

# Palace Capital plc

ANNUAL REPORT

for the year ended

31 January 2011

Company Registration No. 05332938

# Palace Capital plc

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# Palace Capital plc

## OFFICERS AND PROFESSIONAL ADVISERS

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### DIRECTORS

Stanley Harold Davis    Chairman  
Ronald Neil Sinclair    Director

### SECRETARY

David Malcolm Kaye F.C.I.S.

### REGISTERED OFFICE

First Floor  
41 Chalton Street  
London  
NW1 1JD

### AUDITOR

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

### NOMINATED ADVISER AND BROKER

Fairfax I.S. PLC  
46 Berkeley Square  
Mayfair  
London  
W1J 5AT

Registered Number: 0533938 (England and Wales)

# Palace Capital plc

## CHAIRMAN'S STATEMENT

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In the year ended 31 January 2011, the Group made a consolidated loss of £28,291 (2010: £50,840).

On 30 July 2010 a 29.9% interest in the company was acquired by Mr Stanley Davis, Mr Andrew Perloff, Mr Neil Sinclair, Mrs Pamela Sinclair and London Active Management Limited, a company controlled by Pamela and Neil Sinclair.

On 30 July 2010, the Company disposed of its 50% interest in Grafton Insurance Services Limited resulting in a profit of £40,096 and changed its name from Leo Insurance Services plc to Palace Capital plc.

The disposal of Grafton constituted a fundamental change of business by the Company pursuant to Rule 15 of the AIM Rules and was also subject to the provisions of section 190 of the 2006 Act. Accordingly, in accordance with the AIM Rules and the 2006 Act, the Company sent a circular to Shareholders setting out the reasons for, and principal terms of, the Disposal, and also details of the Company's Investing Policy following completion and to seek Shareholders' approval for the Disposal and the proposed Investing Policy. Both were approved at the 2010 General Meeting.

The Investing Policy is for the Company to seek to make property related acquisitions or investments which may include:

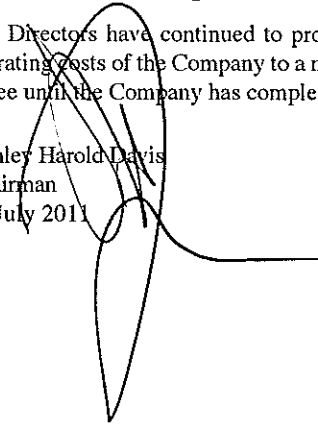
- (i) freehold or long leasehold property or asset-backed businesses owning freehold or long leasehold property;
- (ii) property related businesses which manage asset-backed businesses;
- (iii) investment, in partnership with others, in distressed properties where the Company proposes to manage the asset(s) for a fee and participate in any potential upside;
- (iv) private property companies; and
- (v) property services businesses where the majority of the income is effectively recurring, such as property management, rating and utility brokerage.

There is no maximum exposure limit to any single investment nor restriction on gearing or cross holdings. The nature of the returns to Shareholders are dependent on the assets acquired. After an acquisition has been made, it is expected that returns to Shareholders will be initially in the form of capital appreciation, but the Board will consider the payment of dividends if and when the Company has sufficient cash resources and retained reserves. The Board considers that this is an appropriate time in the property and economic cycles to implement this strategy.

In accordance with AIM Rule 40 the Company is obligated to implement the Investing Policy by 30 July 2011 and if it does not do so by this time the Company's Ordinary Shares will be suspended from trading on AIM. The Board continue to review potential opportunities available to them and will announce any developments to shareholders as soon as possible.

The Directors have continued to provide financial support to the Company during the year. In order to keep operating costs of the Company to a minimum each of the members of the Board agreed not to receive any salary or fee until the Company has completed its first acquisition.

Stanley Harold Davis  
Chairman  
26 July 2011



# Palace Capital plc

## DIRECTORS' REPORT

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The directors present their report and the audited consolidated financial statements of Palace Capital plc for the year ended 31 January 2011.

