Welcome to our Financial Statements

This section sets out the Group's Financial Statements for the year ended 31 March 2022.

Independent Auditor's Report to the Members of Picton Property Income Limited

Our opinion is unmodified

We have audited the consolidated 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 2022, 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 consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 March 2022, and of the Group's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; 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 the FRC Ethical Standard as required by the Crown Dependencies' Audit Rules and Guidance. 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 judgement, were of most significance in the audit of the consolidated 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 consolidated financial statements as a whole, and informing 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 2021):

Valuation of investment properties	The risk	Our response
£830 million (2021: £665.4 million) Refer to page 87 of the Audit and Risk Committee Report, Note 2 significant accounting policies and Note 13 investment properties disclosures	**Basis:** The Group's investment properties accounted for 93% (2021: 93%) of the Group's total assets as at 31 March 2022. The fair value of investment properties at 31 March 2022 was assessed by the Board of Directors based on independent valuations prepared by the Group's third party independent valuer (the 'Valuer'). **Risk:** 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 in view of the significance of the estimates and judgements that may be involved in the determination of their fair value.	*Our audit procedures included:* **Control Evaluation:** We assessed the design, implementation and operating effectiveness of controls over the valuation of investment properties including 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 – 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 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 consolidated 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.

Independent Auditor's Report to the Members of Picton Property Income Limited continued

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

Materiality for the consolidated financial statements as a whole was set at £8.96 million, determined with reference to a benchmark of group total assets of £895.8 million, of which it represents approximately 1.0% (2021: 1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Group was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £6.72 million. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £447,000, 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.

Going concern

The Directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements (the 'going concern period').

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and the Company's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Group and the Company's financial resources or ability to continue operations over this period were:

- Availability of capital to meet operating costs and other financial commitments;
- The ability to successfully refinance or repay debt; and
- The ability of the Company to comply with debt covenants

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in Note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in the notes to the consolidated financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the Company's use of that basis for the going concern period, and that statement is materially consistent with the consolidated financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Group's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Group's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines or litigation or impacts on the Group and the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Disclosures of emerging and principal risks and longer term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the consolidated financial statements and our audit knowledge. We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability assessment and statement (page 110) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the emerging and principal risks disclosures describing these risks and explaining how they are being managed or mitigated;
- the Directors' explanation in the Viability assessment and statement (page 110) 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.

We are also required to review the Viability assessment and statement, set out on page 110 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the consolidated financial statements and our audit knowledge.

Independent Auditor's Report to the Members of Picton Property Income Limited continued

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the consolidated financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and consolidated financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

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 consolidated 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 111, the Directors are responsible for: the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company'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 the Company 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 consolidated 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 consolidated 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
25 May 2022

Consolidated statement of comprehensive income

for the year ended 31 March 2022

	Notes	**2022 £000**	2021 £000
Income			
Revenue from properties	3	**46,543**	43,331
Property expenses	4	**(11,098)**	(9,877)
Net property income		**35,445**	33,454
Expenses			
Administrative expenses	6	**(5,755)**	(5,388)
Total operating expenses		**(5,755)**	(5,388)
Operating profit before movement on investments		**29,690**	28,066
Investments			
Profit on disposal of investment properties	13	**42**	868
Investment property valuation movements	13	**129,801**	12,861
Total profit on investments		**129,843**	13,729
Operating profit		**159,533**	41,795
Financing			
Interest received		**–**	5
Interest paid	8	**(8,502)**	(7,999)
Debt prepayment fees	18	**(4,045)**	–
Total finance costs		**(12,547)**	(7,994)
Profit before tax		**146,986**	33,801
Tax	9	**–**	–
Profit after tax		**146,986**	33,801
Other comprehensive income			
Revaluation of owner-occupied property	14	**434**	–
Total other comprehensive income for the year		**434**	–
Total comprehensive income for the year		**147,420**	33,801
Earnings per share			
Basic	11	**27.0p**	6.2p
Diluted	11	**26.9p**	6.2p

