

Company Registration No. 05122315 (England and Wales)

PALACE CAPITAL (HALIFAX) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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PALACE CAPITAL (HALIFAX) LIMITED

COMPANY INFORMATION

Director	Matthew Simpson
Company Secretary	Phil Higgins
Registration number	05122315
Registered office	25 Bury Street St James's London SW1Y 6AL
Auditor	BDO LLP 55 Baker Street London W1U 7EU
Bankers	Barclays Bank plc 69 Albion Street Leeds LS1 5AA Lloyds Bank plc 25 Gresham Street London EC2V 7HN

PALACE CAPITAL (HALIFAX) LIMITED

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PALACE CAPITAL (HALIFAX) LIMITED

DIRECTORS' REPORT

For the year ended 31 March 2022

The Directors present their report together with the financial statements of Palace Capital (Halifax) Limited for the year ended 31 March 2022.

Principal activity

The principal activity of the company is property investment.

Results and dividends

The results for the year are set out on page 9.

Directors

The following Directors have held office during the year:

S H Davis	(Resigned 24 September 2021)
R N Sinclair	(Resigned 14 June 2022)
R P Starr	(Resigned 12 August 2022)
S J Silvester	(Resigned 29 October 2021)
M I Simpson	

Qualifying third party indemnity provisions

The Company's agreement to indemnify each Director against any liability incurred in the course of their office to the extent permitted by law remains in force. The Group maintains Directors' and Officers' Liability Insurance.

Auditor

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

PALACE CAPITAL (HALIFAX) LIMITED

DIRECTORS' REPORT

For the year ended 31 March 2022

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 the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Director 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



M Simpson
Director

23 September 2022

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 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.

We have audited the financial statements of Palace Capital (Halifax) Limited ("the Company") for the year ended 31 March 2022 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remain 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.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director with respect to going concern are described in the relevant sections of this report.

OTHER INFORMATION

The Director is 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

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.

OTHER COMPANIES ACT 2006 REPORTING

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.

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 Director remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.; or
- the Director was 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 in respect of the Financial Statements, the Director is 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 Director determines 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 Director is 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 Director either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We addressed the risk of management override of internal controls, including testing journals processed during and subsequent to the year and evaluating whether there was evidence of bias by the Director that represented a risk of material misstatement due to fraud. This included evaluating any management bias within the valuation of investment property which we consider is the greatest risk of management manipulation. The valuations were agreed directly to external valuations.

The fraud risk around revenue recognition was addressed by inspecting signed lease agreements to recalculate the annual turnover, and agreeing cash receipts to bank statement to check customers exist and that the management information did agree for a sample of tenants.

We agreed all bank balances and loans to direct bank confirmations and agreements. We looked at the charges lodged at Companies House and ensured there were no unexpected charges linked to bank loans.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company that were contrary to applicable laws and regulations, including fraud. We performed our own checks of compliance with relevant requirements including, but not limited to, the Companies Act 2006, the REIT tax regime requirements and legislation relevant to the rental of properties. We considered compliance by the Company by obtaining their papers on compliance, in addition to performing our own review.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation where relevant, review of Board and Committee meeting minutes, and enquiries with management and the Director as to their identification of any non-compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (HALIFAX) LIMITED

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.

DocuSigned by:

Charles Ellis

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Charles Ellis (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

23 September 2022

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 2022**

	Notes	2022 £	2021 £
Rental & other income	4	1,955,425	1,723,198
Bad debt provision movement		77,888	(176,820)
Property operating expenses		(78,371)	(150,749)
Net property income		1,954,942	1,395,629
Administrative expenses		(248,394)	(211,161)
Gain/(loss) on revaluation of investment property	9	788,778	(2,485,619)
Operating profit/(loss)	5	2,495,326	(1,301,151)
Interest receivable and similar income	6	-	3
Interest payable and similar charges	7	(443,340)	(465,580)
Debt termination costs	12	-	(139,975)
Profit/(loss) on ordinary activities before taxation		2,051,986	(1,906,703)
Tax on loss on ordinary activities	8	-	9,981
Profit/(loss) and total comprehensive income for the financial period		2,051,986	(1,896,722)

The income statement has been prepared on the basis that all operations are continuing operations.