### PRINCIPAL ACTIVITIES

The principal activity of the Group up to 30 July 2010 was to invest in entities operating within the insurance sector. Since the sale of its 50% interest in Grafton Insurance Services Group Limited the Group has been actively seeking other investment opportunities. 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 3.

### POST BALANCE SHEET EVENTS

On 31 March 2011, Stanley Davis made a non-interest bearing loan to the Company in the sum of £20,000. This will be repayable when the Company has sufficient cash resources to do so.

### KEY PERFORMANCE INDICATORS

The Group has no key performance indicators, as a result of its size and the fact that it currently has no investment activity.

### 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.

#### 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 pages 10–31.

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

### DIRECTORS

The following directors have held office since 1 February 2010:-

Larry Glenn Lipman	(resigned 30 July 2010)
Errol Alan Lipman	(resigned 30 July 2010)
Paul Malcolm Davis	(resigned 30 July 2010)
Edward George Young	(resigned 30 July 2010)
Stanley Harold Davis	(appointed 30 July 2010)
Ronald Neil Sinclair	(appointed 30 July 2010)

# Palace Capital plc

## DIRECTORS' REPORT

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### 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 2011, 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	
	31.01.11	01.02.10
Stanley Harold Davis	719,190	–
Ronald Neil Sinclair	719,190	–

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

### OTHER SUBSTANTIAL SHAREHOLDINGS

As at 17 June 2011, the company had been notified of the following shareholdings which constitute 3% or more of the total issued shares of the company.

	Ordinary	Shareholding
	shares No.	
Stanley Harold Davis	719,190	9.97
Ronald Neil Sinclair	719,190	9.97
Andrew Perloff	719,190	9.97
Safeland plc	511,919	7.09
Leo Holdings (2008) Corporation	476,356	6.60
Peter O' Reilly Esq	264,712	3.67
Barrie Tankel	250,000	3.46

### FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash at bank, 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 4.

### 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. There were no trade creditors at 31 January 2011 (2010: Nil).

### STATEMENT OF DIRECTORS RESPONSIBILITIES

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

# Palace Capital plc

## DIRECTORS' REPORT

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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). 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 UK 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 need 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  
26 July 2011

# Palace Capital plc

## CORPORATE GOVERNANCE STATEMENT

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The Board of Palace Capital plc appreciate the value of good corporate governance and intend to comply with the requirements of the "Combined Code" on corporate governance, as far as applicable to the group given its current size and stage of development.

### **Board Structure**

The Board consists of two directors of which one is executive and one 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 half 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 control function.

### **Going Concern**

The financial statements have been prepared on the going concern basis.

At 31 January 2011, the Group had net current liabilities of £124,259 (2010: £116,205) and was dependent on the financial support of the Directors. The Directors have confirmed that they will continue to provide financial support to the Group.

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 adjustment that would result if the going concern basis was not appropriate.



# Palace Capital plc

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

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We have audited the financial statements of Palace Capital plc for the year ended 31 January 2011 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 19.

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 2011 and of the group's and the parent company'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
- have been prepared in accordance with the requirements of the Companies Act 2006.

# Palace Capital plc

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

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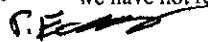
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Chairman's Statement 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 financials 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

16 July 2011

Palace Capital plc  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 January 2011

	Note	2011 £	2010 £
Turnover	1	–	–
Cost of sales		–	–
Gross profit		–	–
Administrative expenses		(116,753)	(79,051)
<b>Operating loss</b>		<b>(116,753)</b>	<b>(79,051)</b>
Share of results of joint venture – post tax	16	28,416	34,061
Profit on disposal of joint venture	17	40,146	–
<b>Loss before interest</b>		<b>(48,191)</b>	<b>(44,990)</b>
Other interest receivable and similar income	3	19,900	–
Finance costs	4	–	(5,850)
<b>Loss before taxation</b>		<b>(28,291)</b>	<b>(50,840)</b>
Tax payable on profit on ordinary activities	7	–	–
<b>Loss after taxation for the year</b>		<b>(28,291)</b>	<b>(50,840)</b>
Other comprehensive income for the year		–	–
<b>Total comprehensive income for the year</b>		<b>(28,291)</b>	<b>(50,840)</b>
<b>Attributable to:</b>			
Equity holders of the parent		(28,291)	(50,840)
<b>LOSS PER ORDINARY SHARE;</b>			
Basic and diluted		<b>(0.4p)</b>	<b>(0.7p)</b>