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 2022

	Notes	Share capital £000	Retained earnings £000	Other reserves £000	Revaluation reserve £000	Total £000
Balance as at 31 March 2020		**164,400**	**345,667**	**(784)**	**–**	**509,283**
Profit for the year		–	33,801	–	–	33,801
Dividends paid	10	–	(15,002)	–	–	(15,002)
Share-based awards		–	–	758	–	758
Purchase of shares held in trust	7	–	–	(643)	–	(643)
Balance as at 31 March 2021		**164,400**	**364,466**	**(669)**	**–**	**528,197**
Profit for the year		–	146,986	–	–	146,986
Dividends paid	10	–	(18,425)	–	–	(18,425)
Share-based awards		–	–	668	–	668
Purchase of shares held in trust	7	–	–	(730)	–	(730)
Other comprehensive income for the year	14	–	–	–	434	434
Balance as at 31 March 2022		**164,400**	**493,027**	**(731)**	**434**	**657,130**

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

Consolidated balance sheet

as at 31 March 2022

	Notes	2022 £000	2021 £000
Non-current assets			
Investment properties	13	**830,027**	665,418
Property, plant and equipment	14	**4,383**	4,111
Total non-current assets		**834,410**	669,529
Current assets			
Accounts receivable	15	**22,850**	19,584
Cash and cash equivalents	16	**38,547**	23,358
Total current assets		**61,397**	42,942
Total assets		**895,807**	712,471
Current liabilities			
Accounts payable and accruals	17	**(19,138)**	(18,805)
Loans and borrowings	18	**(1,068)**	(944)
Obligations under leases	22	**(114)**	(107)
Total current liabilities		**(20,320)**	(19,856)
Non-current liabilities			
Loans and borrowings	18	**(215,764)**	(162,711)
Obligations under leases	22	**(2,593)**	(1,707)
Total non-current liabilities		**(218,357)**	(164,418)
Total liabilities		**(238,677)**	(184,274)
Net assets		**657,130**	528,197
Equity			
Share capital	20	**164,400**	164,400
Retained earnings		**493,027**	364,466
Other reserves		**(731)**	(669)
Revaluation reserve		**434**	–
Total equity		**657,130**	528,197
Net asset value per share	23	**120p**	97p

These consolidated financial statements were approved by the Board of Directors on 25 May 2022 and signed on its behalf by:

Andrew Dewhirst
Director
25 May 2022

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

Consolidated statement of cash flows

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
Operating activities			
Operating profit		**159,533**	41,795
Adjustments for non-cash items	21	**(129,010)**	(12,964)
Interest received		**–**	5
Interest paid		**(8,102)**	(7,515)
Tax received		**–**	56
Increase in accounts receivable		**(3,305)**	(1,983)
Increase/(decrease) in accounts payable and accruals		**897**	(825)
Cash inflows from operating activities		**20,013**	18,569
Investing activities			
Purchase of investment properties	13	**(25,005)**	–
Capital expenditure on investment properties	13	**(9,551)**	(4,961)
Disposal of investment properties		**726**	3,928
Purchase of tangible assets	14	**(3)**	(268)
Cash outflows from investing activities		**(33,833)**	(1,301)
Financing activities			
Borrowings repaid	18	**(26,917)**	(1,258)
Borrowings drawn	18	**79,545**	–
Debt prepayment fees	18	**(4,045)**	–
Financing costs	18	**(419)**	(574)
Purchase of shares held in trust	7	**(730)**	(643)
Dividends paid	10	**(18,425)**	(15,002)
Cash inflows/(outflows) from financing activities		**29,009**	(17,477)
Net increase/(decrease) in cash and cash equivalents		**15,189**	(209)
Cash and cash equivalents at beginning of year		**23,358**	23,567
Cash and cash equivalents at end of year	16	**38,547**	23,358

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

Notes to the consolidated financial statements

for the year ended 31 March 2022

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 domiciled investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2022 with comparatives for the year ended 31 March 2021.

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 the Companies (Guernsey) Law, 2008.

The Directors have assessed whether the going concern basis remains appropriate for the preparation of the financial statements. They have reviewed the Group's principal and emerging risks, existing loan facilities, access to funding and liquidity position and then considered a number of scenarios around different levels of rent collection, (and the potential consequences on financial performance), asset values, capital projects and loan covenants. Under all of these scenarios the Group has sufficient resources to continue its operations, and remain within its loan covenants, for a period of at least 12 months from the date of these financial statements.

