Palace Capital plc

("Palace Capital" or the "Company")

Interim Results for the 6 months ended 30 September 2017

Palace Capital strategy progressing on all fronts
Continuing growth in NAV and dividend
Completed major acquisition post the period end

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 2017.

HIGHLIGHTS

Financial Highlights

- Interim dividend (as announced on 30 November 2017) - up 5.6% to 9.5p (H1 2017: 9p)
- NAV per share - up 1.8% to 451p (March 2017: 443p)
- Portfolio valuation at 30 September 2017 (prior to the acquisition of RT Warren (Investments) Ltd portfolio, independently valued at £71.8m): £202.8m up 10.7% including an uplift of 1.5% on a like-for like basis (March 2017: £183.2m)
- Profit before tax of £4.9m - up 25.6% (H1 2017: £3.9m)
- Adjusted EPS*: 12.8p - up 18.5% (H1 2017: 10.8p)
- Average cost of debt 2.9% (March 2017: 2.9%)

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

Operational Highlights

- Contracts exchanged on 18 September 2017 for the £68m acquisition of RT Warren (Investments) Ltd (including retained debt of £14.5m). This transaction completed post period end on 9 October 2017
- Corporate acquisition of St James Gate, Newcastle-upon-Tyne for £20m, showing 8.6% net initial yield
- Planning consent secured at the 2-acre Hudson House site, Toft Green, York for 127 apartments, 34,000 sq ft offices, 5,000 sq ft retail & car parking
- Annualised contracted rental income £14.1m – up 11% (March 2017: £12.7m)
- Refinancing of £27.0m debt facility for 5 years with Santander UK, secured on Boulton House Manchester, Sol Central Northampton & St James Gate Newcastle-upon-Tyne
- Application to join the premium listing segment of the Official List of the London Stock Exchange expected in 2018
- Overall occupancy (excluding Hudson House) is 89% (March 2017: 91%)
- WAULT of 5.2 years to break (March 2017: 5.8 years)

The Company has built a high-quality portfolio of properties. This is down to careful stock selection, taking advantage of corporate opportunities and selling those properties which have limited or no prospect for growth or are too small for the Company's stated criteria. This active management programme continues to support the Company's progressive dividend policy.

Stanley Davis, Chairman of Palace Capital, said:

"I am very pleased to report that Palace Capital shows increasing growth, both in income and capital value. Our NAV per share as at the half year was 451p, although this has been affected by the equity raise undertaken by the Company in October of this year. Our NAV on our readmission in October 2013 was 218p so we have made tremendous progress.

"We are making headway on some of our strategic assets and, with the completion of the acquisition of the high-quality RT Warren portfolio in early October, we remain very positive about our future."

Date: 4 December 2017

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*About Palace Capital plc (*www.palacecapitalplc.com*):*

Palace Capital is a UK property investment company admitted to trading on the AIM Market of the London Stock Exchange (LSE: PCA). The Company is not sector specific and looks for opportunities where it can enhance the long-term income and capital value through asset management and strategic capital development in locations outside London. In its last reported financial year, Palace Capital produced a 20.0% increase in adjusted profit before tax, a 7.0% uplift in EPRA NAV per share and a 16.0% increase in dividends.

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 SEPTEMBER 2017

Chairman's Statement

I am pleased to report our interim results for the six months ended 30 September 2017 which shows that the Company has made a profit before tax of £4.9m, up from £3.9m in the comparative period. We have continued to actively manage our portfolio with successful lettings, rent reviews, renewals of leases and asset sales.

At 30 September 2017, our portfolio was valued by Cushman & Wakefield at £202.8m, with a contracted rent roll of £14.1m per annum and a net income after property costs of £12.4m per annum. We are conservatively geared as, although our net loan to value ("LTV") rose after the Newcastle acquisition to 42%, it was subsequently reduced after the half year to 30%. Our EPRA NAV per share has increased by 1.8% to 451p per share (March 2017: 443p), although this has subsequently been affected by the equity raise undertaken by the Company in October of this year. At 30 September 2017 the Company had a net asset value of £111.6m (March 2017: £109.6m). Our net assets have materially increased since the period end with the acquisition of RT Warren and the associated £70m equity raise.