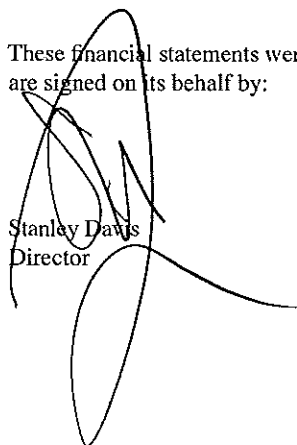
All results in the current and preceding financial year derive from continuing operations.

The notes on pages 18 to 25 are an integral part of these consolidated financial statements.

Palace Capital plc  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
For the year ended 31 January 2011

	Note	2011 £	2010 £
<b>Non current assets</b>			
Interests in joint ventures	16	–	20,237
		–	20,237
<b>Current assets</b>			
Other receivables	9	8,430	14,960
Cash at bank and in hand		7,148	3,480
		15,578	18,440
<b>Total assets</b>		15,578	38,677
<b>Current liabilities</b>			
Trade and other payables	12	(74,837)	(69,645)
Redeemable preference shares	11	(65,000)	(65,000)
<b>Creditors: amounts falling due within one year</b>		(139,837)	(134,645)
<b>Net current liabilities</b>		(124,259)	(116,205)
<b>Net liabilities</b>		(124,259)	(95,968)
<b>Capital and reserves</b>			
Called up share capital	13	72,160	72,160
Share premium account		5,761	5,761
Profit and loss account		(202,180)	(173,889)
<b>Shareholders' funds – equity interests</b>		(124,259)	(95,968)

These financial statements were approved by the Board of Directors and authorised for issue on 26 July 2011 and are signed on its behalf by:

  
Stanley Davis  
Director

Palace Capital plc  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the year ended 31 January 2011

	Attributable to owners of the parent			Total
	Share capital £	Share premium £	Retained losses £	equity £
At 31 January 2009	72,160	5,761	(123,049)	(45,128)
Loss for the year	–	–	(50,840)	(50,840)
Total comprehensive income	–	–	(50,840)	(95,968)
At 31 January 2010	72,160	5,761	(173,889)	(95,968)
Loss for the year	–	–	(28,291)	(28,291)
Total comprehensive income	–	–	(28,291)	(28,291)
At 31 January 2011	72,160	5,761	(202,180)	(124,259)

Palace Capital plc  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the year ended 31 January 2011

	Note	2011 £	2010 £
<b>OPERATING ACTIVITIES</b>			
Net cash outflow from operating activities	2	<u>(145,081)</u>	<u>(84,948)</u>
<b>INVESTING ACTIVITIES</b>			
Disposal of joint venture	17	<u>88,749</u>	–
Dividend received from joint venture undertaking		–	<u>33,000</u>
Net cash flow from investing activities		<u>88,749</u>	<u>33,000</u>
<b>FINANCING ACTIVITIES</b>			
Payments to acquire investments in subsidiary undertaking		–	–
Issue of loan note	12	<u>60,000</u>	–
Net cash flow from financing activities		<u>60,000</u>	<u>–</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u><u>3,668</u></u>	<u><u>(51,948)</u></u>
Cash and cash equivalents at beginning of the year		<u>3,480</u>	<u>55,428</u>
Cash and cash equivalents at the end of the year		<u><u>7,148</u></u>	<u><u>3,480</u></u>

# Palace Capital plc

## ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 January 2011

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#### 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 2006. 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 4.

#### 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 2010 to 31 January 2011 and are presented in pounds sterling ("GBP")

The financial statements have been prepared under the historical cost basis. The principal accounting policies adopted are set out below.

#### GOING CONCERN

The financial statements have been prepared on the going concern basis.