Based on their assessment and knowledge of the portfolio and market, the Directors have therefore continued 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.

– Interest Rate Benchmark Reform – Phase 2
– Covid-19 Related Rent Concessions (Amendment to IFRS 16)

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

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 2022 and thus have not been applied by the Group.

– Classification of liabilities as current or non-current (Amendments to IAS 1)
– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
– Definition of Accounting Estimate (Amendment to IAS 8)
– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)
– Onerous Contracts – Cost of fulfilling a Contract (Amendments to IAS 37)
– Annual Improvements to IFRS Standards 2018-2020

The adoption of these new and amended standards, together with any other IFRSs or IFRIC interpretations that are not yet effective, are not expected to have a material impact on the financial statements of 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 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 judgements and estimates

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are disclosed in Note 13.

The critical estimates and assumptions relate to the investment property and owner-occupied property valuations applied by the Group's independent valuer. 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

2. Significant accounting policies continued

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 control 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 Group's assets and liabilities is 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 head 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 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 investment property is derecognised for accounting purposes 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 asset is derecognised. Investment properties are not depreciated.

The majority of the investment properties are charged by way of a first ranking mortgage as security for the loans made to the Group; see Note 18.

2. Significant accounting policies continued

Property, plant and equipment

Owner-occupied property

Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (in this case 40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred between the revaluation reserve and retained earnings as the property is used. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

Plant and equipment

Plant and equipment is depreciated on a straight-line basis over the estimated useful lives of each item of plant and equipment. The estimated useful lives are between three and five years.

Leases

Where the Group holds interest in investment properties other than as freehold interests (e.g. as a head lease), these are accounted for as right of use assets, which is recognised at its fair value on the Balance Sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rent payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

The Group leases its investment properties under commercial property leases which are held as operating leases. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee. Lease income is recognised as 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. 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 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.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the end of the lease term and presented within accounts receivable. Lease incentives granted are recognised as a reduction of the total rental income, over the term of the lease.

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 retirement 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

2. Significant accounting policies continued

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, when these are to be 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. Where the awards are equity settled, the fair value is recognised as an expense, with a corresponding increase in equity. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised under the category 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 for accounting purposes, 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, accruals, other creditors, and deferred rental income, which are not interest bearing are stated at their nominal value.

Share capital

Ordinary shares are classified as equity.

Revaluation reserve

Any surplus or deficit arising from the revaluation of owner-occupied property is taken to the revaluation reserve.

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.

2. Significant accounting policies continued

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 related 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.

3. Revenue from properties

	2022 £000	2021 £000
Rents receivable (adjusted for lease incentives)	**40,133**	36,558
Surrender premiums	**59**	202
Dilapidation receipts	**21**	1,195
Other income	**118**	82
Service charge income	**6,212**	5,294
	46,543	43,331

Rents receivable have been adjusted for lease incentives recognised of £2.8 million (2021: £2.0 million).

4. Property expenses

	2022 £000	2021 £000
Property operating costs	**2,477**	2,384
Property void costs	**2,409**	2,199
Recoverable service charge costs	**6,212**	5,294
	11,098	9,877

5. Operating segments

The Board is responsible for setting the Group's strategy and business model. 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 Consolidated 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 47 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2022 £000	2021 £000
Director and staff costs	**3,415**	3,219
Auditor's remuneration	**206**	206
Other administrative expenses	**2,134**	1,963
	5,755	5,388

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

6. Administrative expenses continued

Auditor's remuneration comprises:	2022 £000	2021 £000
Audit fees:		
Audit of Group financial statements	**92**	92
Audit of subsidiaries' financial statements	**82**	82
Audit-related fees:		
Review of half-year financial statements	**16**	16
	190	190
Non-audit fees:		
Additional controls testing	**16**	16
	16	16
	206	206

7. Director and staff costs

	2022 £000	2021 £000
Wages and salaries	**1,765**	1,724
Non-Executive Directors' fees	**275**	250
Social security costs	**402**	358
Other pension costs	**27**	28
Share-based payments – cash settled	**201**	166
Share-based payments – equity settled	**745**	693
	3,415	3,219

The emoluments of the Directors are set out in detail within the Remuneration Committee report, including the audited totals on page 101.

