RNS Number : 6532P
Palace Capital PLC
21 November 2016

Palace Capital Plc
("**Palace Capital**", the "**Company**" or the "**Group**")

Interim results for the 6 months ended 30 September 2016

Palace Capital strategy gaining momentum
Income and capital focus delivering both dividend growth and NAV per share growth

Palace Capital, the property investment company that focuses on commercial property mainly outside London, is pleased to announce its half yearly results for the six months to 30 September 2016.

Highlights

Financial Highlights
- Interim dividend up 29% to 9p (H1 2016: 7p)
- NAV per share up 1.2% to 419p at 30 September 2016 (FY 2016: 414p)
- Portfolio valuation at 30 September 2016: £184.8 million (31 March 2016: £174.5 million)
- Rental income of £7.0 million (H1 2016: £5.4 million)
- Profit before tax of £3.9 million (H1 2016: £7.6 million)
- Adjusted EPS*: 10.8p (H1 2016: 9.1p)
- Average cost of debt reduced to 2.9% (FY 2016: 3.1%)
- Cash available at 30 September 2016: £9.3 million (FY 2016: £8.6 million)

**Adjusted EPS is recurring earnings per share, excluding one-off exceptional items and fair value movements*.

Operational Highlights
- Annualised contracted rental income increased to £13.7 million (FY 2016: £13.5 million)
- Acquisition of Boulton House, Manchester for £10.6 million was made during H1, with an income of £0.6 million and a potential reversion to £0.9 million, showing a 5.5% net initial yield and 8.5% reversionary yield, with significant asset management potential
- Total ownership of 1.8 million sq ft
- Overall occupancy maintained at 89%
- WAULT of 5.8 years (to break) (FY 2016: 6.3 years)
- Number of leases 210 (FY 2016: 194)

The Company's portfolio is benefitting from the active management programme, including:
- Improved occupier demand
- Rental uplifts
- Reducing incentives and increasing lease terms
- Change of use and planning approvals
- Vacant office space refurbishment

Stanley Davis, the Chairman of Palace Capital said;

"I am pleased to report that Palace Capital continues to demonstrate both income and capital growth and we believe this sets us apart from our peers. NAV per share is up to 419 pence per share and proposed interim dividend is 9 pence per share. We have not seen a negative impact from Brexit on our portfolio, which appears to be a London-focused issue, in fact we have seen increased activity in the towns and cities in which we operate.

We are making headway on several of our strategic assets and with our policy of sourcing opportunities both directly and corporately, I continue to be very optimistic about our future."

Date: 21 November 2016

For further information contact:

Palace Capital plc
Neil Sinclair, Chief Executive
Stephen Silvester, Finance Director
Tel. +44 (0)20 3301 8331

Allenby Capital Limited (Nominated Adviser and Joint Broker)
Nick Naylor / James Reeve
Tel. +44 (0)20 3328 5656

Arden Partners plc (Joint Broker)
Chris Hardie / Ciaran Walsh
Tel. +44 (0)20 7614 5917

Capital Access Group (Financial PR)
Scott Fulton / Jessica Bradford
Tel. +44 (0)20 3763 3400

CHAIRMAN'S STATEMENT - INTERIM RESULTS - HALF YEAR ENDED 30 SEPTEMBER 2016

I am pleased to report our interim results for the six months ended 30 September 2016 which show that the Company has made a profit before tax of £3.9million. We have continued to develop our portfolio during this period, albeit cautiously having some regard to the emerging implications of the EU referendum.

At 30 September 2016, our portfolio was valued by Cushman & Wakefield at £183.7 million, with a contracted rent roll of £13.7 million per annum and a net income after property costs of £11.7 million per annum. We maintain a conservative level of gearing and during this period our European Public Real Estate Association ("EPRA") NAV per share has increased by 1.2% to 419p per share, representing a net asset value of £107.5 million.

We continue to grow recurring income in order to support our progressive dividend policy. For the 6 months to 30 September 2016 rental income net of non-recoverable costs totalled £5.9 million, up from £4.5 million in the comparative period, after stripping out the one-off surrender premium of £3.0 million received from Gala Casinos Limited at Sol Central, Northampton in September 2015.

