



GROUND RENTS INCOME FUND PLC

**Annual Report and
Financial Statements**

For the year ended 30 September 2022

Schroders
capital

About Us

Ground Rents Income Fund plc (the 'Company') invests in long-term, income-generating assets across the United Kingdom

Company summary

The Company is a closed-ended real estate investment trust domiciled and incorporated on 23 April 2012 in the United Kingdom ('UK'). The Company has been listed on The International Stock Exchange ('TISE') and traded on the SETSqx platform of the Stock Exchange since 13 August 2012.

At 30 September 2022 the Company had 95,667,627 shares in issue and had 37 active subsidiaries and eight dormant subsidiaries which, together with the Company, form the Group ('GRIO'). The Company is a Real Estate Investment Trust ('REIT'). Accordingly, it is required to distribute at least 90% of its distributable profits by way of dividends.

The Company's Alternative Investment Fund Manager ('AIFM'), appointed in May 2019, is Schroder Real Estate Investment Management Limited ('the Manager', 'SREIM' or 'Schroders').

Investment policy¹

The assets of the Company will be realised in a controlled, orderly and timely manner, with the objective of achieving a balance between (i) periodically returning cash to shareholders at such times and from time to time and in such manner as the Board (in its absolute discretion) may determine; and (ii) optimising the net realisation value of the Company's investments.

The strategy for realising individual investments will be flexible and may need to be altered to reflect changes in circumstances of a particular investment or in the prevailing market conditions. All material disposals of assets to be made by the Company will be approved by the Board.

Whilst implementing this realisation strategy, the Company will aim to deliver best-in-class residential asset management including fairness, transparency, and affordability for leaseholders.

The net proceeds of portfolio realisations will be returned to shareholders at such times and from time to time and in such manner as the Board (in its absolute discretion) may determine. The Board will take into consideration the Company's working capital requirements (including, but not limited to, debt servicing and repayments), the cost and tax efficiency of returns of capital and the requirements of applicable law.

The Company may not make new investments, except where required to preserve and/or enhance the disposal value of its existing assets.

To the extent that the Company has not disposed of all of its assets by the time of the next shareholder vote to consider the Company's future to be held on or before 31 December 2024, in accordance with the revised articles of association of the Company, shareholders will be provided with an opportunity to review the future of the Company. To that end, an ordinary resolution will be proposed on or before 31 December 2024 that the Company will continue as then presently constituted.

Any cash received by the Company as part of the realisation process but prior to its distribution to shareholders will be held by the Company as cash on deposit and/or as cash equivalents.

¹ Approved by shareholders at EGM 24 April 2023 for immediate effect

Portfolio at a Glance

Top 10 assets by value

Asset	Location	Valuation at 30 September 2022 (£million)	(%)	Asset type
1 Lawrence Street Student Village	York	9.4	8.6	Student
2 One Park West	Liverpool	3.3	3.0	Residential
3 Wiltshire Leisure Village	Royal Wootton Bassett	3.3	3.0	Residential
4 First Street	Manchester	3.1	2.8	Student
5 Rathbone Market	London	3.1	2.8	Residential
6 Brentford Lock West	London	3.0	2.8	Residential
7 Masshouse Plaza	Birmingham	2.9	2.7	Residential
8 Brewery Wharf	Leeds	2.4	2.2	Residential
9 Richmond House	Southampton	2.3	2.1	Student
10 The Portland	Hull	1.7	1.6	Student
Total		34.5	31.6	

Number of assets

392

Number of investment units

19,000+

Total portfolio value

£109 million

Percentage of the portfolio value comprised of top ten assets

31.6%

Percentage of the ground rent income to be reviewed in the next five years

40.9%



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Annual Statement by the Chair of the Board of Directors



My Overview

A particularly challenging year for the Company, principally due to the complex issues emanating from the introduction of the Building Safety Act 2022 (the 'BSA') in April 2022, and also the continued uncertainty surrounding potential future leasehold reform, instigated by the Government. Importantly, it must be recognised that the Company did not design, commission or construct (or refurbish) any of the assets in the portfolio. All assets were purchased as completed buildings, in many cases with apartments already sold and occupied. We support the principles of the Government's post-Grenfell building safety remediation legislation. We recognise and respect the reasonable concerns expressed by many leaseholders and residents of our affected assets and similarly affected buildings across the country. We have to balance the interests of our impacted residents against the interests of our shareholders in finding an equitable solution.

Understanding the practical and the financial impact of the BSA on the portfolio, including secondary legislation from July 2022, has consequently delayed the preparation of these accounts, which include a disclaimer of opinion within the Auditors' report ('Modified Auditors Report'). Such modification is caused by our Auditors being unable to adequately verify the various 'broad-brush' assumptions made by our independent valuer, as at the year end valuation date, as to possible future remedial costs deducted from the independent portfolio valuation.

As a result of this delay, the Company obtained approval from Companies House and The International Stock Exchange ('TISE') to extend the filing and publication date to 30 June 2023. In order to provide shareholders with as much transparency as possible, in December 2022, we issued an unaudited Net Asset Value ('NAV') at 30 September 2022, whilst the Company's Directors and Manager sought to more accurately verify the assumed building safety impacts driving related valuation adjustments adopted by the independent valuer, Savills. As with the Company's interim accounts to 31 March 2022, in conjunction with industry peers, and as recommended by the Royal Institution of Chartered Surveyors ('RICS'), Savills applied a Material Valuation Uncertainty Clause ('MUC') to assets, at that time thought to be impacted by building safety related defects. Within our portfolio of 392 assets, there were some 30 impacted assets in our portfolio, which totalled approximately 21% by value at the year end.

For these assets, given the BSA's impact on liability for related building safety remediation costs, Savills made valuation adjustment assumptions using a 'broad-brush', percentage deduction relating to estimated remedial cost liabilities, potential liability under the BSA terms based upon a risk matrix provided by the Manager, and market liquidity, which the Auditors have been unable to verify. This approach has been adopted by other valuers, valuing other portfolios across the ground rent sector, and

considered to be the most appropriate approach for valuing similarly affected assets at that time.

Savills' valuation at 30 September 2022 remains unchanged from the unaudited disclosure released in December 2022, at £109.0 million, representing a fall of £10.4 million, or 8.7%, over the financial year (30 September 2021: £119.4 million). NAV at 30 September 2022 is also unchanged from the unaudited disclosure at £88.5 million, or 92.5 pence per share ('pps') (30 September 2021: £99.7 million or 103.1 pps). The valuation at 30 September 2022 includes a negative valuation adjustment of £11.4 million relating to assets subject to the MUC (30 September 2021: £6.1 million). The independent valuation also includes an additional negative valuation adjustment for residential leasehold regulatory reform risk of £3.8 million (30 September 2021: £1.1 million), which is not included within the MUC.

During the financial year, the Company incurred a loss of £7.5 million (year to 30 September 2021: £1.2 million profit) and paid dividends of £2.9 million or 3.0 pps (year to 30 September 2021: £3.8 million or 3.96 pps), resulting in a negative NAV total return of 7.4% (year to 30 September 2021: positive 1.3%).

Since the year end, we have carried out extensive due diligence across each affected asset in the portfolio to better understand the impact of the BSA together with the newly introduced, more proportionate, building safety assessment guidelines issued by the Government, known as PAS9980. Concurrently, and very importantly from the financial perspective of the Company (and consequent future independent valuation assumptions), the Government has also introduced a legally binding pledge ('Pledge') to ensure that developers and related parties that constructed or refurbished buildings (now deemed defective under the BSA) accept liability under the 'Polluter Pays' principle. At the time of drafting, 48 developers, including the top ten largest house builders in the UK, have signed the Pledge. Importantly, the list of Pledge developers includes seven relevant to our affected portfolio across 13 assets at the year end. The Pledge obliges developers to remediate (at the developer's own cost) all life-critical fire-safety defects of buildings 11 metres and over in height in which they had a role in constructing or refurbishing in England over the last 30 years.

The impact of this Government action, combined with our extensive corporate and other due diligence undertaken and related activity across the portfolio, has reduced the risk of the Company incurring the full remediation costs assumed in the independent year end valuation. The first formal indication is evident in the unaudited independent valuation as at 31 March 2023, with the MUC now applying to 26 assets representing only 16% of the portfolio by value (compared to 30 assets and 21% at the year end) with a total negative valuation adjustment for building safety regulatory reform of £9.3 million, compared with £11.4 million at the financial year end. Together with other valuation adjustments, including negative £4.0 million for leasehold reform risk, the result is an unaudited independent valuation as at 31 March 2023 of £110.9 million, an increase of £1.9 million, or 1.7%, compared with the 2022 financial year end. This, in turn, resulted in an unaudited NAV of £90.2 million or 94.3 pps, an increase of £1.7 million or 1.8 pps. The pace of reduction of assets impacted by building safety related defects is slower than the Company would wish but, as said, the situation is both complex and challenging, not the least due to the industry-wide lack of sufficient PAS9980 assessors, qualified and with the necessary professional indemnity insurance required to carry out the assessments.

Whilst this unaudited indication represents continuing progress, the Company still faces challenges addressing the building safety risks in the portfolio, particularly on the 'Non-Managed Estate' (21 of the 26 remaining

affected assets) where responsibility for the fabric of the building rests not with the Company but with the Residents Management Company ('RMC'). However, there is also the potential for landlords, such as the Company, to still be liable for costs under the BSA, where the original developer and related parties are no longer in existence. At 30 September 2022, there were nine such assets to which the MUC had been applied. In these limited circumstances, we are continuing to carry out extensive corporate due diligence to establish the existence of parties connected to the original developer that are still trading such that they may therefore remain liable, thereby potentially reducing any liability which may otherwise have fallen onto the Company.

Following the year end, we have been able to establish additional related parties which has contributed to reducing the number of assets to six at 31 March 2023.

The Leasehold Reform (Ground Rent) Act 2022 abolished ground rents for any new residential houses and flats in England and Wales. It is almost impossible to predict whether this reduction in the supply of residential ground rents will have any impact on the value of the extant ground rent investments. However, the extent of any future leasehold reform (particularly in the area of leasehold enfranchisement) and its impact on the value of the portfolio remains uncertain. It seems unlikely that these possible reforms, as yet neither determined, nor even in draft legislation, will come into force in the immediate future.

In order to better protect shareholders' interests, we, alongside other institutional owners, will continue making representations to the Government to encourage fairness towards landlords, such as the Company, who have not developed any of the assets which they own and also to advocate for leasehold reform that is fair to both responsible landlords such as the Company, as well as our leaseholders. There is a consequent Human Rights issue to be debated if the leasehold reforms potentially depreciate, by legislation, the legitimate interests of shareholders, particularly investment funds whose own investors are often pension savers. A full update on building safety and leasehold reform is contained within the Manager's Report.

In the previous interim results, I noted that these ongoing headwinds, and the resultant impact on liquidity, were key to considering the right approach to the Company's 'Continuation Vote', included in the Articles from its original listing in August 2012. This consideration led to an extensive shareholder consultation and thence consequently important changes to the Company's 'Continuation Vote' and Investment Policy, that were overwhelmingly approved by more than 99% of votes cast by shareholders at an Extraordinary General Meeting on 24 April 2023, outlined in more detail below.

Consultation on the Continuation Vote and the New Investment Policy

The Company's Articles from 2012 included provisions giving shareholders an opportunity to vote on the future of the Company, generally termed as a Continuation Vote. Such Continuation Votes are relatively common in investment trusts as a means of enabling shareholders to realise their investment at, or close to, NAV, where, as in the Company's current situation, the Ordinary Shares are trading at a persistent and material discount.

In the Company's Articles there was a requirement for the Board to convene a general meeting no later than 13 August 2023 to table a 'Wind-up Resolution', where any single shareholder voting in favour of the Wind-up Resolution would trigger an immediate winding up of the Company. Consequently, a liquidator would be appointed over all of the Company's assets, and the Company would cease trading. All management powers would pass from the Board to the appointed liquidator with immediate effect, which would, in itself, constitute an event of default under the Company's secured loan facility.

Given general market uncertainty, and based on the views from the Company's brokers, this, or any, liquidation scenario would likely have resulted in a forced and relatively urgent sale of the Company's portfolio (in whole or in parts) at depressed prices.

The Articles also allowed for the Board to be released from its obligations to propose a Wind-up Resolution if a special resolution of shareholders was passed prior to the eleventh anniversary of Admission. The Articles did not specify the terms of such a special resolution, and therefore the Board and Manager carried out an extensive shareholder consultation exercise (in January 2023) to determine shareholder views on the impact of the Wind-up Resolution, alternative Continuation Vote proposals (the 'Continuation Resolution') and, given the headwinds facing the Company and prior shareholder feedback, proposed changes to the then extant Investment Policy.

Following meetings, and feedback from shareholders representing approximately 70% of the register, there was strong support for the Company's proposals that are summarised below:

New Continuation Resolution

In order to avoid the adverse consequences of the Wind-up Resolution, we proposed an alternative obligation to hold a Continuation Resolution before 31 December 2024, and at three year intervals thereafter. The extension of time thus created would be used to work towards improving the liquidity of the underlying portfolio and begin work focussed on crystallising an optimum return for shareholders. The Continuation Resolution would also act as a potential series of milestones (initially 20 months after the vote) for the Board to provide shareholders with an update on progress implementing the strategy.

New Investment Policy

In order to formally acknowledge this change in strategy, we proposed amendments to the Investment Policy to enable a realisation of assets in a controlled, orderly, and timely manner. The objective is to achieve a balance between periodically returning cash to shareholders whilst optimising the realisation value of the Company's investments.

Following strong support during the consultation, an Extraordinary General Meeting was held on 24 April 2023 to vote on the proposals, with 99% of shareholders voting in favour of the Continuation Resolution and new Investment Policy.

The new Investment Policy is set out in the introduction to these accounts. The Board and Manager are focussed on delivering the strategy of improving liquidity of the underlying portfolio and optimising value through a controlled, orderly and timely sale process.

Our new Investment Policy also includes our clear intention to continue delivering best-in-class residential asset management, to include fairness, transparency, and affordability for leaseholders, with further information contained within the ESG section of my statement below, as well as within the Manager's Report.

