Financial Statements

Independent auditor's report

To the members of Picton Property Income Limited

KPMG

Opinions and conclusions arising from our audit

1. Our opinion on the Group financial statements is unmodified

We have audited the Group financial statements (the "financial statements") of Picton Property Income Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows and the related notes. In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its profit and total comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Overview	
Materiality Group financial statements as a whole	£6.68m (2016: £6.46m) 1% (2016: 1% of Total Assets)
Coverage	100% (2016: 100% of Total Assets
Risk of material misstatement vs 2016	
Recurring risks	Valuation of investment property

2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit, was as follows:

	The risk	Our response
Valuation of investment property Investment property £615 million; 2016: £646 million Refer to pages 59-61 of the Audit and Risk Committee Report, Note 2 significant accounting policies and Note 14 Investment Property disclosures.	The Group's investment property portfolio accounted for 92% of the Group's total assets as at 31 March 2017. The fair value of the investment property portfolio at 31 March 2017 was assessed by the Property Valuation Committee and approved by the Board of Directors based on independent valuations prepared by the Group's external property valuer. As highlighted in the Audit and Risk Committee Report, the valuation of the Group's investment property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgement and subjective assumptions, is a significant area of our audit.	Procedures to address this audit risk included those listed below: **Controls evaluation** We tested the design, implementation and operating effectiveness of certain controls over the valuation including the review and approval by the Board of Directors and the capture and recording of information contained in the lease database for investment properties. **Evaluating Group's external property valuer** We assessed the competence, capabilities and objectivity of the valuer. We also assessed the independence of the valuer by considering the scope of their work and the terms of their engagement. **Evaluating inputs used in the valuations** We assessed the valuations prepared by the external property valuer by evaluating the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the external valuer with the assistance of our own Real Estate specialist to challenge the valuations based on market information and knowledge. We also compared a sample of key inputs to the valuation such as annual rental, occupancy and tenancy contracts for consistency with other audit findings and observable market evidence. **Consideration of accounting policies** We also considered the Group's investment property valuation policies and their application as described in the notes to the financial statements for compliance with International Financial Reporting Standards in addition to the adequacy of disclosures in Note 14 in relation to the fair value of the investment properties.

Independent auditor's report

To the members of Picton Property Income Limited continued

KPMG

Total assets

£668.35m

(2016: £686.81m)

Whole financial statements materiality: £6.68m (2016: £6.46m)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £6.68 million determined with reference to a benchmark of Group Total Assets of £668.35 million, of which it represents approximately 1% (2016: approximately 1%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £334,150, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group audit team performed the audit of the Group as if it was a single operating entity based on the aggregated set of financial information for the Group. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation, total Group assets and total Group liabilities.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.

4. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' Viability Assessment and Statement on page 67-68, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Company's continuing in operation over the 5 years to 31 March 2022; or
- the disclosures in Note 2 of the financial statements concerning the use of the going concern basis of accounting.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under International Standards on Auditing ('ISAs') (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies (Guernsey) Law, 2008, we are required to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and beliefs are necessary for the purposes of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on page 56 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

6. The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and, in respect of any further matters on which we have agreed to report, on terms we have agreed with the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

7. Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Neale D Jehan
for and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR

6 June 2017

Consolidated statement of comprehensive income

For the year ended 31 March 2017

	Notes	Income £000	Capital £000	2017 Total £000	2016 Total £000
Income					
Revenue from properties	3	54,398	-	**54,398**	45,923
Property expenses	4	(12,011)	-	**(12,011)**	(10,001)
Net property income		**42,387**	**-**	**42,387**	**35,922**
Expenses					
Management expenses	6	(3,636)	-	**(3,636)**	(2,901)
Other operating expenses	8	(1,613)	-	**(1,613)**	(1,510)
Total operating expenses		**(5,249)**	**-**	**(5,249)**	**(4,411)**
Operating profit before movement on investments		**37,138**	**-**	**37,138**	**31,511**
Investments					
Profit on disposal of investment properties	14	-	1,847	**1,847**	799
Investment property valuation movements	14	-	15,087	**15,087**	44,171
Total profit on investments		**-**	**16,934**	**16,934**	**44,970**
Operating profit		**37,138**	**16,934**	**54,072**	**76,481**
Financing					
Interest received		62	-	**62**	144
Interest paid	9	(10,885)	-	**(10,885)**	(11,561)
Total finance costs		**(10,823)**	**-**	**(10,823)**	**(11,417)**
Profit before tax		**26,315**	**16,934**	**43,249**	**65,064**
Tax	10	(499)	-	**(499)**	(216)
Profit and total comprehensive income for the period		**25,816**	**16,934**	**42,750**	**64,848**
Earnings per share					
Basic and diluted	12	4.8p	3.1p	**7.9p**	12.0p

The "Total" column of this statement represents the Group's Consolidated Statement of Comprehensive Income. The supplementary income return and capital return columns are prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All of the profit and total comprehensive income for the year is attributable to the equity holders of the Company.