The Board's clear strategy is to increase shareholder value by continuing to make sensible opportunistic acquisitions. It is an interesting observation that, since the management team took Board control in July 2010, we have made only 10 acquisitions, 6 of which have been corporate (i.e. acquiring the companies which owned the properties). We now own 50 properties with a total floor area of approximately 1.8 million sq. ft.

The significant acquisition made in this financial period was the freehold of Boulton House, Chorlton Street, Manchester for £10.6 million. The Company's management had been assessing the Manchester market for over two years but when previous opportunities arose the prices required would not have provided the Company a sufficient return. However, the uncertainty caused by the calling of the EU referendum meant that a number of potential purchasers decided to withdraw from the market pending the outcome. This gave us a window of opportunity to buy a significant office building within 3-4 minutes' walk of Manchester Piccadilly Station.

We have a highly experienced team and I consider that we are very well placed to take advantage of the opportunities that we think will arise in the months ahead.

We have continued to recycle our capital and actively manage our portfolio. We have sold £2.9 million of our smaller or vacant assets at or above book value during the half year period, generating £0.9 million profit on disposal.

Strategic development

We have grown the Company by acquisition via equity issues and conservative borrowing so that, as at today, the company has a market capitalisation approaching £100 million. We intend to continue to grow Palace Capital through selective acquisitions, preferably off-market, where properties have either failed to sell or where owners do not want exposure to a public marketing process. This policy has stood us in good stead to date and we see no reason to change our approach. We place emphasis on properties that have short to medium term refurbishment and development potential.

In addition, we continue to seek and examine appropriate corporate acquisitions which conform to our criteria.

I am particularly pleased with the strength of our Management Team, with Richard Starr becoming a full time Executive Director in July of this year and Andrew Thomas joining us as Investment Manager from Orchard Street Investment Management.

Our model of outsourcing Property Management and Project Management is pivotal as, in our view, it provides cost efficiencies while allowing our team to focus on potential acquisitions and managing the portfolio's assets to create additional value.

Portfolio activity

Our particular brand of active management is delivering in terms of adding value and boosting income. We announced a portfolio update on 2 November 2016 and we would summarise the current position on some of our key properties as follows:

Hudson House, Toft Green, York

This 103,000 sq. ft. office building is located within the ancient City Wall, but only one minute's walk from York Railway Station and is regarded as a prime location.

City of York Council & Network Rail have announced plans for the surplus railway land around York Station to be redeveloped comprehensively over the next 20 years. This will include a significant commercial and residential element. This area is now known as York Central and is an exciting opportunity that can only benefit our property.

We already have consent for a change of use to 139 apartments. In a further planning move, we now also have a resolution to grant permission to convert Hudson House to 82 apartments and 37,000 sq ft of offices.

Notwithstanding these alternative schemes, the Board believes that the optimum value can be secured by redeveloping the entire site. As a result, the Company's architects and planning advisers are in detailed discussion with City of York Council. We had hoped to be able to submit a planning application by the end of the year but we are determined to iron out all issues first with the Council and it is now envisaged that an application will be submitted in March 2017.

The Company is currently bearing the cost of part of the building remaining empty, pending the outcome of the planning application. Vacant rates, although partly mitigated, as well as service charge shortfall will affect profits in the short term. The Directors believe that this is the correct approach, as since its purchase in October 2013, the value of Hudson House has increased from £3.8 million to £14.9 million as at 30 September 2016 and they consider there to be further potential value achievable with a redevelopment. Once planning consent is achieved, the Board will seek to maximise the value having regard to minimising the risk to shareholders.

Sol Central, Marefair, Northampton

We are making progress to improve our large mixed use leisure scheme in Central Northampton although rather more slowly than we would like. However, we submitted a planning application to change the use of the former Gala Casino premises to Class A3 (Restaurant and Cafes) and this was granted on 31 October 2016.

There is ongoing development activity in Northampton, much of it within 15 minutes' walk of Sol Central. A new County Council headquarters office building, known as 1 Angel Square, is due to be completed next month and will accommodate 2,000 people, whilst the town's new £330 million University campus is under construction. These can only have a positive effect on Sol Central and its ability to enhance income in the medium term.