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 is determined by the movement in the Company's share price and dividends paid over the vesting period. For Executive Directors, awards are equity settled and also vest after two years. On 22 June 2021, awards of 531,108 notional shares were made which vest in June 2023 (2021: 599,534 notional shares). The next awards are due to be made in June 2022 for vesting in June 2024.

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.

Vesting date	Units at 31 March 2020	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2021	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2022
31 March 2020	242,509	–	–	(242,509)	–	–	–	–	**–**
19 June 2021	438,907	–	–	–	438,907	–	–	(438,907)	**–**
29 June 2022	–	599,534	–	–	599,534	–	–	–	**599,534**
22 June 2023	–	–	–	–	–	531,108	–	–	**531,108**
	681,416	599,534	–	(242,509)	1,038,441	531,108	–	(438,907)	**1,130,642**

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 22 June 2021, awards for a maximum of 1,107,155 shares were granted to employees in respect of the three-year period ending on 31 March 2024. In the previous year, awards of 860,740 shares were made on 29 June 2020 for the period ending 31 March 2023.

7. Director and staff costs continued

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 share 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	**22 June 2021**	29 June 2020
Share price at date of grant	**87.3p**	68.4p
Exercise price	**Nil**	Nil
Expected term	**3 years**	3 years
Risk-free rate – TSR condition	**0.23%**	(0.05)%
Share price volatility – TSR condition	**28.3%**	24.2%
Median volatility of comparator group – TSR condition	**31.8%**	24.5%
Correlation – TSR condition	**29.4%**	37.8%
TSR performance at grant date – TSR condition	**0.3%**	(11.4)%
Median TSR performance of comparator group at grant date – TSR condition	**10.7%**	(10.7)%
Fair value – TSR condition (Monte Carlo method)	**37.7p**	26.7p
Fair value – TPR condition (Black-Scholes model)	**87.3p**	68.4p
Fair value – EPS condition (Black-Scholes model)	**87.3p**	68.4p

The Trustee of the Company's Employee Benefit Trust acquired 750,000 ordinary shares during the year for £730,000 (2021: 958,000 shares for £643,000).

The Group employed nine members of staff at 31 March 2022 (2021: ten). The average number of people employed by the Group for the year ended 31 March 2022 was ten (2021: nine).

8. Interest paid

	2022 £000	2021 £000
Interest payable on loans	**8,134**	7,574
Interest on obligations under finance leases	**129**	114
Non-utilisation fees	**239**	311
	8,502	7,999

The loan arrangement costs incurred to 31 March 2022 are £3,325,000 (2021: £4,590,000). These are amortised over the duration of the loans with £967,000 amortised in the year ended 31 March 2022 and included in interest payable on loans (2021: £531,000).

9. Tax

The charge for the year is:

	2022 £000	2021 £000
Tax expense in year	**–**	–
Total tax charge	**–**	–

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

9. Tax continued
A reconciliation of the tax charge applicable to the results at the statutory tax rate to the charge for the year is as follows:

	2022 £000	2021 £000
Profit before taxation	**146,986**	33,801
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2021: 19%)	**27,927**	6,422
Less:		
UK REIT exemption on net income	**(3,257)**	(3,813)
Revaluation movement not taxable	**(24,662)**	(2,444)
Gains on disposal not taxable	**(8)**	(165)
Total tax charge	**–**	–

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 are also required 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.

10. Dividends

	2022 £000	2021 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2020: 0.625 pence	**–**	3,409
Interim dividend for the period ended 30 June 2020: 0.625 pence	**–**	3,410
Interim dividend for the period ended 30 September 2020: 0.7 pence	**–**	3,819
Interim dividend for the period ended 31 December 2020: 0.8 pence	**–**	4,364
Interim dividend for the period ended 31 March 2021: 0.8 pence	**4,365**	–
Interim dividend for the period ended 30 June 2021: 0.85 pence	**4,644**	–
Interim dividend for the period ended 30 September 2021: 0.85 pence	**4,640**	–
Interim dividend for the period ended 31 December 2021: 0.875 pence	**4,776**	–
	18,425	15,002

The interim dividend of 0.875 pence per ordinary share in respect of the period ended 31 March 2022 has not been recognised as a liability as it was declared after the year-end. This dividend of £4,774,000 will be paid on 31 May 2022.