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	Share Capital £000	Retained Earnings £000	Total £000
Balance as at 31 March 2015		**157,313**	**212,657**	**369,970**
Issue costs of shares		136	-	136
Profit for the year		-	64,848	64,848
Dividends paid	11	-	(17,822)	(17,822)
Balance as at 31 March 2016		**157,449**	**259,683**	**417,132**
Profit for the year		-	42,750	42,750
Dividends paid	11	-	(17,957)	(17,957)
Balance as at 31 March 2017		**157,449**	**284,476**	**441,925**

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated balance sheet

as at 31 March 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Investment properties	14	**615,170**	646,018
Tangible assets		**17**	57
Accounts receivable	15	**3,204**	3,331
Total non-current assets		**618,391**	**649,406**
Current assets			
Accounts receivable	15	**16,077**	14,649
Cash and cash equivalents	16	**33,883**	22,759
Total current assets		**49,960**	**37,408**
Total assets		**668,351**	**686,814**
Current liabilities			
Accounts payable and accruals	17	**(19,958)**	(18,321)
Loans and borrowings	18	**(1,104)**	(29,091)
Obligations under finance leases	22	**(109)**	(109)
Total current liabilities		**(21,171)**	**(47,521)**
Non-current liabilities			
Loans and borrowings	18	**(203,540)**	(220,444)
Obligations under finance leases	22	**(1,715)**	(1,717)
Total non-current liabilities		**(205,255)**	**(222,161)**
Total liabilities		**(226,426)**	**(269,682)**
Net assets		**441,925**	**417,132**
Equity			
Share capital	20	**157,449**	157,449
Retained earnings		**284,476**	259,683
Total equity		**441,925**	**417,132**
Net asset value per share	23	**82p**	77p

These consolidated financial statements were approved by the Board of Directors on 6 June 2017 and signed on its behalf by:

Robert Sinclair
Director

6 June 2017

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £000	2016 £000
Operating activities			
Profit for the period		54,072	76,481
Adjustments for non-cash items	21	(16,894)	(44,925)
Interest received		62	144
Interest paid		(9,273)	(8,980)
Tax paid		(232)	(426)
Increase in receivables		(2,344)	(712)
Increase in payables		1,449	2,439
Cash inflows from operating activities		**26,840**	**24,021**
Investing activities			
Capital expenditure on investment properties	14	(2,819)	(4,403)
Acquisition of investment properties	14	-	(73,084)
Disposal of investment properties		51,510	9,365
Purchase of tangible assets		-	(1)
Cash inflows/(outflows) from investing activities		**48,691**	**(68,123)**
Financing activities			
Borrowings repaid		(45,965)	(1,011)
Borrowings drawn		-	15,800
Financing costs		(485)	(198)
Dividends paid	11	(17,957)	(17,822)
Cash outflows from financing activities		**(64,407)**	**(3,231)**
Net increase/(decrease) in cash and cash equivalents		**11,124**	**(47,333)**
Cash and cash equivalents at beginning of year		22,759	70,092
Cash and cash equivalents at end of year	16	**33,883**	**22,759**

Notes 1 to 27 form part of these consolidated financial statements.

Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2017

1. General information

Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") was registered on 15 September 2005 as a closed ended Guernsey investment company. The consolidated financial statements are prepared for the year ended 31 March 2017 with comparatives for the year ended 31 March 2016.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis and adopt the historical cost basis, except for the revaluation of investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The financial statements, which give a true and fair view, are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB and are in compliance with the Companies (Guernsey) Law, 2008.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing the financial statements.

The financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand, except when otherwise indicated.

New or amended standards issued

The accounting policies adopted are consistent with those of the previous financial period, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16: Property, Plant and Equipment
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 38: Intangible Assets
- Annual Improvements to IFRSs (2014)

At the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective for the financial year ended 31 March 2017 and have not been adopted early:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers
- IFRS 16: Leases
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The Directors are in the process of assessing the full impact of the standards listed above but do not expect them to have a material impact on the Group's financial statements in the year of initial application, other than on presentation and disclosure.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Significant estimates

The critical estimates and assumptions relate to the investment property valuations applied by the Group's independent valuer and this is described in more detail in Note 14. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Significant judgements

Critical judgements, where made, are disclosed within the relevant section of the financial statements in which such judgements have been applied. Key judgements relate to the treatment of business combinations, lease classifications, or employee benefits where different accounting policies could be applied. These are described in more detail in the accounting policy notes below, or in the relevant notes to the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company at the reporting date. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. These financial statements include the results of the subsidiaries disclosed in Note 13. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Presentation of the Consolidated Statement of Comprehensive Income

In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income.

Fair value hierarchy

The fair value measurement for the assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

Investment properties

Freehold property held by the Group to earn income or for capital appreciation or both is classified as investment property in accordance with IAS 40 'Investment Property'. Property held under finance leases for similar purposes is also classified as investment property. Investment property is initially recognised at purchase cost plus directly attributable acquisition expenses. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. The Group ensures the use of suitable qualified external valuers valuing the investment properties held by the Group.

