Wallace Estates Limited

REPORT AND FINANCIAL STATEMENTS

For the year ended

31 December 2022

Company Registration No. 04216645

Wallace Estates Limited
OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

M Platt
N Chambers
P Langford
W Murray-Bruce

SECRETARIES

N Chambers
A E Williams

REGISTERED OFFICE

Botanic House
Hills Road
Cambridge
CB2 1PH

AUDITOR

RSM UK Audit LLP
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

SOLICITORS

Mills and Reeve LLP
Botanic House
Hills Road
Cambridge
CB2 1PH

Wallace Estates Limited
CONTENTS

Wallace Estates Limited
DIRECTORS' REPORT
For the year ended 31 December 2022

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activities of the company during the year under review were that of property investment.

GOINC CONCERN

The directors have considered whether the going concern basis of accounting is appropriate with reference to profit, interest rates, debt, covenants, and cash flow forecasts. The directors have concluded that the company has access to adequate resources which will enable it to continue in operational existence for the foreseeable future. These resources are detailed in the financial statements of the ultimate parent company, Albanwise Wallace Estates Limited, and the directors of that entity have confirmed ongoing support for the company in writing. For these reasons they continue to adopt the going concern basis of accounting in preparing the financial statements.

RESULTS AND DIVIDENDS

The results for the year are set out in the income statement on page 6. No dividends were paid during the year (2021: £nil).

DIRECTORS

The directors who served the company since 1 January 2022 and up to the date of approval of these financial statements were as follows:

M Platt
N Chambers
P Langford

AUDITOR

The auditor RSM UK Audit LLP, Chartered Accountants, has indicated its willingness to continue.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemptions.

By order of the board

N Chambers
Secretary
22 June 2023

Wallace Estates Limited

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 the affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Opinion

We have audited the financial statements of Wallace Estates Ltd (the 'company') for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Emphasis of Matter - Valuation of Ground rent Investment Properties

We draw attention to the disclosures made in the accounting policies on page 14 and note 9 to the financial statements concerning the uncertainties relating to the carrying value of investment properties totalling £200,000,000 and any liabilities relating to cladding remediation issues. As indicated in the notes, the directors use a number of sources of evidence to assess the carrying value of investment properties and have disclosed that considerable volatility and uncertainty exists in the valuation of ground rent investment properties. Additionally, the directors note that future changes to legislation may materially increase the impairment of investment properties. The ultimate outcome of these uncertainties cannot presently be determined and no adjustment has been made to the financial statements. Our opinion is not modified in respect of this matter.

Emphasis of Matter – contingent liabilities for costs of remediating historic fire safety defects

We draw attention to the disclosures in note 19, Contingent Liabilities, which details matters that could create additional liabilities in the future as a consequence of the Building Safety Act 2022. The ultimate outcome of these matters cannot be determined at present, and no provision for any liability that may result has been made in the financial statements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

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

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws

and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the company operates in and how the company is complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Companies Act 2006, tax compliance regulations and property law regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures, inspecting correspondence with local tax authorities and evaluating advice received from internal/external tax advisors.

The audit engagement team identified the risk of management override of controls and revenue recognition as the areas where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed in relation to management override of control included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business and challenging judgments. Audit procedures performed in relation to revenue recognition included but were not limited to testing revenue on a transactional basis and agreeing to supporting documentation, assessing completeness of revenue listings and testing transactions occurring close to year end to ensure recognition in the correct period.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

STACY EDEN (Senior Statutory Auditor) Stacy Eden
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
Date: 22/06/23

Wallace Estates Limited
INCOME STATEMENT
At 31 December 2022

	Notes	For the year ended 31 December 2022 £000	For the year ended 31 December 2021 £000
TURNOVER	4	6,774	6,754
Cost of sales		(232)	(201)
GROSS PROFIT		6,542	6,553
Administrative expenses		(1,008)	(698)
(Loss)/Profit on disposal of investment properties		(4,144)	410
Fair value (loss)/profit on investment properties	9	(34,100)	21,238
OPERATING (LOSS)/PROFIT		(32,710)	27,503
Interest receivable and similar income	5	173	119
Interest payable and similar charges	6	(12,402)	(8,021)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	(44,939)	19,601
Taxation on profit on ordinary activities	8	11,148	(9,734)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(33,791)	9,867

