1PL and on the Company’s website, [www.palacecapitalplc.com](http://www.palacecapitalplc.com).

**Going Concern**

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

As at 30 September 2023 the Group had £8.9m of unrestricted cash and cash equivalents, a low gearing level of 9% and a fair value property portfolio of £124.5m. The Directors have reviewed the forecasts for the Group taking into account the impact of rising inflation and rising interest rates on trading over the 12 months from the date of signing this report.

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

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

1. **Segmental reporting**

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

1. **Revenue**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
|  |  |  |  |  |
| Gross rental income |  | **6,839** | 8,616 | 17,425 |
| Dilapidations and other property related income |  | **55** | 4 | 401 |
| Insurance commission |  | **-** | - | 68 |
| Gross property income |  | **6,894** | 8,620 | 17,894 |
| Trading property income |  | **2,584** | 3,523 | 4,974 |
| Service charge income |  | **2,630** | 2,197 | 10,105 |
| **Total revenue** |  | **12,108** | 14,340 | 32,973 |

1. **Cost of sales**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
|  |  |  |  |  |
| Void costs |  | **1,027** | 847 | 2,076 |
| Legal, lettings and consultancy costs |  | **457** | 458 | 502 |
| Property operating expenses |  | **1,484** | 1,305 | 2,578 |
| Trading property costs of sales |  | **2,437** | 3,432 | 4,974 |
| Service charge expense |  | **2,630** | 2,197 | 9,595 |
| **Total cost of sales** |  | **6,551** | 6,934 | 17,147 |

1. **Taxation**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
|  |  |  |  |  |
| Deferred tax |  | **(16)** | (31) | (67) |
| Tax credit |  | **(16)** | (31) | (67) |

 As a result of the Company’s conversion to a REIT on 1 August 2019, the Group is no longer required to pay UK corporation tax in respect of property rental income and capital gains relating to its property rental business.

1. **Earnings per share**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
|  | Loss after tax attributable to ordinary Shareholders for the year | **(173)** | (12,342) | (35,704) |
|  |  |  |  |  |
|  |  | **Unaudited****6 months to****30 September****2023** | Unaudited6 months to30 September2022 | AuditedYear to31 March 2023 |
|  | Weighted average number of shares for basic earnings per share | **41,505,586** | 45,033,081 | 44,525,518 |
|  | Dilutive effect of share options | **-** | 9,831 | - |
|  |  |  |  |  |
|  | Weighted average number of shares for diluted earnings per share | **41,505,586** | 45,042,912 | 44,525,518 |
|  |  |  |  |  |
|  | **Earnings per ordinary share** |  |  |  |
|  | Basic  | **(0.4p)** | (27.4p) | (80.2p) |
|  | Diluted  | **(0.4p)** | (27.4p) | (80.2p) |

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 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.

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.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
|  |  |  |  |  |
|  | **Loss after tax attributable to ordinary shareholders for the period** | **(173)** | (12,342) | (35,704) |
|  |  |  |  |  |
|  | **Adjustments:** |  |  |  |
|  | Loss on revaluation of investment property portfolio | **5,613** | 15,587 | 42,900 |
|  | Profit on disposal of investment properties | **(3,383)** | (882) | (819) |
|  | Trading property revenue and cost of sales | **(147)** | (91) | (510) |
|  | Debt termination costs | **324** | 6 | 15 |
|  | Changes in fair value of interest rate derivatives | **-** | (184) | (210) |
|  | **EPRA earnings for the period** | **2,234** | 2,094 | 5,672 |
|  |  |  |  |  |
|  | Share-based payments | **68** | 100 | 177 |
|  | Payments to former Directors (including associated costs) | **-** | 1,380 | 1,835 |
|  | **Adjusted profit after tax for the period** | **2,302** | 3,574 | 7,684 |
|  | Tax excluding deferred tax on EPRA adjustments and capital gain charged | **(16)** | (31) | (67) |
|  | **Adjusted profit before tax for the period** | **2,286** | 3,543 | 7,617 |
|  |  |  |  |  |
|  | **EPRA and adjusted earnings per ordinary share** |  |
|  | EPRA basic | **5.4p** | 4.6p | 12.7p |
|  | EPRA diluted | **5.4p** | 4.6p | 12.7p |
|  | Adjusted EPS | **5.5p** | 7.9p | 17.1p |