Earnings and Dividend Policy

During the year ground rent roll increased by approximately £200,000, or 4.1%, to £5.1 million as at year end, supported by inflation-linked rent reviews affecting 14.8% of the Company's portfolio by value. The increase per property was between 2.1% and 7.2% per annum, depending on the rent review frequency and basis of calculation. Ancillary income fell over the year, due to a further reduction in insurance commissions in line with best practice. It is worth noting that the Board decided that a further reduction in insurance commissions (to 5%) should be introduced where the asset is subject both to BSA impact and insured by the Company (NB:

Annual Statement by the Chair of the Board of Directors

continued

the majority of assets within the non-managed estate are insured via that asset's RMC). Lower consent fees have resulted from a subdued apartment transaction market. Ancillary income is unlikely to increase in the short-term, at least until building safety issues are resolved and apartment sales recover in response to an improvement in the wider economy and more stable mortgage rates.

Total operating expenses increased to £2.1 million (2021: £1.9 million excluding exceptional items regarding Beetham Tower, Manchester), due to increased fees related to managing building safety projects, leasehold reform and the Continuation Vote, partly offset by a reduction in the Manager's fees, driven by the corresponding fall in the NAV.

Taken together, these factors resulted in a 10.5% decrease in recurring underlying earnings to £2.8 million or 3.0 pps (2021: £3.2 million excluding exceptional items or 3.3 pps). Therefore, based on dividends paid of 3.0 pps during the financial year, the dividend cover was 98%.

As part of the recent consultation exercise, shareholders were also consulted on issues that could impact the sustainability of the dividend, such as the reducing ancillary income, increasing frictional costs relating to building safety, and legacy legal issues being managed across the portfolio. Whilst partially mitigated by growing underlying ground rent income and the potential for a range of future cost recoveries from third parties, it was acknowledged that earnings would remain under pressure, with shareholders generally supporting the principle of only paying dividends when sustainable, subject to the REIT rules.

As a result of the Modified Auditors Report relating to these accounts, there is also a risk that future dividend payments will be withheld until the Modified Auditors Report is removed. This statement is despite the Company having significant reserves and good visibility on earnings. The Board and its advisors are giving this matter further consideration and will provide shareholders with further clarity within the forthcoming interim accounts to 31 March 2023.

The Company intends to assess the payment of dividends on a semi-annual basis following the full year audited and interim accounts being released. In line with best practice, this change to the dividend policy will be put to shareholders at the Company's general meeting to approve these accounts.

Financing

The Company has a £25 million facility with Santander UK plc which matures in January 2025, comprising a £12.5 million term loan and a £12.5 million Revolving Credit Facility ('RCF'). As at 30 September 2022, an aggregate £21 million was drawn. The interest payable on the term facility is fixed at 2.7% per annum, while the RCF attracts a rate of 1.9% above 3-month SONIA per annum, subject to a cap of 1.0% on £5.5 million of the drawn amount. At the year end, the effective interest rate was therefore 2.8%.

During the year, Santander called for a periodic revaluation of the charged pool of assets, which was finalised at £50.3 million as at May 2022, broadly in line with the view of the Company's independent valuer. This valuation reflected a loan to value on the Santander facility of 41.8% which compares with the covenant level of 50%.

Since the year end, and based on the unaudited Savills valuation as at 31 March 2023, the value of the assets charged to Santander is £48.8 million, reflecting a loan to value of 43.0%. The remaining assets in the portfolio are uncharged.

As part of the recent consultation, shareholders were also consulted on the likely requirement to extend the loan with Santander, in order to provide additional flexibility, should the realisation strategy of the new Investment Policy be delayed. Negotiations are ongoing with Santander and we expect to provide an update to shareholders in due course.

Environmental, Social and Governance ('ESG')

We define ESG factors as the environmental stewardship, social responsibility, and good governance practices that, when actively managed, measured and disclosed, will ensure sustainable business performance and accountability to all stakeholders.

The Company has fully embraced its obligations in relation to sustainability and has incorporated ESG as part of its operational platform. One of our non-executive directors, Jane Vessey, has specific responsibility (on behalf of the Board) to oversee the Manager and other service providers to better optimise the Company's ESG approach through active measures to use green energy sources, increase energy efficiency and enhance engagement with leaseholders.

Initiatives have been introduced throughout the year demonstrating the Company's commitment to bring about positive change across its operations, such as an improved offer to incentivise the removal of doubling ground rents that may be considered onerous from the portfolio. The Company's comprehensive response to the building safety crisis also clearly demonstrates a commitment to fairly balance the interests of all stakeholders in relevant decision-making.

From a governance perspective, our objective is to deliver best practice across the sector in order to demonstrate fairness, transparency, and affordability for leaseholders. Examples include our programme of removing from our portfolio rent review mechanisms that are considered onerous, and our recent insurance renewal where we demonstrated the benefits of institutional ownership, both in terms of competitive pricing and improved insurance cover for our leaseholders.

Board succession and remuneration

Since Schroders' appointment in mid-2019, and in line with best practice, the Board has undergone a succession process with an entirely new Board comprising a new independent non-executive Chair (from March 2021) and three new independent, non-executive directors, all of whom have relevant leadership, real estate and/or accounting experience and expertise. Our gender diversity ratio is currently 50:50.

In November 2022, the Board conducted an evaluation which concluded that the Board was led well, functioning effectively and that it was well-placed to manage the various headwinds facing the Company and broader residential ground rent sector. The evaluation process also identified that the workload of the directors, particularly the Chair, had increased materially over the year in supporting the Manager in its engagement with shareholders, leaseholders and other stakeholders and counterparties.

Due to this volume of work, and an increase in Board membership from three to four as part of recent succession planning, shareholders were also consulted on increasing fees payable to the Board. This proposal received strong support, with 99% of shareholders voting in favour of an increase in the aggregate fee cap from £150,000 to £200,000 per annum with effect from 1 October 2022.

Manager performance and remuneration

Since Schroders' appointment as Alternative Investment Fund Manager ('AIFM') in mid-2019, it has committed significant resources to addressing the complex challenges facing the Company. Although not reflected in the

NAV or share price rating, considerable progress has been made, notably resolving (in conjunction with the Board) the complex legacy litigation at Beetham Tower in Manchester, responding promptly to complex changes in building safety related legislation, and providing the Board with important support in formulating, and now implementing, the new Investment Policy.

The work undertaken by the Manager to supply the Auditors with relevant data to assist them in their valuation assumption verification exercise, has been both time-consuming and complex. Equally, the Manager has energetically supported the Board's initiative to hold short update meetings, on a regular weekly basis, to ensure that the Board are right up-to-date with the most relevant information, particularly on building safety and to oversee the Manager's work in fairly balancing the respective interests of leaseholders and shareholders.

The AIFM Agreement between the Company and Schroders includes the ability for the Manager to charge the Company additional fees for a range of projects that are out of scope. Although Schroders has thus far agreed not to charge for activity such as resolving the historical Beetham Tower litigation, due to the negative impact of the original transaction from 2012 on our shareholders, the recent consultation sought shareholders' views on the method of paying additional fees linked to out of scope work, and the possibility of incentive fees linked to the new Investment Policy.

Whilst a majority of shareholders consulted supported the principle of the Manager being paid additional management fees in either cash or Ordinary Shares, and the potential for a fee linked to the successful realisation of the Company's assets, there was no consensus between shareholders on the precise terms. In light of this feedback, and shareholder approval not being required, the Board will agree fees separately with the Manager. Such agreement will have regard to the terms of the existing AIFM Agreement, the Manager's performance in delivering the Company's strategy, and ensuring a fair and reasonable alignment with the interests of shareholders.

Outlook

We continue to operate in a challenging and complex regulatory environment, reflected in the Material Uncertainty Clause impacting our independent portfolio valuation and the Modified Auditors Report relating to these accounts. Considerable effort has demonstrated that progress continues to be made mitigating the risks associated with building safety reform. Conversely, the impact of future leasehold reform on the Company remains both uncertain and, as yet, unknown.

As with almost any business, practical risks can be compounded by an uncertain economic environment, where stubborn inflation, rising interest rates and tighter fiscal policy are squeezing household real disposable incomes and reducing business investment. Against this backdrop, where many of our leaseholders will be struggling with the 'cost of living crisis', it is now, more than ever, very important that we deliver value to our leaseholders and demonstrate the value of institutional ownership, balanced against protecting the interests of our shareholders.

Importantly, the Board and Manager are grateful to shareholders for the positive engagement and support for the recently approved changes to the Continuation Vote and the new Investment Policy. The overwhelming vote in favour of our proposals means we are now well-positioned to execute the strategy of improving the liquidity of the underlying portfolio, whilst continuing to support our leaseholders by delivering best-in-class residential asset management, and ultimately optimising value for our shareholders.

Barry Gilbertson

Chair

Ground Rents Income Fund plc

5 June 2023

Manager's Report



Net Asset Value ('NAV')

The Company's NAV was £88.5 million or 92.5 pence per share ('pps') as at 30 September 2022, which compares with £99.7 million or 103.1 pps at the start of the financial year. This reflected a NAV decline of 10.6 pps or -10.3%, and, including dividends paid of £2.9 million or 3.0 pps, a negative NAV total return of 7.4%. As explained further in the Chair's Statement and the Independent Auditors' Report, the accounts are subject to a Modified Auditors Report.

Performance and strategy

Key points:

- All EGM resolutions passed relating to the Continuation Resolution and new Investment Policy
- Focused on improving liquidity of the underlying portfolio in order to optimise value for shareholders via a controlled, orderly, and timely realisation of assets
- Continued headwinds contributed to a negative NAV total return over the financial year of 7.4%
- Earnings decreased by £332,000 due to lower ancillary income and higher expenses

The movement in NAV over the financial year is set out in the table below:

	£million	PPS
NAV as at 30 September 2021	99.7	103.1
Portfolio valuation	-10.3	-10.7
Net revenue	2.8	2.9
Dividends paid	-2.9	-3.0
NAV as at 30 September 2022 (excluding share buyback)	89.3	92.3
Share buyback	-0.8	0.2
NAV as at 30 September 2022	88.5	92.5

A breakdown of the movement in earnings over the year is set out in the table below:

Summary of income statement	Year ended Sept 2022 (£million)	Year ended Sept 2021 (£million)	Comments
Ground rent income	4.9	4.9	The annual ground rent roll has increased to £5.1 million
Ancillary income, comprising:			
Insurance commission	0.4	0.4	Small reduction year on year
Consent fees	0.2	0.3	Subdued apartment transaction market continues to impact lease-linked fees
Other income	0.1	0.1	
Expenses			
Legal and other professional fees	-0.9	-0.7	Building safety, leasehold reform and continuation vote advice
Director costs (fees and insurance)	-0.2	-0.1	Remuneration for the Board of Directors
Schroders management fee	-0.9	-1.0	Correlated to the reduction in NAV
Other expenses	-0.1	0.0	Managing legacy issues and seeking to recover from third parties (see below)
Financing costs	-0.7	-0.7	
Earnings (excluding property revaluations and exceptional items)	2.8	3.2	
Dividends paid	2.9	3.8	Annual dividend per share reduced to 3.0p
Dividend cover	98%	82%	Based on recurring underlying earnings

During the financial year ancillary income fell 13% to £650,000 (2021: £751,000) due to lower consent fees from a subdued apartment transaction market, and a further reduction in insurance commissions in line with best practice. Expenses increased 8% to £2.1 million (2021: £1.9

million, excluding costs relating to Beetham Tower), largely due to higher legal and associated fees relating to managing building safety issues, leasehold reform and the Continuation Vote, partly offset by a reduction in the Manager's fees, driven by the corresponding fall in the NAV.

The Company is now in receipt of the unaudited independent valuation of the portfolio as at 31 March 2023, which has enabled the Company to disclose an unaudited NAV at the interim period end of £90.2 million or 94.3 pps, an increase of 1.8 pps, or 1.9%. The table below therefore sets out the unaudited movement over the interim six month period from

30 September 2022 to 31 March 2023. Over the interim period the Company paid dividends of 1.3 pps, resulting in a positive NAV total return of 3.3%, compared to the negative 7.4% total annual return for the year to 30 September 2022.

	£million	PPS	Comments
Audited NAV as at 30 September 2022	88.5	92.5	
Portfolio valuation	1.9	1.9	Increased to £110.9 million due to movements of the building safety valuation adjustment and rental value growth, offset by a softening in the 'base yield' of the portfolio (see below)
Net revenue	1.0	1.0	Includes impact of increasing legal fees and interest rates
Dividends paid	-1.2	-1.3	Year to date dividend per share of 1.3p
Unaudited NAV as at 31 March 2023	90.2	94.3	

Portfolio valuation as at 30 September 2022

The independent portfolio valuation as at 30 September 2022 was £109.0 million, representing a decrease of £10.4 million, or 8.7%, over the financial year (30 September 2021: £119.4 million).

Uncertainty regarding building safety and the impact of the Building Safety Act 2022 ('BSA') resulted in the independent valuer, Savills, maintaining the Material Valuation Uncertainty Clause ('MUC') that applied to a proportion of the portfolio valuation as incorporated in the 31 March 2022 Half Year Report. This approach was adopted with guidance from the Royal Institution of Chartered Surveyors (the 'RICS') and was consistent with the approach adopted by valuers of industry peers.

At the financial year end, 30 of the Company's 392 assets, or 21% of the portfolio by value, were subject to the MUC. This increased from 11% as at 30 September 2021, reflecting the Government resetting its approach to building safety in early 2022, but narrowed from 31% as at 31 March 2022, reflecting an improved understanding of building remediation requirements across the portfolio.

A summary of the valuation over the financial year is set out in the table below, together with the unaudited position as at 31 March 2023:

	30 September 2021	31 March 2022	30 September 2022	31 March 2023
Ground rent roll (£million)	4.9	5.0	5.1	5.1
Portfolio valuation (£million)	119.4	110.0	109.0	110.9
Years Purchase (YP)/Gross Initial Yield (GIY)	24.5/4.1%	22.1/4.5%	21.5/4.7%	21.6/4.6%
Portfolio valuation adjustments				
Building safety adjustment (£million)	-6.1	-13.9	-11.4	-9.3
Leasehold reform adjustment (£million)	-1.1	-4.6	-3.8	-4.0
Total adjustment (£million):	-7.2	-18.5	-15.2	-13.3
MUC				
No. of Assets	17	63*	30	26
% of portfolio valuation	11%	31%*	21%	16%

* In January 2022, the Government reset its approach to building safety issues, including bringing into scope mid-rise, multi-occupancy properties. Accordingly and as at 31 March 2022, Savills adopted the MUC for all mid-rise assets within the portfolio, irrespective of whether the need for building safety remediation had been identified.

Of the £10.4 million portfolio valuation decline over the financial year, £5.3 million relates to an increase in the building safety adjustment from £6.1 million to £11.4 million, and £2.7 million relates to an increase in the leasehold reform adjustment from £1.1 million to £3.8 million. In addition to these explicit adjustments, the 'base yield' of the portfolio (excluding the aforementioned negative adjustments) increased by 30 basis points to 4.3%, reflecting rising interest rates and weaker investor sentiment. These factors were partly mitigated by the positive impact of inflation feeding through to rental growth.

