PALACE CAPITAL plc

ANNUAL REPORT AND CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 JANUARY 2013

Company Registration No. 05332938

Palace Capital plc

TABLE OF CONTENTS

DIRECTORS

Stanley Davis	Chairman
Neil Sinclair	Managing Director
Anthony Dove	Director

SECRETARY
David Kaye F.C.I.S.

REGISTERED OFFICE
First Floor
41 Chalton Street
London
NW1 1JD

Registered Number: 05332938 (England and Wales)

AUDITOR
Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

LEGAL ADVISER
Hamlins LLP
Roxburghe House
273-287 Regent Street
London
W1B 2AD

NOMINATED ADVISER AND BROKER
Allenby Capital Ltd
3 St. Helen's Place
London
EC3A 6AB

REGISTRARS
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

BANKERS
Lloyds TSB Bank PLC
City Office Branch
London
BX1 1LT

Close Brothers Property Finance
10 Crown Place
London
EC2A 4FT

I can report that for the year ended 31 January 2013 the Group made a consolidated loss of £157,722 (2012: profit £13,956).

During the year the Company continued to manage the Hockenhull Estates portfolio actively. It was acquired in October 2011 and with our style of management has continued to perform well.

Portfolio Activity

At 45, High Street, Nantwich, the lease to the existing tenant, a subsidiary of Countrywide Estate Agents, had expired at the date of acquisition. After a considerable period of negotiation a new lease for a term of ten years at an increased rental was granted to Countrywide Estate Agents, which since its recent IPO, is now part of a newly listed public company and the largest estate agency chain in the UK.

At 23-25, Market Street, Crewe, the occupational lease which runs until December 2018 was assigned during the year to Cheshire East Council. This has resulted in the property now having a first class covenant. In addition and in accordance with the rent review clause, the rent payable has increased from £33,740 per annum exclusive of rates to £37,783 per annum exclusive of rates.

At 7, Earle Street, Crewe, the retail tenant vacated when the lease expired on 25 March 2013. Contracts have now been conditionally exchanged, subject to securing a bookmaker's licence, to let these premises on a five year lease with a break at the end of the third year. In the third year the rent payable will be in excess of that being paid by the previous tenant.

There is a perception that properties outside London are not performing but Cheshire, where the Hockenhull portfolio is situated, is a strong area with high employment levels and we are more than satisfied with the Hockenhull acquisition.

Strategy Update

During the year we have continued to seek a significant high yielding commercial property portfolio in order to grow the scale of the Company. We have looked at a number of opportunities, but in the Board's view, most of them did not provide a sufficient return which we could recommend to our shareholders. That said, whilst at an early stage, we have identified a proposition that we believe fulfils our criteria and we are in discussions with the owners. Given the early stage nature of these discussions, there can, of course, be no guarantee that these discussions will either progress further or that an acquisition will be completed. We will, update shareholders as and when appropriate. I will continue to provide financial support to the Company as we continue to seek a significant portfolio acquisition that fits with our strategy to build the scale of the business.

On a positive note, the Directors consider that the sentiment towards secondary high yielding commercial property in general is turning more positive. This has been demonstrated by a number of recent deals in the sector, so we look to the future with increasing confidence.

Stanley Davis
Chairman
4 July 2013

The directors present their report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 January 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to invest in entities operating within the property sector. Through its subsidiary, Hockenhull Estates Limited, the Group has made an investment in the property arena. Palace Capital plc is quoted on the AIM market of the London Stock Exchange.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Details of the Group's progress during the year and its future prospects are provided in the Chairman's Statement on page 2.

KEY PERFORMANCE INDICATORS

The directors have identified rent receivable, investment property asset value and gearing as major KPI's of the Group.

Rent receivable for the year was £199,785 (2012: £55,400)

The investment property value at 31 January 2013 was £2,015,000 (2012: £2,015,000)

The gearing at 31 January 2013 was 1,551% (2012: 698%)

PRINCIPAL RISKS AND UNCERTAINTIES

Set out below are certain risk factors which could have an impact on the Group's long term performance. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Group.

Property valuations

The valuation of all property assets includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions this reappraisal can lead to a reduction in property values and a loss in net asset value, amplified by the effect of gearing.

Tenant risk

As a result of adverse conditions in the wider economy, a restriction of the availability of credit for consumers and businesses could lead to lower levels of consumer spending, a higher level of business failures and difficulties for new ventures in raising start-up capital. This could adversely affect the financial viability of the Group's tenants, potentially leading to higher levels of vacancies and declines in rental values. The directors employ a professional firm of property management consultants to manage the portfolio to ensure vacancies are kept to a minimum.

Interest rate risk

The Group is exposed to significant cash flow interest rate risk on borrowings and cash balances held at variable rates, resulting in variable interest cash flows. The Group is therefore relatively sensitive to changes in interest rates. The directors regularly review its position with regard to interest rates in order to minimise the Group's risk.

Liquidity risk

The Directors consider that the key financial risk is liquidity risk. This is the risk of the company not being able to continue to operate as a going concern. The Directors' consideration of the Going Concern Basis is contained on page 14 of the Annual Report.

RESULTS AND DIVIDENDS

The results for the year are set out on page 10.

The Directors do not recommend the payment of a final dividend for the year.

DIRECTORS

The following directors have held office since 1 February 2012:-

Stanley Davis
Neil Sinclair
Anthony Dove

CONFLICTS OF INTEREST

Under the articles of association of the company and in accordance with the provisions of the Companies Act 2006, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. However, the directors may authorise conflicts and potential conflicts, as they deem appropriate. As a safeguard, only directors who have no interest in the matter being considered will be able to take the relevant decision, and the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. During the financial year ended 31 January 2013, the directors have authorised no such conflicts or potential conflicts.

DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the Company, including family interests, were as follows:-

	Ordinary shares of 1p each	
	31.01.13	31.01.12
Stanley Davis	10,274,746	10,274,746
Neil Sinclair	2,941,412	2,941,412
Anthony Dove	100,000	100,000

There have been no changes in the Directors' shareholdings since the year end.

DIRECTORS’ REMUNERATION AND SERVICE CONTRACTS

Neil Sinclair is the principal executive director and his service contract continues until 30 July 2013 unless it is terminated by either party giving 12 months notice. From the date of admission his salary was £45,000 per annum.

The letter of appointment of Stanley Davis continues until 30 July 2013 unless it is terminated by either party giving 6 months notice. From the date of admission his fees payable were £12,000 per annum.

The letter of appointment of Anthony Dove continues until 30 July 2013 unless it is terminated by either party giving 6 months notice. From the date of admission his fees payable were £12,500 per annum.

The remuneration paid to the directors during the year ended 31 January 2013 is shown below:

	Fees/Salaries	Year ended 31 January 2013 Total	Year ended 31 January 2012 Total
	£	£	£
Neil Sinclair	45,000	50,500	16,833
Stanley Davis	12,000	14,750	4,917
Anthony Dove	12,500	12,500	4,167
	69,500	77,750	25,917

SUBSTANTIAL SHAREHOLDINGS

As at 31 May 2013, being the latest practicable date before the issue of these financial statements, the company had been notified of the following shareholdings which constitute 3% or more of the total issued shares of the company.

	Ordinary shares No.	Shareholding %
Stanley Davis	10,274,746	32.52
Barrie Tankel	3,138,889	9.94
Neil Sinclair	2,941,412	9.31
Andrew Perloff	2,941,412	9.31
Nigel Lindsay-Fynn	2,222,222	7.04
Fairfax I.S. Nominees Limited	1,102,097	3.52
Harrold Perloff	1,111,111	3.52

FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash at bank, bank loans, redeemable preference shares and various items within current assets and current liabilities that arise directly from its operations. The Directors consider that the key financial risk is liquidity risk. This risk is explained in the section headed Principal Risks and Uncertainties on page 3.

POLICY ON PAYMENT OF CREDITORS

Although the group does not follow a formal code, the policy is to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The total value of trade creditors at 31 January 2013 amounted to £nil (2012: £nil). The average period taken to pay creditors during the year was 30 days (2012 – 30 days).

STATEMENT OF DIRECTORS RESPONSIBILITIES

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Group and of the profit or loss of the Group for that period. In preparing these 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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.

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Group's auditors are unaware; and

- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Group's auditors in connection with preparing their report and to establish that the Group's auditors are aware of the information.

AUDITOR

The auditors, Crowe Clark Whitehill LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

David Kaye
Company Secretary
4 July 2013

The Board of Palace Capital plc appreciate the value of good corporate governance and intend to comply with the principles of the Quoted Companies Alliance's Corporate Governance Guidelines, as far as applicable to the group given its current size and stage of development.

Board Structure

The Board consists of three directors of which one is executive and two non-executive.

The Board will meet as and when required and is satisfied that it is provided with information in an appropriate form and quality to enable it to discharge its duties. All directors are required to retire by rotation with one third of the board seeking re-election each year.

Due to the current size of the Group, the duties that would normally be attributed to an Audit, Remuneration or Nomination Committee, have been undertaken by the board as a whole.

The board has undertaken a formal assessment of the auditor's independence and will continue to do so at least annually. This assessment includes:

- a review of non-audit services provided to the company and the related fees;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and parties and staff involved in the audit, including regular rotation of the audit partner; and
- obtaining confirmation from the auditor that, in their professional judgement, they are independent.

Internal Controls

The Board is responsible for the Group's system of internal controls and for reviewing their effectiveness. The internal controls are designed to ensure the reliability of financial information for both internal and external purposes. The Directors are satisfied that the current controls are effective with regard to the size of the Group. Any internal control system can only provide reasonable, but not absolute assurance against material mis-statement or loss.

Given the size of the Group, there is currently no need for an internal audit function.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PALACE CAPITAL PLC

We have audited the financial statements of Palace Capital plc for the year ended 31 January 2013 which comprise Group Statement of Financial Position and Parent Company Balance Sheet, the Group Statement of Comprehensive Income, the Group and Parent Cash Flow Statement, the Group Statement of Changes in Equity, the Parent Company Statement of Total Recognised Gains and Losses and the related notes numbered 1 to 21 for the Group and the related notes numbered 1 to 11 for the Parent Company.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

We read all the financial and non-financial information in the Directors' Report and any other surrounding information which includes the Chairman's statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 January 2013 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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

Stacy Eden

Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP

Statutory Auditor

St Bride's House
10 Salisbury Square
London
EC4Y 8EH

4 July 2013

Palace Capital plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 January 2013

Company Registration Number: 05332938

	Note	**2013** **£**	2012 £
Turnover	1	**199,785**	55,400
Cost of sales		**(5,442)**	-
Gross profit		**194,343**	55,400
Administrative expenses		**(225,403)**	(141,647)
Costs of acquisition		**-**	(53,033)
Gains on revaluation of investment property portfolio		**-**	197,500
Operating (loss)/profit		**(31,060)**	58,220
Other interest receivable and similar income	3	**105**	27
Finance costs	4	**(113,733)**	(44,863)
(Loss)/profit before taxation		**(144,688)**	13,384
Tax payable on (loss)/profit on ordinary activities	7	**(13,034)**	573
(Loss)/profit after taxation for the year		**(157,722)**	13,957
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**(157,722)**	13,957
Attributable to:			
Equity holders of the parent		**(157,722)**	13,957
EARNINGS PER SHARE			
Basic	8	**(0.50)p**	0.09p
Diluted		**(0.50)p**	0.06p

All results in the current and preceding financial year derive from continuing operations.