Broad Street Plaza, Halifax

We only have a small unit unlet in this 118,000 sq. ft. leisure complex. However, we are not passive owners, so we have instructed a marketing company to advise as to increasing footfall and awareness further, with an emphasis on social media.

Boulton House, Chorlton Street, Manchester

We completed the purchase of this 75,000 sq. ft. office building in Central Manchester in August of this year. There is circa 18,500 sq. ft. of office space currently vacant and we have placed a contract to refurbish this space. In addition, we intend to remodel the entrance hall and part of the exterior.

The building is currently let at very modest rents. Demand for well-located offices in Central Manchester is robust and we are confident of the potential for future rental growth. It also has significant medium term development potential, as it stands on a site of c. 26,000 sq. ft. within three minutes' walk of Manchester Piccadilly Railway Station.

Bank House, King Street, Leeds

We are refurbishing the space formerly occupied by AXA that comprises c. 13,300 sq. ft. Coupled with the space adjoining of c. 3,300 sq. ft., we will be able to offer 16,600 sq. ft. on one floor in January 2017 at a very competitive office rental level for Central Leeds.

Former Polestar Building, Marsh Barton Trading Estate, Exeter

We recently announced that we had let this 113,000 sq. ft. industrial building to Wheatons (Exeter) Ltd on a lease for a term of 10 years from August of this year without a break at an initial rental of £282,000 per annum exclusive for the first 18 months, rising to £452,000 per annum exclusive in February 2018 until a rent review in August 2021, when the rent will rise to no less than £485,900 per annum exclusive.

As stated in our annual report, Administrators were appointed to our original tenant and then its successor and the outlook here did not look promising earlier this year with the prospect of empty rates, running costs, security etc. However, our team worked diligently to conclude a transaction with the private equity group that acquired the assets from the Administrator and this was achieved earlier this month.

The Forum, Barnfield Road, Exeter

We announced earlier this month that we had finally let the remaining vacant space in this 39,000 sq ft office building in Central Exeter. This building formed part of the Sequel Portfolio acquired from Quintain Estates and Development in 2013 and 10,300 sq. ft. had been vacant for some time. The final two lettings will have a considerable cash flow benefit as we immediately benefit from a cessation of empty rates and service charge shortfall of £110,718 per annum, but we will also receive an additional £81,589 per annum when the rent-free periods expire in May 2017. At that time this property will produce £409,000 per annum exclusive and will be a core part of our portfolio.

The Copperfield Centre, Dartford, Kent

We have completed our £2.25 million conversion scheme to refurbish the vacant upper floor offices into 13 self-contained residential apartments. We are currently in discussion with a party interested in leasing all of these.

Solaris House, Kiln Farm, Pitfields, Milton Keynes

This 14,500 sq. ft. office building was vacated earlier this year. We have placed a contract to refurbish the building as Milton Keynes is one of the fastest growing cities in the UK. It will be carried out to a similar standard to that of our two adjoining office buildings currently let to Rockwell Automation until December 2026.

Imperial Court & Imperial House, Leamington Spa

We recently renewed the lease with Altair UK that occupies 6,000 sq. ft. and we have increased the rental to £99,858 per annum. The lease is for a term expiring in November 2022 but there is a mutual break to determine in November 2019 to coincide with other leases in the building. Imperial House occupies part of a site of c. 70,000 sq. ft. and we are keeping our options open in respect of a possible large redevelopment subject to a satisfactory and viable planning consent.

There are several other active management initiatives progressing with other properties in our portfolio in order to increase income and net asset value.

Borrowings

We continue to build very close relationships with our lenders. During the half year, we concluded a 10-year facility with Scottish Widows on our Broad Street Plaza, Halifax property of £15.2 million at a fixed rate of 2.9%. With the fixed increases in rent due in August 2017, we will achieve a near 17% return on our equity. We also secured a loan of £6.0 million from Santander on Boulton House, Manchester until June 2020 at a margin of 2.25% over LIBOR. We have drawn down debt of £81.9 million which is a conservative net loan to value ratio of

39% with an average debt maturity of 5.1 years. The average cost of our debt is currently 2.9%, which can only be considered low compared against our peers in the real estate market.