At 31 January 2011, the Group had net current liabilities of £124,259 (2010: £116,205) and was dependent on the financial support of the Directors, the Directors have confirmed that they will continue to provide financial support to the Group.

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.

#### STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- IFRS 9 Financial Statements
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in other entities
- IFRS 13 Fair Value measurements
- IAS 24 Related Party Disclosures (Revised 2009)
- Amendment to IAS32 Classification of rights issues
- IFRIC 19 Extinguishing financial liabilities with equity instruments
- IFRIC 14 (Amendment) Prepayments of a minimum funding requirement
- Improvement to IFRS issued May 2010
- Amendment to IFRS 7 Financial Instrument: Disclosures
- Amendment to IAS12 Income Taxes

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.

# Palace Capital plc

## ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 January 2011

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### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Palace Capital plc and its subsidiary undertaking Equalgold Limited. They also include the Group's share of profits and losses of its joint venture, Grafton Insurance Services Limited, up to 30 July 2010, the date of disposal of the joint venture.

Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

### JOINT VENTURES

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Jointly controlled entities are accounted for using the equity method. Investments in joint ventures are carried in the balance sheet at the Group's share of the net assets of the joint venture and the Group's share of profits for each financial year are recognised in the consolidated income statement.

### OPERATING LOSS

Operating loss is stated before share of results of joint ventures, 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.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and deposits held at call with banks.

### 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.

#### Trade and other receivables

Trade and other receivables are initially measured at fair value and are subsequently reassessed 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.



# Palace Capital plc

## ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 January 2011

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#### 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 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.

Preference shares are classified as debt and provide for a fixed cumulative dividend which accrues on a daily basis. Accrued dividends are included within accruals unless paid.

# Palace Capital plc

## ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 31 January 2011

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#### 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.

#### 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

In the process of applying the Group's accounting policies, the board are of the opinion that there is only one critical accounting judgements or key sources of estimation or uncertainty that may have a significant effect on the amounts recognised in the financial statements.

The Directors are able to continue to support the company for the going concern basis.

**Palace Capital plc**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 January 2011

**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 Group currently operates solely in the United Kingdom. On 30 July 2010 it discontinued its previous operating segment, the provision of Insurance Services, through its joint venture undertaking, Grafton Insurance Services Limited. Further details are disclosed in note 19. The principal activity of the Group up to 30 July 2010 was to invest in entities operating within the insurance sector. Since the sale of its 50% interest in Grafton Insurance Services Limited the Group has been actively seeking other investment opportunities.

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.

**2 OPERATING PROFIT**

Reconciliation of operating profit to cash inflows from operating activities

	2011	2010
	£	£
Loss before taxation	(28,291)	(50,840)
Finance income	–	–
Finance costs	(19,900)	5,850
Share of results of joint venture – post tax	(28,416)	(34,061)
Profit on sale of joint venture	(40,146)	–
(Increase)/decrease in debtors	6,530	(11,569)
Increase/(decrease) in creditors	(34,858)	5,672
Net cash inflow/(outflow) from continuing operating activities	<u>(145,081)</u>	<u>(84,948)</u>

**3 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

	2011	2010
	£	£
Preference share dividend waived	19,900	–
	<u>19,900</u>	<u>–</u>

**4 INTEREST PAYABLE AND SIMILAR CHARGES**

	2011	2010
	£	£
Preference share dividend payable	–	5,850
	<u>–</u>	<u>5,850</u>

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

Palace Capital plc  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 For the year ended 31 January 2011

**5 AUDITORS' REMUNERATION**

Amounts payable to Crowe Clark Whitehill LLP and its related entities in respect of the year ended 31 January 2011 (2010 – the auditors were Baker Tilly UK Audit LLP) for both audit and non-audit services are disclosed in the table below.