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:

	2022	2021
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	**147,420**	33,801
Weighted average number of ordinary shares for basic profit per share	**545,904,197**	545,590,722
Weighted average number of ordinary shares for diluted profit per share	**547,295,589**	546,793,381

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2022 and 31 March 2021:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate Trust (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 Financing UK Limited	England & Wales	100%
Picton Financing UK (No 2) Limited (established on 28 February 2022)	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 Trust (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.

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.

	2022 £000	2021 £000
Fair value at start of year	**665,418**	654,486
Capital expenditure on investment properties	**9,551**	4,961
Acquisitions	**25,005**	–
Disposals	**(687)**	(3,928)
Transfer to owner-occupied property	**–**	(3,830)
Acquisition of right of use asset	**897**	–
Realised gains on disposal	**42**	868
Unrealised movement on investment properties	**129,801**	12,861
Fair value at the end of the year	**830,027**	665,418
Historic cost at the end of the year	**654,370**	625,359

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

	2022 £000	2021 £000
Appraised value	**849,325**	682,410
Valuation of assets held under head leases	**2,237**	1,313
Owner-occupied property	**(4,168)**	(3,830)
Lease incentives held as debtors	**(17,367)**	(14,475)
Fair value at the end of the year	**830,027**	665,418

The investment properties were valued by independent valuers, CBRE Limited, Chartered Surveyors, as at 31 March 2022 and 31 March 2021 on the basis of fair value in accordance with the version of the RICS Valuation – Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the Red Book) current as at the valuation date. 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

13. Investment properties continued

In addition, the Group's investment properties are valued quarterly by 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 Board will also consider whether 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 2022 and 31 March 2021 all of the Group's properties, including owner-occupied property, are Level 3 in the fair value hierarchy as it involves use of significant judgement. 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, as derived from prices).

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

	2022			2021		
	Office	**Industrial**	**Retail and Leisure**	Office	Industrial	Retail and Leisure
Appraised value (£000)	**251,125**	**509,730**	**88,470**	245,385	360,740	76,285
Area (sq ft, 000s)	**828**	**3,240**	**692**	828	2,570	706
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
– range	**£10.96 to £82.32**	**£2.82 to £26.77**	**£3.23 to £28.49**	£11.00 to £78.05	£3.75 to £21.18	£3.46 to £29.65
– weighted average	**£35.10**	**£11.47**	**£11.83**	£34.10	£10.39	£11.84
Net initial yield						
– range	**0.92% to 9.00%**	**0.00% to 6.75%**	**3.07% to 25.00%**	0.00% to 7.98%	2.79% to 7.63%	3.07% to 29.58%
– weighted average	**4.64%**	**3.25%**	**7.33%**	4.35%	4.38%	7.64%
Reversionary yield						
– range	**4.29% to 9.63%**	**3.04% to 7.37%**	**6.19% to 12.89%**	4.34% to 10.83%	3.68% to 8.59%	7.01% to 26.95%
– weighted average	**7.00%**	**4.24%**	**7.42%**	7.02%	4.97%	7.95%
True equivalent yield						
– range	**4.09% to 9.95%**	**3.00% to 7.00%**	**6.25% to 13.02%**	4.42% to 9.95%	3.73% to 8.39%	7.80% to 14.03%
– weighted average	**6.49%**	**4.11%**	**7.55%**	6.82%	5.02%	8.99%

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. We have reviewed the ranges used in assessing the impact of changes in unobservable inputs on the fair value of the Group's property portfolio and concluded these were still reasonable. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	**2022 Impact on valuation**	2021 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £55.2m**	Decrease of £36.3m
	Decrease of 50 basis points	**Increase of £69.0m**	Increase of £45.4m
Office	Increase of 50 basis points	**Decrease of £11.9m**	Decrease of £20.3m
	Decrease of 50 basis points	**Increase of £12.5m**	Increase of £24.5m
Retail and Leisure	Increase of 50 basis points	**Decrease of £5.1m**	Decrease of £5.2m
	Decrease of 50 basis points	**Increase of £5.9m**	Increase of £6.7m

14. Property, plant and equipment

Property, plant and equipment principally comprises the fair value of owner-occupied property. The fair value of these premises is based on the appraised value at 31 March 2022.