Since the financial year end, further progress has been made understanding the impact of the BSA on the portfolio, with the MUC applying to 26 assets, or 16% of the unaudited portfolio valuation as at 31 March 2023. We intend to provide more detail on the portfolio valuation as at 31 March 2023 in the unaudited interim accounts.

Strategy

As set out in the Chair's Statement, the Board and Manager have carried out an extensive shareholder consultation exercise to determine views on the impact of the Wind-up Resolution and, given the headwinds facing the Company, proposed changes to the Investment Policy.

Following strong support from shareholders, on 24 April 2023, the Company held an Extraordinary General Meeting ('EGM'), where all resolutions were passed relating to the Continuation Resolution and new Investment Policy.

This new Investment Policy is set out in the front of these accounts and is focussed on improving the liquidity of the underlying portfolio, supporting leaseholders by delivering best-in-class residential asset management, and ultimately optimising value for shareholders.

Manager's Report **continued**

Building safety reform

Key points:

- **Most significant regulatory reform to the UK's built environment in almost 40 years**
- **Government has agreed a 'Pledge' with large developers to remediate, at their cost, building safety defects, consistent with the 'Polluter Pays' principle. The Company did not develop any of the assets it owns**
- **The new legislation is complex and the Company has incurred additional costs to manage associated risks, but we expect to mitigate a material proportion of costs associated with known building safety issues**

Building Safety Act 2022 ('BSA')

During the financial year the Government reset its approach to building safety and introduced the BSA, the most significant regulatory reform to the UK's built environment in almost 40 years.

We firmly endorse the BSA's aims to improve building standards, protect leaseholders living in their own home from the costs of remediating building safety issues, and provide new powers to pursue those responsible. Certain BSA provisions are already in force, such as leaseholder cost protections and a registration scheme for buildings above 18 metres in height, and further measures will come into force over the next 12 months. The BSA will have a significant impact on all parts of the real estate market, including a new regulatory regime for the development and ownership of buildings overseen by the new Building Safety Regulator run by the Health & Safety Executive.

Alongside the BSA, the Government and British Standards Institute introduced more proportionate risk-based guidance (as opposed to compliance based) to appraise the risks associated with the spread of fire and, in turn, identify what building safety works need to be undertaken. Known as 'PAS9980', these more holistic guidelines should result in a reduced scope for remedial works and, therefore, associated costs.

Developer 'Pledge'

In April 2022, the Government agreed a 'Pledge' with certain developers to remediate, at their cost, all life-critical fire-safety defects of buildings 11 metres and over in height that they developed or refurbished in England over the last 30 years, consistent with the 'Polluter Pays' principle. The Pledge also requires developers to reimburse the taxpayer where public funds have already paid for remediation and related costs. It is important to note that the Company did not develop any of the assets in its portfolio, meaning it is not the 'polluter' for these purposes.

Subsequently, 48 of the 51 developers the Government deems 'eligible' for the Pledge, including the top ten biggest housebuilders in the UK, and seven relevant to the Company's portfolio and across 13 assets at the year end, have signed the legally binding contract codifying the Pledge, known as the Self Remediation Terms ('SRT'). Eligibility is to be expanded in due course based on a developer's primary business and profitability, and the Government has made clear that developers who refuse to sign the SRT, or fail to comply with its terms, will face significant consequences. For example, regulations (currently in draft form) to establish a Responsible Actors Scheme will give the Government powers to prevent developers from operating in the housing market by blocking planning and building control approvals should they not have signed and complied with the terms of the SRT. These steps should lead all major residential developers to eventually sign the SRT.

The Government continues to seek a similar pledge with construction product manufacturers and others involved in the original development of buildings. The Government has also included a number of provisions within the BSA to allow certain parties, such as landlords and developers, to pursue construction product manufacturers for defective products.

Building safety framework

The BSA includes a number of important changes relating to the management of, and responsibility for, building safety issues. The provisions within the BSA, associated legislation, regulations, PAS9980 guidance, and government funding (together the 'Building Safety Framework') are complex and nuanced, and each adopt different definitions in places. The key issues are summarised below setting out the position in general terms (with some definitions streamlined for these purposes).

Type of defect

Building safety defects can be broadly split between 'cladding' and 'non-cladding' defects. Cladding is interpreted broadly as one or more components that are attached to the exterior of a building, including the actual cladding panels, as well as insulation and cavity/fire barriers.

The cost of cladding defects can be met by third party funding – either developers or government – so neither landlords, such as the Company, nor leaseholders should have to bear these costs.

The cost of remediating non-cladding building safety defects will cascade down what has been deemed a 'waterfall of liability', with each step triggered only if the higher levels produce insufficient money. In terms of liability, the waterfall works as follows:

1. The **developer** and other parties involved in the original development, including landlords linked to the developer. This would either be via voluntary means, such as the SRT, or a landlord seeking legal redress.
2. The **landlord**, such as the Company, who has no links to the original developer (i.e. is not at fault for creating the defects) where the original developer and associated parties are no longer in existence (so-called 'orphaned' properties). The landlord's liability is, in part, determined by whether or not it meets a 'contribution condition'. This condition is met where the 'landlord group' has a net worth greater than 'N x £2 million', where 'N' is the number of buildings above 11 metres in height a 'landlord group' owns. The Company does not meet this 'contribution condition', but the Government has reserved the right to amend the contribution condition test, meaning this could change in the future.
3. **Leaseholders**, with contributions depending on whether they qualify for BSA cost protections (see below).
4. Remainder of the non-cladding remediation costs apportioned between the **landlord** and any other parties with a freehold or superior lease interest in the building.

Type of leaseholder

Given the Government's aim is to protect leaseholders living in their own home, the BSA makes a distinction between leaseholder types who qualify for cost protections:

1. **Qualifying leaseholders** are generally owner occupiers and, if required to pay as part of the (non-cladding) waterfall process, they benefit from having contributions capped and spread over ten years, with relevant costs paid since June 2017 counting towards this cap. The cap is zero for apartments valued at less than £175,000 (£325,000 in Greater London); £10,000 for apartments valued between £175,000 and £1 million (£15,000 in Greater London for apartments valued between £325,000 and £1 million); increasing to a maximum of £100,000 for apartments valued at more than £2 million (both Greater London and Rest of England). They do not have to pay to remediate cladding costs.
2. **Non-qualifying leaseholders** include professional buy-to-let investors (who own more than three properties in the UK) and commercial tenants in mixed use buildings. These leaseholders do not benefit from the BSA's cost protections and, if required to pay as part of the abovementioned waterfall process, are liable for a fair and reasonable apportionment of non-cladding remediation costs as per the service charge obligations contained within their lease.

The table below sets this out in more detail:

Type of building in portfolio*	Pledged Developer	Developer and other 'Polluters' still in existence	Developer no longer in existence ('orphaned property')
Not relevant building (under 11 metres)	1. The Government considers that there is no systemic fire safety issue in buildings below 11 metres in height. 2. Leaseholder cost protections introduced by the BSA do not apply. 3. Still able to pursue the developer and other parties involved in the original development via existing means and new redress measures available for all properties regardless of height, should the property not be fit for habitation.		
Relevant building (over 11 metres or has at least five storeys); Relevant defect (causes a building safety risk from fire or structural collapse, which has arisen as a result of anything done or not done in connection with the original construction in the last 30 years)	Developer liable to pay for all building safety remediation costs should they have been defects due to the original design and construction of the property. Government funding already received or relevant service charge costs already incurred reimbursed by the developer.	Landlord can pursue developer under BSA. In interim or if unsuccessful: Cladding defects Remediation costs met by Government funding. Non-cladding defects Remediation costs cascade down a 'waterfall': 1. Developer and other 'Polluters'. 2. Landlord subject to 'contribution condition'. 3. 'Qualifying' leaseholders paying a capped contribution (usually £10,000, or £15,000 in London). 'Non-qualifying' leaseholders, including professional buy-to-let investors, subject to their share of all costs chargeable under their lease. 4. Landlord(s).	Cladding defects Remediation costs met by Government funding. Non-cladding defects Remediation costs cascade down a 'waterfall': 1. Developer and other 'Polluters'. 2. Landlord subject to 'contribution condition'. 3. 'Qualifying' leaseholders paying a capped contribution (usually £10,000, or £15,000 in London). 'Non-qualifying' leaseholders, including professional buy-to-let investors, subject to their share of all costs chargeable under their lease. 4. Landlord(s).

* Assumes multi-occupancy residential building owned by a third-party landlord (not leaseholder-owned)

The sharing of information between landlords and leaseholders relating to the Building Safety Framework is governed by a new certification regime that came into force in July 2022. This process is triggered by certain milestones, such as a leaseholder selling their property or the landlord becoming aware of new building safety defects. Either party may be at risk of bearing additional costs associated with remediation requirements if the process is not followed.

The Company has therefore established robust new procedures to manage this body of work, alongside the ongoing work establishing the 'Golden Thread' of building information on an asset-by-asset basis. Costs associated with the certification process cannot be recovered from leaseholders.

Approximately two thirds of the Company's residential leaseholders are buy-to-let investors who may therefore not qualify for BSA cost protections. The qualification status of the Company's relevant

leaseholders is currently being assessed, with a particular focus on those 'orphaned' properties that may require building safety remediation. For example, we are currently managing over 500 requests for leaseholders to certify whether they qualify for building safety cost protections and we have already issued landlord certificates to over 300 leaseholders. This will help appropriately apportion remediation costs under the BSA if/when required.

The Government considers that there is no systemic fire safety issue in buildings below 11 metres in height. This is because where concerns are identified, low-rise buildings often need little or no remediation to make them safe, instead relying on more proportionate, lower-cost mitigation where relevant, such as fire alarms. Such buildings are therefore outside of the scope of the BSA leaseholder cost protections.

Manager's Report **continued**

Risks

Whilst the Board and Manager endorse the BSA's aims of improving building standards, it has increased the challenges associated with resolving complex building safety issues. One of the key risks is the potential for non-cladding remediation costs to be shared between landlords and leaseholders at orphaned properties. In this instance, the Building Safety Framework overrides the usual obligations contained within lease agreements, whereby all costs reasonably incurred by the landlord are ultimately recoverable from leaseholders. Notwithstanding, the majority of costs up to this point have been cladding related, and leaseholders are liable for their fair share of non-cladding related costs up to the relevant caps (and non-qualifying leaseholders for cladding costs if not already funded), which should ultimately limit the potential for the Company to incur non-recoverable costs.

The Government has also emphasised landlords must remediate buildings quickly, despite the need to reassess properties under the new PAS9980 guidelines and an industry wide lack of resources and relevant expertise. This has caused delays and frustration among stakeholders, and can result in landlords being pursued ahead of offsetting costs, as appropriate, to third parties. Our focus remains on ensuring leaseholders' safety, protecting shareholder value by understanding building safety requirements, pursuing third-party funding and progressing remediation. Our progress is reflected in the movements of the MUC being applied to the portfolio since the year end.

The Company has incurred a small amount of non-cladding costs prior to recovery from third parties, such as the original developer and/or leaseholders. In order to protect leaseholders' interests and shareholders' investments, the Company has incurred unrecoverable additional legal costs to better understand the new legislation and its impact on the portfolio, and pursue third parties.

Whilst these cash flow issues are of concern, we expect to mitigate a material proportion of costs associated with known building safety issues, supported by the recent verification process.

Finally, insurance underwriters' assessment of risk does not align with the PAS9980 guidelines, which may still lead to higher insurance premiums or additional costs for leaseholders. The Government is committed to reducing what it deems excessive risk aversion from the insurance industry and will introduce legislation to improve the insurance market that is described below.

Related Building Safety Activity

A more detailed summary of how we are managing building safety risk to protect shareholders and the Company's affected leaseholders is as follows:

- Robust processes are in place to manage building safety issues, including regular and transparent communication with leaseholders who, in many cases, are understandably frustrated by issues that are impacting their ability to sell or remortgage their home amidst concerns over building safety.
- Remedial work has already commenced at seven out of the 26 properties referenced above (as at 31 March 2023), or 5.7% of current portfolio by value, which is being funded by either original developers or the Government.
- Qualifying applications for Government funding have been made at a further nine properties, or 3.9% of current portfolio by value.
- Working closely with the Government's funding delivery partners, Homes England and the Greater London Authority. Negotiations are ongoing across the 'Managed Estate' (where the Company retains

management responsibilities) to receive funding and complete remediation works.

- Across the 'Managed' and 'Non-Managed Estate' (the latter being where a Residents Management Company ('RMC') is responsible for managing the building), we are progressing, or are aware of, approximately £81 million of developer or Government funded remediation projects at 20 properties. This includes five properties where works have already been completed (over and above the 26 referenced above), at no significant cost to the Company. In these cases the Company's cost exposure was limited to professional and other fees.
- New fire alarm systems installed at ten properties, removing the requirement for leaseholders to pay for interim measures whilst additional building safety works are addressed. In most cases, costs have initially been met by Government funding, and those organisations deemed ultimately responsible will be legally pursued where relevant.
- With respect to the 'Managed Estate', which includes six out of the 26 properties referenced above, we are actively pursuing five developers under the new powers provided by the BSA, including higher insurance premiums payable by leaseholders due to building safety defects.
- With respect to the 'Non-Managed Estate' which includes 20 out of the 26 properties referenced above, we are assisting leaseholders (and their RMC where appropriate) wherever possible, such as providing consents for building safety assessments or leveraging contractual relationships where we hold collateral warranties from the original developer or contractor. Our approach recognises that many RMCs are supported by little to no shareholder equity, and that management and responsibilities transfer to the landlord when an RMC ceases to exist. There can also be practical challenges associated with the Company obtaining information relating to the 'Non-Managed Estate'.
- In conjunction with the Company's legal adviser, property manager and health & safety specialist, established new landlord and leaseholder certification processes (see above), as well as compliance with new fire safety legislation and working towards establishing the 'Golden Thread' of building information on an asset-by-asset basis, or holding those parties who are responsible to account.

Whilst the legal contract for government funding, known as a Grant Funding Agreement ('GFA'), has been agreed in principle on the 'Managed Estate', the drawing down of funds and commencement of works has been delayed by difficulties of dovetailing the underlying contractor and technical team appointments. These are needed because, once the GFA is signed, the Company will be responsible for meeting project milestones in relation to timings and works. Separately, there is a concern about the difficulty of assigning GFAs, which may impact asset liquidity until works are satisfactorily completed. This concern is shared with other institutional investors but, at the current time, there seems little alternative to entering into such contracts and we continue to work with the Company's legal adviser to better understand the provisions and possible mitigants.

