Company Registration No. 09849073 (England and Wales)

PALACE CAPITAL (DEVELOPMENTS) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

PALACE CAPITAL (DEVELOPMENTS) LIMITED

COMPANY INFORMATION

Directors	Matthew Simpson Philip Higgins Daniel Davies Thomas Hood
Company Secretary	Philip Higgins
Registration number	09849073
Registered office	Fora Victoria 6-8 Greencoat Place London SW1P 1PL
Auditor	BDO LLP 55 Baker Street London W1U 7EU
Bankers	Barclays Bank plc 69 Albion Street Leeds LS1 5AA

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PALACE CAPITAL (DEVELOPMENTS) LIMITED

DIRECTORS' REPORT

For the year ended 31 March 2023

The Directors present their report together with the financial statements of Palace Capital (Developments) Limited for the year ended 31 March 2023.

Principal activity
The principal activity of the company is property investment and development.

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

Directors
The following Directors have held office during the year:

M I Simpson	
P L Higgins	Appointed on 28 September 2022
D R Davies	Appointed on 1 October 2022
T S F Hood	Appointed on 1 October 2022
R N Sinclair	Resigned on 14 June 2022
R P Starr	Resigned on 12 August 2022

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.

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 year. 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 they have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), subject to any material departures disclosed and explained in the financial statements; and
- 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

M Simpson
Director
12 September 2023

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PALACE CAPITAL (DEVELOPMENTS) 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 2023 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 (Developments) Limited ("the Company") for the year ended 31 March 2023 which comprise the statement of comprehensive income, the statement of financial position, the 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 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.

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 Directors with respect to going concern are described in the relevant sections of this report.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, 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 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 have 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 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 in respect of the Financial Statements, 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.

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.

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:

Non-compliance with laws and regulations

- Our understanding of the Company and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining an understanding of the Company policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be United Kingdom Generally Accepted Accounting Practice, REIT tax regime and the Companies Act 2006.

The Company is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax experts in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
    - Detecting and responding to the risks of fraud; and
    - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls, revenue recognition, accounting for lease incentives and inputs to investment property valuation.

Our procedures in respect of the above included:

- Testing journals processed during and subsequent to the year and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. This included evaluating any management bias within the valuation of investment and trading property which we consider is the greatest risk of management manipulation;
- Agreeing property fair values directly to external valuations;
- Assessing significant estimates made by management for bias in the valuation methods, assumptions used and the inputs and judgements adopted therein in valuing the investment property; and
- 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.

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 noncompliance 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.

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, United Kingdom

12 September 2023

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

PALACE CAPITAL (DEVELOPMENTS) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ending 31 March 2023

	Notes	2023 £	2022 £
Rental and other income	4	**10,773,435**	27,554,398
Bad debt provision movement		**(802)**	(91)
Property operating expenses	5	**(10,115,218)**	(24,092,475)
Net property income		**657,415**	3,461,832
Administration expenses		**(4,476)**	(9,569)
(Loss)/gain on revaluation of investment property	10	**(186,740)**	3,290,113
Operating profit	6	**466,199**	6,742,376
Interest receivable and similar income	7	**116**	91
Interest payable and similar charges	8	**-**	(189,056)
Profit on ordinary activities before taxation		**466,315**	6,553,411
Tax on profit on ordinary activities	9	**66,695**	(66,937)
Profit and total comprehensive income for the financial year		**533,010**	6,486,474

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 (DEVELOPMENTS) LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

	Notes	2023 £	2022 £
Non-current assets			
Investment properties	10	**14,586,768**	14,698,804
		14,586,768	14,698,804
Current assets			
Trading property	11	**11,054,485**	20,287,133
Debtors	12	**686,212**	263,249
Cash at bank and in hand		**211,070**	6,146,902
		11,951,767	26,697,284
Creditors: amounts falling due within one year	13	**(14,493,552)**	(29,817,420)
Net current liabilities		**(2,541,785)**	(3,120,136)
Total assets less current liabilities		**12,044,983**	11,578,668
Deferred tax liability	14	**(76,435)**	(143,130)
Net assets		**11,968,548**	11,435,538
Capital and Reserves			
Called up share capital	15	**5,000,001**	5,000,001
Retained earnings		**6,968,547**	6,435,537
Shareholders' funds - equity interests		**11,968,548**	11,435,538