	2011	2010
	£	£
Fees payable to the auditor for the audit of the company's annual accounts	6,500	8,000
Fees payable to the auditor for the audit of the annual accounts of Grafton Insurance Services Limited	–	8,000
Fees payable to the auditor and its related entities for other services: Taxation services	–	2,750
	<u>6,500</u>	<u>18,750</u>

**6 EMPLOYEES AND DIRECTORS' REMUNERATION**

There were no employees during the year other than the Directors. Details of Directors' remuneration are disclosed in note 15.

**7 TAXATION**

There was no tax charge for either the current or preceding year due to current and prior year tax losses.

	2011	2010
	£	£
Loss on ordinary activities before tax	(28,291)	(50,840)
Based on profit for the year:		
Tax at 28% (2010: 28%)	(7,921)	(14,235)
Effect of:		
Expenses not deductible for tax purposes	–	1,638
Income not deductible for tax purposes	(5,572)	–
Losses offset against capital gain on sale of investment	24,836	–
Losses not utilised	7,854	22,134
Impact of joint venture profit disclosed net of tax	<u>(19,197)</u>	<u>(9,537)</u>
Tax charge for the period	–	–

Factors that may affect future tax charges:

At 31 January 2011, the Group had tax losses of £413,302 (2010: £385,248) available to carry forward to future periods. A deferred tax asset of £115,725 (2010: £107,869) has not been recognised in the financial statements due to the uncertainty as to the timing of future taxable profits.

**Palace Capital plc**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 January 2011

**8 LOSS PER ORDINARY SHARE**

The calculation of loss per ordinary share is based on the following losses and number of shares:

	2011	2010
	£	£
Loss for the year	<u>(28,291)</u>	<u>(50,840)</u>
Weighted average number of shares for basic and diluted loss per share	<u>7,215,956</u>	<u>7,215,956</u>

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

**9 DEBTORS**

	2011	2010
	£	£
Other debtors	7,431	–
Prepayment	999	14,960
	<u>8,430</u>	<u>14,960</u>

**10 CASH AND CASH EQUIVALENTS**

All of the group's cash and cash equivalents at 31 January 2011 and 31 January 2010 are in sterling and held at floating interest rates.

	2011	2010
	£	£
Cash and cash equivalents	<u>7,148</u>	<u>3,480</u>

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

**11 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. On 30 July 2010, the holders of the preference shares waived the right to receive past dividends on these preference shares. Included in accruals and deferred income are accrued preference dividends of £nil (2010: £19,900) as all rights to a dividend for the financial year under review were waived.

Palace Capital plc  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 For the year ended 31 January 2011

**12 TRADE AND OTHER PAYABLES**

	2011	2010
	£	£
Amounts owed to related party	–	22,403
Loan notes	60,000	–
Accruals and deferred income	14,837	47,242
	<u>74,837</u>	<u>69,645</u>

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

**13 SHARE CAPITAL**

	2011	2010
	£	£
7,215,956 ordinary shares of 1p each	<u>72,160</u>	<u>72,160</u>
65,000 redeemable preference shares of £1 each	<u>65,000</u>	<u>65,000</u>

**Share issues:**

There were no shares issued in the year (2010: Nil).

**Share options:**

As at 31 January 2011, the Company had no outstanding unexpired options (2010: 2,734,374). No share options were granted, exercised or lapsed during the year (2010: Nil). The rights to the previously issued share options were waived during the year.

**14 SHARE BASED PAYMENT**

All of the share options vested on 3 August 2006 so there is no share based payment charge for the year.

**Palace Capital plc**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 January 2011

**15 RELATED PARTY TRANSACTIONS**

Details of Directors' remuneration, who are the key management personnel of the group, are set out below. There are no retirement benefits accruing to any of the Directors.

	2011	2010
	£	£
Directors' Fees – paid to Edward Young	<u>3,333</u>	<u>5,000</u>

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

£31,500 of the loan notes disclosed in note 12 are payable to Stanley Davis, £2,000 are payable to Neil Sinclair and £2,000 are payable to London Active Management, a company controlled by Pamela & Neil Sinclair.

Safeland plc is considered to be a related party of the company as all the former Directors of Palace Capital plc are also directors of Safeland plc and Safeland plc owns 7.09% of the issued share capital of this company. At 31 January 2011, Palace Capital plc owed Safeland plc £ nil (2010: £22,403).