Leasehold Reform

Key points:

- **Government has banned creation of new residential ground rents and is progressing with a second, more comprehensive programme of reform**
- **Detail yet to be published of the Government's intentions in relation to leaseholder enfranchisement**
- **The long-dated nature of the Company's portfolio may mitigate this risk**

The Government launched a leasehold reform agenda in 2017 to limit ground rents on new lease agreements, and ban the use of leasehold as a form of tenure for new build houses. In January 2021, the Housing Secretary said reform would be tackled through two pieces of legislation.

In June 2022 the Leasehold Reform (Ground Rent) Act 2022 came into force and banned the creation of new residential ground rents. The legislation is not retrospective and, although it should not directly impact the portfolio, it will reduce the supply of residential ground rents.

The detail of a second, more comprehensive programme of reform, is yet to be formally proposed, but will seek to improve fairness and transparency in the residential leasehold market. Supported by recommendations made by the Law Commission, a Leasehold Reform Bill is currently expected to include:

1. Reforming the way in which a leaseholder can acquire their landlord's interest by extending their lease or acquiring their freehold, a process known as 'enfranchisement'. The Government intends to make this process '*easier, faster, fairer and cheaper*' by:
 - Abolishing marriage value;
 - Capping the treatment of ground rent in the premium calculation at 0.1% of the property's unencumbered capital value (for example, on a long-lease apartment valued at £250,000, factored into the premium calculation would be calculated on the basis of a notional annual ground rent, capped at £250);
 - Prescribing the capitalisation rates used in the enfranchisement calculation;
 - Introducing an online calculator to simplify and standardise the calculation and process; and
 - Allowing the partial enfranchisement of apartment blocks by way of an effective 'sale and leaseback' to the landlord in respect of those leaseholders who have not chosen to enfranchise.
2. Standardising the rights available to leaseholders of apartments and houses.
3. Improving the management of leaseholders' buildings, such as greater transparency of service charge costs, introducing mandatory regulation of managing agents and extending the rights available for leaseholders to take on such management responsibilities from their landlord.
4. Providing greater choice to homeowners by reinvigorating commonhold as an alternative form of tenure.

During the year the Company responded to a Government consultation on aspects of this second strand of reform. The Company, alongside other freeholders, has also met with the Government to make representations about the benefits of institutional stewardship in the sector.

Whilst there continues to be little clarity from Government, the proposals relating to capping ground rent and prescribing capitalisation rates in the calculation of enfranchisement premiums are areas of concern for the Company. There is a risk, for example, that premiums are determined with reference to today's higher rates and lower values, which since 2017 have been adversely affected by the anticipation of new legislation. Given

the potential significance of this legislation, the Company and other institutional owners have received legal advice that legislation enabling leaseholders to acquire freeholds at an unfair discount may infringe landlords' legitimate property interests under human rights law. This advice has been communicated to Government and we await its response.

This uncertainty is negatively impacting on the residential ground rent market, and is reflected in the Company's portfolio valuation via a leasehold reform discount. This discount was £3.8 million at 30 September 2022, increasing to £4.0 million in the unaudited 31 March 2023 valuation. This increase is because rental growth has outperformed house price growth, meaning more of the Company's ground rent income is above the 0.1% cap.

In order to provide shareholders with an illustration of the potential impact of leasehold reform, we have worked with Rightmove to analyse the proportion of the properties owned by the Company potentially affected. We first provided this analysis in the interim results for the period ended 31 March 2022 and have since updated it based on the latest available portfolio information. This is summarised in the table below:

Portfolio (30 Sept 2022)	Portfolio ground rent income (%)	Portfolio valuation (%)
Unlikely to be fully in scope of residential legislation	21.6%	24.1%
Residential ground rent and below 0.1%	25.4%	25.0%
Residential ground rent and between 0.1% and 0.2% (in aggregate/net above 0.1% cap)	33.4%/6.9%	34.0%/6.9%
Residential ground rent and above 0.2% (in aggregate/net above 0.1% cap)	16.2%/10.9%	13.6%/9.1%
Residential ground rent but underlying freehold value yet to be determined	3.4%	3.3%
Total	100.0%	100.0%

Based on this high level analysis, the proportion of the Company's portfolio in scope and above 0.1% of unencumbered freehold value, and therefore at risk of potentially being enfranchised for a dilutive premium, is 17.8% of ground rent income or 16.0% of value.

This risk is arguably mitigated by relatively few leaseholders historically taking up their enfranchisement rights. For example, over the past three years, a total of 26 leaseholders have enfranchised across the portfolio (representing 0.12% by current value). The reasons for this include:

1. Leaseholders generally take up their enfranchisement rights to protect their own asset value, which is usually linked to the ability to obtain a mortgage. This would typically be when a lease term falls below 100 years (depending on a lender's requirements), whereas the Company's portfolio has a weighted average unexpired lease term of 392 years.
2. The capital required by leaseholders to enfranchise is high, relative to the low level of ground rent payable, which is compounded by a short average ownership period of residential property in the UK. For example, the Company's average residential ground rent is £262 per year, and a typical apartment is owned for four years, whereas leaseholders are generally required to pay a premium based on a multiple of over thirty times ground rent to enfranchise.

Manager's Report **continued**

3. Enfranchisement premiums over the past three years have, on average, been completed 26% above the prevailing investment valuation.

Given this analysis, and context of the long-dated nature of the Company's portfolio, the take up of enfranchisement rights by leaseholders may therefore continue to be limited.

Best-in-class Asset Management

Key points:

- **Strong focus on demonstrating best-in-class management and the benefits of institutional ownership in the sector, particularly set against the backdrop of the cost of living crisis**
- **Continued enhancement of the Company's operational platform to support the strategy of improving portfolio liquidity**
- **Government intends to reform the way the insurance market operates for multi-occupancy buildings and the Company has communicated various actions available to its insured leaseholders to support these aims immediately**
- **Complex legacy issues continue to be difficult and time consuming, albeit we do not expect them to have a material impact on value**

Whilst resolving building safety issues is the priority to support leaseholders and recover value for shareholders, it is essential that we also demonstrate best-in-class management and the benefits of institutional ownership in the sector, particularly set against the backdrop of the cost of living crisis.

Doubling ground rents

Since 2017, the Company's asset management programme named 'Project Pacific' has been in place to remove doubling residential ground rents from the portfolio. In 2019, the Company and other institutional landlords also agreed to the Government's Public Pledge for Leaseholders which largely replicated the Company's existing offer. To date, 446 leaseholders have taken up the Project Pacific offer which represents approximately 15% of qualifying leases.

To accelerate the removal from the portfolio of doubling ground rents, particularly those that double more frequently than every 20 years, relevant leaseholders have been provided with an improved offer that reflects the individual circumstances of those leases which the Board and Manager believe fairly balances the interests of leaseholders and the Company's shareholders. The impact of such an offer is not anticipated to be material to the Company. Acceptance should enable the leaseholder to secure improved mortgage terms and improve the liquidity of their home.

Since 2019, the Competition and Markets Authority ('CMA') has been investigating potential breaches of consumer protection law in the residential leasehold market, including ground rents that double more frequently than every 20 years. In 2022, the CMA secured undertakings with various third parties and commented that the investigation is moving into the 'final stages'. The Company is not currently under investigation by the CMA but, as an active industry participant, we will continue to closely monitor its investigations and announcements.

Service providers and operational platform

Working effectively with service providers and enhancing the Company's operational platform is key to the strategy of improving portfolio liquidity, continuing to support leaseholders by delivering best-in-class residential asset management, and ultimately optimising value for shareholders.

To comply with the BSA requirements, we have consolidated legal advice with a single firm and set up a new electronic data site containing

portfolio information. The data site also supports the new landlord and leaseholder certification processes referred to above, as well as enable the continuing establishment of the Company's 'Golden Thread' of building information on an asset-by-asset basis.

The Company's property manager, Rendall & Rittner ('R&R'), has been reappointed on terms aimed at improving service levels whilst achieving cost efficiencies. Over the year, R&R has been supporting the building safety requirements across the portfolio, as well as minimising the impact of the cost of living crisis on the Company's leaseholders through arranging competitive renewable energy supplies and efficient management of service charges.

Buildings insurance

The cost of buildings insurance to residential leaseholders and other property owners of multi-occupancy buildings has increased across the UK in the wake of the Grenfell Tower tragedy in 2017. Consequently, in 2022 the Government asked the Financial Conduct Authority ('FCA'), in consultation with the CMA, to review how the market for multi-occupancy buildings insurance operates.

One of the FCA's key findings is evidence of high commission rates and poor practices which were not consistent with driving fair value to leaseholders. The FCA noted that in many cases the insurance commission rate was at least 30% and that commission in absolute terms had increased since 2017, driven by increases in insurance premiums, and the supply of insurance for multi-occupancy residential buildings having contracted.

Following the FCA's recommendations, the Government has announced it will bring forward legislation to provide leaseholders with more information to enable them to better scrutinise insurance costs, including replacing insurance commissions with more transparent fees.

Where the Company is responsible for insuring a building, insurance is placed through a block portfolio insurance renewal with an insurance broker, Lockton Companies LLP ('Lockton'). Doing so in this way protects shareholders and allows leaseholders to benefit from the provision of more comprehensive, competitive cover terms.

The responsibilities for arranging and procuring adequate insurance cover are extensive. At more complex, multi-occupancy residential buildings, the list of matters to be taken into account include determining the terms of cover required as appropriate for the circumstances, instruction of a recognised and experienced broker to seek competitive terms in the insurance market with a reputable insurer(s), general administration of the process (including ensuring that building cost assessment is appropriate by appointing experienced advisers) and claims coordination (including appointing a loss adjuster). There is also the need to carry the funding of insurance premiums paid to insurers prior to payment recovery from individual leaseholders. This process is overseen by the Company's Board.

Where the Company is responsible for insurance, the commission reflects this body of work and is agreed with Lockton subject to a fair value test. During the financial year, the Company received insurance commission of £371,000 which represented an average of 10.1% of the premium paid by leaseholders (excluding taxes, year to 30 September 2021: £395,000 or 10.4%). This included a reduced commission of 5% for buildings impacted by building safety issues, in line with the Company's commitment to supporting leaseholder affordability. The Government continues to apply Insurance Premium Tax (IPT) at 12% without exception.

The Company's approach to its insuring responsibilities, including commission levels, compares favourably with the FCA's findings. Neither Schroders as Manager nor R&R receive any commission in connection with the insurance responsibilities of the Company, which are effected on the Company's behalf.

Looking forward, we support the FCA's objectives of fair value for leaseholders, fair remuneration of all parties involved in the insurance process and information sharing. Lockton and their trade body, BIBA, have responded to the FCA's consultation and we will continue to review the Company's processes in light of the consultation and best practice more generally.

Managing legacy issues

Having resolved the highly complex legacy litigation at Beetham Tower in Manchester in 2021, the Board and Manager are continuing to deal with a range of legacy issues relating to historical transactions and portfolio activity carried out prior to our, and the current Board's, involvement with the Company.

Whilst we do not expect these legacy issues to have a material impact on value, they are granular, time consuming, and generally relate to disputes concerning legal title, disrepair and property management.

Real estate portfolio

Key points:

- **Portfolio valuation of £109.0 million as at 30 September 2022, reflecting a gross income yield of 4.7% or an average Years Purchase ('YP') of 21.5**
- **93.6% of ground rent income subject to upwards only increases, with portfolio ground rent income forecast to outperform RPI inflation over the next five years**
- **Portfolio remains heavily weighted to apartment blocks in the North East and North West of England**

As at 30 September 2022, the portfolio comprised approximately 19,000 units across 400 assets valued at £109.0 million. The portfolio produces ground rent roll of £5.1 million per annum, reflecting a gross income yield of 4.7% or an average Years Purchase ('YP') of 21.5.

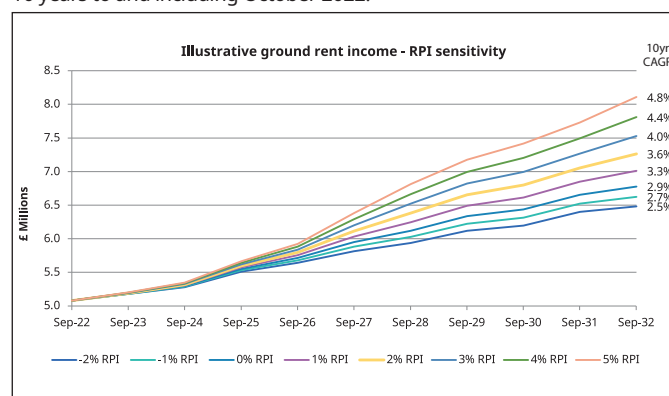
The portfolio's weighted-average lease term as at 30 September 2022 was 392 years, with 93.6% of ground rent income subject to upwards only increases, primarily index-linked reviews. This is set out in the table below:

Review mechanism	Ground Rent Roll (£000)	Ground Rent Roll (%)	Valuation at 30 September 2022 (£million)	Valuation at 30 September 2022 (%)
RPI	3,682	72.5	85.9	78.8
Doubling	743	14.6	12.2	11.3
Fixed	332	6.5	6.3	5.7
Flat	323	6.4	4.6	4.2
	5,080	100.0	109.0	100.0

The rent review profile is shown in the table below, with 40.9% of the ground rent income due for review over the next five years:

Years to next review	Ground Rent Roll (£000)	Ground Rent Roll (%)	Valuation at 30 September 2022 (£million)	Valuation at 30 September 2022 (%)
0-5	2,077	40.9	47.1	42.8
5-10	1,577	31.0	32.9	29.9
10-15	668	13.1	14.9	13.5
15-20	178	3.5	3.8	3.5
Over 20	257	5.1	5.7	6.1
Flat (no review)	323	6.4	4.6	4.2
	5,080	100.0	109.0	100.0

The chart below demonstrates the forecast income performance based on various levels of RPI inflation, which was 3.6% per annum over the 10 years to and including October 2022.



Assuming future RPI inflation of 3.6% per annum, ground rent income should increase approximately 2.3% over the year to end September 2023, 1.3 percentage points below the forecast RPI. On the same basis, ground rent income should increase approximately 23.1% over the next five years or an annualised figure of 4.3%, 70 basis points ahead of the RPI inflation assumption.