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

Approved by the Board and authorised for issue on 12 September 2023

M Simpson
Director

Company Registration No. 09849073

PALACE CAPITAL (DEVELOPMENTS) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ending 31 March 2023

	Share Capital	Retained Earnings	Total Equity
	£	£	£
At 31 March 2021	**5,000,001**	**(50,937)**	**4,949,064**
Total comprehensive profit for the year	-	6,486,474	6,486,474
At 31 March 2022	**5,000,001**	**6,435,537**	**11,435,538**
Total comprehensive profit for the year	-	533,010	533,010
At 31 March 2023	**5,000,001**	**6,968,547**	**11,968,548**

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

Palace Capital (Developments) Limited is a company 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 development at Hudson Quarter, York reached practical completion on 20 April 2021. 109 units to the value of £40.1m have been sold since 20 April 2021. The Company is not bound by any covenant compliance.

As at 31 March 2023, the Company had £0.2m of cash and £25.6m of investment and trading properties. There are 18 residential units remaining to sell which is going to provide a significant cash injection into the business with over £10.0m expected to be received from the remaining sales and with no debt facilities, will provide unfettered cash into the Company.

The Company has a loan from its parent, Palace Capital plc, of £14,023,502. The loan is repayable on demand and is interest free. Palace Capital plc has provided a letter of support and will not call for repayment of the loan for at least 12 months from the date of approval of the Company's financial statements.

In addition to this the Company has enough assets to meet all its liability obligations.

On this basis the financial statements have been prepared on a 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 11Financial Instruments – Paragraphs 11.39 to 11.48a;
- The requirements of section 12 Other Financial Instruments – Paragraphs 12.26 to 12.29; and
- 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 2023 and these financial statements are available on request from Fora Victoria, 6-8 Greencoat Place, London, SW1P 1PL.

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.

Revenue from the sale of trading properties is recognised when significant risks and rewards attached to the trading property have transferred from the Company, which is usually on completion of contracts and transfer of property title.

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 year 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.

Investment properties under construction are initially recognised at cost (including any associated costs), which reflect the Company's investment in the assets. The Company undertakes certain works including demolition, remediation and other site preparatory works to bring a site to the condition ready for construction of an asset. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment properties under construction is estimated as the fair value of the completed asset less any costs still payable in order to complete, and an appropriate developer's margin.

TRANSFERS BETWEEN INVESTMENT PROPERTIES AND TRADING PROPERTIES

When the Company begins to redevelop an existing investment property for continued future use as an investment property, the property continues to be held as an investment property. When the Company begins to redevelop an existing investment property with a view to sell, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of the transfer with any gain or loss being taken to the Statement of Comprehensive Income. The re-measured amount becomes the deemed initial cost of the trading property.

TRADING PROPERTIES

Trading property is being developed for sale or being held for sale after development is complete, and is carried at the lower of cost and net realisable value. Trading properties are derecognised on completion of sales contracts. Cost includes direct expenditure and capitalised interest. Cost of sales, including costs associated with off-plan residential sales, are expensed to the Consolidated Statement of Comprehensive Income as 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.

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.

BORROWING COSTS

Borrowing costs directly attributable to development properties are capitalised and not recognised in profit or loss in the Consolidated Statement of Comprehensive Income. The capitalisation of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

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.

DIVIDENDS TO EQUITY HOLDERS OF THE COMPANY

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 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 10.

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.

Trading Properties

Trading properties are held at the lower of cost and net realisable value. Net realisable value is the value of an asset that can be realised upon the sale of the asset, less a reasonable estimate of the costs associated with the eventual sale or disposal of the asset.

During the financial year the impairment on trading properties was reversed as the net realisable value increased as a result of the project nearing practical completion and the carrying value has therefore been written back up to cost.

