Financial statements

Independent auditor's report

To the members of Picton Property Income Limited

Our opinion is unmodified

We have audited the consolidated financial statements (the "Financial Statements") of Picton Property Income Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated balance sheet as at 31 March 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Financial Statements:

- give a true and fair view of the financial position of the Group as at 31 March 2019, and of the Group's financial performance and the Group's cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards (IFRS); and
- comply with the Companies (Guernsey) Law, 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2018):

Valuation of investment properties

£676.1 million (2018: £670.7 million)

Refer to pages 67 to 69 of the Audit and Risk Committee Report, Note 2 Significant Accounting Policies and Note 13 Investment Properties.

The risk

Basis:
The Group's investment properties accounted for 94% (2018: 93%) of the Group's total assets as at 31 March 2019. The fair value of investment properties at 31 March 2019 was assessed by the Board of Directors based on independent valuations prepared by the Group's external property valuer (the "Valuer").

Risk:
As highlighted in the Audit and Risk Committee Report, the valuation of the Group's investment properties is a significant area of our audit given that it represents the majority of the total assets of the Group and requires the use of significant judgements and subjective assumptions.

Our response

Our audit procedures included:

Control evaluation:
We assessed the design, implementation and operating effectiveness of certain controls over the valuation of investment properties including the review and approval by the Board of Directors of the valuations and the capture and recording of information contained in the lease database for investment properties.

Evaluating experts engaged by management:
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 assumptions and inputs used in the valuation:
With the assistance of our own Real Estate valuation specialist we assessed the valuations prepared by the Valuer by evaluating the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the Valuer and challenging the valuations based on market information and knowledge.

We also compared a sample of the key inputs used to calculate the valuations such as annual rent, occupancy and tenancy contracts for consistency with other audit findings.

Assessing disclosures:
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 IFRS in addition to the adequacy of disclosures in Note 13 in relation to fair value of the investment properties.

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

Materiality for the Financial Statements as a whole was set at £7.1 million, determined with reference to a benchmark of Group Total Assets of £715.6 million of which it represents approximately 1% (2018: 1%).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £355,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, total Group profit before tax, and total Group assets and liabilities.

We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in this respect.

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability assessment and statement (pages 93 and 94) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed or mitigated; and
- the directors' explanation in the viability assessment and statement (pages 93 and 94) as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the 2016 UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us 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 belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 95, the directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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. 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.

Deborah Smith

For and on behalf of KPMG
Channel Islands Limited
Chartered Accountants and
Recognised Auditors, Guernsey

21 May 2019

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Income			
Revenue from properties	3	**47,733**	48,782
Property expenses	4	**(9,433)**	(10,335)
Net property income		**38,300**	**38,447**
Expenses			
Administrative expenses	6	**(5,842)**	(5,566)
Total operating expenses		**(5,842)**	**(5,566)**
Operating profit before movement on investments		**32,458**	**32,881**
Investments			
Profit on disposal of investment properties	13	**379**	2,623
Investment property valuation movements	13	**10,909**	38,920
Total profit on investments		**11,288**	**41,543**
Operating profit		**43,746**	**74,424**
Financing			
Interest received		**38**	35
Interest paid	8	**(9,126)**	(9,782)
Debt prepayment fees		**(3,245)**	–
Total finance costs		**(12,333)**	**(9,747)**
Profit before tax		**31,413**	**64,677**
Tax	9	**(458)**	(509)
Profit and total comprehensive income for the period		**30,955**	**64,168**
Earnings per share			
Basic	11	**5.7p**	11.9p
Diluted	11	**5.7p**	11.9p