	Owner Occupied Property £000	Plant and equipment £000	Total £000
At 1 April 2020	–	20	20
Additions	3,830	268	4,098
Depreciation	–	(7)	(7)
Revaluation	–	–	–
At 31 March 2021	**3,830**	**281**	**4,111**
Additions	–	3	3
Depreciation	(96)	(69)	(165)
Revaluation	434	–	434
At 31 March 2022	**4,168**	**215**	**4,383**

15. Accounts receivable

	2022 £000	2021 £000
Tenant debtors (net of provisions for bad debts)	**4,618**	4,326
Lease incentives	**17,367**	14,475
Other debtors	**865**	783
	22,850	19,584

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and the approximate value 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 2022, tenant debtors of £302,000 (2021: £1,874,000) were considered impaired and provided for.

16. Cash and cash equivalents

	2022 £000	2021 £000
Cash at bank and in hand	**38,542**	23,353
Short-term deposits	**5**	5
	38,547	23,358

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 to their fair value.

17. Accounts payable and accruals

	2022 £000	2021 £000
Accruals	**4,994**	4,496
Deferred rental income	**8,399**	7,596
VAT liability	**1,638**	1,780
Trade creditors	**357**	596
Other creditors	**3,750**	4,337
	19,138	18,805

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

18. Loans and borrowings

	Maturity	2022 £000	2021 £000
Current			
Aviva facility	–	**1,372**	1,314
Capitalised finance costs	–	**(304)**	(370)
		1,068	944
Non-current			
Canada Life facility	24 July 2031	**129,045**	80,000
Aviva facility	24 July 2032	**83,518**	84,894
NatWest revolving credit facility	26 May 2025	**4,900**	–
Capitalised finance costs	–	**(1,699)**	(2,183)
		215,764	162,711
		216,832	163,655

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

	2022 £000	2021 £000
Balance at start of year	**163,655**	165,136
Changes from financing cash flows		
Proceeds from loans and borrowings	**79,545**	–
Repayment of loans and borrowings	**(26,917)**	(1,258)
Financing costs paid	**(419)**	(574)
	52,209	(1,832)
Other changes		
Amortisation of financing costs	**967**	531
Change in accrued financing costs	**1**	(180)
	968	351
Balance as at 31 March	**216,832**	163,655

The Group has refinanced its existing loan facility with Canada Life increasing borrowings to £129.0 million and extending the maturity date until July 2031. Interest is now fixed at 3.25% (previously 4.08%) over the remaining life of the loan. A debt prepayment fee of £4.0 million was incurred during the year to reset the interest rate on the existing debt. 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 £415.2 million (2021: £330.0 million).

Additionally, the Group has a £95.3 million term loan facility with Aviva Commercial Finance Limited which matures in July 2032. The loan is for a term of 20 years and was fully drawn on 24 July 2012 with approximately one-third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.3 million in the year (2021: £1.3 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 £208.1 million (2021: £184.9 million).

The Group also has a £50 million revolving credit facility ('RCF') with National Westminster Bank Plc which matures in May 2025. There is currently £4.9 million drawn under the facility, interest is charged at 150 basis points over SONIA from 20 January 2022 (previously 150 basis points over LIBOR) on drawn balances and there is an undrawn commitment fee of 60 basis points. The facility is secured on properties held by Picton UK Real Estate Trust (Property) Limited, valued at £163.2 million (2021: £131.7 million).

The fair value of the drawn loan facilities at 31 March 2022, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £225.6 million (2021: £187.2 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 2022 was 3.7% (2021: 4.2%).

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of six properties with commitments outstanding at 31 March 2022 of approximately £2.4 million (2021: £6.7 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2022 (2021: £nil).