We continue to grow our recurring income which enables us to maintain our progressive dividend policy. This is very important to us in order to reward existing shareholders and attract new ones. For the 6 months to 30 September 2017 rental income, net of non-recoverable costs, totalled £6.5m (up from £5.9m in the comparative period).

Our strategy is to increase shareholder value by making selective acquisitions and taking advantage of opportunities when they arise. Since the management team took control in July 2011, we have made 12 acquisitions of which 8 have been corporate. This has been tax efficient strategy, saving considerable SDLT and, in some instances, acquiring unutilised tax losses.

We are very selective in the acquisitions we make and prefer to acquire "off-market" – as a result we can go many months before we make an acquisition. In the 6-month period we acquired the corporate entity that owns St James Gate, Newcastle-upon-Tyne (an office, hotel, retail & residential complex situated very close to Newcastle Railway Station) for £20m. Newcastle is a growing city where the Council has ambitious plans for the city centre. With a net initial yield of 8.6% and borrowing costs of under 3%, this investment provides us with very strong cash-flow.

We have added to our highly experienced team in order to service our new acquisitions and to maintain our active management programme. We are very well placed to take advantage of new opportunities as they arise.

Recycling our capital is an integral part of our strategy. We have sold over £3.0m of our smaller or vacant assets during the half year period, releasing cash to reinvest in the income-generating complex at St James Gate, Newcastle-upon-Tyne.

STRATEGIC DEVELOPMENT

We have grown the Company and its subsidiaries (the "Group") with active management of the acquired portfolios and properties. During the 6-month period we exchanged contracts to acquire RT Warren (Investments) Limited for £68m (which includes retained debt of £14.5m), which was completed on 9 October 2017. This company owns 21 commercial properties in prosperous towns and cities, largely in the South East, together with 65 residential properties. The Board believes this was the best quality portfolio we had been offered in over two years and fitted our stated strategy. It was financed by an equity raise of £70m which has had an immediate dilutive effect on net assets per share. I am very confident that we will extract considerable value and I am pleased to report that we have already managed to let the vacant London Court in Southampton for 10 years with a 5 year break at a headline rental of £150,000 per annum. We also have exciting plans for some of our other properties. It is our intention to sell the low yielding residential element of the RT Warren Portfolio by the spring of 2018 as it is not core to our business and then reinvest the proceeds in higher yielding, commercial properties.

Our model of outsourcing property management allows us not only to limit our direct overheads but also to focus on potential acquisitions and our active asset management programme. Following the acquisition of RT Warren we are in the process of rationalising the number of managing agents we use.

PORTFOLIO ACTIVITY

Hudson House, Toft Green, York:

We have announced that we secured planning consent to redevelop this site into 127 flats, 5,000 sq. ft of commercial/restaurant space and an office block of 34,000 sq ft of net lettable space. Our project managers have invited tenders to demolish the building which we are hopeful will commence in February 2018. This will allow us to save empty rates, service charge shortfall and insurance on an annualised basis of approximately £0.5m – an immediate positive effect on our profitability.

The residential market in York and nearby towns, such as Harrogate, is still buoyant with a number of developments successfully completed and sold. We are in active talks with a potential joint venture partner to move the project forward and we are working on construction starting in the final quarter of 2018. As our plans develop we will update shareholders.

We believe that this is a great development site in the fast-growing city of York situated only one minute's walk from the railway station.

Broad Street Plaza, Halifax

This 5-year-old leisure scheme is providing exceptional returns for us. In August, fixed rental increases totalling £154,000 per annum from Vue, Apcoa, JD Wetherspoon, TGI Fridays and Pure Gym came into effect so this property now produces £1.95m rent per annum. As interest on our loan from Scottish Widows of £14.8m is at the fixed rate of 2.9%, our interest payments are £425,000 per annum so our current net income is £1,525,000 per annum. On an equity investment of £9m made in March 2016 this represents almost a 17% return. In addition, Calderdale Council have made a huge investment in the historic Piece Hall which has increased the number of visitors to Halifax and early indications are that it has added to footfall and turnover at Broad Street Plaza.

Sol Central, Marefair, Northampton

The leisure occupational market has slowed but as we seek new tenants for the vacant space, our existing quality tenants still provide us with a return of circa 14.5% on our initial investment. We have taken the opportunity of renewing the roof and external lighting system as well as appointing additional letting agents.