Dividend

We intend to pay an interim dividend of 9p (2015: 7p) on Friday 30 December 2016 to shareholders on the register as at 9 December 2016. As we work to increase income we will continue to pursue a progressive dividend policy.

Outlook

Palace Capital is an exciting Company and I am privileged to be Chairman of the Board. My thanks go to my fellow Board Members and staff as well as our trusted advisers. I am delighted with the progress that we continue to make. Looking forward we view the EU referendum result as in the interests of Palace, as we believe that significant opportunities will become available to enable us to continue to create shareholder value.

As mentioned in previous statements our aspiration is to join the Official List of the London Stock Exchange and this will be kept under constant review. We are making headway on several of our strategic assets and with our policy of sourcing opportunities both directly and corporately, I continue to be very optimistic about our future.

Stanley Davis, Chairman
21 November 2016

Palace Capital Plc

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2016

	Notes	**Unaudited 6 months to 30 September 2016 £000**	Unaudited 6 months to 30 September 2015 £000	Audited Year to 31 March 2016 £000
Rental and other income	3	**7,076**	8,364	14,593
Property operating expenses		**(1,140)**	(880)	(1,624)
Net rental income		**5,936**	7,484	12,969
Administrative costs		**(1,369)**	(1,035)	(2,048)
Operating profit before gains on investment properties		**4,567**	6,449	10,921

Acquisition costs		**-**	(413)	(815)
Gains on revaluation of investment properties	8	**32**	2,308	3,620
Profit on disposal of investment properties		**873**	208	290
Operating profit		**5,472**	8,552	14,016
Finance income		**-**	8	34
Finance costs		**(1,562)**	(991)	(2,298)
Profit before taxation		**3,910**	7,569	11,752
Taxation	4	**(464)**	(396)	(953)
Profit for the period and total comprehensive income		**3,446**	7,173	10,799

Earnings per ordinary share				
Basic	6	13.4p	30.6p	43.9p
Diluted	6	13.4p	30.6p	43.9p
EPRA basic	6	10.4p	21.7p	31.3p
Adjusted EPS	6	10.8p	9.1p	18.9p

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

Palace Capital Plc

Condensed consolidated statement of financial position

30 September 2016

	Notes	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Non-current assets				
Goodwill		**-**	6	-
Investment properties	8	**184,787**	140,350	174,542
Tangible fixed assets		**36**	44	37
Deferred tax		**165**	500	334
Trade and other receivables	9	**809**	935	825
		185,797	141,835	175,738
Current assets				
Trade and other receivables	9	**3,170**	4,144	3,327

Cash and cash equivalents		**9,347**	18,689	8,576
Total current assets		**12,517**	22,833	11,903
Total assets		**198,314**	164,668	187,641
Current liabilities				
Trade and other payables	10	**(7,952)**	(7,132)	(6,815)
Borrowings	11	**(3,241)**	(850)	(2,233)
Total current liabilities		**(11,193)**	(7,982)	(9,048)
Net current assets		**1,324**	14,851	2,855
Non-current liabilities				
Borrowings	11	**(77,519)**	(49,678)	(69,711)
Obligations under finance leases		**(2,066)**	(2,070)	(2,067)
Total non-current liabilities		**(79,585)**	(51,748)	(71,778)
Net Assets		**107,536**	104,938	106,815
Equity				
Share capital	12	**2,580**	2,862	2,862
Share premium account		**59,444**	59,412	59,408
Merger reserve		**3,503**	3,503	3,503
Capital redemption reserve		**340**	65	65
Treasury share reserve		**(541)**	-	-
Retained earnings		**42,210**	39,096	40,977
Equity shareholders' funds		**107,536**	104,938	106,815
Basic NAV per ordinary share	7	419p	407p	414p
Diluted NAV per ordinary share	7	419p	407p	414p
EPRA NAV per ordinary share	7	419p	407p	414p

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 18 November 2016.