20. Share capital and other reserves

	2022 £000	2021 £000
Authorised:		
Unlimited number of ordinary shares of no par value	**–**	–
Issued and fully paid:		
547,605,596 ordinary shares of no par value (31 March 2021: 547,605,596)	**–**	–
Share premium	**164,400**	164,400

The Company has 547,605,596 ordinary shares in issue of no par value (2021: 547,605,596).

No new ordinary shares were issued during the year ended 31 March 2022.

	2022 Number of shares	2021 Number of shares
Ordinary share capital	**547,605,596**	547,605,596
Number of shares held in Employee Benefit Trust	**(1,974,253)**	(2,052,269)
Number of ordinary shares	**545,631,343**	545,553,327

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 1,974,253 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.

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

	2022 £000	2021 £000
Profit on disposal of investment properties	**(42)**	(868)
Movement in investment property valuation	**(129,801)**	(12,861)
Share-based provisions	**668**	758
Depreciation of tangible assets	**165**	7
	(129,010)	(12,964)

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

22. Obligations under leases
The Group has entered into a number of head 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.

Lease liabilities in respect of rents on leasehold properties were payable as follows:

	2022 £000	2021 £000
Future minimum payments due:		
Within one year	**185**	116
In the second to fifth years inclusive	**740**	466
After five years	**9,083**	7,150
	10,008	7,732
Less: finance charges allocated to future periods	**(7,301)**	(5,918)
Present value of minimum lease payments	**2,707**	1,814

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

	2022 £000	2021 £000
Current		
Within one year	**114**	107
	114	107
Non-current		
In the second to fifth years inclusive	**410**	379
After five years	**2,183**	1,328
	2,593	1,707
	2,707	1,814

Operating leases where the Group is lessor
The Group leases its investment properties under commercial property leases which are held as operating leases.

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

	2022 £000	2021 £000
Within one year	**41,928**	37,744
One to two years	**39,244**	33,954
Two to three years	**35,416**	32,008
Three to four years	**29,972**	27,937
Four to five years	**24,748**	23,235
After five years	**99,788**	91,294
	271,096	246,172

These properties are measured under the fair value model as the properties are held to earn rentals. Commercial property leases typically have lease terms between five and ten years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

23. 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 20.

24. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, obligations under head 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 2022	Notes	**Held at fair value through profit or loss £000**	**Financial assets and liabilities at amortised cost £000**	**Total £000**
Financial assets				
Debtors	15	–	**5,483**	**5,483**
Cash and cash equivalents	16	–	**38,547**	**38,547**
		–	**44,030**	**44,030**
Financial liabilities				
Loans and borrowings	18	–	**216,832**	**216,832**
Obligations under head leases	22	–	**2,707**	**2,707**
Creditors and accruals	17	–	**9,101**	**9,101**
		–	**228,640**	**228,640**

31 March 2021	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	15	–	5,109	5,109
Cash and cash equivalents	16	–	23,358	23,358
		–	28,467	28,467
Financial liabilities				
Loans and borrowings	18	–	163,655	163,655
Obligations under head leases	22	–	1,814	1,814
Creditors and accruals	17	–	9,429	9,429
		–	174,898	174,898

25. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the risk management framework applied by the Group. 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 optimising its capital structure. 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 share capital, reserves, retained earnings and revaluation reserve. The Group is not subject to any external capital requirements.

The Group monitors capital on the basis of its gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 18, 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.

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

25. Risk management continued
At the reporting date the gearing ratios were as follows:

	2022 £000	2021 £000
Total borrowings	**218,835**	166,208
Gross assets	**895,807**	712,471
Gearing ratio (must not exceed 65%)	**24.4%**	23.3%

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 with different maturities, which will enable the Group to manage its borrowings in an orderly manner over the long-term. The Group also has a revolving credit facility which provides greater flexibility in managing the level of borrowings.