As disclosed in note 17, the company received a dividend of £nil (2010: £33,000) from Grafton Insurance Services Limited, a joint venture investment. On 30 July 2010, the company's 50% holding in Grafton Insurance Services Limited was sold to Safeland plc for a cash consideration of £88,749.

On 31 March 2011, Stanley Davis made a non-interest bearing loan to the Company in the sum of £20,000. This is repayable when the Company has sufficient cash resources to do so.

**16 INTEREST IN JOINT VENTURE**

The group's share of the joint venture's results up to 30 July 2010 (date of disposal) are set out below.

	2011	2010
	£	£
Revenue	<u>90,485</u>	<u>117,438</u>
Operating profit	<u>39,467</u>	43,113
Financial income	–	2
Profit before tax	<u>39,467</u>	43,115
Tax	<u>(11,051)</u>	<u>(9,054)</u>
Profit after tax	<u>28,416</u>	<u>34,061</u>

**Palace Capital plc**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 January 2011

**17 PROFIT ON DISPOSAL OF JOINT VENTURE**

On 30 July 2010 the company sold its 50 per cent investment in Grafton Insurance Services Limited, a joint venture via the ownership of 100% of the "B" ordinary shares for a cash consideration of £88,749. The principal activity of the joint venture is that of a property insurance broker. The profits on disposal arose as follows.

	2011	2010
	£	£
Proceeds	88,749	
Less interest in joint venture at 30 July 2010	(48,653)	
Profit on disposal	<u>40,096</u>	
Interest in joint venture at 1 February	20,237	19,176
Share of profit for the year	28,416	34,061
Dividends	-	(33,000)
Interest in joint venture at 30 July	<u>48,653</u>	<u>20,237</u>

**18 CATEGORIES OF FINANCIAL INSTRUMENTS**

The group's financial assets are divided as cash and cash equivalents, prepayments and other debtors. The group's financial liabilities are divided as preference shares, loan notes and accruals.

	Loans, cash and cash equivalents and receivables held at amortised cost		Borrowings and trade payables held at amortised cost	
	2011	2010	2011	2010
	£	£	£	£
<b>Current financial assets</b>				
Other debtors	7,431	14,960	-	-
Cash and cash equivalents	7,148	3,480	-	-
<b>Current financial liabilities</b>				
Trade payables and accruals	-	-	14,837	69,645
Borrowings	-	-	60,000	-
Preference Shares	-	-	65,000	65,000
<b>Total</b>	<u>14,579</u>	<u>18,440</u>	<u>139,837</u>	<u>134,645</u>

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.



# Palace Capital plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 January 2011

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### 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 17 to these financial statements.

### Market risk

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

The Group is exposed to changes in interest rates as a result of the cash balances that it holds. Both at 31 January 2011 and throughout the year, the cash balances were minimal, rarely rising much above £30,000 (2010: £30,000). The Group must also pay interest at a fixed rate of 9% (2010: 9%) per annum on its preference shares in issue. As the interest rate is fixed, the group is not exposed to any changes in interest rates. The Group's exposure to changes in interest rates is therefore minimal and would not materially effect the Group's results. No sensitivity analysis on changes in interest rates has therefore been prepared, due to the minimal exposure that the Group faces, it does not actively manage its interest rate risk.

As at 31 January 2011, the preference shares were redeemable.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

### Credit risk management

Credit risk refers to the risk that a counterparty 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 2011 the concentration of credit risk held with that bank was £7,148 (2010: £3,480).

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. The income statement would be affected by £71 (2010: £39) by a reasonably possible 1 percentage point change in floating interest rates on a full year basis.

Debtors relate principally to other debtors and were not impaired at the balance sheet date and they are all due within 30 days.

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 2011, the Group had net current liabilities of £124,259 (2010: £116,205) and was dependent on the financial support of its Directors.

All loans are due within one year and are with key management with no fixed maturity date. As a result the payment of these will be managed appropriately to ensure that the company can meet its obligations as they fall due.