The notes on pages 12 to 20 form part of these financial statements.

PALACE CAPITAL (HALIFAX) LIMITED**STATEMENT OF FINANCIAL POSITION****As at 31 March 2022**

	Notes	2022 £	2021 £
Non-current assets			
Investment properties	9	<u>19,981,775</u>	<u>19,165,594</u>
		19,981,775	19,165,594
Current assets			
Debtors	10	1,221,604	1,412,080
Cash at bank and in hand		<u>1,618,193</u>	<u>626,653</u>
		2,839,797	2,038,733
Creditors: amounts falling due within one year	11	<u>(4,509,554)</u>	<u>(4,648,826)</u>
Net current liabilities		<u>(1,669,757)</u>	<u>(2,610,093)</u>
Total assets less current liabilities		18,312,018	16,555,501
Creditors: amounts falling due after more than one year	12	<u>(8,535,671)</u>	<u>(8,831,140)</u>
Net assets		<u>9,776,347</u>	<u>7,724,361</u>
Capital and Reserves			
Called up share capital	13	8,109,736	8,109,736
Share premium account		5,787,137	5,787,137
Retained earnings		<u>(4,120,526)</u>	<u>(6,172,512)</u>
Shareholders' funds - equity interests		<u>9,776,347</u>	<u>7,724,361</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 12 to 20 form part of these financial statements.

Approved by the Board and authorised for issue on 23 September 2022.



M Simpson
Director

Company Registration No. 05122315

PALACE CAPITAL (HALIFAX) LIMITED**STATEMENT OF CHANGES IN EQUITY****For the year ended 31 March 2022**

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
At 31 March 2020	8,109,736	5,787,137	(4,275,790)	9,621,083
Total comprehensive loss for the year	-	-	(1,896,722)	(1,896,722)
At 31 March 2021	8,109,736	5,787,137	(6,172,512)	7,724,361
Total comprehensive profit for the year	-	-	2,051,986	2,051,986
At 31 March 2022	8,109,736	5,787,137	(4,120,526)	9,776,347

The notes on pages 12 to 20 form part of these financial statements.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

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. The Directors understand that the economic uncertainty surrounding inflation, rising interest rates and the cost-of-living crisis could adversely impact the forecasted business activities over the next 12 months. Therefore, the Directors have considered several downside scenarios including the effects of the economic uncertainty on tenant's ability to pay rent and the effect of rising interest rates on bank covenants.

As part of the assessment, the Directors stress tested the ICR, LTV and debt service cover ("DSC") banking covenants, factoring in rising interest rates and reduced rent collection from tenants with weaker covenants. The forecast shows that there is headroom on all the bank covenants, with the headroom available to ensure these covenants are not breached being 63.3% for historical ICR, 64.4% for projected ICR, 60.0% for historical DSC, 58.3% for projected DSC, and 9.7% for LTV. If the bank property valuation fell by a further £1.6m, there would be a risk of breaching the LTV covenant. The current independent Cushman valuation at 31 March 2022 exceeds the bank valuation by £4.0m, therefore the Directors are comfortable there is enough headroom if values fall. The Directors would mitigate any potential risk of breaching the loan covenants by keeping an open dialogue with all tenants to ensure prompt rent collection, monitor lease renewals and actively seek to lease any vacant units at the property.

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

This information is included in the consolidated financial statements of Palace Capital plc for the year ending 31 March 2022 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.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

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

OPERATING PROFIT

Operating 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in 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.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

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.

The Government announced a proposal in March 2021 for an increase in the corporation tax rate from 19% main rate in the tax year 2021 to 25% with effect from 1 April 2023. This was enacted by the Finance Bill 2021 on 10 June 2021.

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.

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

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

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 estimation 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 is carried at fair value, which requires a number of estimates in assessing 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.

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.

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.