Palace Capital Plc

Condensed consolidated statement of cash flows

for the six months ended 30 September 2016

	Notes	Unaudited 6 months to 30 September 2016 £000	Unaudited 6 months to 30 September 2015 £000	Audited Year to 31 March 2016 £000

Operating activities				
Profit before tax		3,910	7,569	11,752
Adjustments for non-cash items:				
Profit on sale of investment properties		(873)	(208)	(290)
Gain on revaluation of investment properties		(32)	(2,308)	(3,620)
Goodwill write-off		-	-	6
Depreciation		10	10	18
Share-based payment		95	50	110
Net finance costs		1,562	983	2,264
Cash generated by operations		4,672	6,096	10,240
Changes in working capital		476	3,006	2,047
Cash flows from operations		5,148	9,102	12,287
Interest received		-	16	34
Corporation tax received / (paid)		10	(137)	(158)
Interest and other finance costs paid		(1,269)	(1,187)	(3,455)
Cash flows from operating activities		3,889	7,794	8,708
Investing activities				
Purchase of property, plant and equipment		(8)	(1)	(3)
Capital Expenditure on refurbishment of property		(2,187)	-	(1,182)
Purchase of investment property		(10,950)	(14,944)	(21,689)
Proceeds from disposal of investment properties		3,797	1,654	1,957
Payment to acquire subsidiary undertakings		-	-	(29,095)
Cash flows from investing activities		(9,348)	(13,291)	(50,012)
Financing activities				
Issue of ordinary share capital		38	19,115	19,114
Dividends paid	5	(2,308)	(1,416)	(3,221)
Other loans repaid		-	(3,219)	
Bank loan received		25,082	15,885	38,282
Bank loan repaid		(16,031)	(18,457)	(17,010)
Capital element of finance lease rental payments		(1)	(1)	(2)
Purchase of treasury shares		(541)	-	-
Fees relating to cancellation of deferred shares		(9)		
Cash flows from financing activities		6,230	11,907	37,163
Net increase/(decrease) in cash		771	6,410	(4,141)
Opening cash and cash equivalents		8,576	12,279	12,278
Cash acquired				439
Closing cash and cash equivalents		9,347	18,689	8,576

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 2016

	Share Capital £000	Share Premium £000	Treasury Shares Reserve £000	Merger Reserve £000	Capital Redemption reserve £000	Retained earnings £000	Total equity £000
As at 31 March 2015	2,307	40,852	-	3,503	65	33,289	80,016
Total comprehensive income for the period	-	-	-	-	-	7,173	7,173
Share based payments	-	-	-	-	-	50	50
Issue of new shares	555	18,560	-	-	-	-	19,115
Dividends	-	-	-	-	-	(1,416)	(1,416)
As at 30 September 2015	2,862	59,412	-	3,503	65	39,096	104,938
Total comprehensive income for the period	-	-	-	-	-	3,626	3,626
Share based payments	-	-	-	-	-	60	60
Issue of new shares	-	(4)	-	-	-	-	(4)
Dividends	-	-	-	-	-	(1,805)	(1,805)
As at 31 March 2016	2,862	59,408	-	3,503	65	40,977	106,815
Total comprehensive income for the period	-	-	-	-	-	3,446	3,446
Share based payments	-	-	-	-	-	95	95
Purchase of treasury shares	-	-	(541)	-	-	-	(541)
Issue of new ordinary shares	2	36	-	-	-	-	38
Redemption of deferred shares	(284)	-	-		275	-	(9)
Dividends	-	-	-	-	-	(2,308)	(2,308)
As at 30 September 2016	2,580	59,444	(541)	3,503	340	42,210	107,536

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

1 General information

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

The Company's shares are admitted to trading on AIM, a market operated by the London Stock Exchange plc. The Company is domiciled and registered in England and Wales and incorporated under the Companies Act 1985. The address of its registered office is 41 Chalton Street, London, NW1 1JD.

The nature of the Company's operations and its principal activities are that of property investment in the UK mainly through corporate acquisitions.

Basis of preparation

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

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

The accounting policies and methods of computations used are consistent with those as reported in the Group's Annual Report for the year ended 31 March 2016 and are expected to be used in the Group's Annual Report for the year ended 31 March 2017.

The financial information for the year ended 31 March 2016 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 2016 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 2016 was unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. The financial information for the periods ended 30 September 2015 and 30 September 2016 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 18 November 2016.