The notes on pages 20 to 29 are an integral part of these consolidated financial statements

.

Palace Capital plc
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 January 2013

Company Registration Number: 05332938

	Note	2013 £	2012 £
Non-current assets			
Goodwill	9	**5,910**	5,910
Investment properties	10	**2,015,000**	2,015,000
Tangible fixed assets	11	**447**	805
		2,021,357	2,021,715
Current assets			
Trade and other receivables	12	**29,483**	46,848
Cash at bank and in hand		**38,696**	145,378
		68,179	192,226
Total Assets		**2,089,536**	2,213,941
Current liabilities			
Trade and other payables	15	**(140,507)**	(122,079)
Redeemable preference shares	14	**(65,000)**	(65,000)
Creditors: amounts falling due within one year		**(205,507)**	(187,079)
Net current (liabilities)/assets		**(137,328)**	5,147
Non-current liabilities			
Borrowings	16	**(1,762,374)**	(1,757,485)
Net assets		**121,655**	269,377
Capital and reserves			
Called up share capital	17	**315,938**	315,938
Share premium account		**110,395**	110,395
Convertible loan notes – equity		**27,934**	27,934
Share based payments		**13,333**	3,333
Profit and loss account		**(345,945)**	(188,223)
Equity – attributable to the owners of the parent		**121,655**	269,377

These financial statements were approved by the Board of Directors and authorised for issue on 4 July 2013 and are signed on its behalf by:

Stanley Davis

Director

	Share Capital £	Share Premium £	Share based payments £	Convertible loan notes equity £	Retained losses £	Total equity £
At 31 January 2011	72,160	5,761	-	-	(202,180)	(124,259)
Profit for the year	-	-	-	-	13,957	13,957
Issue of ordinary share capital	243,778	104,634	-	-	-	348,412
Issue of convertible loan notes	-	-	-	27,934	-	27,934
Share based payments	-	-	3,333	-	-	3,333
Total comprehensive income	243,778	104,634	3,333	27,934	13,957	393,636
At 31 January 2012	315,938	110,395	3,333	27,934	(188,223)	269,377
Loss for the year	-	-	-	-	(157,722)	(157,722)
Share based payments	-	-	10,000	-	-	10,000
Total comprehensive income	-	-	10,000	-	(157,722)	(147,722)
At 31 January 2013	315,938	110,395	13,333	27,934	(345,945)	121,655

For the purpose of preparing the consolidated financial statement of the Group, the share capital represents the nominal value of the issued share capital of Palace Capital. Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue.
Share based payments reserve comprises the fair value of options and performance share rights recognised as an expense. Upon exercise of options or performance share rights, any proceeds received are credited to share capital. The share-based payment reserve remains as a separate component of equity.

The convertible loan note equity reserve represents the difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component at the date of issue.

Palace Capital plc

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 January 2013

	Note	**2013**	2012
		£	£
OPERATING ACTIVITIES			
Net cash outflow from operating activities	2	**(7,304)**	(158,000)
Interest received		**105**	27
Interest paid		**(99,599)**	(17,361)
		(99,494)	(17,334)
TAXATION			
Corporation tax paid		**-**	(28,148)
INVESTING ACTIVITIES			
Payments to acquire subsidiary undertaking	9	**-**	(1,783,395)
Adjustments to / (payments to acquire) fixed assets	11	**135**	(805)
Net cash flow from investing activities		**135**	(1,784,200)
FINANCING ACTIVITIES			
Loans provided by directors	16	**-**	577,500
Bank loans (repaid) / received	16	**(19)**	1,200,000
Issue of new share capital		**-**	348,412
Net cash flow from financing activities		**(19)**	2,125,912
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(106,682)**	138,230
Cash and cash equivalents at beginning of the year		**145,378**	7,148
Cash and cash equivalents at the end of the year		**38,696**	145,378

BASIS OF ACCOUNTING

These financial statements are for Palace Capital Plc ("the Company") and its subsidiary undertakings.

The Company is quoted on the AIM market of the London Stock Exchange and is domiciled and registered in England and Wales and incorporated under the Companies Act 1985. The address of its registered office is First floor, 41 Chalton Street, London, NW1 1JD.

The nature of the Company's operations and its principal activities are set out in the Directors Report on page 3.

BASIS OF PREPARATION

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. These financial statements are for the year 1 February 2012 to 31 January 2013 and are presented in pounds sterling ("GBP")

The financial statements have been prepared under the historical cost basis, as modified by valuing financial assets and financial liabilities at fair value through the Statement of Comprehensive Income. The principal accounting policies adopted are set out below.

GOING CONCERN

The Group made a loss of £157,722 for the year ended 31 January 2013 (2012: profit of £13,957) and had net current liabilities of £137,328 (2012: net current assets of £5,147).

The directors have reviewed forecast and budgets for the coming year, which have been drawn up with appropriate regard for the current economic environment and the particular circumstances in which the Group operates. These were prepared with reference to historical and current industry knowledge, taking into account future strategy of the Group.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as they fall due. As the Group has net current liabilities as at 31 January 2013, the Group has obtained confirmation from its directors that they will continue to provide financial support to the Group to ensure it can meet its liabilities as they fall due.
As a result of these considerations, at the time of approving the financial statements, the directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future. It is appropriate to adopt the going concern basis in the preparation of the financial statements.