1. **Net asset value per share**

The Company has adopted the new EPRA NAV measures which came into effect for accounting periods starting 1 January 2020. EPRA issued new best practice recommendations (BPR) for financial guidelines on its definitions of NAV measures. The new NAV measures as outlined in the BPR are EPRA net tangible assets (NTA), EPRA net reinvestment value (NRV) and EPRA net disposal value (NDV). The Company has adopted these new guidelines and applies them in the 30 September 2023 Interim Report.

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | **30 September 2023 (unaudited)** | **30 September 2022 (unaudited)** | **31 March 2023 (audited)** |
| **EPRA NTA (£000)** | **EPRA NRV (£000)** | **EPRA NDV (£000)** | **EPRA NTA (£000)** | **EPRA NRV (£000)** | **EPRA NDV (£000)** | **EPRA NTA (£000)** | **EPRA NRV (£000)** | **EPRA NDV (£000)** |
| Net assets attributable to shareholders | **109,963** | **109,963** | **109,963** | 155,735 | 155,735 | 155,735 | 128,475 | 128,475 | 128,475 |
| Include: |  |  |  |  |  |  |  |  |  |
| Fair value adjustment of trading properties | **587** | **587** | **587** | 1,390 | 1,390 | 1,390 | 730 | 730 | 730 |
| Real estate transfer tax | **-** | **7,589** | **-** | - | 14,347 | - | - | 11,922 | - |
| Fair value of fixed interest rate debt | **-** | **-** | **929** | - | - | 1,233 | - | - | 863 |
| Exclude: |  |  |  |  |  |  |  |  |  |
| Fair value of derivatives | **-** | **-** | **-** | (252) | (252) | - | - | - | - |
| Deferred tax on latent capital gains and capital allowances | **61** | **61** | **-** | 113 | 113 | - | 76 | 76 | - |
| **EPRA NAV** | **110,611** | **118,200** | **111,479** | 156,986 | 171,333 | 158,358 | 129,281 | 141,203 | 130,068 |
| **EPRA NAV per share** | **294p** | **315p** | **297p** | 356p | 389p | 360p | 296p | 323p | 279p |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023** | Unaudited30 September2022 | Audited31 March 2023 |
|  | Number of ordinary shares issued at the end of the period | **37,559,953** | 44,027,014 | 43,718,381 |
|  | Dilutive effect of share options | **-** | 9,831 | 9,831 |
|  | **Number of diluted ordinary shares for diluted and EPRA net assets per share** | **37,559,953** | 44,036,845 | 43,728,212 |
|  |  |  |  |  |
|  | **Net assets per ordinary share** |  |  |  |
|  | Basic NAV  | **293p** | 354p | 294p |
|  | Diluted NAV  | **293p** | 354p | 294p |
|  | EPRA NTA  | **294p** | 356p | 296p |

1. **Dividends**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | Payment Date  | **Unaudited****6 months to****30 September****2023****£000** | Unaudited6 months to30 September2022£000 | AuditedYear to31 March 2023£000 |
| **Ordinary dividends paid** |  |  |  |  |  |
| 2022 Interim dividend: 3.25p per share |  | 14 April 2022 | **-** | 1,504 | 1,504 |
| 2022 Final dividend: 3.75p per share |  | 5 August 2022 | **-** | 1,736 | 1,736 |
| 2023 Interim dividend: 3.75p per share |  | 14 October 2022 | **-** | - | 1,651 |
| 2023 Interim dividend: 3.75p per share |  | 13 January 2023 | **-** | - | 1,651 |
| 2023 Interim dividend: 3.75p per share |  | 14 April 2023 | **1,645** | - | - |
| 2023 Final dividend: 3.75p per share |  | 4 August 2023 | **1,583** | - | - |
|  | **3,228** |  3,240 | 6,542 |

|  |
| --- |
| **Proposed dividend** |
| 2024 Q1 interim dividend: 3.75p per share paid on 13 October 2023. |
| 2024 Q2 interim dividend: 3.75p per share payable on 29 December 2023. |