As noted previously, RPI will be aligned with the Consumer Prices Index, including owner occupiers' housing costs ('CPIH'), no earlier than February 2030. CPIH is a measure of consumer price inflation that includes the costs associated with owning, maintaining, and living in one's own home. In recent years, CPIH has been between 60 and 100 basis points less than RPI on an annual basis. This means rental growth following the change may be smaller but this will impact all RPI-linked assets, including other ground rent portfolios and index-linked gilts.

Manager's Report **continued**

The portfolio comprises residential apartments, houses and commercial units with median ground rents as summarised below:

Unit type	Median Ground Rent (£)	Ground Rent Roll (£000)	Ground Rent Roll (%)	Valuation at 30 September 2022 (£million)	Valuation at 30 September 2022 (%)
Apartment	250	3,513	69.1	69.3	63.6
House	100	520	10.2	12.2	11.2
Residential subtotal	250	4,033	79.3	81.5	74.8
Commercial	340	147	2.9	3.9	3.6
Student	250	900	17.8	23.6	21.6
Total	250	5,080	100.0	109.0	100.0

The top 10 assets by value represent 31.6% of the total portfolio valuation as summarised below:

Property	Location	Valuation at 30 September 2022 (£million)	Valuation at 30 September 2022 (%)
Lawrence Street Student Village	York	9.4	8.6
One Park West	Liverpool	3.3	3.0
Wiltshire Leisure Village	Royal Wootton Bassett	3.3	3.0
First Street	Manchester	3.1	2.8
Rathbone Market	London	3.1	2.8
Brentford Lock West	London	3.0	2.8
Masshouse Plaza	Birmingham	2.9	2.7
Brewery Wharf	Leeds	2.4	2.2
Richmond House	Southampton	2.3	2.1
The Portland	Hull	1.7	1.6
Total		34.5	31.6

The geographic spread of the portfolio as at 30 September 2022 is shown in the chart below:

Location	Ground Rent Roll (£000)	Ground Rent Roll (%)	Valuation at 30 September 2022 (£million)	Valuation at 30 September 2022 (%)
North East	1,625	32.0	31.8	29.2
North West	1,416	27.9	29.3	26.9
London	602	11.8	13.0	11.9
Midlands	589	11.6	13.8	12.7
South West	508	10.0	12.8	11.7
South East	270	5.3	6.6	6.0
Wales	70	1.4	1.7	1.6
Total	5,080	100.0	109.0	100.0

Sustainability

Further details of the Company's and Schroders' approach to sustainability are included in the Sustainability Report.

Finance

Key points:

- **£21 million drawn of the Company's £25 million debt facility, reflecting an effective interest rate of approximately 2.8% per annum**
- **Low level group LTV and bank covenant tests well within limits**
- **Following shareholder approval of the change of investment policy and continuation resolution, refinance negotiations ongoing**

The Company has a £25 million facility with Santander UK Plc ('Santander') which matures in January 2025, comprising a £12.5 million term loan and a £12.5 million revolving credit facility ('RCF').

The interest payable on the term facility is fixed at 2.7% per annum, while the RCF attracts a rate of 1.9% above the three month Sterling Overnight Index Average ('SONIA') realised rate per annum, subject to a cap of 1.0% on £5.5 million of the total £12.5 million. At the financial year end, the effective interest rate was approximately 2.8% per annum. SONIA increased to 4.1% as at 31 March 2023, providing for an effective interest rate of 3.1% at the end of the interim period.

Lender	Facility (£million)	Loan drawn (£million)	Maturity	Interest rate (%) ¹	LTV ratio (%) ²	LTV ratio covenant (%)	Interest cover ratio (%) ³	ICR ratio covenant (%)
Santander	25.0	21.0	Jan-25	2.8	41.8	50.0	377.2	270.0

¹Total effective interest rate based on the SONIA rate applicable to the RCF as at the Interest Payment Date ('IPD') of 10 November 2022, inclusive of 0.74% fee on undrawn balance.

²Loan balance divided by Santander secured portfolio bank valuation.

³For the quarter preceding the IPD, ((rental income received less void holding costs)/interest payable).

At 30 September 2022, the Company had drawn £21 million from its RCF and term loan. The Loan to Value ('LTV') on the charged pool of assets is 41.8% versus a covenant of 50%, and £4 million of the facility remains undrawn. Uncharged assets are valued at £61.2 million, resulting in a group LTV of 18.8%.

During the year, Santander called for a periodic revaluation of the charged pool of assets, which was finalised at £50.3 million as at May 2022, broadly in line with the view of the Company's independent valuer at the same date. This reflects a LTV on the Santander facility of 41.8% which compares with the covenant level of 50%. The remaining assets in the portfolio are uncharged and could, if required, be included as security against the extant facility, or future loans, subject to lender approval.

As part of the recent consultation and EGM, shareholders were informed about the Board's intention to secure additional flexibility by extending the facility. Negotiations are ongoing with Santander and we hope to provide a positive update to shareholders in due course.

Outlook

This remains a challenging operating environment, reflected in the building safety and leasehold reform valuation discounts, and the continuing Material Valuation Uncertainty Clause. A significant amount of work is ongoing to manage these risks and, although the valuation discounts are not expected to be fully incurred, the associated legal and other costs, combined with reduced ancillary income, are diluting earnings.

However, good progress is being made, and we have a clear strategy focussed on improving the liquidity of the underlying portfolio, continuing to support leaseholders by delivering best-in-class residential asset management, and ultimately optimising value for shareholders.

Chris Leek

Investment Manager

Schroder Real Estate Investment Management Limited

5 June 2023

Sustainability Report

Introduction

The built environment is responsible for a significant portion of global energy use and CO₂ emissions¹, making real estate an important sector for policy action to reduce emissions and consumption of depleting resources. This presents new challenges and opportunities for the industry with implications for both owners and occupiers.

The Board and Manager believe that corporate social responsibility is essential to long-term business success and that a successful sustainable investment programme should deliver enhanced returns to investors whilst also improving the built environment for leaseholders and having a positive impact on local communities, the environment, and society as a whole.

Environmental, Social and Governance ('ESG') changes are key factors that the Board and Manager must understand to protect the Company's assets from depreciation and optimise the portfolio's value potential while enhancing the leaseholder experience.

Our real estate investment strategy focuses on the pillars of People, Place and Planet, which are linked to three core UN Sustainable Development Goals: Decent work and economic growth; Sustainable cities and communities; and Climate action.



Further information on the Manager's Sustainable Investment Real Estate with Impact approach and its Sustainability Policy: Real Estate with Impact can be found here:

<https://www.schroderscapital.com/en/global/professional/sustainability-and-impact/our-approach/>

The Company's Approach to ESG

Delivering ESG-related improvements in residential ground leases can be challenging due to leaseholders retaining most of the economic interest in their buildings and often management responsibilities, combined with legislation preventing landlords from unilaterally carrying out improvement works. Clear communication with leaseholders is critical, and the Company provides, through its property manager, regular updates to leaseholders and the directors of Residents Management Companies ('RMC') on best practices in property management, including information to encourage increased spending on ESG-related improvements and progress towards reaching zero-carbon targets.

Environmental

Active management of energy consumption and greenhouse gas emissions, as well as water and waste aspects, is a key component of responsible asset and building management and we are working closely with our suppliers to improve the performance of our existing assets.

Improving the performance of environmental aspects of the portfolio can help reduce operating costs and protect both shareholders' investments and leaseholders' interests, in addition to protecting the planet. This

includes procuring green energy, switching to low-energy lighting, providing better communal waste and recycling facilities, and improvements to common areas.

Energy and Carbon

The Board and Manager recognise that the Company has a responsibility to embark on a journey to 'Net Zero Carbon'² and that an active approach to understanding and managing climate risks and opportunities is fundamental to delivering resilient investment returns and supporting the transition to a low carbon society. In 2019, the Manager signed the Better Building Partnership's Climate Commitment³, including a net zero ambition aligned to the Paris Agreement aim to limit warming to 1.5°C.

In 2022, the Company's property manager, Rendall & Rittner ('R&R'), implemented a dashboard platform to monitor energy and carbon performance on the managed estate, enabling the Company to track consumption data for individual assets and assess the impact of energy-related interventions. An example of this is the installation of an air-sourced heat pump at an asset in Leeds, resulting in significant energy consumption savings.

Leaseholder Communications

R&R's online platform provides a portal for each asset, enabling faster, paper-free communication with leaseholders. For every leaseholder that signs up to e-communications, R&R donates £1 to tree planting initiatives which the Company matches. Over 450 of the Company's leaseholders signed up in the year.

Renewable Electricity Tariffs

The Company has collaborated with R&R to procure 100% renewable electricity for landlord-controlled supplies on the managed estate, supporting a low carbon economy and reducing Greenhouse Gas emissions.

Electric Vehicle Charging and Mechanical and Electrical Replacement

Requests for Electric Vehicle Charging have been agreed at various assets, with the Company working with insurers to mitigate associated risks in underground parking garages. Replacement plant and equipment are designed with energy consumption in mind, with LED lighting installations encouraged for cost savings. At a property in Manchester, the car park lighting system has been replaced with a modern LED system, saving energy and reducing costs by up to 80%. The project is anticipated to pay for itself in less than a year, then deliver additional cost savings.

Social

The Company aims to provide a high standard of service and value to leaseholders, endorses the aims of the Building Safety Act 2022 ('BSA') to improve building standards and protect leaseholders living in their own home, and has long argued for fair reform to the residential leasehold sector.

An asset management programme called 'Project Pacific' has been in place since 2017 to remove doubling residential ground rents from the portfolio. In 2019, the Company and other institutional landlords also agreed to the Government's Public Pledge for Leaseholders which largely replicated the Company's Project Pacific offer. The Company has since provided relevant leaseholders with an improved offer to incentivise the removal of doubling ground rents that may be considered onerous.

¹ International Energy Agency Tracking Report – September 2022 (<https://www.iea.org/reports/buildings>)

² 'Net Zero Carbon' is when the carbon emissions emitted as a result of all activities associated with the development, ownership and servicing of a building are zero or negative.

³ Better Buildings Partnership Climate Commitment available here: <https://www.betterbuildingspartnership.co.uk/member-climate-commitment>

The Company provides information on its website about policies relating to the fair treatment of leaseholders, including not seeking possession for ground rent arrears via assured tenancy mandatory grounds under the Housing Act 1988.

Finally, the Company considers leaseholder engagement to be a critical aspect of its best-in-class asset management strategy, especially in light of the new building safety legislation. Engagement is also essential for the operational success of real estate and helps create a sense of community in and around assets. On the managed estate, R&R organise events focused on ESG issues, such as clothing collections for the homeless and litter picking events for World Earth Day.

Response to the Building Safety Crisis

The BSA has brought about significant changes in the management of residential buildings, including improved building standards and protection for leaseholders from the costs of remediating building safety risks. Building safety remains a key priority for the Board and Manager.

In the past year, as set out in the Manager's Report, efforts have been made to support leaseholders affected by the building safety crisis. For the managed estate, which includes six out of the 26 properties where the MUC continues to be applied as at 31 March 2023, we are pursuing five developers under the new powers provided by the BSA, including higher insurance premiums payable by leaseholders due to building safety defects. However, in most cases, the responsibility for building safety remediation remains with leaseholders through their management company. For these assets, which include 20 out of the 26 properties mentioned above, we are helping leaseholders (and their management companies where appropriate) wherever possible, such as by providing consents for building safety assessments or leveraging contractual relationships where the Company holds collateral warranties from the original developer or contractor.

Governance

The Board and Manager place great importance on good governance and adhering to best practice standards.

The recent re-appointment of R&R on terms aimed at improving service levels, including improved use of technology, was managed through the Manager's Group Procurement team to ensure effective supply chain management and governance.

The Company (via the Manager) regularly updates leaseholders and their management company directors on best practice in property management and is committed to implementing the requirements of the BSA.

We support the recommendations of the Financial Conduct Authority to introduce new rights and protections for leaseholders to enhance transparency in multi-occupied residential block insurance (see Manager's Report). As part of its objective to deliver best-in-class residential asset management and ahead of any new legislation brought forward by the Government, the Company has made various actions available to its insured leaseholders (via its website) if they require greater information to do with their insurance policy, including commission payable, or greater transparency and consultation.

The Manager has worked with R&R to develop an improved complaints reporting and monitoring process with clear escalation protocols to ensure timely resolution of leaseholders' concerns.

Industry involvement

The Manager continues to engage with the Government and industry bodies on ESG to develop policymakers' understanding and implementation strategy. This includes emphasising the need for a government-backed industry Code of Conduct to implement health and safety requirements and formally regulating residential managing agents. The Manager has also liaised with the Health and Safety Executive regarding new building safety legislation, particularly around the responsibilities for residential high-rise buildings.

Board meetings

ESG is a standing agenda item during formal Board meetings to ensure oversight of ESG risks and opportunities related to the Company and its portfolio of assets. The Board reviews the objectives and progress of the sustainability programme at least annually, and the Manager's Investment Committee and Group Investment Risk Committee provide oversight on sustainability.

Compliance with legislation

The Manager monitors requirements and guidance related to managing and reporting environmental matters, as well as health and safety, and developments in legislation. Compliance is supported through appropriate delegation of responsibility to key personnel involved in the day-to-day operation of buildings.

Industry initiatives

The Manager is part of Schroders plc ('Schroders'), which supports, and collaborates with, several industry groups, organisations and initiatives including the United Nations Global Compact, United Nations Principles of Responsible Investment ('UN PRI') and Net Zero Asset Managers Initiative (of which it is a founding member). Further details of Schroders' industry involvement and compliance with UN PRI are listed at pages 51 – 56 of Schroders 2022 Annual Sustainable Investment Report here: <https://publications.schroders.com/view/119863317/>

The Manager is a member of several industry bodies including the British Property Federation and European Public Real Estate Association ('EPRA'). It was a founding member of the UK Green Building Council in 2007 and in 2017 became a member of the Better Buildings Partnership and a Fund Manager Member of the Global Real Estate Sustainability Benchmark (GRESB).

Employee policies and corporate responsibility

The Board

The Board have been mindful of the need to ensure that it has sufficient expertise to oversee ESG matters, and has appointed a director with relevant expertise. In considering the composition of the Board, diversity has been taken into account and the Board is currently comprised of two women and two men.

Employees

The Company is an externally managed real estate investment trust and had no employees throughout the year. The Manager and wider Schroders group believe diversity of thought and an inclusive workplace are key to creating a positive environment for their people. The Manager's real estate team have a sustainability objective within their annual objectives.