The fair value of investment property generally involves consideration of:

- Market evidence on comparable transactions for similar properties;
- The actual current market for that type of property in that type of location at the reporting date and current market expectations;
- Rental income from leases and market expectations regarding possible future lease terms;
- Hypothetical sellers and buyers, who are reasonably informed about the current market and who are motivated, but not compelled, to transact in that market on an arm's length basis; and
- Investor expectations on matters such as future enhancement of rental income or market conditions.

Gains and losses arising from changes in fair value are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. Purchases and sales of investment property are recognised when contracts have been unconditionally exchanged and the significant risks and rewards of ownership have been transferred.

An item of investment property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Statement of Comprehensive Income in the year the item is derecognised. Investment properties are not depreciated.

Realised and unrealised gains on investment properties have been presented as capital items within the Consolidated Statement of Comprehensive Income.

The loans have a first ranking mortgage over the majority of properties; see Note 14.

Notes to the consolidated financial statements

CONTINUED

2. Significant accounting policies CONTINUED

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Consolidated Statement of Comprehensive Income.

An operating lease is a lease other than a finance lease. Lease income is recognised in income on a straight-line basis over the lease term. Direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. The financial statements reflect the requirements of SIC 15 'Operating Leases – Incentives' to the extent that they are material. Premiums received on the surrender of leases are recorded as income immediately if there are no relevant conditions attached to the surrender.

Cash and cash equivalents

Cash includes cash in hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities in three months or less and that are subject to an insignificant risk of change in value.

Income and expenses

Income and expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the lease end. Upon receipt of a surrender premium for the early termination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties.

Property operating costs include the costs of professional fees on letting and other non-recoverable costs.

The income charged to occupiers for property service charges and the costs associated with such service charges are shown separately in Notes 3 and 4 to reflect that, notwithstanding this money is held on behalf of occupiers, the ultimate risk for paying and recovering these costs rests with the property owner.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments

The fair value of the amounts payable to employees in respect of the Deferred Bonus Scheme, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in the Consolidated Statement of Comprehensive Income.

The grant date fair value of awards to employees made under the Long-Term Incentive Plan is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related non-market performance conditions at the vesting date. For share-based payment awards with market conditions, the grant date fair value of the share-based awards is measured to reflect such conditions and there is no adjustment between expected and actual outcomes.

Dividends

Dividends are recognised in the period in which they are declared.

Trade receivables

Trade receivables are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Loans and borrowings

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

Other assets and liabilities

Other assets and liabilities, including trade creditors and accruals, other debtors and creditors, and deferred rental income, are not interest bearing and are stated at their nominal value.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Taxation

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom.

The Group is subject to United Kingdom taxation on income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the year ended 31 March 2017.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. As the Directors consider that the value of the property portfolio is likely to be realised by sale rather than use over time, and that no charge to Guernsey or United Kingdom taxation will arise on capital gains, no provision has been made for deferred tax on valuation uplifts.

Principles for the Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows has been drawn up according to the indirect method, separating the cash flows from operating activities, investing activities and financing activities. The net result has been adjusted for amounts in the Consolidated Statement of Comprehensive Income and movements in the Consolidated Balance Sheet which have not resulted in cash income or expenditure in the relating period.

The cash amounts in the Consolidated Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction. Dividends that have been paid are included in the cash flow from financing activities.

3. Revenue from properties

	2017 £000	2016 £000
Rents receivable (adjusted for lease incentives)	**40,555**	39,663
Surrender premiums	**263**	339
Dilapidation receipts	**1,090**	108
Other income	**6,003**	660
Service charge income	**6,487**	5,153
	54,398	**45,923**

Rents receivable includes lease incentives recognised of £0.9 million (2016: £1.2 million).

Included within other income is the £5.3 million settlement received in respect of a dispute at the Strathmore Hotel in Luton.

Notes to the consolidated financial statements

CONTINUED

4. Property expenses

	2017 £000	2016 £000
Property operating costs	**3,501**	3,308
Property void costs	**2,023**	1,540
Recoverable service charge costs	**6,487**	5,153
	12,011	**10,001**

5. Operating segments

The Board is charged with setting the Company's investment strategy in accordance with the Company's investment restrictions and overall objectives. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Balance Sheet, assuming dividends are reinvested, the key performance measure is that prepared under IFRS. Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Board has delegated the day-to-day implementation of this strategy to the Investment Manager but retains responsibility to ensure that adequate resources of the Company are directed in accordance with its decisions. The operating activities of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board.

The Investment Manager has been given authority to act on behalf of the Company in certain situations. Under the terms of the Investment Management Agreement, subject to the overall supervision of the Board, the Investment Manager advises on the investment strategy of the Company, advises the Company on its borrowing policy and geared investment position, manages the investment of the Company's short-term liquid resources, and advises on the use and management of derivatives and hedging by the Company. Whilst the Investment Manager may make operational decisions on a day-to-day basis regarding the property investments, any changes to the investment strategy or allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager.

The Board therefore retains full responsibility for investment policy and strategy. The Investment Manager will always act under the terms of the Investment Management Agreement, which cannot be changed without the approval of the Board. The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom, and therefore no segmental reporting is required. The portfolio consists of 53 commercial properties, which are in the industrial, office, retail, retail warehouse, and leisure sectors.