Boulton House, Chorlton Street, Manchester

We took advantage of buying this 75,000 sq ft office building when a number of competitors withdrew from the market following the Government announcement of the date of the EU Referendum. Passing rents were in the region of £12.50-£13.00 per sq ft. We have carried out a limited refurbishment to the vacant space and revitalised the entrance which has enabled us to complete lettings of 6,500 sq ft at a headline rental of £17.25 per sq ft. Notwithstanding market sentiment, the letting market in Manchester is reasonably buoyant and we are confident of letting the remaining space in the months ahead.

Bridge House, 41-45, High Street, Weybridge

This prime retail and office building is due to fall vacant during the course of next year. As part of our active management strategy we have commenced initial discussions with the local planning authority with a view to the redevelopment of the site in this high value location.

A&B Bridge Park, Imberhorne Lane, East Grinstead

This retail warehouse was built in 2012 and is let to Wickes & Pets at Home. Wickes hold a lease until August 2027 and at the rent review in August we achieved a £50,000 per annum increase to £401,405 per annum. Pets at Home hold a lease until July 2027 at a rental of £112,613 per annum but with an option on their part to terminate in July 2022. Post the end of the half year we paid £30,000 to them to remove that break so we now have continuity of income of at least £514,018 per annum until 2027.

Stratton House, Cater Road, Bristol

This leasehold property acquired as part of the Sequel Portfolio in 2013 has required a large amount of management effort relative to its size and location. This was sold in August of this year for £2.25m which equated to book value.

Princeton House, 1-5 Victoria Road, Farnborough

This property was acquired as part of the Property Investment Holdings portfolio in 2014. It comprises an office building of approximately 8,300 sq ft used as a Job Centre and is let to Trillium (Prime) Property Group until April 2018 at a rental of £75,299 per annum. Since the end of the half year, this lease has been extended for a further 10 years with a break at the 5th year at a rental of £93,344 per annum rising to £140,000 per annum in April 2019. The tenant will be the Secretary of State for Communities & Local Government.

Other disposals since the period end

As active managers, we seek to solve issues at the earliest opportunity. The former Polestar Building at Marsh Barton, Exeter is a case in point. This 113,000 sq ft freehold and leasehold industrial property was old and in poor condition which was let to a printing company that went into administration. We subsequently relet the property to another printing company who also went into administration. The potential for the site included redevelopment for a retail warehouse and we are delighted that contracts have now been exchanged for the sale of the site to an operator for £3.29m which is in excess of its book value.

Finally, Whittle House in Coventry is a long leasehold office building of 17,800 sq ft which was refurbished by the previous occupier. Despite every effort to effect a letting, the interest was less than expected, so we took the decision to sell at book value. This relieves us from empty rates and running costs and was completed post period end.

Conclusion

Our active management strategy has focused on selling smaller properties and those that have limited or no possibility of further growth resulting in the quality of our portfolio being increased. With the acquisition of RT Warren now completed, we believe that the Company has an exciting and diversified portfolio which we can grow by active management and future acquisitions.

BORROWINGS

We continue to have very close relationships with our lenders. During the half year we concluded a new 5-year facility for £27m from Santander UK which is secured on our Manchester, Northampton and Newcastle properties at a margin of 2.5% above 3-month LIBOR.

At the end of the half year we had borrowings of £92.7m. Subsequently with the acquisition of RT Warren we assumed their loan from Barclays Bank of £14.5m which expires in January 2018. In negotiation with Barclays we took the opportunity of discussing with them not only a new, increased, 5-year facility on RT Warren but also refinancing our facility with Nationwide, who, we understand, are withdrawing from commercial property lending, which expires in 2021.

We have now agreed terms on a new £40m facility with Barclays at a margin of 1.95% over Libor and expect to conclude this before the end of the calendar year.

DIVIDEND

On 30 November 2017 we announced an interim dividend of 9.5p (2017: 9p) which will be paid on 29 December 2017 to shareholders on the register as at 8 December 2017. This dividend is in line with our stated policy to pursue a progressive dividend policy and as forecasted at the time of the announcement of the acquisition of RT Warren and the associated fundraising. At the same time we announced that in 2018 we will move to a quarterly dividend policy with the first payment expected in April 2018 in respect of the final quarter of 2017.