Wallace Estates Limited

STATEMENT OF FINANCIAL POSITION

At 31 December 2022 Company number: 04216645

	Notes	£000	As at 31 December 2022 £000	£000	As at 31 December 2021 £000
FIXED ASSETS					
Investments	10		5,497		5,497
Investment properties	9		200,000		240,000
			205,497		245,497
CURRENT ASSETS					
Debtors	11	8,282		5,193	
Investments	12	5,849		6,213	
Cash at bank and in hand	13	9,079		9,163	
		23,210		20,569	
CURRENT LIABILITIES					
Creditors: Amounts falling due within one year	14	(12,625)		(11,730)	
NET CURRENT ASSETS			10,585		8,839
TOTAL ASSETS LESS CURRENT LIABILITIES			216,082		254,336
Creditors: Amounts falling due after more than one year	15		(149,386)		(144,774)
			66,696		109,562
PROVISION FOR LIABILITIES	16		(18,462)		(27,537)
NET ASSETS			48,234		82,025
CAPITAL AND RESERVES					
Called up share capital	17		-		-
Capital reserve			40,995		40,995
Other reserve			43,495		71,126
Retained earnings			(36,256)		(30,096)
TOTAL EQUITY			48,234		82,025

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime. The financial statements on pages 6 to 17 were approved by the board of directors and authorised for issue on 22 June 2023 and are signed on its behalf by:

P Langford
Director

Wallace Estates Limited
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Called-up share capital £000	Capital reserve £000	Other reserve £000	Retained earnings £000	Total £000
Balance as at 1 January 2021	-	40,995	60,977	(29,814)	72,158
Profit and total comprehensive income for the year	-	-	-	9,867	9,867
Transfer to profit or loss	-	-	10,764	(10,764)	-
Transfer to profit or loss	-	-	(615)	615	-
Balance as at 31 December 2021	-	40,995	71,126	(30,096)	82,025
Balance as at 1 January 2022	-	40,995	71,126	(30,096)	82,025
Profit and total comprehensive income for the year	-	-	-	(33,791)	(33,791)
Transfer from profit or loss	-	-	(25,024)	25,024	-
Transfer from profit or loss	-	-	(2,607)	2,607	-
Balance as at 31 December 2022	-	40,995	43,495	(36,256)	48,234

1 **GENERAL INFORMATION**

The company invests in residential freehold titles in the UK. The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Botanic House, Hills Road, Cambridge, CB2 1PH.

2 **STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies' regime and under the historical cost convention. The disclosure requirements of Section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

3 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

ACCOUNTING CONVENTION

The financial statements are prepared in sterling, which is the functional currency of the company.
Monetary amounts in these financial statements are rounded to the nearest £'000.

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

GOING CONCERN

The directors have considered whether the going concern basis of accounting is appropriate with reference to profit, interest rates, debt, covenants, and cash flow forecasts. The directors have concluded that the company has access to adequate resources which will enable it to continue in operational existence for the foreseeable future. These resources are detailed in the financial statements of the ultimate parent company, Albanwise Wallace Estates Limited, and the directors of that entity have confirmed ongoing support for the company in writing. For these reasons the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

REVENUE RECOGNITION

Turnover is derived from rents and lease extensions during the year. Rental income is recognised when it falls due. Income from lease extensions is recognised upon the grant of the extension.

INTEREST PAYABLE

Interest payable on debt is recognised in profit or loss over the term of the borrowings at a constant rate on the carrying amount.

TAXATION AND DEFERRED TAXATION

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when the tax paid exceeds the tax payable.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset if, and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other years. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting year.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting 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 reporting 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 years different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax is measured on a non-discounted basis.

ASSESSMENT OF LIABILITES UNDER THE BUILDING SAFETY ACT

For buildings over 18 metres in height, the expectation from Government is that any remediation will be funded by either the Building Safety Fund or from the developer that built it. This is the same for buildings between 11 metres and 18 metres, but this new government fund is called the Medium Rise Scheme (MRS). It is currently being trialled and it is understood that it will eventually operate in a similar fashion to the Building Safety Fund (BSF). Buildings under 11 metres are met by leaseholders via their service charges.

The Building Safety Act (2022) assigns liability for the costs of remediating historic fire safety defects at relevant buildings (ie, buildings over 11 metres or more than four storeys in height) by means of a "waterfall". Under the terms of this waterfall there is potential for the building owner to assume some of this liability to the extent that it is not recoverable from the BSF or the MRS, commercial leaseholders or non-qualifying leaseholders. The Act also permits building owners to pursue developers, contractors and manufacturers for the recovery of these costs.

