

Company Registration No. 05122315 (England and Wales)

PALACE CAPITAL (HALIFAX) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

TUESDAY



A9JG05DL

A12

08/12/2020

#192

COMPANIES HOUSE

COMPANY INFORMATION

Directors

Neil Sinclair
Stanley Davis
Richard Starr
Stephen Silvester
Matthew Simpson

Company secretary

Nicola Grinham

Registration number

05122315

Registered office

25 Bury Street
St James's
London
SW1Y 6AL

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Banker

Barclays Bank plc
69 Albion Street
Leeds
LS1 5AA

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

PALACE CAPITAL (HALIFAX) LIMITED

INDEX	PAGE
Directors' Report	3-4
Independent Auditor's Report	5-7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11-20

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

The directors present their report together with the financial statements of Palace Capital (Halifax) Limited for the year ended 31 March 2020.

Principal activity

The principal activity of the company is property investment.

Results and dividends

The results for the year are set out on page 8.

Directors

The following directors have held office during the year:

S H Davis

D M Kaye

(Resigned 19 July 2019)

R N Sinclair

R Starr

S Silvester

M Simpson

(Appointed 19 July 2019)

Qualifying third party indemnity provisions

The company provides Directors and Officers Liability insurance cover in the sum of £2.5m. The cover currently in place is for the period 6th July 2020 to 5th July 2021. The cover is provided by Dual Corporate Risks Limited.

Auditor

The auditor BDO LLP is deemed to be reappointed under section 487(2) of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor and disclosure of information to auditor

In the case of each of the persons who are Directors of the company at the date when this report is approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

BDO LLP have expressed their willingness to continue in office as the company's auditor.

Small company provisions

This report has been prepared in accordance with the small companies' regime under the Companies Act 2006.

On behalf of the board



S J Silvester
Director

30 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

OPINION

We have audited the financial statements of Palace Capital (Halifax) Limited ("the Company") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to note 1 of the financial statements, which indicates the Directors' considerations over going concern, including the potential impact of the Covid-19 pandemic. The company may need to seek waivers to certain loan covenants, and additionally or alternatively the financial support of its parent company, neither of which is guaranteed. As stated in note 1, these events or conditions, along with other matters as set out in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

EMPHASIS OF MATTER: PROPERTY VALUATIONS

We draw attention to the disclosures made in the Properties Estimates note 3. As described in the note, due to the impact of the Novel Coronavirus outbreak, the valuers have attached less weight to previous market evidence for comparison purposes and property valuations are therefore reported on the basis of 'material valuation uncertainty' per VGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuation of the Investment Properties than would normally be the case. Our opinion is not modified in respect of this matter.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

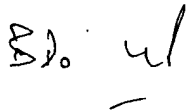
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.



Richard Levy (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

30 September 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

PALACE CAPITAL (HALIFAX) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Notes	2020 £	2019 £
Rental & other income	4	1,845,033	1,821,402
Property operating expenses		(218,012)	(198,336)
Net property income		<u>1,627,021</u>	<u>1,623,066</u>
Administrative expenses		(120,249)	(120,570)
(Loss)/gain on revaluation of investment property	9	<u>(1,289,516)</u>	<u>15,810</u>
Operating profit	5	217,256	1,518,306
Interest receivable and similar income	6	247	167
Interest payable and similar charges	7	<u>(482,868)</u>	<u>(528,029)</u>
(Loss)/profit on ordinary activities before taxation		(265,365)	990,444
Tax on (loss)/profit on ordinary activities	8	394,575	(171,591)
Profit and total comprehensive income for the financial period		<u>129,210</u>	<u>818,853</u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 11 to 20 form part of these financial statements.

PALACE CAPITAL (HALIFAX) LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Notes	31 March 2020 £	31 March 2019 £
Non-current assets			
Investment properties	9	<u>21,633,847</u>	<u>22,853,828</u>
		21,633,847	22,853,828
Current assets			
Debtors	10	1,096,268	610,969
Cash at bank and in hand		<u>1,293,009</u>	<u>727,811</u>
		2,389,277	1,338,780
Creditors: amounts falling due within one year	11	<u>(1,278,380)</u>	<u>(1,406,809)</u>
Net current assets/(liabilities)		1,110,897	(68,029)
Total assets less current liabilities		22,744,744	22,785,799
Creditors: amounts falling due after more than one year	12	(13,123,661)	(14,492,670)
Deferred tax liability	13	-	(410,889)
Total assets less liabilities		<u>9,621,083</u>	<u>7,882,240</u>
Capital and Reserves			
Called up share capital	14	8,109,736	6,500,103
Share premium account		5,787,137	5,787,137
Retained earnings		<u>(4,275,790)</u>	<u>(4,405,000)</u>
Shareholders' funds - equity interests		<u>9,621,083</u>	<u>7,882,240</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The notes on pages 11 to 20 form part of these financial statements.