Further information on Schroders' principles in relation to people, including diversity and inclusion, gender pay gap, values, employee satisfaction survey, wellbeing and retention can be found here: <https://www.schroders.com/en/working-here/our-people/>

Sustainability Report **continued**

Corporate responsibility

Schroders is committed to corporate responsibility and aims to embed this commitment across its business to act responsibly, support clients, deliver value to shareholders, and make a wider contribution to society. Full information on Schroders' approach to corporate responsibility can be found here:

<https://www.schroders.com/en/about-us/corporate-responsibility/>

Slavery and human trafficking statement

The Company is not required to produce a statement on slavery and human trafficking pursuant to the Modern Slavery Act 2015 (the 'Act') as it does not satisfy all the relevant triggers under the Act.

Schroders' statement on Slavery and Human Trafficking has been published in accordance with the Act. This statement sets out how Schroders and its in-scope subsidiaries assess and report on the risks of modern slavery practices, and can be found here:

<https://www.schroders.com/en/sustainability/corporate-responsibility/slavery-and-human-trafficking-statement/>

Business Model

Company's business

The Company's business model is to carry on business as a real estate investment trust. It has been approved by HM Revenue and Customs ('HMRC') as an investment trust in accordance with section 1158 of the Corporation Tax Act 2010, by way of a one-off application and it is intended that the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

The Company is domiciled and incorporate in the UK and is an investment company within the meaning of section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes.

The Articles of Association (as amended on 24 April 2023) contain provisions for a continuation vote at specified intervals. The next continuation vote is to be put forward before the end of 2024.

As at the date of this Report, the Company had 37 active subsidiaries and eight dormant subsidiaries, details of which are set out in note 5 to the Company's financial statements on pages 64 and 65.

Purpose, values and culture

The Company's purpose is to deliver its investment objective and strategy (as set out on the inside front cover).

The Company's culture is driven by its values:

Responsibility – recognising the importance of the Company's role as steward, ESG considerations are integrated into the investment process to the benefit of a range of stakeholders including shareholders, residents and local communities.

Rigour – high quality research and detailed analysis form the basis of all investment decisions.

Relationships – building long-term relationships with the Company's service providers, in a way that encourages collaboration and fosters deep understanding of the Company's business, is a priority for the Company.

As the Company acts through its service providers, its culture is represented by the values and behaviour of the Board and third parties to which it delegates. The Board aims to fulfil the Company's investment objective by encouraging a culture of constructive challenge with all key suppliers and openness with all stakeholders. The Board is responsible for embedding the Company's culture in the Company's operations.

The Board recognises the Company's responsibilities with respect to corporate and social responsibility and engages with its service providers to safeguard the Company's interests. As part of this ongoing monitoring, the Directors receive reporting from service providers on matters such as their anti-bribery and corruption policies; Modern Slavery Act 2015 statements; diversity policies; and greenhouse gas and energy usage reporting. The Management Engagement Committee reviews the Company's service providers. Its report is on page 33.

Portfolio

The Group's portfolio of ground rents includes freeholds and head leaseholds of residential and commercial properties located throughout the UK. The Group generates income primarily from the collection of such ground rents, approximately 73% of which rise in line with inflation. It generates additional income from other commercial relationships and fees for performing specific obligations under individual leases.

Management

Schroders performs specific duties in line with the AIFM Agreement including, but not limited to, recommending sales of freeholds (and head leases), and overseeing the collection of ground rents from approximately 19,000 individual units and where appropriate insurance premiums.

Schroders also undertakes active asset management activities across the portfolio including overseeing managing agents and engaging with leaseholders and tenants' associations, with a detailed focus on Health & Safety and risk management. In addition to this Schroders oversees property management matters ranging from issuing service charge budgets and year end accounts, to more complex situations such as assisting managing agents and Residents Management Companies in the management of remedying building defects. Further details of the Manager's duties are described on page 28.

Oversight

The Board of the Company oversees the activities of the Manager and monitors the Group's risks and investment performance as described later in this section.

Income

The ground rents and other income sources generate income which is paid out as dividends to shareholders, in line with REIT conditions and subject to the Companies Act 2006.

Investment objective and strategy

Details of the Group's investment objective and strategy may be found on the inside front cover.

The Board has appointed the Manager to implement the investment strategy and to manage the Group's assets in line with the appropriate restrictions placed on it by the Board, set out further below.

Borrowing

The Group utilises gearing with the objective of improving shareholder returns. Details of the Group's policy in relation to borrowing are set out in note 1 on page 46.

Investment restrictions and spread of investment risk

The Group invests and manages its assets with the objective of spreading risk and in accordance with its published investment policy. The Group ensures that the objective of spreading risk has been achieved by investing in a diversified portfolio of ground rents including freeholds and head leases of residential and commercial properties located in the UK. The Manager's report on page 6 describes how the objective of spreading risk has been achieved through a diversified portfolio of properties.

Shareholder engagement

During the year, in the lead up to the continuation vote at which the Company's investment objective was changed to facilitate the realisation of assets in a controlled, orderly and timely manner, the Board and its advisors engaged extensively with the Company's shareholders in January 2023 to seek views on the future of the Company. This exercise included meetings being offered to all shareholders, with shareholders' feedback being incorporated in the proposals, and resulted in strong shareholder support for the proposals.

Following the continuation vote, the focus of the Board and the Company's advisors is to continue to regularly communicate with shareholders about the Company's progress implementing the revised investment objective and other related matters by way of meetings, stock exchange announcements, and through the Company's annual and interim reports. Shareholders are welcome to contact the Board via the

Business Model **continued**

Company Secretary, either by writing for the attention of the Company Secretary of Ground Rents Income Fund plc to the Company's registered office, or by emailing the Company Secretary on amcompanysecretary@schroders.com.

Key performance indicators

The Board measures the development and success of the Group's business through achievement of the Group's investment objective, set out on the inside front cover, which is considered to be the most significant key performance indicator for the Group. Comment on performance against the investment objective can be found in the Manager's Review.

The Board continues to review the Group's ongoing charges to ensure that the total costs incurred by shareholders in the running of the Group remain competitive when measured against its peers. An analysis of the Group's costs, including management fees, Directors' fees and general expenses, is submitted to each Board meeting. The management fee is reviewed at least annually.

Corporate and social responsibility

Board diversity

As at 30 September 2022, the Board comprised two men and two women. The Board's approach to diversity is that candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of those of the overall Board, taking into account the specific criteria for the role being offered.

Candidates are not specifically selected on the grounds of their gender but this is taken into account in terms of overall balance, skill set and experience. Further information about the Board and their biographical details can be found on pages 26 and 27.

Responsible investment policy

The Company's and the Manager's approach to responsible investment, including in relation to environmental, social and governance ('ESG') issues, is set out in the sustainability report on page 16.

Key Information Document ('KID')

The Manager published a KID for the Company's ordinary shares in January 2023, in accordance with the Packaged Retail and Insurance-Based Investment Products Regulations. The calculation of figures and performance scenarios contained in the KIDs have been neither set nor endorsed by the Board nor the Manager.

The Board's commitment to stakeholders – section 172 Companies Act 2006 statement

The Directors take their responsibilities under section 172 of the Companies Act seriously and are committed to engaging with and understanding the views of, the Company's stakeholders and to taking those views into account in the Board's decision-making process. This statement outlines this engagement and the impact on decision-making where appropriate, and cross-refers to the decisions made by the Board during the year, detailed elsewhere in this Report.

Key stakeholders

The Board has identified its key stakeholders, which are as follows:

Shareholders – Without investors, who are willing to commit capital in return for consistent income returns by investing in a diversified portfolio of ground rents including freeholds and head leases of residential, retail and commercial properties as per the Company's investment objective and purpose, the Company would not exist.

Service providers – As an externally managed investment trust, the Board is reliant on service providers who have a direct working or contractual relationship with the Company. This includes, but is not limited to, the Manager, Depositary, corporate broker, Auditors, tax advisers and property valuers.

Lenders – Borrowing allows the Company's shareholders to maximise returns in favourable markets at a low cost. They have a financial interest in the success of the Company.

Residents – The Company has a diverse range of residents occupying space across the portfolio.

Local communities – Our assets are located across the UK a range of urban and suburban environments. The buildings and their occupiers are part of the fabric of local communities.

The environment – The Company is committed to using resources such as energy, water and materials in a sustainable manner for the prevention of greenhouse gas emissions and climate change mitigation.

Engagement with key stakeholders and impact on decisions

As detailed in 'Shareholder engagement' on page 19 the Company engages with its shareholders. The Board considered feedback by shareholders when making decisions relating to the dividend, and when considering asset purchases. The Company, via the Manager also engaged with various regulatory bodies to encourage responsible leasehold reform and building safety legislation.

As detailed in "Purpose, Values and Culture" on page 19, the Board engages with service providers, and receives regular reporting, either directly, or through the Manager or Company Secretary, on performance and other matters. The effect of such engagement, if relevant, is detailed in the Chair's Statement, Managers' Review, Audit and Risk Committee Report and Management Engagement Committee Report.

Active and constant engagement with leaseholders either directly by the Manager or through property managers or agents, takes place to gather intelligence as to what is important to them. Understanding changing needs, both at an individual company level, as well as on a sectoral and broader economic level, is a key tenet informing both individual asset management investment decisions as well as the longer-term strategic direction of the Company.

In terms of local communities and the environment, the Board expects the Manager to engage with local communities, councils and individuals. Further information on the Manager's approach to these matters is set out in the Manager's Review and the Sustainability Report on pages 6 to 18.

Four interim dividends were declared in respect of the year ended 30 September 2022.

In respect of these dividend payments, the Directors considered the long term consequences of paying up from the Company's distributable reserves, noted the financial position of the Company, and determined that the payment of the four interim dividends was in the best interests of its stakeholders.

In light of the outsourced business model (set out further in the Directors' Report on pages 28 to 30), the impact of the Company's operations on occupiers, local communities and the environment is through the impact of its service providers, in particular, the Manager and managing agents.

The Manager's Review on pages 6 to 15, sets out the key decisions which were taken during the year. Following the Covid-19 pandemic, and amidst the 'cost of living crisis' the Manager also works closely with tenants to help manage their safety and wellbeing and help manage cash flow.

Principal risks and uncertainties




The Board is responsible for the Group's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Group's business as a REIT and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit and Risk Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives. The principal risks, emerging risks and the monitoring system are also subject to robust assessment at least annually. The last assessment took place in May 2023. Although the Board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. Actions taken by the Board and, where appropriate, its committees, to manage and mitigate the Group's principal risks and uncertainties are set out in the table below.

Emerging risks and uncertainties

During the year, the Board also discussed and monitored risks that could potentially impact the Group's ability to meet its strategic objectives. There were no emerging risks identified during the year, which were not already being considered through the review of principal risks and uncertainties.

Sustainability risk includes how climate change could affect the Company's investments, and potentially shareholder returns or the safety of residents. The Board notes the Manager has integrated ESG considerations, including climate change, into the investment process. The "change" column below highlights at a glance the Board's assessment of any increases or decreases in risk during the year after mitigation and management. The arrows show the risks as increased or decreased, and dashes show risks as stable.

Business Model **continued**

Risk	Mitigation of risk	Changes
<p>Issue: The market for onward sale of the Group's freeholds is small. Fire safety and leasehold reform have further impacted liquidity.</p> <p>Risk: This may result in volatility of the price achieved when selling or valuing assets, including the inability to sell assets.</p>	<ul style="list-style-type: none"> The Group does not seek to trade its assets actively. External valuers provide independent valuation of all assets at least half-yearly. Members of the Audit Committee meet with the external valuers to discuss the basis of their valuations and their quality control processes on an annual basis. 	
<p>Issue: Increased regulation of freeholders to protect residents from building safety issues</p> <p>Risk: A building catches fire, harming residents with follow-on reputational risks.</p>	<ul style="list-style-type: none"> The Manager reviewed and updated fire strategy decisions in the managed estate in light of entry into force of the Building Safety Act 2022. Fire safety management policies and procedures, risk assessments, and fire records were improved in keeping with the "Golden Thread" principle of the Hackitt Review. Maintenance regimes improved to increase testing and planned preventative maintenance. The Manager continues to work closely with Department for Levelling Up, Housing and Communities, local fire authorities and fire safety experts to ensure fire safety and address any remedial actions following Grenfell Tower learnings. The Manager engages in regular correspondence with the directors of residents management companies and their managing agents, in the non-managed estate. There is a partnership between the Company and Hampshire Fire and Rescue Service to provide high-level advice and assistance in formulating and implementing policy. Implementation of formal building façade policy in response to recent DLUHC advice. Implementation of revised policy with respect to fire risk assessments. Increased interaction with non-managed estate highlighting best practice. R & R is currently distributing Fire Safety Information to residents through an online portal. 	
<p>Issue: An inappropriate investment strategy, or failure to implement the strategy</p> <p>Risk: Share price underperformance and trading at a larger discount to Net Asset Value ('NAV'). Any valuation impact of the strategy is exacerbated by gearing.</p>	<p>The Board seeks to mitigate these risks by:</p> <ul style="list-style-type: none"> Diversification of its ground rents portfolio through its investment restrictions and guidelines which are monitored and reported on by the Manager; Determining borrowing policy, and ensuring the Manager operates within borrowing restrictions and guidelines; Receiving from the Manager timely and accurate management information including performance data, attribution analysis, business plans and financial projections; Monitoring the implementation and results of the investment process with the Manager; Reviewing marketing and distribution activity and making use of a buyback mechanism as necessary; and Engaging with shareholders. 	