OUTLOOK

I have been in business for many years and Palace Capital is the most exciting company which I have been associated with and am privileged to chair. My thanks go to the Company's dedicated Executive Team and staff. From a company with a market capitalisation of only £108,000 in 2010 we have come a long way. I am in no doubt that with our high quality portfolio, selective stock acquisition and active management strategy shareholders have every reason to be optimistic about our future.

Stanley Davis, Chairman

1 December 2017

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2017

	Notes	**Unaudited 6 months to 30 September 2017 £000**	Unaudited 6 months to 30 September 2016 £000	Audited Year to 31 March 2017 £000
Rental and other income	3	**7,138**	7,076	14,266
Property operating expenses		**(675)**	(1,140)	(2,055)
Net rental income		**6,463**	5,936	12,211
Administrative costs		**(1,487)**	(1,369)	(2,915)
Operating profit before gains on investment properties		**4,976**	4,567	9,296
Gains on revaluation of investment properties	8	**1,396**	32	3,101
(Loss)/Profit on disposal of investment properties		**(159)**	873	3,191
Operating profit		**6,213**	5,472	15,588
Finance income		**-**	-	3
Finance costs		**(1,354)**	(1,562)	(3,014)
Profit before taxation		**4,859**	3,910	12,577
Taxation	4	**(507)**	(464)	(3,191)
Profit for the period and total comprehensive income		**4,352**	3,446	9,386

Earnings per ordinary share				
Basic	6	17.3p	13.4p	36.6p
Diluted	6	17.3p	13.4p	36.5p
EPRA basic	6	12.4p	10.4p	21.2p
Adjusted EPS	6	12.8p	10.8p	22.2p

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

Condensed consolidated statement of financial position

30 September 2017

Notes	**Unaudited 30 September**	Unaudited 30 September	Audited 31 March

	Notes	**2017 £000**	2016 £000	2017 £000
Non-current assets				
Investment properties	8	**202,832**	184,787	183,916
Tangible fixed assets		**129**	36	43
Deferred tax		**-**	165	-
Trade and other receivables	9	**-**	809	-
		202,961	185,797	183,959
Current assets				
Trade and other receivables	9	**5,018**	3,170	2,511
Cash and cash equivalents		**8,733**	9,347	11,181
Total current assets		**13,751**	12,517	13,692
Total assets		**216,712**	198,314	197,651
Current liabilities				
Trade and other payables	10	**(8,353)**	(7,952)	(6,161)
Borrowings	11	**(2,186)**	(3,241)	(2,036)
Total current liabilities		**(10,539)**	(11,193)	(8,197)
Net current assets		**3,212**	1,324	5,495
Non-current liabilities				
Borrowings	11	**(90,464)**	(77,519)	(75,758)
Deferred tax		**(2,499)**	-	(2,187)
Obligations under finance leases		**(1,588)**	(2,066)	(1,950)
Total non-current liabilities		**(94,551)**	(79,585)	(79,895)
Net Assets		**111,622**	107,536	109,559
Equity				
Share capital	12	**2,580**	2,580	2,580
Share premium account		**59,444**	59,444	59,444
Merger reserve		**3,503**	3,503	3,503
Capital redemption reserve		**340**	340	340
Treasury share reserve		**(2,250)**	(541)	(2,250)
Retained earnings		**48,005**	42,210	45,942
Equity shareholders' funds		**111,622**	107,536	109,559
Basic NAV per ordinary share	7	**442p**	419p	436p
Diluted NAV per ordinary share	7	**441p**	419p	434p
EPRA NAV per ordinary share	7	**451p**	419p	443p

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 1 December 2017.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2017

	Notes	**Unaudited 6 months to 30 September 2017 £000**	Unaudited 6 months to 30 September 2016 £000	Audited Year to 31 March 2017 £000
Operating activities				