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

	2022 £000	2021 £000
Total liabilities	**238,677**	184,274
Less: cash and cash equivalents	**(38,547)**	(23,358)
Net debt	**200,130**	160,916
Total equity	**657,130**	528,197
Net debt to equity ratio at end of year	**0.30**	0.30

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

31 March 2022	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	**4,618**	**4,618**
Cash and cash equivalents	16	–	**38,547**	**38,547**
		–	**43,165**	**43,165**

31 March 2021	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	4,326	4,326
Cash and cash equivalents	16	–	23,358	23,358
		–	27,684	27,684

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 to and credit ratings of, its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Tenant 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 tenant debtors and, where appropriate, credit guarantees or rent deposits are acquired. 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 Group does not have any significant concentration risk whether in terms of 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 strong credit ratings assigned by international credit rating agencies.

25. Risk management continued

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 overall exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings assigned by international credit rating agencies and with set counterparty limits that are reviewed regularly. The Group's main cash balances are held with National Westminster Bank Plc ('NatWest'), Nationwide International Limited ('Nationwide') and Lloyds Bank Plc ('Lloyds'). 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, Nationwide and Lloyds are rated by all the major rating agencies. If the credit quality of any of these banks were to deteriorate, the Group would look to move the relevant 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 2022 and at 31 March 2021, Standard & Poor's short-term credit rating for each of the Group's bankers were A-1.

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 put in place 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, loan maturity profiles 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 2022	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	38,547	–	–	38,547
Debtors	5,483	–	–	5,483
Capitalised finance costs	304	934	765	2,003
Obligations under head leases	(185)	(740)	(9,083)	(10,008)
Fixed interest rate loans	(8,524)	(37,049)	(242,891)	(288,464)
Floating interest rate loans	(113)	(5,031)	–	(5,144)
Creditors and accruals	(9,101)	–	–	(9,101)
	26,411	(41,886)	(251,209)	(266,684)

31 March 2021	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	23,358	–	–	23,358
Debtors	5,109	–	–	5,109
Capitalised finance costs	370	1,355	828	2,553
Obligations under head leases	(116)	(466)	(7,150)	(7,732)
Fixed interest rate loans	(8,332)	(33,329)	(184,927)	(226,588)
Floating interest rate loans	(300)	(346)	–	(646)
Creditors and accruals	(9,429)	–	–	(9,429)
	10,660	(32,786)	(191,249)	(213,375)

The Group expects to meet its financial liabilities through the various available liquidity sources, including a secure rental income profile, asset sales, undrawn committed borrowing facilities and, in the longer-term, debt refinancing.

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 costs and capital expenditure, the Group's operating performance 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

25. Risk management continued

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 investment in real estate (such as external financing costs 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 mitigate the risk profile of the portfolio effectively. 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 £42.5 million (2021: £34.1 million).

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facility only. The Group's senior debt facilities have fixed interest rates over the terms of the loans. The amount drawn under the revolving credit facility makes up a small proportion of the overall debt, therefore the Group has limited exposure to interest rate risk on 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 2022	**Less than 1 year £000**	**1 to 5 years £000**	**More than 5 years £000**	**Total £000**
Floating				
Cash and cash equivalents	**38,547**	**–**	**–**	**38,547**
Secured loan facilities	**–**	**(4,900)**	**–**	**(4,900)**
Fixed				
Secured loan facilities	**(1,372)**	**(6,127)**	**(206,436)**	**(213,935)**
Obligations under leases	**(114)**	**(410)**	**(2,183)**	**(2,707)**
	37,061	**(11,437)**	**(208,619)**	**(182,995)**

31 March 2021	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	23,358	–	–	23,358
Fixed				
Secured loan facilities	(1,314)	(5,867)	(159,027)	(166,208)
Obligations under leases	(107)	(379)	(1,328)	(1,814)
	21,937	(6,246)	(160,355)	(144,664)

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore the Group is exposed to macroeconomic changes in the UK economy. Furthermore, the Group derives its rental income from around 400 occupiers with the single largest occupier accounting for only 5.0% 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 Non-Executive Directors of the Company amounted to £275,000 (2021: £250,000). As at 31 March 2022, the Group owed £nil to the Non-Executive Directors (2021: £nil).

Picton Property Income Limited has no controlling parties.

27. Events after the Balance Sheet date

A dividend of £4,774,000 (0.875 pence per share) was approved by the Board on 26 April 2022 and will be paid on 31 May 2022.

The Group has completed on the acquisition of one property for £13.7 million.