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 26 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Notes	Share Capital £000	Retained Earnings £000	Other Reserves £000	Total £000
Balance as at 31 March 2017		**157,449**	**284,476**	**–**	**441,925**
Profit for the year		–	64,168	–	64,168
Dividends paid	10	–	(18,487)	–	(18,487)
Share-based awards	7	–	–	642	642
Purchase of shares held in trust	7	–	–	(893)	(893)
Balance as at 31 March 2018		**157,449**	**330,157**	**(251)**	**487,355**
Profit for the year		–	30,955	–	30,955
Dividends paid	10	–	(18,860)	–	(18,860)
Share-based awards	7	–	–	363	363
Purchase of shares held in trust	7	–	–	(398)	(398)
Balance as at 31 March 2019		**157,449**	**342,252**	**(286)**	**499,415**

Notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 March 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Investment properties	13	**676,102**	670,674
Tangible assets		**25**	5
Total non-current assets		**676,127**	**670,679**
Current assets			
Investment properties held for sale	13	**–**	3,850
Accounts receivable	14	**14,309**	15,273
Cash and cash equivalents	15	**25,168**	31,510
Total current assets		**39,477**	**50,633**
Total assets		**715,604**	**721,312**
Current liabilities			
Accounts payable and accruals	16	**(22,400)**	(21,471)
Loans and borrowings	17	**(833)**	(712)
Obligations under finance leases	21	**(109)**	(109)
Total current liabilities		**(23,342)**	**(22,292)**
Non-current liabilities			
Loans and borrowings	17	**(191,136)**	(209,952)
Obligations under finance leases	21	**(1,711)**	(1,713)
Total non-current liabilities		**(192,847)**	**(211,665)**
Total liabilities		**(216,189)**	**(233,957)**
Net assets		**499,415**	**487,355**
Equity			
Share capital	19	**157,449**	157,449
Retained earnings		**342,252**	330,157
Other reserves		**(286)**	(251)
Total equity		**499,415**	**487,355**
Net asset value per share	22	**93p**	**90p**

These consolidated financial statements were approved by the Board of Directors on 21 May 2019 and signed on its behalf by:

Andrew Dewhirst
Director
21 May 2019

Notes 1 to 26 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Operating activities			
Operating profit		**43,746**	74,424
Adjustments for non-cash items	20	**(10,918)**	(40,889)
Interest received		**38**	35
Interest paid		**(8,668)**	(9,160)
Tax paid		**(845)**	(328)
Decrease in accounts receivable		**396**	267
Increase in accounts payable and accruals		**1,532**	1,286
Cash inflows from operating activities		**25,281**	**25,635**
Investing activities			
Capital expenditure on investment properties	13	**(1,559)**	(3,553)
Acquisition of investment properties	13	**–**	(24,543)
Disposal of investment properties		**11,837**	10,285
Purchase of tangible assets		**(27)**	–
Cash inflows/(outflows) from investing activities		**10,251**	**(17,811)**
Financing activities			
Borrowings repaid	17	**(34,871)**	(3,104)
Borrowings drawn	17	**15,500**	12,500
Debt prepayment fees		**(3,245)**	–
Financing costs		**–**	(213)
Purchase of shares held in trust	7	**(398)**	(893)
Dividends paid	10	**(18,860)**	(18,487)
Cash outflows from financing activities		**(41,874)**	**(10,197)**
Net decrease in cash and cash equivalents		**(6,342)**	**(2,373)**
Cash and cash equivalents at beginning of year		**31,510**	33,883
Cash and cash equivalents at end of year	15	**25,168**	**31,510**

Notes 1 to 26 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2019

1. General information

Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") was established on 15 September 2005 as a closed ended Guernsey investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2019 with comparatives for the year ended 31 March 2018.

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.

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendment to IAS 40: Transfer of Investment Property
- Annual improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28

The adoption of these standards has had no material effect on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. It makes changes to classification and measurement of financial assets and introduces an "expected credit loss" model for impairment of financial assets.