1. **Property Portfolio**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Freehold Investment properties | Leasehold Investment properties | Total investment properties |
|  | £000 | £000 | £000 |
| At 1 April 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 |
| Additions – refurbishments | **2,657** | **-** | **2,657** |
| Reclassification of leasehold property to freehold property | **3,000** | **(4,077)** | **(1,077)** |
| Loss on revaluation of investment properties | **(5,613)** | **-** | **(5,613)** |
| Disposals | **(52,685)** | **(8,449)** | **(61,134)** |
| **At 30 September 2023** | **111,337** | **-** | **111,337** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | Investment properties | Trading properties | Total property portfolio |
|  | £000 | £000 | £000 |
| At 1 April 2022 | 232,717 | 20,287 | 253,004 |
| Additions – refurbishments | 1,182 | - | 1,182 |
| Additions – trading properties | - | 363 | 363 |
| Loss on revaluation of properties | (42,900) | - | (42,900) |
| Disposals | (14,495) | (9,595) | (24,090) |
| At 31 March 2023 | 176,504 | 11,055 | 187,559 |
| Additions – refurbishments | **2,657** | **-** | **2,657** |
| Additions – trading properties | **-** | **95** | **95** |
| Reclassification of leasehold property to freehold property | **(1,077)** | **-** | **(1,077)** |
| Loss on revaluation of properties | **(5,613)** | **-** | **(5,613)** |
| Disposals | **(61,134)** | **(2,437)** | **(63,571)** |
| **At 30 September 2023** | **111,337** | **8,713** | **120,050** |

The property portfolio has been independently valued at fair value. The valuations have been prepared in accordance with the RICS Valuation – Global Standards July 2017 (“the Red Book”) and incorporate the recommendations of the International Valuation Standards and the RICS valuation – Professional Standards UK January 2014 (Revised April 2015) which are consistent with the principles set out in IFRS 13.

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

At 30 September 2023, the Company’s property portfolio was externally valued by CBRE, a Royal Institution of Chartered Surveyors (“RICS”) registered independent valuer. A reconciliation of the valuations carried out by the external valuer to the carrying values shown in the balance sheet was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023****£000** | Unaudited30 September2022£000 | Audited31 March 2023£000 |
| CBRE (property portfolio) |  | **124,455** | **235,620** | 192,355 |
|  |  |  |  |  |
| Adjustment in respect of minimum payment |  |  |  |  |
| under head leases included as a liability |  | **-** | **1,077** | 1,077 |
| Less trading properties at lower of cost and net realisable value |  | **(8,713)** | **(17,005)** | (11,055) |
| Less lease incentive balance in accrued income |  | **(3,818)** | **(4,374)** | (5,143) |
| Less fair value uplift on trading properties |  | **(587)** | **(1,390)** | (730) |
| Carrying value of investment properties |  | **111,337** | **213,928** | 176,504 |

Investment properties with a carrying value of £64,970,000 (31 March 2023: £162,420,000) are subject to a first charge to secure the Group’s bank loans amounting to £20,238,000 (31 March 2023: £64,333,000). Trading properties with a carrying value of £8,713,000 (31 March 2023: £11,055,000) are not secured to the Group’s bank loans and are therefore uncharged.

*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 Company’s financial and property management systems and is subject to the Group’s overall control environment.

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

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

The key assumptions made in the valuation of the Company’s investment properties are:

• The amount and timing of future income streams;

• Anticipated maintenance costs and other landlord’s liabilities;

• An appropriate yield; and

• For investment properties under construction: gross development value, estimated cost to complete and an appropriate developer’s margin.