As with all business forecasts, the directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about the future events.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements the following Standards and Interpretations, some of which have not been endorsed by the EU, which have not been applied in these financial statements but were in issue but not yet effective:

IFRS 9 - Financial Instruments - (not yet EU adopted)
IAS 24 - Related Party Disclosures (Revised 2009)
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement
Amendment to IAS12 - Income Taxes

Amendment to IAS 1 – Presentation of Financial Statements
Amendment to IAS 19 – Employee Benefits
Amendments to IFRS1 – Government Loans
Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) – (not yet EU adopted)
IFRIC 21 – Levies – (not yet EU adopted)
IAS 36 Amendments Recoverable Amount Disclosures for Non-Financial Assets – (not yet EU adopted)
Amendments to IAS 39 – Recognition and Measurement – (not yet EU adopted)

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group when the relevant standards and interpretations come into effect.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Palace Capital plc and its subsidiaries.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying the shareholding of more than half of the voting rights. Where necessary, adjustments have been made to the financial statements of subsidiaries, associates and joint ventures to bring the accounting policies used and accounting periods into line with those of the Group. Intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the Consolidated financial statements.

The results of subsidiaries acquired during the year are included from the effective date of acquisition, being the date on which the Group obtains control. They are deconsolidated on the date that control ceases.

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of the business combination over the fair value of the identifiable assets and liabilities acquired is recognised as goodwill.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. This fair value includes any contingent consideration. Acquisition-related costs are expensed as incurred.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The excess of consideration over the fair value of the assets and liabilities acquired is recorded as goodwill. If the consideration is less than the fair value of the assets and liabilities acquired, the difference is recognised directly in the Statement of Comprehensive Income.

REVENUE

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

Revenue shown in the profit and loss account represents amounts invoiced during the year.

OPERATING PROFIT/(LOSS)

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

FINANCIAL INSTRUMENTS

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions 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 all freehold properties.

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.

The investment properties were valued as at 31 January 2013 by the Directors. The valuation basis is market value and was arrived at by reference to market evidence of the transaction prices paid for similar properties.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation and any provision for improvement.
Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Fixtures, fittings and equipment 25% - 33% straight line

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and are subsequently re-assessed at the end of each accounting period.

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 group 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 group 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.

CONVERTIBLE LOAN NOTES

Convertible loan notes issued by the Group are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for similar non-convertible debt. The difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the respective date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

EQUITY INSTRUMENTS

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

CURRENT TAXATION

Current tax assets and liabilities for the current and prior periods 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 year. 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 group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The Group’s preference shares are split into debt and equity components, with the associated dividend being recognised on an accrual basis in the income statement as a finance cost.

The fair value of the debt element is established on issue of the shares, based on the discounted cash flows of the instrument to the date of maturity, and is then increased each year on an amortised cost basis through the income statement in order to arrive at the redemption amount payable on maturity of the shares. On purchase and cancellation of preference shares by the Company, a gain or loss is recognised in the income statement based on the difference between the book value and fair value of the financial liability element of the instrument at the date of purchase. The difference between the book value and fair value of the equity element of the instrument is recognised as a movement in retained earnings. In addition, a transfer is made to non-distributable reserves from retained earnings in order to maintain the legal nominal value of share capital.

SHARE BASED PAYMENT

The Group has applied the requirements of IFRS 2 Share based payment to share options. The fair value of the share options are determined at the grant date and are expensed on a straight line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

PROVISIONS

Provisions are recognised when the group 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 group 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 virtually certain.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included within intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND 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 Balance Sheet. The investment property portfolio is carried at fair value, which requires a number of judgements and estimates in assessing the qualities of the Group'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.

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

1 SEGMENTAL REPORTING

For the purpose of IFRS 8, the chief operating decision maker ("CODM") takes the form of the Board of Directors. The Directors opinion of the business of the group is as follows.

The principal activity of the Group was to invest in entities operating within the property sector.

Based on the above considerations, there is considered to be one reportable segment. The internal and external reporting is on a consolidated basis with transactions between group companies eliminated on consolidation. Therefore the financial information of the single segment is the same as that set out in the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position and cashflows.

Geographical segments

The following tables present revenue regarding the group's geographical segments for the years ended 31 January 2013 and 31 January 2012.

Year ended 31 January 2013	**United Kingdom £**	**Total** £
Rents received from investment properties	**199,785**	199,785
	199,785	199,785

Year ended 31 January 2012	**United Kingdom £**	**Total** £
Rents received from investment properties	**54,400**	54,400
	54,400	54,400

2 RECONCILIATION OF OPERATING PROFIT

Reconciliation of operating profit/(loss) to cash outflows from operating activities

	2013 £	2012 £
(Loss)/profit before taxation	**(144,688)**	13,384
Finance income	**(105)**	(27)
Finance costs	**113,733**	44,863
Gains on revaluation of investment property portfolio	**-**	(197,500)
Depreciation	**223**	-
Share based payments	**10,000**	3,333
Decrease/(increase) in receivables	**6,190**	(15,493)
Increase / (decrease) in payables	**7,343**	(6,560)
Net cash outflow from continuing operating activities	**(7,304)**	(158,000)

3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2013	2012
	£	£
Bank interest received	**105**	27
	105	27

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	£	£
Interest on bank loans	**72,486**	**23,514**
Interest on other loans	**35,397**	**15,499**
Preference share dividend payable	**5,850**	**5,850**
	113,733	**44,863**

The holders of the preference shares waived all rights to unpaid dividends up to 31 January 2011.

5 PROFIT/(LOSS) FOR THE PERIOD

The Group's profit/(loss) for the period is state after charging the following:

	2013	2012
	£	£
Auditor's remuneration:		
Fees payable to the auditor for the audit of the company's annual accounts	**14,500**	**14,500**
Fees payable to the auditor and its related entities for other services:	**-**	**38,100**
Corporate advisory services		
	14,500	**52,600**

Amounts payable to Crowe Clark Whitehill LLP and its related entities in respect of audit and non-audit services are disclosed in the table above.