At the date of approval of these financial statements there are a number of new and amended standards in issue but not yet effective for the financial year ended 31 March 2019 and thus have not been applied by the Group. None of these are expected to have an effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 16 'Leases' will result in almost all leases being recognised on the Balance Sheet, as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Lessors will continue to classify leases as finance and operating leases. The Group is in the process of assessing the full impact of IFRS 16. Once IFRS 16 is adopted, the Group will be required to account for its current operating lease in a similar way to current finance lease accounting. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and impact on the timing of the expense recognition in the consolidated statement of comprehensive income after the period of the lease. Upon the initial adoption of IFRS 16, the opening balance of the lease liability and corresponding right of use asset will be adjusted as at 1 April 2019.

There are a number of other changes to Accounting Standards effective from 1 January 2019 onwards but no material impact is expected on the Group.

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 13. 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 12. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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 and subsequently measured at fair value. 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.

2. Significant accounting policies (continued)

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.

The loans have a first ranking mortgage over the majority of properties; see Note 17.

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 Plan, 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.

The cost of the Company's shares held by the Employee Benefit Trust is deducted from equity in the Consolidated Balance Sheet. Any shares held by the Trust are not included in the calculation of earnings or net assets per share.

Dividends

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

Accounts receivable

Accounts receivable are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all applicable accounts receivable. 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.

Assets classified as held for sale

Any investment properties on which contracts for sale have been exchanged but which had not completed at the period end are disclosed as properties held for sale. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Other assets and liabilities

Other assets and liabilities, including trade creditors and accruals, trade and other debtors and creditors, and deferred rental income, which are not interest bearing 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.

2. Significant accounting policies (continued)

Taxation

The Group elected to be treated as a UK REIT with effect from 1 October 2018. The UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation and income tax. Gains on UK properties are also exempt from tax, provided they are not held for trading. The Group is otherwise subject to UK corporation tax.

As a REIT, the Company is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

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

	2019 £000	2018 £000
Rents receivable (adjusted for lease incentives)	**40,942**	41,412
Surrender premiums	**682**	200
Dilapidation receipts	**269**	1,111
Other income	**122**	132
Service charge income	**5,718**	5,927
	47,733	48,782

Rents receivable includes lease incentives recognised of £0.8 million (2018: £0.2 million).

4. Property expenses

	2019 £000	2018 £000
Property operating costs	2,342	2,578
Property void costs	1,373	1,830
Recoverable service charge costs	5,718	5,927
	9,433	10,335

5. Operating segments

The Board is responsible for setting the Group's business model and strategy. 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 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 49 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2019 £000	2018 £000
Director and staff costs	3,672	3,311
Auditor's remuneration	157	149
Other administrative expenses	2,013	2,106
	5,842	5,566

One off REIT conversion costs of £215,000 were incurred during the year ended 31 March 2019, which are included within other administrative expenses (2018: £307,000).

Auditor's remuneration comprises:	2019 £000	2018 £000
Audit fees:		
Audit of Group financial statements	72	65
Audit of subsidiaries' financial statements	43	43
Audit related fees:		
Review of half-year financial statements	15	14
	130	122
Non-audit fees:		
Additional controls testing	15	14
FCA CASS audit	–	6
Liquidators' fees	7	7
Tax compliance	5	–
	27	27
	157	149

Liquidators' fees incurred to 31 March 2019 were in connection with the members' voluntary liquidation of Picton (UK) Listed Real Estate Limited.

7. Director and staff costs

	2019 £000	2018 £000
Wages and salaries	**1,654**	1,667
Non-executive directors' fees	**257**	232
Social security costs	**623**	276
Other pension costs	**48**	50
Share-based payments – cash settled	**727**	620
Share-based payments – equity settled	**363**	466
	3,672	**3,311**

The emoluments of the directors are set out in detail within the Remuneration Committee report.

Employees participate in two share-based remuneration arrangements: the Deferred Bonus Plan and the Long-term Incentive Plan (the "LTIP").

For all employees a proportion of any discretionary annual bonus will be an award under the Deferred Bonus Plan. With the exception of executive directors, awards are cash settled and vest after two years. The final value of awards are determined by the movement in the Company's share price and dividends paid over the vesting period. For executive directors awards made after 1 April 2019 are equity settled and also vest after two years. On 1 April 2018 awards of 572,389 units were made which vest on 31 March 2020 (2018: 662,149 units). The next awards will be made in June 2019 for vesting on 31 March 2021.