*Valuation technique – standing investment properties*

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

1. **Trading property**

|  |  |  |
| --- | --- | --- |
|  |  | **Total****£000** |
| At 1 April 2022 |  | 20,287 |
| Costs capitalised |  | 363 |
| Disposal of trading properties |  | (9,595) |
| At 31 March 2023 |  | 11,055 |
| Costs capitalised |  | **95** |
| Disposal of trading properties |  | **(2,437)** |
| **At 30 September 2023** |  | **8,713** |

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

1. **Trade and other receivables**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023****£000** | Unaudited30 September2022£000 | Audited31 March 2023£000 |
| **Current** |  |  |  |  |
| Trade receivables |  | **2,040** | 1,557 | 1,897 |
| Prepayments and accrued income |  | **4,139** | 4,879 | 5,563 |
| Other taxes |  | **255** | 116 | 97 |
| Other debtors |  | **1,645** | 1,639 | 993 |
|  |  | **8,079** | 8,191 | 8,550 |
|  |  |  |  |  |

1. **Cash and cash equivalents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023****£000** | Unaudited30 September2022£000 | Audited31 March 2023£000 |
| Cash and cash equivalents |  | **8,870** | 12,888 | 5,509 |
|  |  | **8,870** | 12,888 | 5,509 |

1. **Trade and other payables**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023****£000** | Unaudited30 September2022£000 | Audited31 March 2023£000 |
| **Current** |  |  |  |  |
| Trade payables |  | **79** | **468** | 508 |
| Accruals  |  | **2,077** | **1,473** | 2,342 |
| Deferred rental income |  | **2,285** | **3,485** | 3,359 |
| Other taxes |  | **798** | **740** | 646 |
| Other payables |  | **1,723** | **1,242** | 1,484 |
|  |  | **6,962** | **7,408** | 8,339 |

1. **Borrowings**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023****£000** | Unaudited30 September2022£000 | Audited31 March 2023£000 |
| **Current borrowings**  |  |  |  |  |
| Bank loans |  | **12,086** | 1,718 | 8,563 |
| Unamortised lending costs |  | **(135)** | - | (18) |
|  |  | **11,951** | 1,718 | 8,545 |
|  |  |  |  |  |
| **Non-current borrowings**  |  |  |  |  |
| Bank loans |  | **8,152** | 86,998 | 55,770 |
| Unamortised lending costs |  | **(74)** | (751) | (641) |
|  |  | **8,078** | 86,247 | 55,129 |
|  |  |  |  |  |
| **Total borrowings**  |  |  |  |  |
| Bank loans |  | **20,238** | 88,716 | 64,333 |
| Unamortised lending costs |  | **(209)** | (751) | (659) |
|  |  | 20,029 | 87,965 | 63,674 |

**The maturity profile of the Group’s debt was as follows**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023****£000** | Unaudited30 September2022£000 | Audited31 March 2023£000 |
|  |  |  |  |  |
| Within one year  |  | **12,086** | **1,718** | 8,563 |
| From one to two years |  | **318** | **55,346** | 37,027 |
| From two to five years |  | **7,834** | **31,652** | 18,743 |
| Total borrowings |  | **20,238** | **88,716** | 64,333 |

**Facility and arrangement fees**

As at 30 September 2023 (unaudited)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Secured borrowings |  | **All in cost****%** | **Maturity** **date** | **Facility drawn****£000** | **Unamortised facility fees****£000** | **Loan balance****£000** |
|  |  |  |  |  |  |  |
| Scottish Widows |  | **2.90%** | **July 2026** | **8,470** | **(74)** | **8,396** |
| National Westminster Bank plc |  | **7.29%** | **August 2024** | **5,898** | **(106)** | **5,792** |
| Barclays | **7.14%** | **June 2024** | **5,870** | **(29)** | **5,841** |
|  |  |  |  | **20,238** | **(209)** | **20,029** |

During the period, the Company repaid the Lloyds loan in full on 31st May 2023. The Group also repaid the Santander loan in full on 4th August 2023.