	Note			
Profit before tax		**4,859**	3,910	12,577
Adjustments for non-cash items:				
Loss/(Profit) on sale of investment properties		**159**	(873)	(3,191)
Gain on revaluation of investment properties		**(1,396)**	(32)	(3,101)
Depreciation		**30**	10	20
Share-based payment		**100**	95	237
Net finance costs		**1,354**	1,562	3,011
Cash generated by operations		**5,106**	4,672	9,553
Changes in working capital		**(847)**	476	741
Cash flows from operations		**4,259**	5,148	10,294
Corporation tax (paid) / received		**(111)**	10	(1,047)
Interest and other finance costs paid		**(913)**	(1,269)	(2,516)
Cash flows from operating activities		**3,235**	3,889	6,731
Investing activities				
Purchase of property, plant and equipment		**(117)**	(8)	(26)
Capital Expenditure on refurbishment of property		**(925)**	(2,187)	(4,579)
Purchase of investment property		**(20,000)**	(10,950)	(10,950)
Proceeds from disposal of investment properties		**3,246**	3,797	12,447
Cash flows from investing activities		**(17,796)**	(9,348)	(3,108)
Financing activities				
Issue of ordinary share capital		**-**	38	29
Dividends paid	5	**(2,389)**	(2,308)	(4,617)
Bank loan received		**17,545**	25,082	25,813
Bank loan repaid		**(2,682)**	(16,031)	(19,952)
Capital element of finance lease rental payments		**(361)**	(1)	-
Purchase of treasury shares		**-**	(541)	(2,250)
Payment of share options exercised		**-**	-	(41)
Fees relating to cancellation of deferred shares		**-**	(9)	
Cash flows from financing activities		**12,113**	6,230	(1,018)
Net (decrease)/increase in cash		**(2,448)**	771	2,605
Opening cash and cash equivalents		**11,181**	8,576	8,576
Closing cash and cash equivalents		**8,733**	9,347	11,181

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

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2017

	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 2016	2,862	59,408	-	3,503	65	40,977	106,815

Total comprehensive income for the period	-	-	-	-	-	3,446	3,446
Redemption of shares	-	-	(541)	-	-	-	(541)
Share based payments	-	-	-	-	-	95	95
Issue of new 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
Total comprehensive income for the period	-	-	-	-	-	5,940	5,940
Redemption of shares	-	-	(1,816)	-	-	-	(1,816)
Share based payments	-	-	-	-	-	142	142
Issue of new shares	-	-	107	-	-	-	107
Exercise of share options	-	-	-	-	-	(41)	(41)
Dividends	-	-	-	-	-	(2,309)	(2,309)
As at 31 March 2017	2,580	59,444	(2,250)	3,503	340	45,942	109,559
Total comprehensive income for the period	-	-	-	-	-	4,352	4,352
Share based payments	-	-	-	-	-	100	100
Dividends	-	-	-	-	-	(2,389)	(2,389)
As at 30 September 2017	2,580	59,444	(2,250)	3,503	340	48,005	111,622

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

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2017

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 2006. The address of its registered office is Lower Ground Floor, One George Yard, London, EC3V 9DF.

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 2017 and are expected to be used in the Group's Annual Report for the year ended 31 March 2018.

The financial information for the year ended 31 March 2017 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 2017 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 2017 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 2016 and 30 September 2017 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 1 December 2017.

Copies of this statement are available to the public for collection at the Company's Registered Office at Lower Ground Floor, One George Yard, London, EC3V 9DF 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 2017 £000	Unaudited 6 months to 30 September 2016 £000	Audited Year to 31 March 2017 £000
Rent receivable	**7,138**	7,014	13,809
Management fees & other income	**-**	62	457
Total revenue	**7,138**	7,076	14,266
Service charge & vacant rates	**(675)**	(942)	(2,055)
Repairs and dilapidation costs	**-**	(43)	-
Other property costs	**-**	(155)	-
Property operating expenses	**(675)**	(1,140)	(2,055)
Net property income	**6,463**	5,936	12,211

4 Taxation

	Unaudited 6 months to 30 September 2017 £000	Unaudited 6 months to 30 September 2016 £000	Audited Year to 31 March 2017 £000
Current income tax charge	**490**	295	683
Tax overprovided in prior year	**-**	-	(13)
Deferred tax	**17**	169	2,521
Tax charge	**507**	464	3,191

5 Dividends

	Payment Date	Unaudited 6 months to 30 September 2017 £000	Unaudited 6 months to 30 September 2016 £000	Audited Year to 31 March 2017 £000
Ordinary dividends paid				
2016 Final dividend: 9p per share	29 July 2016	-	2,308	2,308
2017 Interim dividend: 9p per share	30 December 2016	-	-	2,309
2017 Final dividend: 9.50p per share	28 July 2017	**2,389**	-	-
		2,389	2,308	4,617

Proposed dividend
2018 Interim dividend: 9.5p per share payable on 29 December 2017.