The table below summarises the awards made under the Deferred Bonus Plan. 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 2019, and were not deferred, were paid out subsequent to the year end at a cost of £925,000 (2018: £508,000).

Vesting Date	Units at 31 March 2017	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2018	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2019
31 March 2016	65,198	–	–	–	65,198	–	–	(65,198)	**–**
31 March 2017	127,916	–	–	–	127,916	–	–	(127,916)	**–**
31 March 2018	725,980	–	(56,549)	(542,197)	127,234	–	–	(127,234)	**–**
31 March 2019	369,534	662,149	(80,793)	–	950,890	–	(14,331)	(936,559)	**–**
31 March 2020	–	–	–	–	–	572,389	(7,785)	–	**564,604**
	1,288,628	**662,149**	**(137,342)**	**(542,197)**	**1,271,238**	**572,389**	**(22,116)**	**(1,256,907)**	**564,604**

The Group also has a Long-term Incentive Plan for all employees which is equity settled. Awards are made annually and vest three years from the grant date. Vesting is conditional on three performance metrics measured over each three-year period. Awards to executive directors are also subject to a further two-year holding period. On 8 June 2018 awards for a maximum of 1,006,938 shares were granted to employees in respect of the three-year period ending on 31 March 2021. In the previous year awards of 1,036,938 shares were made on 16 June 2017 for the period ending 31 March 2020.

The three performance metrics are:

- Total Shareholder Return (TSR) of Picton Property Income Limited, compared to a comparator group of similar listed companies;
- Total Property Return (TPR) of the property assets held within the Group, compared to the MSCI UK Quarterly Property Index; and
- Growth in EPRA earnings per share (EPS) of the Group.

The fair value of option grants is measured using a combination of a Monte Carlo model for the market conditions (TSR) and a Black-Scholes model for the non-market conditions (TPR and EPS). The fair value is recognised over the expected vesting period. For the awards made during this year and the previous year the main inputs and assumptions of the models, and the resulting fair values, are:

Assumptions		
Grant date	8 June 2018	16 June 2017
Share price at date of grant	90.9p	84.25p
Exercise price	Nil	Nil
Expected term	3 years	3 years
Risk free rate – TSR condition	0.83%	0.21%
Share price volatility – TSR condition	18.4%	18.3%
Median volatility of comparator group – TSR condition	18.1%	16.1%
Correlation – TSR condition	33.2%	35.0%
TSR performance at grant date – TSR condition	7.6%	3.3%
Median TSR performance of comparator group at grant date – TSR condition	3.1%	7.0%
Fair value – TSR condition (Monte Carlo method)	42.9p	31.98p
Fair value – TPR condition (Black-Scholes model)	90.9p	84.25p
Fair value – EPS condition (Black-Scholes model)	90.9p	84.25p

The Trustee of the Company's Employee Benefit Trust acquired 472,000 ordinary shares during the year for £398,000 (2018: 1,070,000 shares for £893,000).

The Group employed ten members of staff at 31 March 2019 (2018: ten). The average number of people employed by the Group for the year ended 31 March 2019 was 11 (2018: 12).

8. Interest paid

	2019 £000	2018 £000
Interest payable on loans at amortised cost	**8,117**	8,780
Interest on obligations under finance leases	**114**	114
Non-utilisation fees	**220**	311
Amortisation of finance costs	**675**	577
	9,126	**9,782**

The loan arrangement costs incurred to 31 March 2019 are £4,534,000 (2018: £5,244,000). These are amortised over the duration of the loans with £675,000 amortised in the year ended 31 March 2019 (2018: £577,000).