6. Management expenses

	2017 £000	2016 £000
Staff costs	**2,992**	2,328
Other management costs	**644**	573
	3,636	**2,901**

The Investment Manager for the Group is Picton Capital Limited, a wholly owned subsidiary company. The above staff and other management costs are those incurred by Picton Capital Limited during the year.

7. Staff costs

	2017 £000	2016 £000
Wages and salaries	**1,729**	1,475
Social security costs	**287**	204
Other pension costs	**58**	150
Share-based payments	**918**	499
	2,992	**2,328**

Staff costs are those of the employees of Picton Capital Limited. Employees in the Group participate in two share-based remuneration arrangements. Awards made under the Deferred Bonus Scheme, which is cash settled, are linked to the Company's share price and dividends paid, and, with effect from 31 March 2017, awards will vest after two years. Employees must still be in the Group's employment on the vesting date to receive payment. During the year the Group made awards of 662,149 units (2016: 744,444 units), which vest on 31 March 2019.

During the year, the Company established a new Long-Term Incentive Plan for all employees which is equity settled. Awards vest three years from the grant date and are conditional on three performance metrics measured over each three-year period. On 27 January 2017, the Company made awards of 1,170,258 shares for the three-year period ending on 31 March 2019.

The table below summarises the awards made under the Deferred Bonus Scheme. Employees have the option to defer the vesting date of their awards for a maximum of seven years. The units which vested at 31 March 2017 and were not deferred were paid out subsequent to the year end at a cost of £494,000 (2016: £391,000).

Vesting Date	Units at 31 March 2015	Units granted in the year	Units redeemed in the year	Units at 31 March 2016	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2017
31 March 2014	9,970	-	(7,050)	2,920	-	-	(2,920)	**-**
31 March 2015	168,050	-	(13,050)	155,000	-	-	(155,000)	**-**
31 March 2016	580,061	-	(502,385)	77,676	-	-	(12,478)	**65,198**
31 March 2017	668,567	-	-	668,567	-	(4,191)	(536,460)	**127,916**
31 March 2018	359,756	372,222	-	731,978	-	(5,998)	-	**725,980**
31 March 2019	-	372,222	-	372,222	662,149	(2,688)	-	**1,031,683**
	1,786,404	**744,444**	**(522,485)**	**2,008,363**	**662,149**	**(12,877)**	**(706,858)**	**1,950,777**

The emoluments of the Directors are set out in the Remuneration Report.

The Group employed 12 members of staff at 31 March 2017 (2016: 13). The average number of people employed by the Group for the year ended 31 March 2017 was 12 (2016: 13).

8. Other operating expenses

	2017 £000	2016 £000
Valuation expenses	**111**	108
Administrator fees	**171**	201
Auditor's remuneration	**145**	142
Directors' fees	**206**	224
Professional fees	**383**	505
Other expenses	**430**	330
Recurring costs	**1,446**	**1,510**
Restructuring costs	**167**	-
Exceptional costs	**167**	**-**
	1,613	**1,510**

Auditor's remuneration comprises:	2017 £000	2016 £000
Audit fees:		
Audit of Group financial statements	**65**	56
Audit of subsidiaries' financial statements	**43**	48
Audit related fees:		
Review of half year financial statements	**14**	19
	122	**123**
Non-audit fees:		
Additional controls testing	**14**	15
FCA CASS audit	**5**	4
Tax compliance	**4**	–
	23	**19**
	145	**142**

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9. Interest paid

	2017 £000	2016 £000
Interest payable on loans at amortised cost	8,812	8,751
Capital additions on zero dividend preference shares	1,074	1,900
Interest on obligations under finance leases	114	115
Non-utilisation fees	270	169
Amortisation of finance costs	615	626
	10,885	11,561

The loan arrangement costs incurred to 31 March 2017 are £6,213,000 (2016: £5,728,000). These are amortised over the duration of the loans with £615,000 written off in the year ended 31 March 2017 (2016: £626,000).

10. Tax

The charge for the year is:

	2017 £000	2016 £000
Current UK income tax	331	235
Income tax adjustment to provision for prior year	25	(137)
	356	98
UK corporation tax	143	118
	143	118
Total tax charge	499	216

A reconciliation of the income tax charge applicable to the results at the statutory income tax rate to the charge for the year is as follows:

	2017 £000	2016 £000
Profit before taxation	43,249	65,064
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	8,650	13,013
Less:		
Revaluation gains not taxable	(3,387)	(8,994)
Income not taxable, including interest receivable	(1,223)	(215)
Expenditure not allowed for income tax purposes	552	696
Losses utilised	(179)	(129)
Capital allowances and other allowable deductions	(4,102)	(4,136)
Losses carried forward to future years	20	–
Adjustment to provision for prior years	25	(137)
Total income tax charge	356	98

For the year ended 31 March 2017 there was an income tax liability of £356,000 in respect of the Group (2016: £98,000) and corporation tax of £143,000 (2016: £118,000).