6 EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the year were as follows:

	2013	2012
	£	£
Directors fees	**24,500**	8,166
Wages and salaries	**57,000**	19,000
Social security costs	**7,126**	1,904
Share based payments	**10,000**	3,333
	98,626	32,403

The average number of employees of the company during the year was:

	2013 Number	2012 Number
Directors and management	**4**	4

Key management are the group's directors. Remuneration in respect of key management was as follows:

	2013 £	2012 £
Short-term employee benefits:		
-Emoluments for qualifying services	**69,500**	23,167
Share based payments	**8,250**	2,750
	77,750	25,917

There are no retirement benefits accruing to any of the Directors.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2013 £	2012 £
Short-term employee benefits:		
-Emoluments for qualifying services	**45,000**	**15,000**
Share based payments	**5,500**	**1,833**
	50,500	**16,833**

7 TAXATION

	2013 £	2012 £
Current income tax charge	**15,937**	(573)
Over provided in prior year	**(2,903)**	
Deferred tax	**-**	-
Tax charge/(credit)	**13,034**	(573)

	2013 £	2012 £
(Loss)/profit on ordinary activities before tax	**(144,688)**	13,384
Based on profit for the year:		
Tax at 24.3% (2012: 26.3%)	**(35,159)**	3,520
Effect of:		
Expenses not deductible for tax purposes	**9,527**	16,487
Over provision in prior year	**(2,903)**	-
Gains on revaluation of investment property portfolio	**-**	(51,943)
Other adjustments	**4,766**	8,017
Losses not utilised	**36,803**	24,492
Tax charges for the year	**13,034**	573

At 31 January 2013, the Group had tax losses of £740,665 (2012: £515,752) available to carry forward to future periods. A deferred tax asset of £177,760 (2012: £134,095) has not been recognised in the financial statements due to the uncertainty as to the timing of future taxable profits.

8 EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on the following profits/(losses) and number of shares:

	2013	2012
	£	£
Profit/(loss) for the year	(157,722)	13,957
Weighted average number of shares for basic profit/(loss) per share	31,593,733	15,297,356
Weighted average number of shares for diluted profit/(loss) per share	50,753,106	21,648,819
EARNINGS PER ORDINARY SHARE;		
Basic	(0.50)p	0.09p
Diluted	(0.50)p	0.06p

In accordance with IAS 38 where there is a loss for the year, there is no dilutive effect from share options and therefore there is no difference between the basic and diluted loss per share.

9 INTANGIBLE FIXED ASSETS

	Goodwill
	£
Cost	
At 1 February 2012 & 31 January 2013	5,910
	-
Carrying Value at 31 January 2013	**5,910**

10 INVESTMENT PROPERTIES

	Freehold Investment properties £
At 1 February 2012 and 31 January 2013	**2,015,000**

Investment properties are stated at fair value as determined by the Directors. The Directors have decided that in their opinion the fair value of these assets at 31 January 2012 and 31 January 2013 was £2,015,000. 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. The fair value of each of the properties has been assessed by the directors. In determining the fair value of investment properties, the directors make use historical and current market data as well as existing lease agreements.

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 giving property may differ from the valuations shown in the statement of financial position.

Investment properties with a carrying value of £2,015,000 (2012: £2,015,000) are subject to a first charge to secure the Group's bank loan amounting to £1,199,981 (2012: £1,200,000).

11 TANGIBLE FIXED ASSETS

	IT and fixtures and fittings £
At 1 February 2012	805
Adjustment to additions	(135)
At 31 January 2013	**670**
Depreciation	
At 1 February 2012	-
Provided during the year	223
At 31 January 2013	**223**
Net book value at 31 January 2013	447
Net book value at 31 January 2012	805

12 TRADE AND OTHER RECEIVABLES

	2013 £	2012 £
Trade receivables	**15,477**	4,417
Income tax	**-**	11,175
Other taxes	**3,774**	26,136
Prepayment	**10,232**	5,120
	29,483	46,848

Trade receivables relate only to customers with no recent history of default. There are no receivables that are past due but not impaired at the year end

13 CASH AND CASH EQUIVALENTS

All of the group's cash and cash equivalents at 31 January 2013 and 31 January 2012 are in sterling and held at floating interest rates.

	2013	2012
	£	£
Cash and cash equivalents	**38,696**	145,378

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

14 REDEEMABLE PREFERENCE SHARES

The 65,000 £1 redeemable preference shares provide for a fixed cumulative dividend at a rate of 9% per annum which accrues on a daily basis. The preference shares can be redeemed by the company at any time on seven days written notice. The preference shares do not confer a right to attend, speak or vote at any general meeting of the company. Included in accruals and deferred income are accrued preference dividends of £11,700 (2012: £5,850).

15 TRADE AND OTHER PAYABLES

	2013	2012
	£	£
Convertible loan notes (note 20)	**60,000**	58,240
Trade payables	**10,500**	-
Income tax	**1,859**	-
Other taxes	**2,651**	-
Accruals and deferred income	**65,497**	63,839
	140,507	122,079

The convertible loan notes amounting to £60,000 are convertible at any time up to 31 January 2014 at a rate of 2.25p per share. No interest is payable on the loan notes. The liability component of these loan notes amount to £60,000 (2012 - £58,240 (see note 20).

16 BORROWINGS

	2013	2012
	£	£
Convertible loan notes (note 20)	**284,893**	279,985
Loan notes	**277,500**	277,500
Bank loans	**1,199,981**	1,200,000
	1,762,374	1,757,485

The bank loan amounting to £1,199,981 (2012: £1,200,000) is secured on the investment properties. Interest is charged at a rate of 5% above the 1 month Libor rate with a minimum rate of 6% and is payable monthly. The loan is repayable on 30 September 2014.