Risk	Mitigation of risk	Changes
<p>Issue: Leasehold reform legislation potentially making it easier and cheaper for leaseholders to acquire their freehold.</p> <p>Risk: This could lead to a reduction in value of the Company's assets due to leaseholders being able to enfranchise based on a calculation that is dilutive to investors.</p>	<ul style="list-style-type: none"> The Company is actively engaged with Government via the Royal Institution of Chartered Surveyors ('RICS') and the British Property Federation ('BPF') in order to ensure that all stakeholders are carefully considered in any proposed legislation. This includes emphasising the requirements of Article 1 of Protocol No. 1 of the European Convention on Human Rights to provide appropriate compensation to investors in this sector. Where leases double frequently, offers have been made to remove these. 	
<p>Issue: The properties ultimately owned by the Group have structural defects</p> <p>Risk: Properties are unable to be used, and/or deteriorate in value.</p>	<ul style="list-style-type: none"> Insurance is maintained to cover against certain events. The Manager has a monitoring programme in place to mitigate against certain types of asset risk. Other than in exceptional circumstances, leaseholders are responsible for the costs of repair of issues with the fabric of buildings. Enhanced due diligence process in place with specific focus on building facades, warranties and defective lease clauses (including inherent defects). 	
<p>Issue: The Group has no employees and has delegated certain functions to a number of service providers.</p> <p>Risk: Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss.</p>	<ul style="list-style-type: none"> Service providers are appointed subject to due diligence processes and with clearly documented contractual arrangements detailing service expectations. Regular reports are provided by key service providers and the quality of services provided are monitored. Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements. Details of disaster recovery arrangements are obtained from key service providers. Retender of property management arrangements for managed estate. Engagement with non-managed estate service providers. Little ability to influence the management functions of non-managed estate. 	
<p>Issue: The Group must comply with the requirements of the REIT regime.</p> <p>Risk: No longer being able to avail itself of the tax benefits of adhering to the REIT regime.</p>	<ul style="list-style-type: none"> Board monitors compliance through reports from the Manager. Deloitte conduct an annual healthcheck for the Company. 	
<p>Issue: Building safety</p> <p>Risk: Requirement to fund costly building safety remediation works, where third parties do not contribute. Assets may be unsaleable in the interim.</p>	<ul style="list-style-type: none"> The Manager has conducted reviews following the Government's PAS 9980 technical guidance regarding the fire risk appraisal of external wall construction and cladding of existing multistorey and multi-occupied residential buildings. Good levels of engagement from third parties involved in development of buildings with fire safety issues, including funding remediation. Government funding available to remediate buildings over 11 metres in height through the Building Safety Fund. The Manager has identified developers to pay for remediation. Also see AR01. 	
<p>Issue: The Company's service providers are all exposed to the risk of cyber attacks.</p> <p>Risk: Cyber attacks could lead to loss of personal or confidential information, unauthorised payments, or inability to carry out operations in a timely manner.</p>	<ul style="list-style-type: none"> Service providers report on cyber risk mitigation and management at least annually, which include confirmation of business continuity capability in the event of a cyber attack. 	

Business Model **continued**

Risk	Mitigation of risk	Changes
<p>Issue: Loss of assets</p> <p>Risk: Assets are not safely held or are lost through exposure to Depositary, or other counterparty, or through cyber hacking</p>	<ul style="list-style-type: none"> The depositary reports on the safe custody of the Group's assets, including cash and portfolio holdings, which are independently reconciled with the Manager's records. Review of audited internal controls reports covering custodial arrangements is undertaken. An annual report from the depositary on its activities, including matters arising from custody operations is reviewed. 	<p style="text-align: center;">=</p>
<p>Issue: Sustainability considerations, including climate change, are not fully considered or understood in the acquisition and asset management process.</p> <p>Risk: This may lead to future issues (negative effect on price, valuation, shareholder returns or saleability of assets, ability to insure an asset, future costs of compliance with legislation, and reputational damage).</p>	<ul style="list-style-type: none"> The Manager has integrated sustainability considerations, including climate change, into the acquisition and asset management processes. Where possible, risks are insured (such as subsidence, flooding, and fire). ESG issues are discussed at all regular manager and Board meetings. E - energy saving where possible in communal areas, tree planting, and promoting recycling etc. 	<p style="text-align: center;">↑</p>
<p>Issue: Breaches of the TISE Listing Rules, the Companies Act or other regulations with which the Group is required to comply.</p> <p>Risk: Delisting, fines or other consequences, adverse publicity.</p>	<ul style="list-style-type: none"> Confirmation of compliance with relevant laws and regulations by key service providers. Shareholder documents and announcements, including the Group's published annual report are subject to stringent review processes. Procedures have been established to safeguard against disclosure of inside information. 	<p style="text-align: center;">↑</p>

Risk assessment and internal controls

Risk assessment includes consideration of the scope and quality of the systems of internal control operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the Audit and Risk Committee, including the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Group's performance or condition. No significant control failings or weaknesses were identified from the Audit and Risk Committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this report.

Viability statement

Provision 31 of the UK Corporate Governance Code requires the Board to make a statement on its assessment of the prospects of the company over a period of time which should be significantly longer than 12 months. The Directors have assessed the viability of the Company over a three year period, taking into account the Company's position at 30 September 2022 and the potential impact of the material uncertainty in relation to going concern driven by the principal risks it faces for the review period, including the potential costs for building safety remediation, substantially all of which are expected to be met by third parties.

In their assessment the Directors have considered each of the Group's principal risks and uncertainties detailed on pages 21 to 24, and in particular the impact of the Company's next continuation vote, to be put before shareholders on or before 31 December 2024.

The Directors have also considered the significant fall in the value of the Group's investment portfolio, the Group's income and expenditure projections and the £12.5 million term loan repayable on 10 January 2025, and the £12.5 million revolving credit facility which expires on the same date. The Directors know of no reason that an equivalent facility will not be in place by the expiry of this credit facility. Discussions have commenced to extend the facility.

Based on the Group's processes for monitoring operating costs, the share price discount, the Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 30 September 2025.

Going concern

The Directors have examined significant areas of possible financial risk, as detailed in note 1 of the consolidated financial statements on page 46, and have reviewed detailed cash flow forecasts and compliance with the debt covenants, in particular the LTV covenant and Interest Cover ratio.

Given ongoing uncertainty following the introduction of the Building Safety Act 2022, the Manager prepared a base case and a severe downside scenario. In assessing the severe downside scenario, the Manager included an estimate of the unlikely potential exposure to cost remediation that in an extreme scenario could be required to be funded by the Group as landlord. The severe scenario gave rise to a material uncertainty in relation to going concern.

In both scenarios, the Group's debt covenants are maintained throughout the forecast period. The Directors have therefore satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Bill Holland
Director

5 June 2023

Board of Directors



Barry Gilbertson

Independent Non-executive Chair

Date of appointment: 10 February 2021

Experience

Barry is a consultant with a focus on real estate, strategy and risk, with more than 45 years' experience advising on property, including formerly as an adviser to the Bank of England (2003-2010) and as President of the Royal Institution of Chartered Surveyors (2004-2005). Barry is a former partner in PricewaterhouseCoopers LLP (formerly Coopers & Lybrand) (1996-2011) and former non-executive consultant to Knight Frank LLP (2011-2013). He has held advisory appointments with the United Nations and the UK Government.

Barry's previous public company independent non-executive directorships include Custodian Property Income REIT, Granite REIT and RONA Incorporated. Barry has chaired or served on various committees in these companies, including Audit (and Risk), Governance, Nominations, Strategy and Remuneration.

Barry served on the Council of The University of Bath from 2014 to 2020, previously serving on the Finance Committee and chairing the new Remuneration Committee (from 2018 to 2020); holds Visiting Professor appointments at two UK universities and was awarded Honorary Membership of four international professional bodies. Among his voluntary roles, Barry is Chairman of The City of Bath UNESCO World Heritage Site (2017-).

Committee membership

Audit and Risk Committee, Management Engagement Committee (chair)



Bill Holland

Independent Non-executive Director

Date of appointment: 1 September 2019

Experience

Bill was a senior partner in KPMG's real estate practice and was responsible for the audit of a wide range of property companies and funds encompassing investors, developers, housebuilders and surveyors in the listed and private sectors.

In his 32 year career with KPMG, he spent 25 years specialising in the real estate sector, the last 19 years as partner. He also sat on the finance committees of the British Property Federation and INREV and on a working committee of The Association of Real Estate Funds.

He is also a director and audit committee chair of CLS Holdings plc and Urban & Civic plc, and a governor at Winchester College, chairing the estate committee and sitting on the finance committee.

Committee membership

Audit and Risk Committee (chair), Management Engagement Committee



Jane Vessey

Independent non-executive director

Date of appointment: 27 September 2021

Experience

Jane is an experienced fund manager and investment director, with almost twenty years' experience, bringing a professional investor's perspective to the Board. Jane also brings social housing experience to the Board from her role as Vice-Chair of Greenoak Housing Association where she sits on the Finance, Audit and Risk Committee and Assets and New Business Committee, and her previous role on the board of another housing association. She is an independent non-executive director at Northern Trust Global Investments and is Chair of Margetts Fund Management. Jane has chaired or served on various committees within these companies, including Risk and Audit and Remuneration committees.

Jane has provided training on all aspects of asset management to investment management companies, including leading training courses at the Investment Association. She has lectured at a number of business schools and is a visiting lecturer at Cranfield School of Management.

Committee membership

Audit and Risk Committee, Management Engagement Committee



Katherine Innes Ker

Independent non-executive director

Date of appointment: 27 September 2021

Experience

Katherine, an experienced non-executive director, brings broad commercial experience, corporate finance, mortgage lending, house building and residential construction industry experience to the Board.

Katherine is Chair of the Mortgage Advice Bureau plc, Senior Independent Director and Chair of the Remuneration Committee of building products company Forterra plc.

Katherine was a non-executive director at Vistry Group plc until May 2023 and Go-Ahead Group plc until November 2020, a non-executive director of Taylor Wimpey plc from 2001 to 2011, chairing the Remuneration Committee from 2004 to 2011, and non-executive director of Bryant Group plc prior to its acquisition by Taylor Woodrow. She was also a non-executive director at St Modwen Properties PLC from 2010-2013. Other appointments include Gigaclear Limited until 2018 and Colt Telecom Group SA until 2015. Katherine has a degree in Chemistry and a PhD in Molecular Biophysics from Oxford University.

Committee membership

Audit and Risk Committee, Management Engagement Committee

Directors' Report

The Directors submit their report and the audited consolidated financial statements for the Company and its subsidiaries for the year ended 30 September 2022.

Dividend policy

On 9 February 2022, a dividend policy of paying quarterly interim dividends was put to shareholders for an advisory vote, which passed with 100% of votes cast. Details of the interim dividends paid during the year are set out in note 16 of the notes to the Group consolidated financial statements. However, the Company intends to assess the payment of dividends on a semi-annual basis following the full year audited and interim accounts being released. In line with best practice, this change to the dividend policy will be put to shareholders at the Company's general meeting to approve these accounts.

Listing requirements

Throughout the year ended 30 September 2022, the Group complied with the conditions set out in the TISE Rules for Companies. The Directors monitor the compliance at Board meetings and take advice from the Group's TISE Listing sponsor where required.

Directors and their interests

The following persons served as Directors during the year and up to the date of signing the financial statements:

Bill Holland

Barry Gilbertson

Katherine Innes Ker

Jane Vessey

Further information about the Directors of the Company and their biographical details can be found on pages 26 and 27. There are no arrangements providing for compensation for loss of office or employment (through resignation, purported redundancy or otherwise) that occur because of a successful takeover bid.

Share capital

As at the date of this report, the Company had 95,667,627 ordinary shares of 50 pence each in issue. During the financial year under review, 1,079,000 shares were bought back and 130 new shares were issued, as a result of warrants being exercised. No shares are held in treasury.

Accordingly the total number of voting rights in the Company at the date of this report is 95,667,627. There are no warrants outstanding. Full details of the Company's share capital are set out in note 15 on page 57 and details of the powers of the Board in relation to the issuing or buying back by the Company of its shares may be found in the circular for the AGM held on 28 March 2023. All shares rank equally with respect to voting, dividends and any distribution on winding up.

Political donations

Neither the Company nor its subsidiaries has made any political donation or incurred political expenditure during the year.

Risk management

The information on risk management objectives and policies required to be included in this report may be found on page 21 of the Strategic Report and is incorporated by reference.

Future developments

The Strategic Report on pages 2 to 25 sets out the likely future developments in the business of the Company and the Group.

Key service providers

The Manager

The Company is an alternative investment fund as defined by the AIFM Directive and Schroder Real Estate Investment Management Limited ('Schroders') was appointed as the Manager in accordance with the terms of an alternative investment fund manager ('AIFM') agreement on 19 May 2019. The AIFM agreement, which is governed by the laws of England and Wales, can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party, subject to an initial three year term. As at the date of this report no such notice had been given by either party.

Schroders is authorised and regulated by the FCA and provides portfolio management, risk management, accounting and company secretarial services to the Company under the AIFM agreement. The Manager also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chair, other Board members or the corporate broker as appropriate. The Manager has delegated company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Manager has appropriate professional indemnity insurance cover in place.

The Schroders Group manages £752.4 billion (as at 30 September 2022) on behalf of institutional and retail investors, financial institutions and high net-worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

The Manager is responsible for operating the Group's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. The Audit and Risk Committee reviews annually the Manager's approach to internal control to ensure it is working effectively.

The management fee payable in respect of the year ended 30 September 2022 amounted to £870,885 (2021: £987,499). Further details of the amounts payable to the Manager are set out in Note 19 to the financial statements on page 59.

The Board has reviewed the performance of the Manager and continues to consider that it has the appropriate depth and quality of resource to deliver the Group's investment objectives over the longer term. Thus, the Board considers that Schroders' continued appointment under the terms of the AIFM agreement, details of which are set out above, is in the best interests of shareholders as a whole.

Depository

INDOS Financial Limited which is authorised and regulated by the Financial Conduct Authority, carries out certain duties of a depository specified in the AIFM Directive including, in relation to the Company, as follows:

- safekeeping of the assets of the Group which are entrusted to it;
- cash monitoring and verifying the Group's cash flows; and
- oversight of the Group and the Manager.

The Company, the Manager and the Depository may terminate the depository agreement at any time by giving three months' notice in writing. The Depository may only be removed from office when a new depository is appointed by the Company.

Corporate Governance

The Board is committed to high standards of corporate governance, which meet the statutory and regulatory requirements for companies

listed in Guernsey on The International Stock Exchange ('TISE') and has implemented a framework for corporate governance which it considers to be appropriate for a REIT. In this respect, the Board has chosen to incorporate the principles of corporate governance contained in the UK Corporate Governance Code (the 'UKCG Code'), noting that it is not required to fully comply with or adhere to the UKCG Code. The UKCG Code is published by the UK Financial Reporting Council and is available to download from www.frc.org.uk.

Compliance statement

The TISE Listing Rules require the Company to report against a code of corporate governance, or explain the reasons for not doing so. This Corporate Governance Statement, together with the Chair's Statement on page 2, the Manager's Report on page 6, Statement of Directors' Responsibilities on page 30 and the viability and going concern statements set out on page 25, indicate how the Company has complied with the UKCG Code's principles of good governance and its requirements on internal control.