Approved by the Board and authorised for issue on 3rd September 2020.



S. J. Silvester
Director

Company Registration No. 05122315

PALACE CAPITAL (HALIFAX) LIMITED**STATEMENT OF CHANGES IN EQUITY****For the year ended 31 March 2020**

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
At 31 March 2018	6,500,103	5,787,137	(5,223,853)	7,063,387
Total comprehensive income for the year	-	-	818,853	818,853
At 31 March 2019	6,500,103	5,787,137	(4,405,000)	7,882,240
Total comprehensive income for the year	-	-	129,210	129,210
Issue of share capital	1,609,633	-	-	1,609,633
At 31 March 2020	8,109,736	5,787,137	(4,275,790)	9,621,083

The notes on pages 11 to 20 form part of these financial statements.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

Palace Capital (Halifax) Limited is a private company limited by shares and incorporated in England & Wales under the Companies Act. The financial statements of the Company have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

1. GOING CONCERN

The Directors have made an assessment of the Company's ability to continue as a going concern which included reviewing the Company's cash flow forecast and stress testing the key banking debt covenants, taking into account the economic uncertainty created by the ongoing Covid-19 pandemic and the potential impact on trading over the next twelve months from the date of signing these financial statements.

The impact of Covid-19, especially on the leisure sector, has resulted in a number of tenants withholding rental payments. As a result, the Scottish Widows interest cover ratio ("ICR") covenant test for April 2020 was not met. The bank provided a covenant waiver for both April and July, though subsequent rent collected from tenants was very positive and all bank covenants for July were met. During the year, £0.8m cash was placed in a lock-up deposit account on behalf of Scottish Widows in order to satisfy the loan to value ("LTV") covenant resulting from a reduction in the property valuation prepared on behalf of the bank in August 2019.

As part of the assessment, the Directors stress tested the ICR, LTV and debt service cover ("DSC") banking covenants based on the anticipated impact of the pandemic on the forecasted rental collections from tenants over the next twelve months. The forecast shows that there is headroom on all the bank covenants, with the headroom available to ensure these covenants are not breached being 26.5% for historical ICR, 23.2% for projected ICR, 6.6% for LTV, 0.3% for historical DSC and 29.9% for projected DSC. If the property valuation fell by a further £1.5m, there would be a risk of breaching the LTV covenant. However, the lender remains supportive and we would therefore be able to place additional cash in a lock-up account to maintain compliance with the LTV covenant. The Company will keep an open dialogue with all tenants to ensure prompt rent collection, monitor lease renewals and continue to actively seek to lease any vacant units, mitigating the risk of any further covenant breaches, especially on the historical DSC, where the headroom margin is reduced.

Taking into consideration the reduced headroom in the banking covenants, were the effects of the pandemic to be worse or more prolonged, then the Directors forecast due to the economic and tenant uncertainty, covenants could be breached and the Company would need to seek covenant waivers from the lenders and additionally or alternatively the financial support of its parent company, neither of which is guaranteed. The Directors have therefore concluded that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and its ability to realise its assets and discharge its liabilities in the ordinary course of business. These financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

However based on their forecasts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for at least twelve months from the date of approval of the financial statements and have concluded that it is appropriate to prepare these financial statements on the going concern basis.

2. ACCOUNTING POLICIES

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Company's management to exercise judgement in applying the Company's accounting policies (as detailed below).