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed fee of £1,200 per company per year is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom.

The Group is subject to United Kingdom taxation on rental income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The treatment of such costs and expenses in estimating the overall tax liability for the Group requires judgement and assumptions regarding their deductibility. The Directors have considered comparable market evidence and practice in determining the extent to which these are allowable. This is shown above as current UK income tax. UK corporation tax relates to the corporation tax arising in respect of Picton Capital Limited.

No deferred tax asset has been recognised from unused tax losses which total £4.1 million (2016: £4.6 million) as the Group is only able to utilise the losses to offset taxable profits in certain discrete business streams, and the Directors consider the probability of realising the benefit of these losses, except to an immaterial extent, to be low.

11. Dividends

	2017 £000	2016 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2015: 0.825 pence	-	4,455
Interim dividend for the period ended 30 June 2015: 0.825 pence	-	4,455
Interim dividend for the period ended 30 September 2015: 0.825 pence	-	4,456
Interim dividend for the period ended 31 December 2015: 0.825 pence	-	4,456
Interim dividend for the period ended 31 March 2016: 0.825 pence	4,455	-
Interim dividend for the period ended 30 June 2016: 0.825 pence	4,456	-
Interim dividend for the period ended 30 September 2016: 0.825 pence	4,456	-
Interim dividend for the period ended 31 December 2016: 0.85 pence	4,590	-
	17,957	**17,822**

The interim dividend of 0.85 pence per ordinary share in respect of the period ended 31 March 2017 has not been recognised as a liability as it was declared after the year end. A dividend of £4,590,000 was paid on 31 May 2017.

12. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year. The following reflects the profit and share data used in the basic and diluted profit per share calculation:

	2017	2016
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	42,750	64,848
Weighted average number of ordinary shares for basic and diluted profit per share	540,053,660	540,053,660

13. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2017 and 31 March 2016:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton (UK) Listed Real Estate Limited	Guernsey	100%
Picton Capital Limited	England & Wales	100%
Picton ZDP Limited (in liquidation)	Guernsey	100%
Picton (General Partner) No 2 Limited	Guernsey	100%
Picton (General Partner) No 3 Limited	Guernsey	100%
Picton No 2 Limited Partnership	England & Wales	100%
Picton No 3 Limited Partnership	England & Wales	100%
Picton Property No 3 Limited	Guernsey	100%
Picton Finance Limited	Guernsey	100%

The results of the above entities are consolidated within the Group financial statements.

Picton UK Real Estate (Property) Limited and Picton (UK) REIT (SPV) Limited own 100% of the units in Picton (UK) Listed Real Estate, a Guernsey Unit Trust (the "GPUT"). The GPUT holds a 99.9% interest in both Picton No 2 Limited Partnership and Picton No 3 Limited Partnership.

During the year Merbrook Business Property Unit Trust, Merbrook Bristol Property Unit Trust and Merbrook Prime Retail Property Unit Trust were wound up following their assets and liabilities being distributed to Picton No 3 Limited Partnership.

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14. Investment properties

The following table provides a reconciliation of the opening and closing amounts of investment properties classified as Level 3 recorded at fair value.

	2017 £000	2016 £000
Fair value at start of year	**646,018**	532,926
Acquisitions	**-**	73,084
Capital expenditure on investment properties	**2,819**	4,403
Disposals	**(50,601)**	(9,365)
Realised gains on disposal	**2,440**	799
Realised losses on disposal	**(593)**	–
Unrealised gains on investment properties	**25,729**	51,125
Unrealised losses on investment properties	**(10,642)**	(6,954)
Fair value at the end of the year	**615,170**	**646,018**
Historic cost at the end of the year	**654,057**	**685,499**

The fair value of investment properties reconciles to the appraised value as follows:

	2017 £000	2016 £000
Appraised value	**624,410**	654,605
Valuation of assets held under finance leases	**1,680**	1,731
Lease incentives held as debtors	**(10,920)**	(10,318)
Fair value at the end of the year	**615,170**	**646,018**

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2017 and 31 March 2016 on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2014). The total fees earned by CBRE Limited from the Group are less than 5% of their total UK revenue.

The fair value of the Group's investment properties has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable market transactions on an arm's length basis.

The Group's investment properties are valued quarterly by independent valuers. The valuations are based on:

- Information provided by the Investment Manager including rents, lease terms, revenue and capital expenditure. Such information is derived from the Investment Manager's financial and property systems and is subject to the Group's overall control environment.
- Valuation models used by the valuers, including market related assumptions based on their professional judgement and market observation.

The assumptions and valuation models used by the valuers, and supporting information, are reviewed by the Investment Manager and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including considering current market trends and conditions, and changes from previous quarters. The Directors will also consider where circumstances at specific investment properties, such as alternative uses and issues with occupational tenants, are appropriately reflected in the valuations. The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible.