On 30 November 2017, the Group announced it would pay an interim dividend of 9.5 pence per share to ordinary shareholders on the register on 8 December 2017, the ex-dividend date will be 7 December 2017 and the dividends will be paid on 29 December 2017.

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.

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 2017 £000	Unaudited 6 months to 30 September 2016 £000	Audited Year to 31 March 2017 £000
Profit after tax attributable to ordinary shareholders for the period	**4,352**	**3,446**	**9,386**
Adjustments to arrive at EPRA profit			
Gains on revaluation of investment properties	**(1,396)**	(32)	(3,101)
Loss/(Profit) on disposal of investment properties	**159**	(873)	(3,191)
Debt termination cost	**-**	143	155
Deferred tax charge on revaluation gains and capital allowances reversed	**-**	-	2,200
EPRA earnings for the period	**3,115**	**2,684**	**5,449**
Adjustments to arrive at Adjusted earnings			
Share-based payment	**100**	95	237
Adjusted earnings for the period	**3,215**	**2,779**	**5,686**

	Unaudited 6 months to 30 September 2017	Unaudited 6 months to 30 September 2016	Audited Year to 31 March 2017
Basic weighted average number of ordinary shares	**25,156,703**	25,706,969	25,650,141
Dilutive effect of share options & warrants	**36,322**	10,514	87,584
Diluted weighted average number of ordinary shares	**25,193,025**	25,717,483	25,737,725
Earnings per ordinary share			
Basic	**17.3p**	13.4p	36.6p
Diluted	**17.3p**	13.4p	36.5p
EPRA basic	**12.4p**	10.4p	21.2p
EPRA diluted	**12.4p**	10.4p	21.2p

Adjusted EPS	**12.8p**	10.8p	22.2p

7 Net asset value per share

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

Net asset value is calculated using the following information:

	Unaudited 30 September 2017 £000	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000
Net assets at the end of the period	**111,622**	**107,536**	**109,559**
Effect of exercise of share options	**-**	71	-
Diluted net assets	**111,622**	**107,607**	**109,559**
Exclude fair value of financial instruments & exclude deferred tax on latent capital gains	**2,499**	-	2,200
EPRA NAV	**114,121**	**107,607**	**111,759**
Include fair value of financial instruments & include deferred tax on latent capital gains	**(2,499)**	-	(2,200)
EPRA NNNAV	**111,622**	**107,607**	**109,559**

	Unaudited 30 September 2017	Unaudited 30 September 2016	Audited 31 March 2017
Number of ordinary shares of 10p each issued as at the end of the period	**25,250,692**	25,650,692	25,150,692
Dilutive effect of share options	**36,322**	10,514	87,584
Number of diluted ordinary shares	**25,287,014**	**25,661,206**	**25,238,276**
Net assets per ordinary share			
Basic NAV	**442p**	419p	436p
Diluted NAV	**441p**	419p	434p
EPRA NAV	**451p**	419p	443p
EPRA NNNAV	**441p**	419p	434p

8 Investment Properties

	Freehold Investment properties £000	Leasehold Investment properties £000	Total £000
At 1 April 2016	**149,423**	**25,119**	**174,542**
Additions – new properties	10,950	-	10,950
Additions – refurbishments	4,505	74	4,579
Gains on revaluation of investment properties	3,090	11	3,101
Disposals	(7,740)	(1,516)	(9,256)
At 31 March 2017	**160,228**	**23,688**	**183,916**
Additions – new properties	20,000	-	20,000

Additions – refurbishments	891	34	925
Gains on revaluation of investment properties	1,155	241	1,396
Disposals	(795)	(2,610)	(3,405)
At 30 September 2017	**181,479**	**21,353**	**202,832**

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.

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 2017, 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 2017 £000	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000
Fair value	**202,840**	183,650	183,175
Adjustment in respect of minimum payment under head leases included as a liability	**1,600**	2,076	1,959
Less lease incentive balance in prepayments	**(1,608)**	(939)	(1,218)
Carrying value	**202,832**	184,787	183,916

Investment properties with a carrying value of £186,180,000 (31 March 2017: £162,320,000) are subject to a first charge to secure the Group's bank loans amounting to £93,757,000 (31 March 2017: £78,730,000).