9. Tax

The charge for the year is:

	2019 £000	2018 £000
Current UK income tax	324	510
Income tax adjustment to provision for prior year	25	(203)
	349	307
Current UK corporation tax	121	195
UK corporation tax adjustment to provision for prior year	(12)	7
	109	202
Total tax charge	**458**	**509**

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:

	2019 £000	2018 £000
Profit before taxation	31,413	64,677
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	6,283	12,935
Less:		
UK REIT exemption on net income and gains	(2,315)	–
Revaluation gains not taxable	(2,182)	(7,784)
Gains on disposal not taxable	(76)	(525)
Income not taxable, including interest receivable	(163)	(152)
Expenditure not allowed for income tax purposes	985	404
Losses utilised	(2)	(33)
Capital allowances and other allowable deductions	(2,291)	(4,498)
Losses carried forward to future years	85	163
Adjustment to provision for prior years	25	(203)
Total income tax charge	**349**	**307**

For the year ended 31 March 2019 there was an income tax liability of £349,000 in respect of the Group (2018: £307,000) and corporation tax of £109,000 (2018: £202,000).

The Group migrated tax residence to the UK and elected to be treated as a UK Real Estate Investment Trust (REIT) with effect from 1 October 2018. As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax as are any gains it makes from the disposal of its properties, provided they are not held for trading. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that also require to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the year and the Board intends to conduct the Group's affairs such that these conditions continue to be met for the foreseeable future. Accordingly, deferred tax is no longer recognised on temporary differences relating to the property rental business.

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989.

10. Dividends

	2019 £000	2018 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2017: 0.85 pence	–	4,590
Interim dividend for the period ended 30 June 2017: 0.85 pence	–	4,590
Interim dividend for the period ended 30 September 2017: 0.85 pence	–	4,591
Interim dividend for the period ended 31 December 2017: 0.875 pence	–	4,716
Interim dividend for the period ended 31 March 2018: 0.875 pence	4,716	–
Interim dividend for the period ended 30 June 2018: 0.875 pence	4,716	–
Interim dividend for the period ended 30 September 2018: 0.875 pence	4,716	–
Interim dividend for the period ended 31 December 2018: 0.875 pence	4,712	–
	18,860	18,487

The interim dividend of 0.875 pence per ordinary share in respect of the period ended 31 March 2019 has not been recognised as a liability as it was declared after the year end. A dividend of £4,712,000 will be paid on 31 May 2019.

11. Earnings per share

Basic and diluted 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, excluding the average number of shares held by the Employee Benefit Trust for the year. The diluted number of shares also reflects the contingent shares to be issued under the Long-term Incentive Plan.

The following reflects the profit and share data used in the basic and diluted profit per share calculation:

	2019	2018
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	30,955	64,168
Weighted average number of ordinary shares for basic profit per share	538,815,550	539,734,126
Weighted average number of ordinary shares for diluted profit per share	541,035,348	539,738,613

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2019 and 31 March 2018:

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 Capital Limited	England & Wales	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%

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, the remaining balances are held by Picton (General Partner) No.2 Limited and Picton (General Partner) No.3 Limited respectively.

During the year Picton Finance Limited was wound up as a solvent liquidation.

13. 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.

	2019 £000	2018 £000
Fair value at start of year	**674,524***	615,170
Acquisitions	**–**	24,543
Capital expenditure on investment properties	**1,559**	3,553
Disposals	**(11,269)**	(10,285)
Realised gains on disposal	**406**	2,655
Realised losses on disposal	**(27)**	(32)
Unrealised gains on investment properties	**35,178**	49,664
Unrealised losses on investment properties	**(24,269)**	(10,744)
Transfer to assets classified as held for sale	**–**	(3,850)
Fair value at the end of the year	**676,102**	**670,674**
Historic cost at the end of the year	**648,044**	**660,263**

* Includes assets classified as held for sale at year end.