Disclosure exemptions

In preparing the financial statements of the company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- The requirements of section 7 Statement of Cash Flows;
- The requirements of section 3 Financial Statement Presentation – Paragraph 3.17(d);
- The requirements of section 11 Financial Instruments – Paragraphs 11.39 to 11.48a;
- The requirements of section 12 Other Financial Instruments – Paragraphs 12.26 to 12.29;
- The requirements of section 33 Related Party Disclosures – Paragraph 33.7

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

This information is included in the consolidated financial statements of Palace Capital plc for the year ending 31 March 2020 and these financial statements are available on request from 4th Floor, 25 Bury Street, St James's, London, United Kingdom, SW1Y 6AL.

REVENUE

Revenue is derived from property income and represents the value of accrued charges under operating leases for rental of the Company's investment properties. Revenue is measured at fair value of the consideration received. All income is derived in the United Kingdom.

Rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. Contingent rent reviews are recognised when such reviews have been agreed with tenants. Lease incentives and guaranteed rent review amounts are recognised as an integral part of the net consideration for use of the property and amortised on a straight-line basis over the term of lease.

Other income comprises surrender premium, insurance commission, property management fees and miscellaneous income and is accounted for on an accruals basis.

OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated before interest and tax.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provision of the instrument.

INVESTMENT PROPERTIES

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both.

Investment properties are measured initially at cost including transaction costs and thereafter are stated at fair value, which reflects market conditions at the balance sheet date. Surpluses and deficits arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the period in which they arise.

Investment properties are stated at fair value as determined by the independent valuers. The fair value of the Company's property portfolio is based upon independent valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance with International Valuation Standards. In determining the fair value of investment properties, the independent valuers make use of historical and current market data as well as existing lease agreements.

The Company recognises investment property as an asset when it is probable that the economic benefits that are associated with the investment property will flow to the company and the Company can measure the cost of the investment reliably.

Investment properties cease to be recognised when they have been disposed of or withdrawn permanently from use and no future economic benefit is expected from disposal.

The Company evaluates all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property. Any costs deemed as repairs and maintenance or any costs associated with the day-to-day running of the property will be recognised in the profit and loss account as they are incurred.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables concerned.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

TRADE PAYABLES

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

EQUITY INSTRUMENTS

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of direct issue costs.

CURRENT TAXATION

Current tax assets and liabilities for the period not under UK REIT regulations are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted or substantively enacted, by the balance sheet date.

DEFERRED TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax balances are recognised in respect of timing differences that have originated but not reversed on the balance sheet date. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax balances are not recognised in respect of permanent differences between the fair value of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

SHARE CAPITAL

Ordinary share capital is classified as equity.

RESERVES

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares issued net of the expenses of the share issue.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

DIVIDENDS TO EQUITY HOLDERS OF THE PARENT

Interim ordinary dividends are recognised when paid and final ordinary dividends are recognised as a liability in the period in which they are approved by the shareholder.

PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

EVENTS AFTER THE BALANCE SHEET DATE

Post year-end events that provide additional information about a company's position at the balance sheet date and are adjusting events are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimation is contained in the accounting policies or the notes to the accounts, and the key areas are summarised below.

Investment properties

The key source of valuation uncertainty rests in the values of property assets, which significantly affects the value of investment properties in the Statement of Financial Position. The investment property portfolio is carried at fair value, which requires a number of judgements and estimates in assessing the qualities of the Company's assets relative to market transactions. The approach to this valuation and the amounts affected are set out in the accounting policies and note 9.

The Company has valued the investment property at fair value. To the extent that any future valuation affects the fair value of the investment properties, this will impact on the Company's results in the period in which this determination is made.

Due to COVID-19, March 2020 valuations have been issued by Cushman and Wakefield subject to a material uncertainty disclosure as follows:

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these Properties under frequent review.

For the avoidance of doubt, the inclusion of the ‘material uncertainty’ declaration above does not mean that the valuation cannot be relied upon. This clause is a disclosure, not a disclaimer. It is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

Recoverability of debtors

The recoverability of debtors is assessed based on factors specific to each individual debtor.

4. Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

	2020	2019
	£	£
Rental income	1,845,033	1,821,402
	<u>1,845,033</u>	<u>1,821,402</u>

5. Operating profit

	2020	2019
	£	£
Operating profit is stated after charging:		
Auditors' remuneration	-	-
Directors' remuneration	-	-
	<u>-</u>	<u>-</u>

Audit fees are borne by the parent company. The company has no employees.