**Palace Capital plc**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 January 2011

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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.

**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.

**19 POST BALANCE SHEET EVENTS**

On 31 March, 2011 Stanley Davis made a non-interest bearing loan to the Company in the sum of £20,000. This is repayable when the Company has sufficient cash resources to do so.

Palace Capital plc  
 COMPANY BALANCE SHEET  
 31 January 2011

	Note	2011 £	2010 £
<b>Fixed Assets</b>			
Investments	3	<u>1</u>	<u>51</u>
		1	51
<b>Current assets</b>			
Debtors	4	8,430	14,959
Cash at bank and in hand		<u>7,148</u>	<u>3,480</u>
		15,578	18,439
<b>Creditors: amounts falling due within one year</b>	5	<u>(139,837)</u>	<u>(134,645)</u>
<b>Net current liabilities</b>		<u>(124,259)</u>	<u>(116,206)</u>
<b>Net liabilities</b>		<u>(124,259)</u>	<u>(116,155)</u>
<b>Capital and reserves</b>			
Called up share capital	6	72,160	72,160
Share premium account	7	5,761	5,761
Profit and loss account	8	<u>(202,180)</u>	<u>(194,076)</u>
<b>Shareholders' funds – equity interests</b>	9	<u>(124,259)</u>	<u>(116,155)</u>

The financial statements were approved by the Board of Directors and authorised for issue on 26 July 2011 and are signed on its behalf by:

Stanley Davis  
 Director

Palace Capital plc  
 COMPANY CASH FLOW STATEMENT  
 Year ended 31 January 2011

	Note	2011 £	2010 £
<b>OPERATING ACTIVITIES</b>			
Net cash outflow from operating activities		<u>(145,081)</u>	<u>(84,948)</u>
<b>INVESTING ACTIVITIES</b>			
Disposal of joint venture		88,749	–
Dividend received from joint venture undertaking		–	33,000
Net cash flow from investing activities		<u>88,749</u>	<u>33,000</u>
<b>FINANCING ACTIVITIES</b>			
Payments to acquire investments in subsidiary undertaking		–	–
Issue of loan note		60,000	–
Net cash flow from financing activities		<u>60,000</u>	<u>–</u>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>3,668</u>	<u>(51,948)</u>
Cash and cash equivalents at beginning of the year		<u>3,480</u>	<u>55,428</u>
Cash and cash equivalents at the end of the year		7,148	3,480

# Palace Capital plc

## ACCOUNTING POLICIES FOR THE COMPANY FINANCIAL STATEMENTS

### For the year ended 31 January 2011

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#### 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 accounting standards. The principal accounting policies are described below. They have all been applied consistently throughout the year and preceding year.

#### GOING CONCERN

At 31 January 2011, the Company had net current liabilities of £124,259 (2010: £116,206) and was dependent on the financial support of its Directors.

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.

#### SHARE BASED PAYMENT

The Company has applied the requirements of FRS 20 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 company'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.

**Palace Capital plc**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
For the year ended 31 January 2011

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**1 LOSS FOR THE FINANCIAL YEAR**

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 £8,104 (2010: loss £51,901).

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 £6,500 (2010: Baker Tilly UK Audit LLP £8,000).

**2 EMPLOYEES AND DIRECTORS' REMUNERATION**

There were no employees during the year other than the directors. None of the Directors received any remuneration during the year except for Mr EG Young (resigned 30 July 2010) who received fees of £3,333 (2010: £5,000).

**3 FIXED ASSET INVESTMENTS**

Fixed Assets	Subsidiary undertaking £	Joint Venture £	Total £
At 1 February 2010	1	50	51
Disposal	–	(50)	(50)
At 1 February 2010 and 31 January 2011	<u>1</u>	<u>–</u>	<u>1</u>

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

Subsidiary undertaking:	Class of share held	% Shareholding	Principal activity
Equalgold Limited	Ordinary	100	Dormant

On 30 July 2010, the Company sold its 50 per cent investment in Grafton Insurance Services Limited, a joint venture via the ownership of 100% of the "B" ordinary shares. The principal activity of the joint venture is that of a property insurance broker.