The loan notes amounting to £277,500 (2012; £277,500) were provided by Stanley Davis, a director of the company, at an interest rate of 5% above the 1 month Libor rate fixed for each interest period. The interest accrued during the period amounted to £16,696 (2012: £5,428). The loan is repayable on 3 October 2015.

The convertible loan notes of £300,000 (2012: £300,000) were provided by a pension scheme of which Stanley Davis is a beneficiary at an interest rate of 4%. The liability component of this loan amounted to £284893, (2012 - £279,985) (see note 20).The interest accrued during the period amounted to £12,033 (2012 - £3,912). The loan is repayable on 3 October 2015 but can be converted to ordinary shares at any time at an exercise price of 2.25p per share.

17 SHARE CAPITAL

	2013	2012
	£	£
31,593,733 (2012 - 31,593,733) ordinary shares of 1p each	**315,938**	315,938
65,000 redeemable preference shares of £1 each	**65,000**	65,000

Share options:

As at 31 January 2013, the Company had outstanding unexpired options of 3,159,373 shares (2012: 3,159,373). No share options were granted during the year (2012: 16,492,706). No share options were exercised or lapsed during the year (2012 : nil).

18 SHARE BASED PAYMENT

Senior executive plan

The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	Number	Weighted average price per share
At 1 February 2012	**3,159,373**	2.25
Issued during the year	**-**	-
At 31 January 2013	**3,159,373**	2.25

Option on convertible loans

As part of the loan agreements options were granted to convert £300,000 of loans to shares. The exercise price of the options is equal to the market price of the shares on the date of grant.

The weighted average remaining contractual life of the options outstanding at 31 January 2013 was 3 years (2012: 4).

19 RELATED PARTY TRANSACTIONS

Stanley Davis, owns £32,500 (2012: £32,500) of the redeemable preference shares disclosed in note 13.

Convertible loan notes amounting to £31,500 (2012: £31,500),disclosed in note 15, are payable to Stanley Davis, £2,000 (2012: £2,000) are payable to Neil Sinclair and £2,000 (2012: £2,000) are payable to London Active Management, a company controlled by Pamela & Neil Sinclair. No interest is payable on these loan notes.

A further convertible loan note amount of £300,000 (2012: £300,000) was provided by a pension scheme in which Stanley Davis is a beneficiary. Accrued interest on this loan amounted to £7,068 (2012: £3,912).

Included in other loans payable after more than one year are convertible loan notes amounting to £277,500 (2012: £277,500) provided by Stanley Davis, a director of the company. Accrued interest on this loan amounted to £10,013 (2012: £5,428).

Accounting services amounting to £nil (2012: £3,000) have been provided to the Group by Stanley Davis Group Limited, a company where Stanley Davis is a director.

20 CONVERTIBLE LOAN NOTES

Loan notes amounting to £300,000 are convertible at the option of the loan note holder into ordinary shares of the Company at any time between the date of issue of the loan notes and their maturity date of 3 October 2015 at 2.25p per share.

The effective rate of interest used to calculate the interest charged on the loan notes to the income statement was 6%.

If the loan notes have not been converted, they will be redeemed on their maturity date at par. Interest of 4% per annum will be paid quarterly up until that date.

In addition, there were convertible loan notes amounting to £60,000 which are convertible at a rate of 2.25p per share, at the option of the loan note holders and at any time prior to redemption. No interest is payable on the loan notes.

There were no transaction costs incurred on the issue of these loan notes. The proceeds from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group as follows:

	Note 1		**Note 2**	
	2013	2012	**2013**	2012
	£	£	**£**	£
Convertible loan notes issued	**300,000**	300,000	**60,000**	60,000
Equity component	**(21,197)**	(21,197)	**(6,737)**	(6,737)
Liability component at date of issue	**278,803**	278,803	**53,263**	53,263
Interest charged	**22,002**	5,094	**6,737**	4,977
Interest payable	**(15,912)**	(3,912)	**-**	-
	284,893	279,985	**60,000**	58,240

21 CATEGORIES OF FINANCIAL INSTRUMENTS

The group's financial assets are divided as cash and cash equivalents. The group's financial liabilities are divided as preference shares, loans and loan notes.

	Loans, cash and cash equivalents and receivables held at amortised cost		Borrowings and trade payables held at amortised cost	
	2013	2012	**2013**	2012
	£	£	**£**	£
Financial assets				
Cash and cash equivalents	**38,696**	145,678	**-**	-
Current financial liabilities				
Borrowings – loan notes	**-**	-	**60,000**	58,240
Borrowings – bank loan	**-**	-	**1,199,981**	1,200,000
Borrowings – other loans	**-**	-	**562,393**	557,485
Preference Shares	**-**	-	**65,000**	65,000
Total	**38,696**	145,678	**1,887,374**	1,880,725

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Capital risk management

The Group considers its capital to comprise its share capital and share premium. The Group's capital management objectives are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed on pages 14 to 19 to these financial statements.

Foreign currency risk

The Group has minimal exposure to the differing types of foreign currency risk. It has no foreign currency denominated monetary assets or liabilities and does not make sales or purchases from overseas countries.

Interest rate risk

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. The cash balances of the group are presently around £40,000. The income statement would be affected by £400 (2012: £1500) by a reasonably possible 1 percentage point change in floating interest rates on a full year basis.

The group has loans amounting to £1,477,500 which have interest payable at rates linked to the 1 month Libor interest rates. A 1% increase in Libor rate will have the effect of increasing interest payable by £14,775.