Given the above it is not currently clear what the likely probability or quantum of any potential liability to fund the remediation of building defects would be. Therefore no provision has been included in these financial statements.

INVESTMENT PROPERTIES

Investment properties are stated at £200,000,000 (2021: £240,000,000). In accordance with FRS 102 investment properties are measured initially at cost and are revalued annually by the directors to fair value. Changes in fair value are recognised in profit or loss.

The Companies Act requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in FRS 102. The directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

The directors have also considered the effects of recent proposals made concerning leaseholder reform. The Government has stated that the concept of marriage value, which forms part of the statutory calculation of an enfranchisement premium, may be abolished in the future.

There is no fixed date for legislation to be brought forward to parliament, and the detail of how freeholders would be compensated for any loss of in value has not been published.

Accordingly the directors are unable to assess the impact of this proposal on the valuation of the company's investments.

FIXED ASSET INVESTMENTS

Fixed asset investments represent investments in subsidiary undertakings which are stated at cost less any provisions for impairment in the value of the fixed asset investment.

ASSET IMPAIRMENTS

An assessment is made at each reporting date of whether there are indications that a fixed asset may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist an estimate is made of the recoverable amount of the asset.

Shortfalls between the carrying value of the fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use, are recognised as impairment losses. Impairment losses are recognised in profit or loss.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in profit or loss. On reversal of an impairment loss the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

CURRENT ASSET INVESTMENTS

The company has entered into fixed term agreements with its bankers in order to help manage its cash flow risk and meet its liabilities under the terms of the loan notes. Amounts receivable are recognised over the year of the agreement in accordance with the terms of the agreement. The carrying value of the investments is measured according to the underlying terms of the agreement.

FINANCIAL INSTRUMENTS

The company has elected to apply the provisions of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments Issues" of FRS 102 in full to all of its financial instruments. Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Basic financial assets, which include other debtors and amounts due from group undertakings which are repayable on demand are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost, being the transaction price less any amounts settled and any impairment losses.

The company has also entered into fixed term agreements with its bankers in order to help manage its cash flow risk and meet its liabilities under the terms of the loan notes some of which have a return linked to RPI. These financial assets are accounted for as basic financial instruments and initially recognised at transaction price and subsequently measured at amortised cost.

Financial assets are assessed for indicators of impairment at each reporting end date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. Impairment losses are recognised in profit or loss.

Financial assets are only derecognised when the contractual rights to the cash flows from the asset expire or are settled or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

Basic financial liabilities, which include amounts due to group undertakings which are repayable on demand are initially measured at transaction price and are subsequently carried at amortised cost, being the transaction price less any amounts paid.

All loans including series B1 and series B2 and series A RPI-linked loan notes (see notes 14 and 15) are also accounted for as basic financial instruments and initially recognised at transaction price and subsequently measured at amortised cost.

Financial liabilities are derecognised when, and only when, the company's contractual obligations are discharged, cancelled or they expire.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

A key estimate in the financial statements is the fair value of impairment of investment properties. As at 31 December 2022, these are held in the financial statements at £200,000,000.

The group use a number of evidential sources when valuing its Investments Properties, including annual external professional actuarial valuations, market data, external expert opinion on the multiplier of the ground rent to valuation, in-house performance statistics and the group's own experience of valuing portfolios. However, the valuation of the group's assessment of investment properties impairment is inherently subjective, as small changes in some of the assumptions such as the discount rate within the actuarial valuation or the ground rent valuation multiplier can change the valuation substantially.

Furthermore, the valuation or impairment of Investment properties is a matter of professional judgement and professional actuaries and external experts have different views regarding some of the cashflow assumptions and the ground rent to valuation multiplier. Finally, a small proportion of the group's ground rent portfolio, have issues related to cladding and there is uncertainty regarding the cost of the remediation and who is liable to meet that cost. (see contingent liability critical estimate disclosure).

In addition to the uncertainties set out above, the assumptions may in future prove not to be accurate because of the current risk of potential legislative change. Any legislative change would need to respect existing property rights and therefore the directors are of the opinion that any such change will apply to leases granted in the future. If it does apply to current leases, then it will be challenged by industry under human rights legislation. However, the extent that any legislative change affects current leases and therefore impact upon the ground rent portfolio valuation and impairment assessment, is uncertain, and a substantial change in legislation could result in the valuation of the portfolio to be significantly less in the future.