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 2017 £000	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000
Current			
Trade receivables	**2,285**	1,882	951
Prepayments and accrued income	**2,230**	758	1,499
Other taxes	**359**	-	-
Other debtors	**144**	530	61
	5,018	3,170	2,511
Non-current			
Prepayments and accrued income	**-**	809	-
	-	809	-

10 Current trade and other payables

	Unaudited 30 September 2017 £000	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000
Trade payables	**875**	850	570
Accruals	**1,346**	3,155	1,317
Deferred rental income	**4,273**	1,491	2,860
Taxes	**1,852**	2,396	1,408
Other payables	**7**	60	6
	8,353	7,952	6,161

11 Borrowings

	Unaudited 30 September 2017 £000	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000
Current borrowings	**2,186**	3,241	2,036
Non-current borrowings	**90,464**	77,519	75,758
Total borrowings	**92,650**	80,760	77,794
Non-current borrowings			
Secured bank loans drawn	**91,571**	78,623	76,694
Unamortised facility fees	**(1,107)**	(1,104)	(936)
	90,464	77,519	75,758

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

	Unaudited 30 September 2017 £000	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000

Within one year	**2,186**	3,241	2,036
From one to two years	**2,186**	2,036	2,036
From two to five years	**76,751**	63,517	61,806
From five to ten years	**12,634**	13,070	12,852
Total borrowings	**93,757**	81,864	78,730

Facility and arrangement fees
As at 30 September 2017

Secured borrowings	All in cost %	Maturity date	Facility drawn £000	Unamortised facility fees £000	Loan balance £000
Scottish Widows	2.90	Jul 2026	14,814	(212)	14,602
National Westminster Bank plc	2.84	Mar 2021	31,250	(305)	30,945
Nationwide Building Society	3.12	Nov 2020	16,755	(138)	16,617
Santander Bank plc	2.59	Aug 2022	27,000	(419)	26,581
Lloyds Bank plc	2.44	May 2019	3,938	(33)	3,905
			93,757	(1,107)	92,650

The National Westminster Bank plc facility is secured on the investment properties held by Property Investment Holdings Limited and Palace Capital (Properties) Limited. Interest is charged on the unutilised element of this facility at 1.25% per annum, and is payable quarterly. This facility was fully drawn down as at 30 September 2017 (31 March 2017: £3.6m undrawn).

12 Share capital

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

	Unaudited 30 September 2017	Unaudited 30 September 2016	Audited 31 March 2017
Ordinary 10p shares	**25,800,279**	25,800,279	25,800,279
Share capital – number of shares in issue	**25,800,279**	25,800,279	25,800,279
Share capital – £	**2,580,028**	2,580,028	2,580,028

The Company has set up an employee benefit trust, 'The Palace Capital Employee Benefit Trust', for the granting of shares applicable to directors and employees under the Long-Term Incentive Plan. On 19 September 2017 The Company transferred 100,000 ordinary shares held in Treasury into The Palace Capital Employee Benefit Trust.

On 19 September 2017 the Company granted 66,352 ordinary shares for awards made under the 2014 LTIP from The Palace Capital Employee Benefit Trust. As at 31 March 2017 there were 649,587 shares held in treasury but as a result of the 100,000 shares transferred into the Employee Benefit Trust, there are 549,587 shares remaining in Treasury.

Movement in ordinary authorised share capital		Price per share pence	Number of ordinary shares issued	Total number of shares
As at 1 Apr 2016				25,781,229
Exercise of warrants	June 2016	200	19,050	
				25,800,279

As at 30 Sep 2016, 31 March 2017 and 30 Sep 2017

The Company's issued share capital as at 30 September 2017 comprises 25,250,692 ordinary shares which can be used by shareholders as the denominator for the calculations which excludes the 549,587 ordinary shares held in treasury.

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.
- 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.
- The Treasury share reserve represents buyback of the company's own shares. These shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on transactions in treasury shares.

14 Post balance sheet events

On 9 October 2017 the acquisition of the entire share capital of the investment property company, R.T Warren (Investments) Limited completed for a total consideration of £53.3m. The Company undertook a share placing and open offer raising £70.0m on the AIM. 20,588,236 new shares were issued at an issue price of 340 pence per share. Following Admission of the shares, the issued ordinary share capital of the Company consists of 45,838,928 ordinary shares. This figure excludes the 549,587 ordinary shares held in treasury.