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

Going Concern

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

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

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

2 Segmental reporting

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

3 Net property income

	Unaudited 6 months to 30 September 2016 £000	Unaudited 6 months to 30 September 2015 £000	Audited Year to 31 March 2016 £000
Rent receivable	**7,014**	5,364	11,375
Surrender premium	**-**	3,000	3,172
Management fees & other income	**62**	-	46
Total revenue	**7,076**	8,364	14,593
Service charge & vacant rates	**(942)**	(580)	(1,511)
Repairs and dilapidation costs	**(43)**	(154)	(90)
Other property costs	**(155)**	(146)	(23)
Property operating expenses	**(1,140)**	(880)	(1,624)
Net property income	**5,936**	7,484	12,969

4 Taxation

	Unaudited 6 months to 30 September 2016 £000	Unaudited 6 months to 30 September 2015 £000	Audited Year to 31 March 2016 £000
Current income tax charge	**295**	396	726
Tax underprovided in prior year	**-**	-	6
Deferred tax	**169**	-	221
Tax charge	**464**	396	953

5 Dividends

Unaudited	Unaudited	Audited
6 months to	6 months to	Year to

	Payment Date	30 September 2016 £000	30 September 2015 £000	31 March 2016 £000
Ordinary dividends paid				
2015 Final dividend: 7p per share	31 July 2015	-	1,416	1,416
2016 Interim dividend: 7p per share	30 December 2015	-	-	1,805
2016 Final dividend: 9p per share	29 July 2016	2,308	-	-
		2,308	1,416	3,221

Proposed dividend
2017 Interim dividend: 9p per share payable on 30 December 2016.

On 21 November 2016, the Group announced it would pay an interim dividend of 9 pence per share to ordinary shareholders on the register on 9 December 2016, the ex-dividend date will be 8 December 2016 and the dividends will be paid on 30 December 2016.

6 Earnings per share

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

EPRA earnings are calculated taking the profit after tax excluding investment property revaluations and gains or losses on disposals, changes in the fair value of financial instruments, acquisition costs and debt close-out 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 and therefore it is more appropriate to use the basic number of shares. The EPRA diluted earnings per share also takes into account the dilution of share options and warrants if exercised.

Palace Capital also report on an adjusted earnings measure which is based on recurring earnings after tax excluding fair value adjustments accounting for derivatives, investment property and share based payments and on the basis of the basic number of shares.

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

	Unaudited 6 months to 30 September 2016 £000	Unaudited 6 months to 30 September 2015 £000	Audited Year to 31 March 2016 £000

Profit after tax attributable to ordinary shareholders for the period	**3,446**	**7,173**	**10,799**
Adjustments to arrive at EPRA profit			
Gains on revaluation of investment properties	(32)	(2,308)	(3,620)
Profit on disposal of investment properties	(873)	(208)	(290)
Cost of acquisitions	-	413	815
Debt termination cost	143	-	-
EPRA earnings for the period	**2,684**	**5,070**	**7,704**
Adjustments to arrive at Adjusted earnings			
Share-based payment	95	50	110
Surrender premium received	-	(3,000)	(3,172)
Adjusted earnings for the period	**2,779**	**2,120**	**4,642**

	Unaudited 6 months to 30 September 2016	Unaudited 6 months to 30 September 2015	Audited Year to 31 March 2016
Basic weighted average number of ordinary shares	25,706,969	23,413,287	24,597,258
Dilutive effect of share options & warrants	10,514	20,730	20,730
Diluted weighted average number of ordinary shares	25,717,483	23,434,017	24,617,988
Earnings per ordinary share			
Basic	13.4p	30.6p	43.9p
Diluted	13.4p	30.6p	43.9p
EPRA basic	10.4p	21.7p	31.3p
EPRA diluted	10.4p	21.6p	31.3p
Adjusted EPS	10.8p	9.1p	18.9p

7 Net asset value per share

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

Net asset value is calculated using the following information:

		Unaudited	Audited
	Unaudited	30 September	31 March

	30 September 2016 £000	2015 £000	2016 £000
Net assets at the end of the period	**107,536**	**104,938**	**106,815**
Effect of exercise of share options	71	109	109
Diluted net assets	**107,607**	**105,047**	**106,924**
Exclude fair value of financial instruments & exclude deferred tax on latent capital gains	-	-	-
EPRA NAV	**107,607**	**105,047**	**106,924**
Include fair value of financial instruments & include deferred tax on latent capital gains	-	-	-
EPRA NNNAV	**107,607**	**105,047**	**106,924**