The Group must also pay interest at a fixed rate of 9% (2012: 9%) per annum on its £65,000 of preference shares in issue and at 4% on a £300,000 loan provided by a pension scheme in which Stanley Davis is a beneficiary. As the interest rate on these loans is fixed, the group is not exposed to any changes in interest rates on these loans.

The Group is therefore relatively sensitive to changes in interest rates.

Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the group.

Palace Capital plc has all its cash held on deposit with one large bank in the United Kingdom. At 31 January 2013 the concentration of credit risk held with that bank was £38,696 (2012: £146,873).

Credit risk on liquid funds is limited because the counterparty is a UK bank with a high credit rating assigned by international credit rating agencies.

Credit risk also results from the possibility of a tenant in the Group’s property portfolio defaulting on a lease. The largest lease amounts to 19% of the Group’s anticipated income.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Liquidity risk management

This is the risk of the Company not being able to continue to operate as a going concern.

At 31 January 2013, the Group had net current liabilities of £137,328 (2012: current assets £4,882).

The Group’s policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as they fall due. As the Group has net current liabilities as at 31 January 2013, the Group has obtained confirmation from its directors that they will continue to provide financial support to the Group to ensure it can meet its liabilities as they fall due.

Derivative financial instruments

The Group does not currently use derivative financial instruments as hedging is not considered necessary. Should the group identify a requirement for the future use of such financial instruments, a comprehensive set of policies and systems as approved by the Directors will be implemented.

In accordance with IAS 39, "Financial instruments: recognition and measurement", the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet specific requirements set out in the standard. No material embedded derivatives have been identified.

Palace Capital plc

COMPANY BALANCE SHEET
Company Registration Number: 05332938
31 January 2013

	Note	2013 £	2012 £
Non-current assets			
Tangible fixed assets	4	**447**	805
Investments	3	**1,813,215**	1,813,215
		1,813,662	1,814,020
Current assets			
Other debtors	5	**13,844**	29,236
Cash at bank and in hand		**11,885**	115,724
		25,729	144,960
Creditors: amounts falling due within one year	6	**(1,338,456)**	(1,311,050)
Net current liabilities		**(1,312,727**	(1,166,090)
Non-current liabilities			
Borrowings	7	**(562,393)**	(557,485)
Net (liabilities)/assets		**(61,458)**	90,445
Capital and reserves			
Called up share capital	8	**315,938**	315,938
Share premium account	9	**110,395**	110,395
Convertible loan notes – equity		**27,934**	27,934
Share based payments		**13,333**	3,333
Profit and loss account	10	**(529,058)**	(367,155)
Equity – attributable to the owners of the parent	11	**(61,458)**	90,445

The financial statements were approved by the Board of Directors and authorised for issue on 4 July 2013 and are signed on its behalf by:

Stanley Davis

Director

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom accounting standards. The principal accounting policies are described below. They have all been applied consistently throughout the year and preceding year. The company has also taken advantage of the exemption from presenting a cash flow statement under the terms of FRS1 'Cash Flow Statements'.

GOING CONCERN

At 31 January 2013, the Company had net current liabilities of £1,312,727 (2012: £1,166,090). The Company has obtained a confirmation from its' principal creditor that it will not seek to recover its balance to the extent it would prejudice the ability of the Company to meet its liabilities as they fall due.

The Directors have, after careful consideration of the factors set out above, concluded that it is appropriate to adopt the going concern basis for the preparation of the financial statements and the financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

INVESTMENTS

Investments held as fixed assets are stated at cost less provision for impairment.

TAXATION

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Taxation arising on disposal of a revalued asset is split between the profit and loss account and the statement of total recognised gains and losses on the basis of the tax attributable to the gain or loss recognised in each statement.

CONVERTIBLE LOAN NOTES

Convertible loan notes issued by the Company are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for similar non-convertible debt. The difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the respective date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

1 LOSS FOR THE FINANCIAL YEAR

a) The company has taken advantage of section 408 of the Companies Act 2006 and consequently a profit and loss account for the company alone has not been presented.

The company's loss for the financial year was £161,903 (2012: £164,975).

The company's loss for the financial year has been arrived at after charging auditor's remuneration payable to Crowe Clark Whitehill LLP for audit services to the company of £14,500 (2012: £14,500).

2 EMPLOYEES AND DIRECTORS' REMUNERATION

Staff costs during the year were as follows:

	2013	2012
	£	£
Directors fees	**24,500**	8,166
Wages and salaries	**57,000**	19,000
Social security costs	**7,126**	1,904
Share based payments	**10,000**	3,333
	98,626	32,403

The average number of employees of the company during the year was:

	2013	2012
	Number	Number
Directors and management	**4**	4

Remuneration in respect of directors was as follows:

	2013	2012
	£	£
Short term employee benefits:		
-Emoluments for qualifying services	**69,500**	23,167
Share based payments	**8,250**	2,750
	77,750	25,917

There are no retirement benefits accruing to any of the Directors.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2013	2012
	£	£
Short term employee benefits:		
-Emoluments	**45,000**	15,000
Share based payments	**5,500**	1,833
	50,500	16,833

3 INVESTMENTS

	Subsidiary undertaking £
At 1 February 2012 and 31 January 2013	**1,813,215**

The company owns more than 20% of the following undertakings, both of which are incorporated in the United Kingdom:

	Class of share held	% shareholding	Principal activity
Subsidiary undertaking: Equalgold Limited	Ordinary	100	Dormant
Hockenhull Estates Limited	Ordinary	100	Property Investments