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

	2019 £000	2018 £000
Appraised value	**685,335**	683,800
Valuation of assets held under finance leases	**1,565**	1,657
Lease incentives held as debtors	**(10,798)**	(10,933)
Assets classified as held for sale	**–**	(3,850)
Fair value at the end of the year	**676,102**	**670,674**

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2019 and 31 March 2018 on the basis of fair value in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the UK national supplement 2018. 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, CBRE Limited. The valuations are based on:

- Information provided by the Group including rents, lease terms, revenue and capital expenditure. Such information is derived from the Group'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 senior management and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with senior management, 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 2019 and 31 March 2018 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 and the prior 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:

	2019			2018		
	Office	**Industrial**	**Retail and Leisure**	Office	Industrial	Retail and Leisure
Appraised value (£000)	**235,035**	**312,790**	**137,510**	245,500	281,855	156,445
Area (sq ft, 000s)	**856**	**2,731**	**829**	928	2,731	829
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
— range	**£9.52 to £51.78**	**£3.54 to £17.70**	**£3.88 to £84.11**	£9.52 to £52.65	£3.25 to £17.21	£5.19 to £91.14
— weighted average	**£27.33**	**£8.91**	**£31.50**	**£26.96**	**£8.24**	**£32.73**
Net initial yield						
— range	**2.48% to 8.59%**	**0.00% to 8.25%**	**–0.17% to 15.36%**	2.32% to 11.46%	1.29% to 9.08%	3.01% to 19.90%
— weighted average	**5.15%**	**4.78%**	**5.11%**	**5.29%**	**5.19%**	**6.32%**
Reversionary yield						
— range	**5.32% to 10.70%**	**4.60% to 9.99%**	**4.63% to 12.11%**	5.52% to 13.70%	4.93% to 10.12%	4.55% to 10.95%
— weighted average	**7.01%**	**5.55%**	**6.37%**	**7.14%**	**5.94%**	**6.52%**
True equivalent yield						
— range	**5.24% to 9.49%**	**4.63% to 9.48%**	**4.09% to 10.86%**	5.46% to 11.71%	5.00% to 9.48%	4.37% to 10.35%
— weighted average	**6.88%**	**5.59%**	**6.75%**	**7.05%**	**5.98%**	**6.60%**

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.

13. Investment properties (continued)

Sector	Movement	2019 Impact on valuation	2018 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £28.7m**	Decrease of £24.2m
	Decrease of 50 basis points	**Increase of £34.7m**	Increase of £29.0m
Office	Increase of 50 basis points	**Decrease of £18.7m**	Decrease of £18.8m
	Decrease of 50 basis points	**Increase of £21.3m**	Increase of £21.8m
Retail and Leisure	Increase of 50 basis points	**Decrease of £12.6m**	Decrease of £13.2m
	Decrease of 50 basis points	**Increase of £15.8m**	Increase of £17.0m

14. Accounts receivable

	2019 £000	2018 £000
Tenant debtors (net of provisions for bad debts)	**2,594**	4,011
Lease incentives	**10,798**	10,933
Other debtors	**917**	329
	14,309	**15,273**

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and the approximate of their carrying amounts.

Amounts are considered impaired using the lifetime expected credit loss method. Movement in the balance considered to be impaired has been included in the Consolidated Statement of Comprehensive Income. As at 31 March 2019, Trade debtors of £918,000 (2018: £384,000) were considered impaired and provided for.

15. Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	**24,454**	30,986
Short-term deposits	**714**	524
	25,168	**31,510**

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.

16. Accounts payable and accruals

	2019 £000	2018 £000
Accruals	**6,596**	5,355
Deferred rental income	**8,381**	9,104
VAT liability	**1,994**	2,243
Income tax liability	**57**	444
Trade creditors	**230**	236
Other creditors	**5,142**	4,089
	22,400	**21,471**

17. Loans and borrowings

	Maturity	2019 £000	2018 £000
Current			
Aviva facility	–	**1,204**	1,153
Capitalised finance costs	–	**(371)**	(441)
		833	**712**
Non-current			
Santander revolving credit facility	18 June 2021	**11,500**	10,500
Santander revolving credit facility	20 June 2021	**14,500**	–
Canada Life facility	–	**–**	33,718
Canada Life facility	24 July 2027	**80,000**	80,000
Aviva facility	24 July 2032	**87,465**	88,669
Capitalised finance costs	–	**(2,329)**	(2,935)
		191,136	**209,952**
		191,969	**210,664**

The following table provides a reconciliation of the movement in loans and borrowings to cash flows arising from financing activities.