4. Turnover

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

	2023	2022
	£	£
Rental income	658,605	139,193
Trading property income	10,104,750	27,415,205
Other income	10,080	-
	10,773,435	27,554,398

5. Property operating expenses

	2023 £	2022 £
Trading property cost of sales	9,595,154	23,614,733
Property operating expenses	520,064	477,742
	10,115,218	24,092,475

6. Operating profit

	2023 £	2022 £
Operating profit is stated after charging:		
Auditors' remuneration	-	-
Directors' remuneration	-	-
	-	-

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

7. Interest receivable and similar income

	2023 £	2022 £
Bank interest	116	91
	116	91

8. Interest payable and similar charges

	2023 £	2022 £
Interest on bank loans	-	165,056
Loan arrangement fees	-	2,100
Other finance charges	-	21,900
	-	189,056

9. Taxation

	2023 £	2022 £
Current income tax charge	-	152,000
Deferred tax credit	(66,695)	(85,063)
Total tax (credit)/charge	(66,695)	66,937

Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	466,315	6,553,411
Based on profit for the year:		
Tax at 19% (2022: 19%)	88,600	1,245,148
Deferred tax liability not previously recognised	(66,695)	(85,063)
Gain on appropriation for Hudson Quarter	-	119,000
Non-taxable items	(61,343)	(1,098,608)
REIT exempt income	(27,257)	(113,540)
Total tax (credit)/charge for the year	(66,695)	66,937

Following the Parent Company's conversion to a Real Estate Investment Trust ('REIT') on 1 September 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.

10. Investment Property

	Freehold
	£
At 1 April 2022	14,698,804
Additions	74,704
Loss on revaluation of investment properties	(186,740)
At 31 March 2023	14,586,768

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

	2023	2022
	£	£
Fair value per CBRE's valuation	26,785,000	38,300,000
Less fair value movement on trading properties	(730,515)	(3,187,867)
Less trading properties at cost (note 11)	(11,054,485)	(20,287,133)
Less lease incentive balance included in accrued income	(413,232)	(126,196)
Carrying Value	14,586,768	14,698,804

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.

During the year, there was a change in the external valuer from Cushman & Wakefield LLP to CBRE. Investment properties at 31 March 2023 were valued independently by CBRE Limited, 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 at 31 March 2022 were valued independently by Cushman & Wakefield LLP.

The historical cost of the Company's investment and trading properties was £19,322,268 (2022: £28,480,212).

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 Directors 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;
– an appropriate yield; and
– for investment properties under construction: gross development value, estimated cost to complete and an appropriate developer's margin.

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 2023	Significant unobservable inputs
Value of investment and trading properties	26,785,000
Area (sq ft)	39,298
Gross Estimated Rental Value	1,109,401
Net Initial Yield	3.70%
Reversionary Yield	6.94%
Equivalent Yield	6.76%

11. Trading properties

	£
At 1 April 2022	20,287,133
Disposal of trading properties	(9,595,154)
Costs capitalised	362,506
At 31 March 2023	11,054,485

The Company has developed a large mixed-use scheme at Hudson Quarter, York. Part of the approved scheme consists of residential units which are classified as trading property.

12. Debtors

	2023	2022
	£	£
Trade debtors	235,852	22,051
Bad debt provision	(893)	(91)
Other debtors	8,312	9,596
Prepayment & accrued income	376,691	231,693
Corporation tax receivable	66,250	-
	686,212	263,249

Included within accrued income is £321,040 (2022: £82,229) of lease incentives.

13. Creditors: amounts falling due within one year

	2023	2022
	£	£
Corporation tax payable	-	104,500
VAT payable	45,308	5,000
Payables and other creditors	270,991	141,104
Accruals and deferred income	153,751	678,314
Loan from parent undertakings	14,023,502	28,888,502
	14,493,552	29,817,420

Palace Capital plc provided an interest free, unsecured loan facility of up to £28,000,000 on 4 February 2019 which is repayable on demand and interest free. As at 31 March 2023, the outstanding loan amount was £14,023,502 (2022: £28,888,502).

14. Deferred Tax

	2023	2022
	£	£
Deferred tax liability brought forward	143,130	228,193
Origination and reversal of timing differences	(66,695)	(85,063)
Deferred tax liability carried forward	76,435	143,130

A deferred tax liability on the sale of trading properties has been released totalling £66,695 (2022: £85,063). The deferred tax liability relates to capital gains payable when investment properties were transferred into trading stock on 8 February 2019.

15. Share capital

	2023	2022
	£	£
Allotted, called up and fully paid		
5,000,001 (2022: 5,000,001) Ordinary shares of £1 each	5,000,001	5,000,001
	5,000,001	5,000,001

16. Post balance sheet events

Post year end, the company has completed on a further six residential unit sales at Hudson Quarter for a total consideration of £2.6m.

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 Company 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. Company financial statements are available on request from Fora Victoria, 6-8 Greencoat Place, London, SW1P 1PL.

There is no ultimate controlling party.