	2022	2021
	£	£
Rental income	1,955,425	1,723,198
	<u>1,955,425</u>	<u>1,723,198</u>

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

5. Operating profit/(loss)

	2022	2021
	£	£
Operating profit/(loss) 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

	2022	2021
	£	£
Bank interest	-	3
	<u>-</u>	<u>3</u>

7. Interest payable and similar charges

	2022	2021
	£	£
Interest on bank loans	263,742	363,968
Loan arrangement fee	22,487	25,342
Intercompany interest payable	156,211	56,070
Other finance charges	900	20,200
	<u>443,340</u>	<u>465,580</u>

8. Taxation

	Notes	2022	2021
		£	£
Under provision in prior year		-	(9,981)
Total tax credit		<u>-</u>	<u>(9,981)</u>
Factors affecting the tax charge for the year			
Profit/(loss) on ordinary activities before taxation		2,051,986	(1,906,703)
Based on profit/(loss) for the year:			
Tax at 19% (2021: 19%)		389,877	(362,274)
Tax under provided in prior year			(9,981)
REIT exempt income		(240,009)	(109,993)
Non-taxable items		(149,868)	472,267
Total tax credit for the year		<u>-</u>	<u>(9,981)</u>

Following 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 provided it continues to meet the REIT conditions.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

9. Investment Properties

	Freehold £
At 1 April 2021	19,165,594
Additions	27,403
Gain on revaluation of investment properties	788,778
At 31 March 2022	<u>19,981,775</u>

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

	2022 £	2021 £
Cushman & Wakefield LLP	20,840,000	19,925,000
Less lease incentive balance included in accrued income	<u>(858,225)</u>	<u>(759,406)</u>
Carrying value	<u>19,981,775</u>	<u>19,165,594</u>

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 2022 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 £19,981,775 (2021: £19,165,594) are subject to a first charge to secure the Company's bank loans amounting to £8,947,323 (2021: £9,265,279).

The historical cost of the Company's investment properties was £24,394,993 (2021: £24,367,590).

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.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

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 2022	Significant unobservable inputs
Value of investment properties	20,840,000
Area (sq ft)	117,767
Gross Estimated Rental Value	1,631,285
Net Initial Yield	7.85%
Reversionary Yield	7.33%
Equivalent Yield	8.43%

10. Debtors

	2022	2021
	£	£
Trade debtors	296,350	789,676
Bad debt provision	(38,521)	(209,475)
Prepayment & accrued income	873,911	781,080
Other debtors	89,864	50,799
	<u>1,221,604</u>	<u>1,412,080</u>

11. Creditors: amounts falling due within one year

	2022	2021
	£	£
Current portion of long term bank loans (see note 12)	317,956	317,956
Payables and other creditors	601,865	435,232
Accruals and deferred income	664,828	497,623
VAT payable	143,488	106,598
Loan from parent undertakings	<u>2,781,417</u>	<u>3,291,417</u>
	<u>4,509,554</u>	<u>4,648,826</u>

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 is repayable on demand.

As at 31 March 2022, the outstanding loan amount was £2,781,417 (2021: £3,291,417) and accrued interest amounting to £212,280 remained unpaid (2021: £56,069). Interest of £156,211 (2021: £56,070) was charged during the year.

Payables and other creditors includes £248,071 (2021: £291,250) owed to the parent company in respect of management charges.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

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

	2022	2021
	£	£
Bank loans	8,947,323	9,265,279
Bank loan arrangement fees	(93,696)	(116,183)
Less current portion included in current liabilities	(317,956)	(317,956)
	<u>8,535,671</u>	<u>8,831,140</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 £79,489 quarterly with the remaining loan repayable at the end of the term of the loan on 6 July 2026. Loan costs amounting to £22,487 (2021: £25,342) were also amortised during the period. The loan is secured on the Company's investment property.

13. Share Capital

	2022	2021
	£	£
Allocated, called up and fully paid		
8,109,736 (2021: 8,109,736) Ordinary shares of £1 each issued	8,109,736	8,109,736
	<u>8,109,736</u>	<u>8,109,736</u>

14. Leases

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

	2022	2021
	£	£
Within one year	1,884,441	1,783,252
From one to two years	1,868,780	1,844,818
From two to five years	5,779,419	5,654,205
From five to 25 years	20,972,099	22,287,451
	<u>30,504,739</u>	<u>31,569,726</u>

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.

15. Post balance sheet events

There have been no post balance sheet events that would require disclosure or adjustment to these financial statements.

16. 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.

PALACE CAPITAL (HALIFAX) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

17. 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.