	2019 £000	2018 £000
Balance as at 1 April	**210,664**	200,904
Changes from financing cash flows		
Proceeds from loans and borrowings	**15,500**	12,500
Repayment of loans and borrowings	**(34,871)**	(3,104)
Financing costs	**–**	(213)
	(19,371)	**9,183**
Other changes		
Amortisation of financing costs	**676**	577
	676	**577**
Balance as at 31 March	**191,969**	**210,664**

The Group has a loan with Canada Life Limited for £80 million which matures in July 2027. 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 £292.4 million (2018: £289.8 million).

On 20 July 2018 the Group repaid £33.7 million of debt under the Canada Life facility incurring an early repayment charge of £3.2 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 £1.2 million in the year (2018: £1.1 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 £230.3 million (2018: £232.4 million).

17. Loans and borrowings (continued)

The Group has two revolving credit facilities ("RCFs") with Santander Corporate & Commercial Banking which expire in June 2021. In total the Group has £51.0 million available under both facilities, of which £26.0 million has been drawn down at year end. Interest is payable on drawn balances at LIBOR plus margins of 175 or 190 basis points. The facilities are secured on properties held by Picton (UK) REIT (SPV No 2) Limited and Picton (UK) Listed Real Estate, valued at £133.7 million (2018: £132.7 million).

The fair value of the drawn loan facilities at 31 March 2019, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £219.5 million (2018: £235.1 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

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 2019 was 4.0% (2018: 4.1%).

18. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of five properties with commitments outstanding at 31 March 2019 of approximately £1.4 million (2018: £nil). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2019 (2018: £nil).

19. Share capital and other reserves

	2019 £000	2018 £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 2018: 540,053,660)	–	–
Share premium	**157,449**	157,449

	2019 Number of shares	2018 Number of shares
Ordinary share capital	**540,053,660**	540,053,660
Number of shares held in Employee Benefit Trust	**(1,542,000)**	(1,070,000)
Number of ordinary shares	**538,511,660**	**538,983,660**

The fair value of awards made under the Long-term Incentive Plan is recognised in other reserves.

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. The Trustee of the Company's Employee Benefit Trust has waived its right to receive dividends on the 1,542,000 shares it holds but continues to hold the right to vote. 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.

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

	2019 £000	2018 £000
Profit on disposal of investment properties	**(379)**	(2,623)
Movement in investment property valuation	**(10,909)**	(38,920)
Share-based provisions	**363**	642
Depreciation of tangible assets	**7**	12
	(10,918)	**(40,889)**

21. 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:

	2019 £000	2018 £000
Future minimum payments due:		
Within one year	**117**	117
In the second to fifth years inclusive	**466**	466
After five years	**7,383**	7,499
	7,966	**8,082**
Less: finance charges allocated to future periods	**(6,146)**	(6,260)
Present value of minimum lease payments	**1,820**	**1,822**

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

	2019 £000	2018 £000
Current		
Within one year	**109**	109
	109	**109**
Non-current		
In the second to fifth years inclusive	**392**	395
After five years	**1,319**	1,318
	1,711	**1,713**
	1,820	**1,822**

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):

	2019 £000	2018 £000
Within one year	**37,497**	41,083
In the second to fifth years inclusive	**113,403**	125,186
After five years	**88,902**	100,087
	239,802	**266,356**

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.

22. Net asset value

The net asset value per share calculation uses the number of shares in issue at the year end and excludes the actual number of shares held by the Employee Benefit Trust at the year end; see Note 19.