	Unaudited 30 September 2016	Unaudited 30 September 2015	Audited 31 March 2016
Number of ordinary shares of 10p each issued as at the end of the period	25,650,692	25,781,229	25,781,229
Number of unexpired share options	10,514	20,730	20,730
Number of diluted ordinary shares	**25,661,206**	**25,801,959**	**25,801,959**
Basic NAV per ordinary share	419p	407p	414p
Diluted NAV per ordinary share	419p	407p	414p
EPRA NAV per ordinary share	419p	407p	414p
EPRA NNNAV per ordinary share	419p	407p	414p

8 Investment Properties

	Freehold Investment properties £000	Leasehold Investment properties £000	Total £000
At 1 April 2015	**84,568**	**18,420**	**102,988**
Arising on acquisition of subsidiary	44,880	-	44,880
Additions - new properties	18,653	4,886	23,539
Additions - refurbishments	1,149	33	1,182
Gains on revaluation of investment properties	1,840	1,780	3,620
Disposals	(1,667)	-	(1,667)
At 31 March 2016	**149,423**	**25,119**	**174,542**
Additions - new properties	10,950	-	10,950
Additions - refurbishments	2,116	71	2,187
Gains on revaluation of	205	(173)	32

investment properties			
Disposals	(2,924)	-	(2,924)
At 30 September 2016	**159,770**	**25,017**	**184,787**

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

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

At 30 September 2016, the Group's freehold and leasehold investment properties were externally valued by Royal Institution of Chartered Surveyors ("RICS") registered independent valuers. A reconciliation of the valuations carried out by the external valuers to the carrying values shown in the balance sheet was as follows:

	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Fair value	**183,650**	139,315	173,441
Adjustment in respect of minimum payment under head leases included as a liability	**2,076**	2,076	2,076
Less lease incentive balance in prepayments	**(939)**	(1,041)	(975)
Carrying value	**184,787**	140,350	174,542

Investment properties with a carrying value of £161,656,761 (31 March 2016: £151,065,990) are subject to a first charge to secure the Group's bank loans amounting to £81,864,383 (31 March 2016: £72,678,233).

Valuation process

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

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

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

Valuation technique

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

9 Trade and other receivables

	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Current			
Trade receivables	**1,882**	3,197	2,484
Prepayments and accrued income	**758**	861	738
Other taxes	**-**	-	68
Other debtors	**530**	86	37
	3,170	4,144	3,327
Non-current			
Prepayments and accrued income	**809**	935	825
	809	935	825

10 Current trade and other payables

	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Trade payables	**850**	184	638
Accruals	**3,155**	1,967	1,807
Deferred rental income	**1,491**	2,756	2,605
Taxes	**2,396**	2,219	1,698
Other payables	**60**	6	67
	7,952	7,132	6,815

11 Borrowings

	Unaudited	Unaudited	Audited
	30 September	30 September	31 March

	2016	2015	2016
	£000	£000	£000
Current borrowings	**3,241**	850	2,233
Non-current borrowings	**77,519**	49,678	69,711
Total borrowings	**80,760**	50,528	71,944
Non-current borrowings			
Secured bank loans drawn	**78,623**	50,242	70,445
Unamortised facility fees	**(1,104)**	(564)	(734)
	77,519	49,678	69,711

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

	Unaudited 30 September 2016 £000	Unaudited 30 September 2015 £000	Audited 31 March 2016 £000
Within one year	**3,241**	850	2,233
From one to two years	**2,036**	2,050	17,068
From two to five years	**63,517**	43,000	53,377
From five to ten years	**13,070**	-	-
Total borrowings	**81,864**	45,900	72,678