Further details of the impairment of investment properties is set-out in note 9

4 TURNOVER

Turnover is derived as follows:

	2022 £'000	2021 £'000
Ground rent receivable	6,383	6,353
Proceeds from granting of lease extensions	271	300
Other income	120	101
	6,774	6,754

All turnover is derived in the UK.

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2022 £'000	2021 £'000
Bank interest receivable	41	40
Other interest receivable	132	79
	173	120

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2022 £'000	2021 £'000
Interest payable on loan notes	12,402	8,021

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's operating profit was derived from its principal activities. The audit fee for the group of companies to which the company belongs is borne by a group undertaking and is not separately identifiable. The company has no employees (2021: nil) and the directors received no emoluments during the year (2021: £nil).

8 TAXATION

Tax included in income statement

	2022 £'000	2021 £'000
UK corporation tax has been charged at 19% (2010: 19%).		
The tax charge is analysed as follows:		
UK corporation tax on profits of the year	-	-
Total current tax	-	-
Movement in deferred tax asset (note 11)	-	(952)
Movement in deferred tax liability (note 16)	(11,148)	10,686
Total tax included in profit or loss	(11,148)	9,734

At 31 December 2022 the company had approximately £17,078,000 (2021: £9,963,000) of cumulative tax losses available to carry forward against future trading profits. These losses are expected to be utilised against future profits. A deferred tax asset of £4,563,000 (2021: £2,491,000) has been recognised by the company in respect of these losses (see note 11).

9 INVESTMENT PROPERTIES

	Investment properties £'000
Fair value at 1 January 2022	240,000
Additions	996
Disposals	(6,896)
Fair value (loss)/gains	(34,100)
Fair value at 31 December 2022	200,000

Investment properties are stated at market value and are valued annually by the directors.

The historical cost of the investment properties held by the company was £138,256,000 (2021: £141,550,000). All investment properties are freehold.

The investment in ground rent portfolio of the group held at fair value in the financial statements.

The group uses a number of evidential sources when valuing its ground rent portfolios, including annual external professional actuarial valuations, market data, external expert opinion on the multiplier of the ground rent to valuation, in-house performance statistics and their own experience of valuing portfolios.

The main sources include the following:

FTI Consultants Ltd have created a DCF model that estimates the amount of debt that could be raised from the predicted cash flows over the next 50 years from the portfolio as at 31 December 2022. Assumptions are made to predict gilt rate movements, RPI growth whilst incorporating the future fixed rent reviews. However, the model does not consider the premiums that are generated by the sale of the houses and lease extensions which could substantially affect the valuation.

Additional external professionals have been used and they have preferred to base their valuation on a ground rent to valuation multiplier. The assumptions are based on general market conditions and on portfolio sales and acquisitions that have taken place.

Another very important source for valuation purposes is the in-house performance. The number of disposals has not abated over recent years and the proceeds are comfortably above the property valuations which could suggest that an increase in the valuation is required if it were stand-alone evidence.

A very small proportion of the group's ground rent portfolio have cladding issues that require remediation. As it stands, all costs of remediation are currently being covered by the Building Safety Fund so the valuation will not be affected.

The final consideration is any potential change in legislation. The government has enacted the Leasehold Reform (Ground Rent) Act 2022 which reduces the ground rent to a peppercorn on all new residential long leases. This does not apply retrospectively but does restrict the ability to generate income beyond the term of the existing lease. There is speculation that enfranchisement law (specifically marriage value) and legislation surrounding the capping of ground rent to a valuation is being considered. Should these become law, or any newly enacted legislation that applies to current leases, then it will be challenged by industry under human rights legislation. Nevertheless, to the extent that such change may be applicable to current leases and therefore impact upon the portfolio valuation, the directors are unable to assess the nature of such an impact at the present time.

10 FIXED ASSET INVESTMENTS

	£'000
Investments in subsidiary undertakings	
At 1 January 2022 and 31 December 2022	5,497

The company holds investments in the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
Miltenglade Limited	England & Wales	Ordinary	100
CB 2006 Limited	England & Wales	Ordinary	100
Spenrent Limited	England & Wales	Ordinary	100
Freehold Portfolios GR Limited	England & Wales	Ordinary	100
Freehold Portfolios GR (No.1) Limited	British Virgin Islands	Ordinary	100

The registered address of all of the above subsidiary undertakings is Botanic House, Hills Road, Cambridge CB2 1PH.