6. Interest receivable and similar income

	2020	2019
	£	£
Bank interest	247	167
	<u>247</u>	<u>167</u>

7. Interest payable and similar charges

	2020	2019
	£	£
Interest on bank loans	403,672	415,168
Loan arrangement fee	25,416	24,187
Intercompany interest payable	53,780	88,674
	<u>482,868</u>	<u>528,029</u>

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

8. Taxation

	Notes	2020 £	2019 £
Corporation tax charge		16,314	52,911
Deferred tax (credit)/charge	13	(410,889)	118,680
Total tax (credit)/charge		(394,575)	171,591
Factors affecting the tax charge for the year			
(Loss)/Profit on ordinary activities before taxation		(265,365)	990,444
Based on (loss)/profit for the year:			
Tax at 19% (2019: 19%)		(50,419)	188,184
Group tax relief		(8,269)	-
Tax under provided in prior year		-	(1,011)
Difference in tax rates		-	(13,823)
Indexation allowances and Capital expenditure		(33,346)	-
Deferred tax on revaluation loss not recognised		-	(3,004)
Deferred tax not previously recognised		-	1,245
Deferred tax written off on REIT conversion		(410,889)	-
REIT exempt income		(136,660)	-
Non-taxable items		245,008	-
Total tax (credit)/charge for the year		(394,575)	171,591

As a result of the Parent Company's conversion to a Real Estate Investment Trust ('REIT') on 1 August 2019, the Company is no longer required to pay UK corporation tax in respect of property rental income and capital gains relating to its property rental business. Consequently a £410,889 credit on the profit and loss account and debit to the balance sheet has been recognised for the reversal of deferred tax provided for capital gains tax due to revaluation of investment properties to fair value and the capital allowances that have been claimed on improvements to investment properties. UK corporation tax was payable for the first 4 months of the period up to 31 July 2019 before entry to the REIT "regime". Taxable profits from 1 August 2019 are not subject to UK corporation tax.

9. Investment Properties

	Freehold £
At 1 April 2019	22,853,828
Additions	69,535
Loss on revaluation of investment properties	(1,289,516)
At 31 March 2020	21,633,847

A reconciliation of the valuations carried out by the independent valuers to the carrying values shown in the balance sheet was as follows:

	2020 £	2019 £
Cushman & Wakefield LLP	22,200,000	23,305,000
Less lease incentive balance included in accrued income	(566,153)	(451,172)
Carrying value	21,633,847	22,853,828

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

Investment properties are stated at fair value as determined by independent valuers who make use of historical and current market data as well as existing lease agreements. The fair value of the Company's property portfolio is based upon independent valuations and is inherently subjective. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arms-length transaction at the date of valuation, in accordance FRS102. The fair value of each of the properties has been assessed by the independent valuers.

As a result of the level of judgement used in arriving at the market valuations, the amounts which may ultimately be realised in respect of any given property may differ from the valuations shown in the Statement of Financial Position.

Investment properties at 31 March 2020 were valued independently by Cushman & Wakefield LLP, Chartered Surveyors, as external valuers, on the basis of open market value and in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Investment properties with a carrying value of £21,633,847 (2019: £22,853,828) are subject to a first charge to secure the Company's bank loans amounting to £13,724,000 (2019: £14,160,000).

The historical cost of the Company's investment properties was £24,350,224 (2019: £24,280,689).

Valuation process

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

The Executive Director responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the external valuers.

The key assumptions made in the valuation of the Company's investment properties are:

- the amount and timing of future income streams;
- anticipated maintenance costs and other landlord's liabilities; and
- an appropriate yield.

Valuation technique

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

31 March 2020	Significant unobservable inputs
Value of investment properties	22,200,000
Area (sq ft)	117,767
Gross Estimated Rental Value	1,731,199
Net Initial Yield	6.81%
Reversionary Yield	7.19%
Equivalent Yield	8.18%

PALACE CAPITAL (HALIFAX) LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2020****10. Debtors**

	2020	2019
	£	£
Trade debtors	474,268	134,705
Prepayment & accrued income	587,245	476,264
Other debtors	34,756	34,756
	<u>1,096,269</u>	<u>610,969</u>

11. Creditors: amounts falling due within one year

	2020	2019
	£	£
Current portion of long term bank loans (see note 12)	436,000	436,000
Payables and other creditors	275,084	85,133
Corporation tax payable	16,499	38,065
Accruals and deferred income	472,238	788,806
VAT payable	78,559	58,805
	<u>1,278,380</u>	<u>1,406,809</u>