Facility and arrangement fees

As at 30 September 2016

Secured borrowings	Margin over LIBOR %	Maturity date	Facility drawn £000	Unamortised facility fees £000	Loan balance £000
Scottish Widows	2.10%	Jul 2026	15,250	(236)	15,014
National Westminster Bank plc	2.50%	Mar 2021	26,168	(346)	25,822
Nationwide Building Society	2.45%	Nov 2020	19,167	(181)	18,986
Santander Bank plc	2.25%	Jun 2020	15,887	(276)	15,611
Lloyds Bank plc	2.10%	Apr 2019	4,187	(55)	4,132
Close Brothers Group plc	4.00%	Sep 2017	1,205	(10)	1,195
			81,864	(1,104)	80,760

The Group has unused loan facilities amounting to £3.6m (31 March 16: £8.0m). Interest is charged on this facility at a rate of 1.25% and is payable quarterly. This facility is secured on the investment properties held by Property Investment Holdings Limited and Palace Capital (Properties) Limited.

12 Share capital

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

	Unaudited 30 September 2016	Unaudited 30 September 2015	Audited 31 March 2016
Ordinary 10p shares	25,800,279	25,781,229	25,781,229
Deferred 90p shares	-	315,937	315,937

Share capital - number of shares in issue	25,800,279	26,097,166	26,097,166
Share capital - £	2,580,028	2,862,466	2,862,446

17 June 2016 The Company purchased 91,587 of its own ordinary shares of 10p each at an average price of 360 pence per ordinary share. On 20 June 2016, it purchased 58,000 of its own ordinary shares of 10p each at an average price of 360 pence per ordinary share. All of the purchased shares are held as treasury shares. Additional fees of £2,000 were incurred on the purchase of these treasury shares.

On 20 June 19,050 warrants were exercised for 19,050 new ordinary shares in the Company at a price of 200p thereby generating cash proceeds of £38,100 for the Company. Following the exercise of the warrants, the Company has no further warrants outstanding.

A reduction of the Company's share capital by way of cancellation of the Deferred Shares was carried out and completed on 31 August 2016. The Company's issued share capital included 315,938 Deferred Shares as at 31 March 2016. The nominal value of the Deferred Shares was part of the capital of the Company and therefore not distributable. The Deferred Shares were created as a result of the reorganisation of the Company's share capital on 18 October 2013 when each issued ordinary share of £0.01 was consolidated and converted into one new Ordinary Share of £0.10 and one Deferred Share of £0.90. The Deferred Shares carried no voting or dividend rights and only very limited rights to participate in the capital of the Company upon a winding-up. These rights are such as to make the Deferred Shares virtually worthless in the hands of the holder.

In the Company's books the capital paid up on the Deferred Shares represented £284,244, being the aggregate nominal value of all the Deferred Shares. Cancelling the Deferred Shares with the prior approval of Shareholders by way of a special resolution and the subsequent approval of the Court has resulted in the removal of them from the Company's balance sheet and permitted an amount of £284,244 to be released to the Capital Redemption Reserve, which may be used to reduce or eliminate losses (if any) arising on the profit and loss account, and will also be retained for the protection of the Company's creditors that are in existence as at the date of the Capital Reduction. Additional fees of £8,786 were incurred as a result of the cancellation of the Deferred Shares and have been recognised as a debit against the Capital Redemption Reserve.

The Capital Reduction took effect at the order of the Court confirming the Capital Reduction and a statement of capital approved by the Court has since been registered with the Registrar of Companies.

Movement in ordinary authorised share capital		Price per share pence	Number of ordinary shares issued 000s	Total number of shares 000s
As at 1 Apr 2015				20,225,673
Equity issue	June 2015	360	5,555,556	
As at 30 Sep 2015				25,781,229
As at 1 Apr 2016				25,781,229
Exercise of warrants	June	200	19,050	

	2016			
As at 30 Sep 2016				25,800,279
Share buy-back by company	June 2016	360	(149,587)	
Total number of shares excluding the number held in treasury				25,650,696

13 Retained earnings & Reserves

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

- Share Capital represents the nominal value of the issued share capital of Palace Capital plc
- Share Premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue
- In June Palace Capital plc purchased 149,587 of its own shares at an average price of £3.60. All these shares are held in treasury.
- 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 cancellation of Deferred Shares and the removal of them from the Company's balance sheet.

14 Post balance sheet events

There have been no post balance sheet events that would require disclosure or adjustments to these financial statements.