As at 31 March 2023 (audited)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Securedborrowings |  | All in cost% | Maturity date | Facility drawn£000 | Unamortised facility fees£000 | Loan balance£000 |
|  |  |  |  |  |  |  |
| Scottish Widows |  | 2.90% | July 2026 | 8,629 | (71) | 8,558 |
| National Westminster Bank plc |  | 6.28% | August 2024 | 17,724 | (171) | 17,553 |
| Barclays | 6.13% | June 2024 | 19,385 | (62) | 19,323 |
| Santander Bank plc | 6.38% | May 2027 | 11,750 | (337) | 11,413 |
| Lloyds Bank plc | 6.13% | Mach 2024 | 6,845 | (18) | 6,827 |
|  |  |  |  | 64,333 | (659) | 63,674 |

As at 30 September 2022 (unaudited)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Secured borrowings |  | All in cost% | Maturity date | Facility drawn£000 | Unamortised facility fees£000 | Loan balance£000 |
|  |  |  |  |  |  |  |
| Scottish Widows |  | 2.90% | July 2026 | 8,788 | (82) | 8,706 |
| National Westminster Bank plc |  | 4.29% | August 2024 | 20,804 | (180) | 20,624 |
| Barclays | 3.29% | June 2024 | 27,779 | (95) | 27,684  |
| Santander Bank plc | 4.39% | May 2027 | 24,500 | (377) | 24,123 |
| Lloyds Bank plc | 4.14% | March 2024 | 6,845 | (17) | 6,828 |
|  |  |  |  | 88,716 | (751) | 87,965 |

At 30 September 2023, the Company has unused loan facilities amounting to £20,000,000 (31 March 2023: £20,000,000). 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.

Post period end, the NatWest term loan was fully repaid and the undrawn Revolving Credit Facility of £20,000,000 cancelled.

1. **Derivatives financial instruments**

The Company 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.

At 30 September 2023, the Company has no derivative financial instruments as they all matured in the prior financial year. The Company continues to monitor swap rates on an on-going basis.

Details of the interest rate swaps the Company has entered can be found in the table below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **Notional principal** | **Expiry date** | **Contract rate %** | **Valuation rate %** | **Unaudited****30 September****2023****£000** | **Unaudited 30 September 2022****£000** | **Audited****31 March****2023****£000** |
| Barclays Bank plc  | - | - | 1.34% | - | **-** | 252 | - |
| Santander plc | - | - | 1.37% | - | **-** | - | - |
|  | - |  |  |  | **-** | 252 | - |

1. **Share capital**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Unaudited** **30 September****2023** | Unaudited30 September2022 | Audited31 March 2023 |
| Share capital – £000  |  | **4,639** | 4,639 | 4,639 |
|  |  |  |  |  |
| Ordinary 10p shares  |  | **46,388,515** | **46,388,515** | 46,388,515 |
|  |  |  |  |  |
| Share capital – number of shares in issue |  | **46,388,515** | **46,388,515** | 46,388,515 |

 Movement in treasury shares is as follows:

|  |  |  |
| --- | --- | --- |
| Treasury shares at 31 March 2023  | 2,668,220 |  |
| Share buybacks in the period | 6,160,000 |  |
| Treasury shares at 30 September 2023 | 8,828,220 |  |
|  |  |  |
| **Total number of shares in issue at 30 September 2023 (excluding shares held in treasury)** | **37,560,295** |  |
|  |  |  |

1. **Post balance sheet events**

On 13 October 2023, Palace Capital completed the disposal of the Ground Floor, Victoria at Hudson Quarter, York for a total consideration of £1.5 million. The property was not charged to any loan facility.

On 20 October 2023, the Company completed the disposal of Bank House, Leeds for a total consideration of £2.65 million. The property was charged against the loan facility with NatWest plc and as a result, £2.5 million of the total consideration was used to repay the loan facility on 23 October 2023.

On 6 November 2023, the Company completed the disposal of Princeton House, Farnborough for a total consideration of £2.28 million. The Property was charged against the loan facility with NatWest plc and, as a result, £0.9 million of the total consideration was used to repay the loan facility on 9 November 2023.

On 9 November 2023, the Company fully repaid the remaining loan facility with NatWest plc of £2.5 million, and cancelled the undrawn Revolving Credit Facility of £20.0 million.