The Company's share of the joint venture's results up to the date of disposal are set out below (as per note 16).

Palace Capital plc  
 NOTES TO THE COMPANY FINANCIAL STATEMENTS  
 For the year ended 31 January 2011

	2011	2010
	£	£
Revenue	(90,485)	117,438
Operating profit	39,467	43,113
Financial income	–	2
Profit before tax	39,467	43,115
Tax	(11,051)	(9,054)
Profit after tax	28,416	34,061
Interest in joint venture at 1 February 2010	20,237	19,176
Share of profit for the year	28,416	34,061
Dividends	–	(33,000)
Interest in joint venture at 30 July 2010	(48,653)	20,237

**4 DEBTORS**

	2011	2010
	£	£
Other taxes and social security	7,431	–
Prepayment	999	14,959
	8,430	14,959

**5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2011	2010
	£	£
Redeemable preference shares	65,000	65,000
Loan notes	60,000	–
Accruals and deferred income	14,837	69,645
	139,837	134,645

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 dividend has been waived to 31 January 2011.

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

Palace Capital plc  
 NOTES TO THE COMPANY FINANCIAL STATEMENTS  
 For the year ended 31 January 2011

**6 SHARE CAPITAL**

	2011	2010
	£	£
7,215,956 ordinary shares of 1p each	<u>72,160</u>	<u>72,160</u>
65,000 redeemable preference shares of £1 each	<u>65,000</u>	<u>65,000</u>

**Share issues:**

There were no shares issued in the year (2010: Nil).

*Share options:*

As at 31 January 2011, the Company had no outstanding unexpired options (2010: 2,734,374). No share options were granted, exercised or lapsed during the year (2010: Nil). All rights to the previously issued share options were waived during the year.

**7 SHARE PREMIUM ACCOUNT**

	2011	2010
	£	£
1 February 2010 and 31 January 2011	<u>5,761</u>	<u>5,761</u>

**8 PROFIT AND LOSS ACCOUNT**

	2011	2010
	£	£
Balance brought forward	(194,076)	(142,175)
Loss for financial year	<u>(8,104)</u>	<u>(51,901)</u>
Balance carried forward	<u>(202,180)</u>	<u>(194,076)</u>

**9 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2011	2010
	£	£
Loss for the financial year	<u>(8,104)</u>	<u>(51,901)</u>
Net decrease in shareholders' funds	<u>(8,104)</u>	<u>(51,901)</u>
Opening Shareholders' funds	<u>(116,155)</u>	<u>(64,254)</u>
Closing Shareholders' funds	<u>(124,259)</u>	<u>(116,155)</u>

**10 POST BALANCE SHEET EVENTS**

On 31 March 2011, Stanley Davis made a non-interest bearing loan to the Company in the sum of £20,000. This is repayable when the Company has sufficient cash resources to do so.



# Palace Capital plc

## NOTICE OF ANNUAL GENERAL MEETING

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NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 41 Chalton Street, London NW1 1JD on 23 August 2011 at 10.00 a.m. to consider, and if thought fit, to pass the following resolutions as ordinary resolutions.

- 1 That the report of the directors of the Company (the "Directors") and financial statements for the financial year ended 31 January 2011 be received and adopted.
- 2 That Ronald Neil Sinclair 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.

By order of the Board

DAVID M. KAYE  
Company Secretary  
26 July 2011

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 19 August 2011 (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 5.00 pm on 19 August 2011 (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 19 August 2011.
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.
10. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (RA10) no later than 48 hours before the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
11. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
12. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Registrars, in the case of a member which is a company, the revocation notice must be executed in accordance with note 13 below. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the Registrars not less than 48 hours before the time fixed for the holding of the Meeting or any adjourned Meeting (or in the case of a poll 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. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.
13. A corporation's form of proxy must be executed pursuant to the terms of section 44 of the Companies Act 2006 or under the hand of a duly authorised officer or attorney.
14. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.