11 DEBTORS

	2022 £'000	2021 £'000
Amounts owed by group undertakings	2,799	1,419
Deferred tax	4,563	2,491
Other debtors	40	389
Trade debtors	-	894
Prepayments	880	-
	8,282	5,193

A deferred tax asset has been recognised in the statement of financial position to reflect unutilised tax losses being carried forward to future years.

12 CURRENT ASSET INVESTMENTS

	2022 £'000	2021 £'000
Fixed term agreements	5,849	6,213

The company has entered into two fixed term agreements with its bankers to help manage its cash flow risk under its loan note obligations disclosed in note 14. The first agreement results in regular predefined amounts being paid to the company over the term of the agreement to

2028. The directors estimate that under this agreement £499,000 (2021: £522,000) will be received within one year. The second agreement is a deposit of £4,290,000 linked to the Retail Price Index which matures in 2027 (2021: £4,034,000).

13 CASH AT BANK AND IN HAND

All cash and current asset investments held by the company are restricted under the terms of the loan notes. This cash is held as security on behalf of the noteholders and can only be used to service interest and capital obligations.

14 CREDITORS: Amounts falling due within one year

	2022 £'000	2021 £'000
Loan notes	1,168	1,055
Amounts owed to group undertakings	6,499	6,603
Other creditors	23	-
Accruals & deferred income	4,935	4,072
	12,625	11,730

15 CREDITORS: Amounts falling due after one year

	2022 £'000	2021 £'000
Loan notes	149,386	144,774

	2022 £'000	2021 £'000
Analysis of borrowings:		
Series A RPI linked notes wholly repayable within five years	6,078	5,517
Series A RPI linked notes not wholly repayable within five years	46,892	42,777
Series B1 fixed rate notes not wholly repayable within five years	47,500	47,500
Series B2 fixed rate notes not wholly repayable within five years	51,957	51,957
Issue costs	(1,873)	(1,921)
	150,554	145,830

On 15 February 2012 the company issued £45,631,000 Series A RPI-linked Notes due 2063 at an interest rate of 1.55%, £47,500,000 Series B1 fixed rate Notes due 2054 at a rate of 4.94% and £51,957,000 Series B2 fixed rate Notes due 2063 at a rate of 4.94%. These Notes are not repayable by instalments. Directly attributable costs of issuing the Notes referred to above have been set off against the outstanding balance and written off over the life of the Notes.

16 PROVISION FOR LIABILITIES

	Deferred tax provision £'000
At 1 January 2022	27,537
Credited to profit or loss	(9,075)
At 31 December 2022	18,462

Provision is made for the tax which would be payable in the event that the investment properties were sold. Tax is measured using the tax rates and allowances that apply to the sale of the asset.

17 SHARE CAPITAL AND RESERVES

	2022 £	2021 £
Allotted, called up and fully paid		
400 ordinary shares of £1 each	400	400

The company paid no dividends during the year (2021: £nil per share).

Fair value gains on the revaluation of investment properties are not distributable and therefore an amount equal to such gains is transferred from retained earnings to a separate reserve (net of the related deferred tax provision). Gains realised through disposals of investment properties are transferred back from this reserve to retained earnings.

18 CONTROL

The company is under the control of Perseverance Limited, which is registered in Gibraltar.

The immediate parent undertaking of the company is Wallace Partnership Group Limited, which is registered at Botanic House, Hills Road, Cambridge CB2 1PH. Consolidated accounts have been prepared for Albanwise Wallace Estates Limited, which is registered at Botanic House, Hills Road, Cambridge CB2 1PH and heads the largest group of undertakings for which accounts have been drawn up. These are available from the registered office. The ultimate parent undertaking of the company is Perseverance Limited, which is registered in Gibraltar.

19 CONTINGENT LIABILITIES

The company has entered into a cross guarantee with certain fellow group undertakings in respect of loan notes issued by the company. The assets of the company are pledged as security, by way of a fixed and floating charge. The total group liability as at 31 December 2022 was £152,427,000 (2021: £147,751,000).

Building Safety Act 2022
The directors do not think it possible for the Group to estimate reliably the extent or likelihood of the liability imposed on it by the Building Safety Act (2022) and therefore no provision has been included in the financial statements. At present the majority of identified historic fire safety defects at relevant buildings within the Group's portfolio relate to external wall cladding systems and the directors believe that the costs of the associated remediation works should be covered by the Building Safety Fund or the Medium Rise Scheme.