4 TANGIBLE FIXED ASSETS

	IT and fixtures and fittings £
At 1 February 2012	805
Adjustment to additions	(135)
At 31 January 2013	**670**
Depreciation	
At 1 February 2012	-
Provided during the year	223
At 31 January 2013	**223**
Net book value at 31 January 2013	447
Net book value at 31 January 2012	805

5 OTHER DEBTORS

	2013	2012
	£	£
Other taxes and social security	**3,774**	26,136
Prepayment	**10,070**	3,100
	13,844	29,236

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013	2012
	£	£
Trade creditors	**10,500**	-
Amounts owed to subsidiary undertakings	**1,156,523**	1,156,523
Other taxes	**2,651**	-
Redeemable preference shares	**65,000**	65,000
Loan notes	**60,000**	58,240
Accruals and deferred income	**43,782**	31,287
	1,338,456	1,311,050

The 65,000 £1 redeemable preference shares provide for a fixed cumulative dividend at a rate of 9% per annum which accrued on a daily basis. The preference shares can be redeemed by the company at any time on seven days written notice. The preference shares do not confer a right to attend, speak or vote at any general meeting of the company.

The loan notes are convertible on completion of a fund raising process or on 31 July 2012 at a rate of 2.25p per share. No interest is payable on the loan notes.

7 BORROWINGS

	2013	2012
	£	£
Convertible loan notes	**284,893**	279,985
Other loans	**277,500**	277,500
	562,393	557,485

The loan notes amounting to £277,500 (2012; £277,500) were provided by Stanley Davis, a director of the company, at an interest rate of 5% above the 1 month Libor rate fixed for each interest period. The interest accrued during the period amounted to £16,696 (2012: £5,428). The loan is repayable on 3 October 2015.

The convertible loan notes of £300,000 (2012: £300,000) were provided by a pension scheme of which Stanley Davis is a beneficiary at an interest rate of 4%. The liability component of this loan amounted to £284,893 (2012 - £279,985) .The interest accrued during the period amounted to £12,033 (2012 - £3,912). The loan is repayable on 3 October 2015 but can be converted to ordinary shares at any time at an exercise price of 2.25p per share.

8 SHARE CAPITAL

	2013	2012
	£	£
31,593,733 (2012: 31,593,733) ordinary shares of 1p each	315,938	315,938
65,000 redeemable preference shares of £1 each	65,000	65,000

Share options:

As at 31 January 2013, the Company had outstanding unexpired options of 3,159,373 shares (2012: 3,159,373). No share options were granted or exercised or lapsed during the year (2012: Granted 3,159,373).

9 SHARE PREMIUM ACCOUNT

	2013	2012
	£	£
Balance brought forward	**110,395**	5,761
Premium on issue of new shares	**-**	104,634
Balance carried forward	**110,395**	110,395

10 PROFIT AND LOSS ACCOUNT

	2013	2012
	£	£
Balance brought forward	**(367,155)**	(202,180)
Loss for financial year	**(161,903)**	(164,975)
Balance carried forward	**(529,058)**	(367,155)

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013	2012
	£	£
Loss for the financial year	**(161,903)**	(164,975)
Net decrease in shareholders' funds	**(161,903)**	(164,975)
Issue of new shares	**-**	348,412
Share based payments	**10,000**	3,333
Issue of convertible loans – equity	**-**	27,934
Opening Shareholders' funds	**90,445**	(124,259)
Closing Shareholders' funds	**(61,458)**	90,445

NOTICE OF ANNUAL GENERAL MEETING

Palace Capital plc

(Incorporated and registered in England and Wales under the Companies Act 1985
with registered number 05332938)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 41 Chalton Street, London, NW1 1JD on 6th August 2013 at 10.00am to consider, and if thought fit, to pass the following resolutions as Ordinary and Special Resolutions.

Ordinary Resolutions

1. That the report of the directors of the Company (the "Directors") and financial statements for the financial year ended 31 January 2013 be received and adopted.

2. That Stanley Davis be re-elected as a director of the Company.

3. That Crowe Clark Whitehill LLP be re-elected as auditors of the Company and the Directors be authorised to determine their remuneration.

4. To consider whether any, and if so what, steps should be taken to address the serious loss of capital within the Company, pursuant to section 656(1) of the Companies Act 2006.

Special Resolution

5. That the Articles of Association be amended by inserting a comma in Article 99.3 after the words 'Securities Seal' followed by the words 'which may be applied by laser'

By order of the Board

DAVID KAYE
Company Secretary
4th July 2013

Registered Office
41 Chalton Street
London
NW1 1JD

Notes:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general Meeting of the Company ("Meeting"). You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy need not be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy are set out below and in the notes to the proxy form.
3. To be valid, a form of proxy and the power of attorney or other written authority, if any, under which it is signed, or an office or notarially certified copy in accordance with the Powers of Attorney Act 1971 of such power and written authority must be delivered to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU ("Registrars"), no later than 10.00 a.m. on 2nd August 2013 (or 48 hours before the time fixed for any adjourned Meeting or in the case of a poll 48 hours before the time appointed for taking the poll at which the proxy is to attend, speak and to vote provided that in calculating such periods no account shall be taken of any part of a day that is not a working day).
4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered on the Company's register of members at 10.00am on 2nd August 2013 (or in the case of adjournment forty-eight hours before the time of the adjourned meeting) will be entitled to attend and vote at the meeting. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy complete and submit more than one proxy form and make it clear how many shares the proxy has voting rights over. Failure to specify the number of shares each proxy appointment relates to or specifying a number of shares in excess of those held by the member on the record date will

result in the proxy appointment being invalid.

6. The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:

   - **completed and signed;**
   - **sent or delivered to the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and**
   - **received by the Registrars no later than 10.00 a.m. on 2nd August 2013.**

7. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
8. Use of the proxy form does not preclude a member attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) of the Meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.