12. Creditors: amounts falling due after more than one year

	2020	2019
	£	£
Loan from parent undertakings	-	944,025
Bank loans	13,724,000	14,160,000
Bank loan arrangement fees	(164,339)	(175,355)
Less current portion included in current liabilities	(436,000)	(436,000)
	<u>13,123,661</u>	<u>14,492,670</u>

The bank loan is a loan facility with Scottish Widows which was provided on 4 July 2016 and made available funds of £15,250,000 at an interest rate of 2.20% over 10 year sterling mid swap rate. The loan is repayable at a rate of approximately £109,000 quarterly with the remaining loan repayable at the end of the term of the loan on 6 July 2026. Loan costs amounting to £25,416 (2019: £24,187) were also amortised during the period. The loan is secured on the Company's investment property.

Palace Capital plc provided an unsecured loan facility of £9,016,706 on 11 March 2016 at an interest rate of 5% per annum and this was repayable on 11 March 2021.

On 25 March 2020, the Company settled its outstanding loan with Palace Capital plc of £1,609,633 through the issue of share capital (see note 14). As at 31 March 2020, the outstanding loan amount was £Nil (2019: £944,025) and accrued interest amounting to £Nil remained unpaid (2019: £327,827). Interest of £53,780 (2019: £88,674) was charged during the year.

13. Deferred tax

	2020	2019
	£	£
Deferred tax liability brought forward	410,889	292,209
Origination and reversal of timing differences	(410,889)	118,680
Deferred tax liability carried forward	<u>-</u>	<u>410,889</u>

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

The deferred tax balance consists of the tax effect of timing differences in respect of:

	2020	2019
	£	£
Accelerated capital allowances	-	410,889
Deferred tax liability carried forward	-	410,889

A deferred tax liability amounting to £Nil (2019: £410,889) has been recognised in the financial statements for accelerated capital allowances, although it is expected that they will not reverse when the property is disposed of.

No deferred tax liability has been recognised (2019: Nil) on the revaluation of investment properties to fair value as once the availability of capital losses, indexation allowances and the 1982 valuations for certain properties have been taken into account it is not anticipated that capital gains tax would be payable if the properties were disposed of at their fair value.

As a result of the Parent Company's conversion to a REIT on 1 August 2019, the Company is no longer required to pay UK corporation tax in respect of property rental income and capital gains relating to its property rental business.

14. Share Capital

	2020	2019
	£	£
Allocated, called up and fully paid		
8,109,736 (2019: 6,500,103) Ordinary shares of £1 each issued	8,109,736	6,500,103
At 31 March 2020	8,109,736	6,500,103

On 26 March 2020, the Company issued a further 1,609,633 ordinary £1 shares at par in order to refinance the Company.

15. Leases

Operating lease receipts in respect of rents on investment properties are receivable as follows:

	2020	2019
	£	£
Within one year	1,765,883	1,710,070
From one to two years	1,812,788	1,710,070
From two to five years	5,571,337	5,230,265
From five to 25 years	25,255,503	25,999,234
	34,405,511	34,649,639

Palace Capital (Halifax) Limited has granted leases to its tenants. These vary dependent on the individual tenant and the respective property and demise and vary from medium term leases of less than 15 year to longer leases of over 30 years. A number of these leases contain rent free periods. Standard lease provisions include service charge payments and recovery of other direct costs. All investment properties generated rental income during the current period.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

16. Post balance sheet events

The outbreak and unprecedented spread of the COVID-19 pandemic across the globe has had a profound impact on local and global markets and is expected to continue to shape the economic landscape for the immediate future. The Directors continue to monitor the impact of unfolding events closely in order to respond swiftly to any consequential impacts on the business. Refer to note 1 for the impacts on going concern.

17. Related party transactions

The Company has taken advantage of Paragraph 33.1A of FRS 102 in order not to provide disclosures for transactions that have taken place between group members.

18. Control

The Company's ultimate parent company is Palace Capital plc. The results of the Company are consolidated in the financial statements of Palace Capital plc. Group financial statements are available on request from 4th Floor, 25 Bury Street, St James's, London, United Kingdom, SW1Y 6AL.

There is no ultimate controlling party.