As at 31 March 2017 and 31 March 2016 all of the Group's properties are Level 3 in the fair value hierarchy as it involves use of significant inputs. There were no transfers between levels during the year. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Information on these significant unobservable inputs per sector of investment properties is disclosed as follows:

	2017			2016		
	Offices	Industrial	Retail and Leisure	Offices	Industrial	Retail and Leisure
Appraised value (£000)	213,935	250,350	160,125	252,085	236,635	165,885
Area (sq ft, 000s)	925	2,730	824	999	2,745	831
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
— range	£6.42 to £50.45	£3.25 to £16.85	£5.24 to £91.14	£7.57 to £56.35	£3.15 to £16.78	£5.24 to £80.36
— weighted average	£26.39	£7.76	£31.60	£29.38	£7.33	£28.75
Net initial yield						
— range	0% to 16.79%	4.49% to 10.29%	3.15% to 14.23%	1.04% to 18.75%	-4.75% to 9.64%	3.23% to 12.58%
— weighted average	5.67%	5.75%	6.33%	5.23%	5.61%	6.22%
Reversionary yield						
— range	5.74% to 15.39%	5.38% to 11.60%	4.77% to 23.76%	5.05% to 15.94%	5.30% to 11.87%	4.25% to 9.27%
— weighted average	7.52%	6.47%	6.89%	7.12%	6.60%	5.78%
True equivalent yield						
— range	5.59% to 13.04%	5.42% to 10.87%	4.66% to 9.77%	5.05% to 14.73%	5.48% to 10.94%	4.38% to 9.53%
— weighted average	7.32%	6.57%	6.66%	6.98%	6.67%	6.51%

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	2017 Impact on valuation	2016 Impact on valuation
Industrial	Increase of 50 basis points	Decrease of £19.5m	Decrease of £18.0m
	Decrease of 50 basis points	Increase of £23.0m	Increase of £21.1m
Office	Increase of 50 basis points	Decrease of £16.0m	Decrease of £19.9m
	Decrease of 50 basis points	Increase of £18.5m	Increase of £22.0m
Retail and Leisure	Increase of 50 basis points	Decrease of £12.7m	Decrease of £12.5m
	Decrease of 50 basis points	Increase of £16.4m	Increase of £14.6m

Notes to the consolidated financial statements

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15. Accounts receivable

	2017 £000	2016 £000
Current		
Tenant debtors (net of provisions for bad debts)	**4,107**	3,209
Lease incentives	**10,920**	10,318
Other debtors	**514**	578
Income tax receivable	**-**	4
Capitalised finance costs	**536**	540
	16,077	**14,649**
Non-current		
Capitalised finance costs	**3,204**	3,331
	3,204	**3,331**
	19,281	**17,980**

Tenant debtors, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

16. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	**31,056**	20,063
Short-term deposits	**2,827**	2,696
	33,883	**22,759**

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The carrying amounts of these assets approximate their fair value.

17. Accounts payable and accruals

	2017 £000	2016 £000
Accruals	**5,092**	4,197
Deferred rental income	**8,590**	8,621
VAT liability	**2,345**	1,934
Income tax liability	**295**	-
Trade creditors	**125**	232
Other creditors	**3,511**	3,337
	19,958	**18,321**

18. Loans and borrowings

	Maturity	2017 £000	2016 £000
Current			
Aviva facility	-	1,104	1,057
Zero dividend preference shares	15 October 2016	-	28,034
		1,104	29,091
Non-current			
Santander revolving credit facility	25 March 2018	-	15,800
Canada Life facility	20 July 2022	33,718	33,718
Canada Life facility	24 July 2027	80,000	80,000
Aviva facility	24 July 2032	89,822	90,926
		203,540	220,444
		204,644	249,535

The Group has a loan with Canada Life Limited for £113.7 million, which is fully drawn. The loan matures in July 2027, with £33.7 million repayable in July 2022. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited, valued at £270.5 million (2016: £270.5 million).

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which was fully drawn on 24 July 2012. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.1 million in the year (2016: £1.0 million). Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership and Picton Property No 3 Limited, valued at £225.2 million (2016: £229.1 million).

The Group has a £26.0 million revolving credit facility with Santander Corporate & Commercial Banking until 25 March 2018. Interest is charged at 175 basis points over three-month LIBOR and the non-utilisation fee is 70 basis points. The facility is secured over properties held by Picton (UK) REIT (SPV No 2) Limited, valued at £58.9 million (2016: £57.1 million).

On 21 June 2016 an additional £27.0 million revolving credit facility was put in place with Santander Corporate & Commercial Banking for five years. Interest is also charged at 175 basis points over three-month LIBOR and the non-utilisation fee is 70 basis points. The facility is secured over properties held by Picton (UK) Listed Real Estate, valued at £67.6 million.

The fair value of the secured loan facilities at 31 March 2017, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £229.1 million (2016: £243.1 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

The Group repaid in full its 22,000,000 zero dividend preference shares ('ZDPs') at the maturity date of 15 October 2016. The ZDPs accrued additional capital at a rate of 7.25% per annum, resulting in a final repayment of £29.1 million.

There were no transfers between levels of the fair value hierarchy during the current or prior years.

The weighted average interest rate on the Group's borrowings as at 31 March 2017 was 4.21% (2016: 4.43%).