23. 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 17, 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 2019	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	14	–	3,511	3,511
Cash and cash equivalents	15	–	25,168	25,168
		–	28,679	28,679
Financial liabilities				
Loans and borrowings	17	–	191,969	191,969
Obligations under finance leases	21	–	1,820	1,820
Creditors and accruals	16	–	11,968	11,968
		–	205,757	205,757

31 March 2018	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	14	–	4,340	4,340
Cash and cash equivalents	15	–	31,510	31,510
		–	35,850	35,850
Financial liabilities				
Loans and borrowings	17	–	210,664	210,664
Obligations under finance leases	21	–	1,822	1,822
Creditors and accruals	16	–	9,680	9,680
		–	222,166	222,166

24. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. Senior management 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 17, 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 Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 17, divided by the gross assets. There is a limit of 65% as set out in the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

At the reporting date the gearing ratios were as follows:

	2019 £000	2018 £000
Total borrowings	194,669	214,040
Gross assets	715,604	721,312
Gearing ratio (must not exceed 65%)	**27.2%**	**29.7%**

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 manage 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:

	2019 £000	2018 £000
Total liabilities	216,189	233,957
Less: cash and cash equivalents	(25,168)	(31,510)
Net debt	**191,021**	**202,447**
Total equity	**499,415**	487,355
Net debt to equity ratio at end of year	**0.38**	**0.42**

Credit risk

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

31 March 2019	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	14	–	2,594	2,594
Cash and cash equivalents	15	–	25,168	25,168
		–	**27,762**	**27,762**

24. Risk management (continued)

31 March 2018	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	14	–	4,011	4,011
Cash and cash equivalents	15	–	31,510	31,510
		–	35,521	35,521

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.

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.

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"). Insolvency or resolution of the bank holding cash balances may cause the Group's recovery of 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 2019 and at 31 March 2018 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 senior management 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 2019	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	25,177	–	–	25,177
Debtors	3,511	–	–	3,511
Capitalised finance costs	371	1,062	1,267	2,700
Obligations under finance leases	(117)	(466)	(1,237)	(1,820)
Fixed interest rate loans	(8,332)	(33,329)	(201,591)	(243,252)
Floating interest rate loans	(360)	(26,869)	–	(27,229)
Creditors and accruals	(11,968)	–	–	(11,968)
	8,282	(59,602)	(201,561)	(252,881)

31 March 2018	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	31,522	–	–	31,522
Debtors	4,340	–	–	4,340
Capitalised finance costs	441	1,448	1,487	3,376
Obligations under finance leases	(117)	(466)	(1,239)	(1,822)
Fixed interest rate loans	(9,708)	(71,862)	(209,924)	(291,494)
Floating interest rate loans	(254)	(11,065)	–	(11,319)
Creditors and accruals	(9,680)	–	–	(9,680)
	16,544	(81,945)	(209,676)	(275,077)

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) is generally not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, senior management 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 £34.3 million (2018: £34.2 million).

24. Risk management (continued)

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 2019	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	25,168	–	–	25,168
Secured loan facilities	–	(26,000)	–	(26,000)
Fixed				
Secured loan facilities	(1,204)	(5,377)	(160,884)	(167,465)
Obligations under finance leases	(109)	(392)	(1,319)	(1,820)
	23,855	(31,769)	(162,203)	(170,117)

31 March 2018	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	31,510	–	–	31,510
Secured loan facilities	–	(10,500)	–	(10,500)
Fixed				
Secured loan facilities	(1,153)	(38,866)	(163,521)	(203,540)
Obligations under finance leases	(109)	(395)	(1,318)	(1,822)
	30,248	(49,761)	(164,839)	(184,352)

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 the single largest occupier accounting for 4.2% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

25. Related party transactions

The total fees earned during the year by the non-executive directors of the Company amounted to £257,000 (2018: £232,000). As at 31 March 2019 the Group owed £nil to the non-executive directors (2018: £nil). The emoluments of the executive directors are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

26. Events after the balance sheet date

A dividend of £4,712,000 (0.875 pence per share) was approved by the Board on 25 April 2019 and will be paid on 31 May 2019.