In accordance with the AIFM Directive, information in relation to the Group's leverage is required to be made available to investors. The Group's maximum and average actual leverage levels at 31 March 2017 are shown below:

	Gross method	Commitment method
Maximum limit	285%	285%
Actual	141%	146%

For the purpose of the AIFM Directive, leverage is any method which increases the Group's exposure, including the borrowing of cash and use of derivatives. It is expressed as a percentage of the Group's exposure to its net asset value and is calculated on both a gross and commitment method.

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18. Loans and borrowings continued

Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Incorporation.

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of 13 properties with commitments outstanding at 31 March 2017 of approximately £2.9 million (2016: £3.3 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2017.

20. Share capital

	2017 £000	2016 £000
Authorised:		
Unlimited number of ordinary shares of no par value	-	-
Issued and fully paid:		
540,053,660 ordinary shares of no par value (31 March 2016: 540,053,660)	-	-
Share premium	**157,449**	**157,449**

Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of the authority from shareholders. Any buy-back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy-backs will be at the absolute discretion of the Board.

21. Adjustment for non-cash movements in the cash flow statement

	2017 £000	2016 £000
Profit on disposal of investment properties	(1,847)	(799)
Movement in investment property valuation	(15,087)	(44,171)
Depreciation of tangible assets	40	45
	(16,894)	**(44,925)**

22. Obligations under leases

The Group has entered into a number of leases in relation to its investment properties. These leases are for fixed terms and subject to regular rent reviews. They contain no material provisions for contingent rents, renewal or purchase options nor any restrictions outside of the normal lease terms.

Finance lease obligations in respect of rents payable on leasehold properties were payable as follows:

	2017 £000	2016 £000
Future minimum payments due:		
Within one year	116	116
In the second to fifth years inclusive	466	466
After five years	7,616	7,732
	8,198	8,314
Less: finance charges allocated to future periods	(6,374)	(6,488)
Present value of minimum lease payments	1,824	1,826

The present value of minimum lease payments is analysed as follows:

	2017 £000	2016 £000
Current		
Within one year	109	109
	109	109
Non-current		
In the second to fifth years inclusive	396	397
After five years	1,319	1,320
	1,715	1,717
	1,824	1,826

Operating leases where the Group is lessor

The Group leases its investment properties under operating leases.

At the reporting date, the Group's future income based on the unexpired lessor lease length was as follows (based on annual rentals):

	2017 £000	2016 £000
Within one year	40,360	39,556
In the second to fifth years inclusive	125,866	124,853
After five years	107,534	116,228
	273,760	280,637

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining lease terms of more than five years.

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23. Net asset value

The net asset value per ordinary share is based on net assets at the year end and 540,053,660 (2016: 540,053,660) ordinary shares, being the number of ordinary shares in issue at the year end.

At 31 March 2017, the Company had a net asset value per ordinary share of £0.82 (2016: £0.77).

24. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, obligations under finance leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans, as disclosed in Note 18, the fair value of the financial assets and liabilities is not materially different from their carrying value in the financial statements.

Categories of financial instruments

31 March 2017	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors and capitalised finance costs	15	-	8,361	8,361
Cash and cash equivalents	16	-	33,883	33,883
		-	42,244	42,244
Financial liabilities				
Loans	18	-	204,644	204,644
Obligations under finance leases	22	-	1,824	1,824
Creditors and accruals	17	-	8,728	8,728
		-	215,196	215,196

31 March 2016	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors and capitalised finance costs	15	-	7,658	7,658
Cash and cash equivalents	16	-	22,759	22,759
		-	30,417	30,417
Financial liabilities				
Loans	18	-	249,535	249,535
Obligations under finance leases	22	-	1,826	1,826
Creditors and accruals	17	-	7,766	7,766
		-	259,127	259,127

25. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. The Investment Manager reports regularly both verbally and formally to the Board, and its relevant committees, to allow them to monitor and review all the risks noted below.

Capital risk management

The Group aims to manage its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group consists of debt, as disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group is not subject to any external capital requirements.

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into long-term loan arrangements which will enable the Group to reduce its borrowings in an orderly manner over the long-term. The Group has two revolving credit facilities which provide greater flexibility in managing the level of borrowings.

The Group's net debt to equity ratio at the reporting date was as follows:

	2017 £000	2016 £000
Total liabilities	226,426	269,682
Less: cash and cash equivalents	(33,883)	(22,759)
Net debt	**192,543**	**246,923**
Total equity	**441,925**	**417,132**
Net debt to equity ratio at end of year	**0.44**	**0.59**

Credit risk

The following tables detail the balances held at the reporting date that may be affected by credit risk:

31 March 2017	Note	**Held at fair value through profit or loss £000**	**Financial assets and liabilities at amortised cost £000**	**Total £000**
Financial assets				
Tenant debtors	15	-	4,107	4,107
Cash and cash equivalents	16	-	33,883	33,883
		-	37,990	37,990

31 March 2016	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	-	3,209	3,209
Cash and cash equivalents	16	-	22,759	22,759
		-	**25,968**	**25,968**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

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25. Risk management CONTINUED

Trade debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of trade debtors, and where appropriate, credit guarantees are acquired. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of occupiers.

A provision of £249,000 (2016: £288,000) exists at the year end, in relation to outstanding debtors that are considered to be impaired based on a review of individual debtor balances. The Group believes that unimpaired amounts that are overdue by more than 30 days are still collectable, based on the historic payment behaviours and extensive analyses of the underlying customers' credit ratings. At 31 March 2017 debtors overdue by more than 30 days totalled £1,840,000 (2016: £227,000).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits. The Group's main cash balances are held with National Westminster Bank plc ("NatWest"), Santander plc ("Santander"), Nationwide International Limited ("Nationwide") and The Royal Bank of Scotland plc ("RBS"). Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. NatWest, Santander, Nationwide and RBS are rated by all the major rating agencies. If the credit quality of these banks deteriorates, the Group would look to move the short-term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure. At 31 March 2017 and at 31 March 2016 Standard & Poor's credit rating for Nationwide and Santander was A-1 and the Group's remaining bankers had an A-2 rating.

There has been no change in the fair values of cash or receivables as a result of changes in credit risk in the current or prior periods, due to the actions taken to mitigate this risk, as stated above.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's liquidity risk is managed on an ongoing basis by the Investment Manager and monitored on a quarterly basis by the Board by maintaining adequate reserves and loan facilities, continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities for a period of at least 12 months.

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets/(liabilities), including interest that will accrue to maturity.

31 March 2017	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Cash and cash equivalents	33,925	-	-	33,925
Debtors and capitalised finance costs	5,157	1,476	1,728	8,361
Obligations under finance leases	(116)	(466)	(1,242)	(1,824)
Fixed interest rate loans	(9,708)	(38,832)	(252,662)	(301,202)
Creditors and accruals	(8,728)	-	-	(8,728)
	20,530	(37,822)	(252,176)	(269,468)

31 March 2016	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Cash and cash equivalents	22,787	–	–	22,787
Debtors and capitalised finance costs	4,327	1,312	2,019	7,658
Obligations under finance leases	(116)	(466)	(1,244)	(1,826)
Fixed interest rate loans	(38,822)	(38,832)	(262,370)	(340,024)
Floating interest rate loans	(364)	(16,158)	–	(16,522)
Creditors and accruals	(7,766)	–	–	(7,766)
	(19,954)	**(54,144)**	**(261,595)**	**(335,693)**

Market risk
The Group's activities are primarily within the real estate market, exposing it to very specific industry risks.

The yields available from investments in real estate depend primarily on the amount of revenue earned and capital appreciation generated by the relevant properties as well as expenses incurred. If properties do not generate sufficient revenues to meet operating expenses, including debt service and capital expenditure, the Group's revenue will be adversely affected.

Revenue from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the Group operates, the attractiveness of the properties to occupiers, the quality of the management, competition from other available properties and increased operating costs (including real estate taxes).

In addition, the Group's revenue would be adversely affected if a significant number of occupiers were unable to pay rent or its properties could not be rented on favourable terms. Certain significant expenditure associated with each equity investment in real estate (such as external financing costs, real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, the Investment Manager expects to lower the risk profile of the portfolio. The Board continues to oversee the profile of the portfolio to ensure risks are managed.

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Consolidated Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £31.2 million (2016: £32.7 million).

Interest rate risk management
Interest rate risk arises on interest payable on the revolving credit facilities only. The Group's senior debt facilities have fixed interest rates over the lives of the loans and thus the Group has limited exposure to interest rate risk on the majority of its borrowings and no sensitivity is presented.

Interest rate risk
The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

31 March 2017	Less than 1 year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	33,883	-	-	33,883
Fixed				
Secured loan facilities	(1,104)	(4,928)	(198,612)	(204,644)
Obligations under finance leases	(109)	(396)	(1,319)	(1,824)
	32,670	(5,324)	(199,931)	(172,585)

31 March 2016	Less than 1 year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	22,759	-	-	22,759
Secured loan facilities	-	(15,800)	-	(15,800)
Fixed				
Secured loan facilities	(1,057)	(4,718)	(199,926)	(205,701)
Zero dividend preference shares	(28,034)	-	-	(28,034)
Obligations under finance leases	(109)	(397)	(1,320)	(1,826)
	(6,441)	**(20,915)**	**(201,246)**	**(228,602)**

Notes to the consolidated financial statements

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25. Risk management CONTINUED

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore it is exposed to macroeconomic changes in the UK economy. Furthermore, the Group places reliance on a limited number of occupiers for its rental income, with one occupier accounting for 4.0% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. Related party transactions

The total fees earned during the year by the Directors of the Company amounted to £205,500 (2016: £223,500). As at 31 March 2017 the Group owed £nil to the Directors (2016: £nil). The emoluments of each Director are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

27. Events after the balance sheet date

A dividend of £4,590,000 (0.85 pence per share) was approved by the Board on 24 April 2017 and paid on 31 May 2017.

The Group has exchanged contracts to sell two properties for proceeds of £9,861,000, with completion expected in June 2017.