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the UKCG Code, save in respect of the appointment of a Senior Independent Director, the decision not to carry out a board evaluation during the year which did occur post year-end as detailed in the Chair's Statement on page 2, the Chair's membership of the Audit and Risk Committee, and the absence of a nomination or remuneration committee, where departure from the UKCG Code is considered appropriate given the Company's size and adoption of a fully outsourced model. The Board has considered whether a senior independent Director should be appointed. As the Board comprises entirely non-executive Directors, the appointment of a senior independent Director is not considered necessary. However, the Chair of the Audit and Risk Committee effectively acts as the senior independent Director and is available to Directors and/or shareholders if they have concerns which cannot be resolved through discussion with the Chair. In line with common practice for investment companies, and considering the composition of the Audit and Risk Committee in terms its combination of skills, experience, and knowledge, it is considered appropriate for the Chair to be a member of the Audit and Risk committee. The Strategic Report and Directors' Report provide further details on the Company's internal controls (including risk management), governance and diversity policy.

Operation of the Board

Chair

The Chair is an independent non-executive Director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chair's other significant commitments are detailed on page 26.

Role and operation of the Board

The Board is the Company's governing body; it sets the Group's strategy and is collectively responsible to shareholders for its long-term success. The Board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objectives of the Group continue to be met. The Board also ensures that the Manager adheres to the investment parameters set by the Board and acts within the parameters set by it in respect of any gearing.

A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Chair ensures that all Directors receive relevant management, regulatory and financial information in a timely manner and that they are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

The Board is satisfied that it is of sufficient size with an appropriate balance of diverse skills and experience, independence and knowledge of the Company, its sector and the wider REIT sector, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making.

Training and development

On appointment, Directors receive a full, formal and tailored induction. Directors are also regularly provided with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

Conflicts of interest

Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

Directors' and officers' liability insurance and indemnity

Directors' and officers' liability insurance cover was in place for the Directors throughout the year under review.

The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the court. This is a qualifying third-party indemnity and was in place throughout the year under review and to the date of approval of this report.

Directors' attendance at meetings

Four Board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance, the level of discount of the Company's shares to underlying NAV per share and sales, marketing and PR activities of the Company; and services provided by third parties. Additional meetings of the Board are arranged as required.

The number of meetings of the Board and its committees held during the financial year and the attendance of individual Directors is shown on the next page. Whenever possible all Directors attend the AGM.

Directors' Report continued

Director	Board ¹	Audit and risk Committee	Management Engagement Committee
Barry Gilbertson	6 of 6	2 of 2	2 of 2
Bill Holland	6 of 6	2 of 2	2 of 2
Katherine Innes Ker	6 of 6	2 of 2	1 of 2
Jane Vessey	6 of 6	2 of 2	2 of 2

¹ Four quarterly meetings were held during the year and the remainder of the meetings were ad-hoc meetings convened at short notice to consider particular issues.

Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The Company communicates with shareholders through its web pages and the annual and half year reports, which aim to provide shareholders with a clear understanding of the Company's activities and its results.

The chairs of the Board and its committees attend the AGM and are available to respond to queries and concerns from shareholders.

It is the intention of the Board that the annual report and notice of the AGM be issued to shareholders so as to provide at least 21 clear days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the company secretary at the address given on the inside back cover.

The Company has adopted a policy which ensures that shareholder complaints and other shareholder communications addressed to the company secretary, the Chair or the Board are, in each case, considered by the Chair and the Board.

Board committees

In order to assist the Board in fulfilling its governance responsibilities, it has delegated certain functions to committees. The roles and responsibilities of these committees, together with details of work undertaken during the year under review, are outlined over the next few pages.

The reports of the Audit and Risk Committee and Management Engagement Committee are incorporated and form part of the Directors' Report.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

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 the Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- So far as each Director is aware, there is no relevant audit information of which the Group's and Company's Auditors are unaware.
- Each Director has taken all the steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's Auditors are aware of that information.

By order of the Board

Schroder Investment Management Limited

Company Secretary

5 June 2023

Audit and Risk Committee Report

The responsibilities and work carried out by the Audit and Risk Committee during the year under review are set out in the following report. The duties and responsibilities of the Committee may be found in the terms of reference which are set out on the Company's webpages, www.groundrentsincomefund.com. Membership of the Committee is as set out on pages 26 and 27. The Board has satisfied itself that at least one of the Committee's members has recent and relevant financial experience and that the Committee as a whole has competence.

The Committee discharged its responsibilities by:

- considering its terms of reference;
- evaluating its effectiveness and performance against its terms of reference;
- reviewing the operational controls maintained by the Manager, Depositary and registrar;
- reviewing the half year and annual report and financial statements;
- Reviewing the related year end audit plan and engagement letter;
- meeting with the valuer;
- reviewing the need for an internal audit function;
- considering the whistleblowing processes of its service providers;
- reviewing the independence of the external Auditors;
- evaluating the external Auditors' performance; and
- reviewing the principal risks faced by the Company and the system of internal control.

Annual report and financial statements

During its review of the Group's financial statements for the year ended 30 September 2022, the Committee, having deliberated on the Company's principal risks and uncertainties, considered the following significant issues, including consideration of principal risks and uncertainties in light of the Group's activities, and issues communicated by the Auditors during their reporting:

Issue considered	How the issue was addressed
- Internal controls and risk management	- Consideration of several key aspects of internal control and risk management operating within the Manager, Depositary and registrar, including assurance reports on their controls.
- Valuation and existence of investments	- Review of portfolio holdings and assurance reports on controls from the Manager and Depositary. - Review of information provided by the Manager at weekly meetings scheduled since early December 2022 to understand in detail the risk of residual remediation liabilities falling to the Company and how this was reflected the valuation. - Meeting with valuer of the portfolio to discuss findings. Engaged at length with the valuer, including receiving information from other valuation experts about the appropriateness of the approach taken by the valuer.
- Credit indebtedness of Group controlled entities	- Consideration of IFRS 9 in estimating the expected credit loss for certain Group financial assets
- The going concern and viability of the Company over a three-year horizon	- Consideration of the effect of the continuation resolution and change of investment policy, as well as the Material Valuation Uncertainty Clause, on the ability of the Company to continue as a going concern and its viability for the three- year period chosen by the Board.
- Recognition of ground rent and other income	- Consideration of income received against forecast.
- Compliance with the real estate investment trust qualifying rules in S1158 of the Corporation Tax Act 2010	- Consideration of the Manager's report confirming compliance and review of minimum distribution calculation.
- Calculation of the Manager's fees	- Consideration of methodology used to calculate the fee, matched against the criteria set out in the AIFM agreement.
- Overall accuracy of the annual report and financial statements	- Consideration of the draft annual report and financial statements and the letter from the Manager in support of the letter of representation to the Auditors.

Engagement with the Auditors in relation to the Modified Auditors Report

The Audit and Risk Committee engaged at length with the Auditors to understand the circumstances and auditing standards which led to the Modified Auditors Report. This included, together with the Manager, discussing the information they required to undertake their audit, why the information was difficult to verify and understanding the conclusions they reached. The Committee also reviewed the disclosures in the Annual Report relating to the Modified Auditors Report and considered related accounting issues and its impact on the Company's principal risks and uncertainties.

Recommendations made to, and approved by, the Board

As a result of the work performed, the Committee has concluded that the annual report and financial statements for the year ended 30 September 2022, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 30.

Audit and Risk Committee Report **continued**

Internal control

The UK Corporate Governance Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control and to report to shareholders that it has done so. The Audit and Risk Committee, on behalf of the Board, also regularly reviews a detailed 'Risk Matrix' identifying significant strategic, investment-related, operational and service provider-related risks and ensures that risk management and all aspects of internal control are reviewed at least twice per year.

The Company's system of internal controls is substantially reliant on the Manager's and other key service providers' own internal controls and internal audit processes due to the nature of the Manager's role. Although the Board believes that the Company has a robust framework of internal controls in place, this can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. No significant issues were identified from the internal controls review or raised by the external Auditors.

Internal audit

The Audit and Risk Committee considered the need for an internal audit function and concluded that this was not required due to the Company's outsourced business model. Key service providers, including the Manager, had robust internal audit arrangements in place and the Audit and Risk Committee received a report from the Manager's internal audit team on its activities during the year.

Auditors appointment

PricewaterhouseCoopers LLP have indicated their willingness to continue to act as auditors. Accordingly, resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the Directors to determine their remuneration will be proposed at the EGM. This is the first year that Victoria Tallon, the Senior Statutory Auditor, has conducted the audit of the Company's financial statements.

PricewaterhouseCoopers LLP has provided audit services to the Company since it was appointed on 23 April 2012.

External Auditors' remuneration and independence

Annually, the Audit and Risk Committee considers the remuneration and independence of the external Auditors. The Committee recommends the remuneration of the external Auditors to the Board and keeps under review the ratio of audit to non-audit fees, where any have been incurred, to ensure that the independence and objectivity of the external Auditors are safeguarded.

Effectiveness of the independent audit process

The Audit and Risk Committee evaluated the effectiveness of PricewaterhouseCoopers LLP prior to making a recommendation on its appointment at the forthcoming Annual General Meeting. As part of the evaluation, the Committee considered feedback from the Manager on the audit process and the year-end report from the Auditors, which details the auditor's compliance with regulatory requirements, on safeguards that

have been established and their own internal quality control procedures. The Audit and Risk Committee had discussions with the Senior Statutory Auditor on audit planning, accounting policies and audit findings, and met the Senior Statutory Auditor both with and without representatives of the Manager present. The Chair of the Audit and Risk Committee also had informal discussions with the Senior Statutory Auditor during the course of the year. The Audit and Risk Committee is satisfied with the effectiveness of the audit.

Provision of non-audit services

The Committee has reviewed the FRC's Guidance on audit committees and has formulated a policy on the provision of non-audit services by the Company's Auditors. The Auditors may, if required, provide certain non-audit services and this will be judged on a case-by-case basis, in line with the latest FRC guidance taking into account any threats to independence this may cause, the fees, the suitability of the audit firm to provide these, and the criteria which govern the compensation of those performing the audit.

The Auditors have not provided any non-audit services to the Company during the year (2021: none).

Whistleblowing

The Audit and Risk Committee has reviewed the arrangements by which staff of the Manager and the Company Secretary may, in confidence, raise concerns about possible matters of financial reporting or other matters. The Committee is satisfied that suitable arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Bill Holland

Audit and Risk Committee Chair

5 June 2023

Recommendations made to, and approved by, the Board:

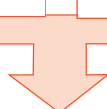
- That PricewaterhouseCoopers LLP be re-appointed as auditors.

Management Engagement Committee Report

The Management Engagement Committee is responsible for (1) the monitoring and oversight of the Manager's performance and fees, and confirming the Manager's ongoing suitability, and (2) reviewing and assessing the Company's other service providers, including reviewing their fees. All Directors are members of the Committee. Barry Gilbertson is the chair of the Committee. Its terms of reference are available on the Company's webpages, www.groundrentsincomefund.com.

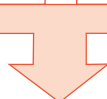
Approach

Oversight of the Manager	Oversight of other service providers
<p>The Committee:</p> <ul style="list-style-type: none"> reviews the Manager's performance, over the short- and long-term, against the peer group and the market. considers the reporting it has received from the Manager throughout the year, and the reporting from the Manager to the shareholders. assesses management fees on an absolute and relative basis, considering peer group and industry figures, as well as the structure of the fees. reviews the appropriateness of the Manager's contract, including terms such as notice period. assesses whether the Company receives appropriate administrative, accounting, company secretarial and marketing support from the Manager. 	<p>The Committee reviews the performance and competitiveness of the following service providers on at least an annual basis:</p> <ul style="list-style-type: none"> Depositary and custodian Corporate broker Registrar Lender <p>The Committee also receives a report from the Company Secretary on ancillary service providers, and considers any recommendations.</p> <p>The Committee noted the Audit and Risk Committee's review of the Auditor's effectiveness.</p>



Application during the year

<p>The Committee undertook a detailed review of the Manager's performance and agreed that it has the appropriate depth and quality of resource to deliver the Company's investment objective.</p> <p>The Committee also reviewed the terms of the AIFM agreement and agreed they remained fit for purpose.</p> <p>The Committee reviewed the other services provided by the Manager and agreed they were satisfactory.</p>	<p>The annual review of each of the service providers was satisfactory.</p> <p>The Committee noted that the Audit and Risk Committee had undertaken a detailed evaluation of the Manager, registrar, and Depositary and custodian's internal controls.</p>
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Recommendations made to, and approved by, the Board:

- That the ongoing appointment of the Manager on the terms of the AIFM agreement was in the best interests of shareholders as a whole.
- That the Company's service providers' performance remained satisfactory.

Directors' Remuneration Report

Introduction

The following remuneration policy is subject to a binding vote every three years. The next vote will take place at the AGM in 2024. The below Directors' Remuneration Report is subject to an annual advisory vote. An ordinary resolution to approve this report will be put to shareholders at the forthcoming EGM.

At the AGM held on 31 March 2021, 77.40% of the votes cast (including votes cast at the Chair's discretion) in respect of approval of the remuneration policy were in favour, while 22.64% were against. 20,000 votes were withheld.

At the EGM held on 24 April 2023, 99.94% of the votes cast (including votes cast at the Chair's discretion) in respect of increasing the aggregate limit of directors' fees were in favour, while 0.06% were against. 72,406 votes were withheld.

Directors' remuneration policy

The determination of the directors' fees is a matter dealt with by the Board.

It is the Board's policy to determine the level of directors' remuneration having regard to amounts payable to non-executive directors in the industry generally, the role that individual directors fulfil in respect of board and committee responsibilities, and time committed to the Company's affairs, taking into account the aggregate limit of fees set out in the Company's articles of association. The aggregate limit of directors' fees is currently £200,000 (amended following the EGM on 24 April 2023).

The Chair of the Board and the chair of the Audit and Risk Committee each receives fees at a higher rate than the other directors to reflect their additional responsibilities. Directors' fees are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long-term strategic objectives.

Fees paid to directors

The following table sets out the gross amounts paid by the Company to directors for their services in respect of the year ended 30 September 2022 and the preceding financial year, excluding the impact of taxes and National Insurance contributions. Directors' remuneration is all fixed; they do not receive any variable remuneration. The performance of the Company over the financial year is presented on page 6, under the heading "Performance and strategy". The information in the below table has been audited.

Director	Fees		Taxable benefits		Total		Change in annual fee over two years ended 30 September 2022
	2022 £	2021 £	2022 £	2021 £	2022 £	2021 £	
Malcolm Naish ¹	-	15,000	-	-	-	15,000	(100.0%)
Paul Craig ²	-	24,013	-	-	-	24,013	(100.0%)
Bill Holland	35,000	27,500	366 ⁷	-	35,366	27,500	27.3%
Barry Gilbertson ³	45,000	18,800	-	-	45,000	18,800	139.4%
Katherine Innes Ker ⁴	30,000 ⁵	328	-	-	30,000	328	9,046.3%
Jane Vessey ⁴	30,000 ⁶	328	-	-	30,000	328	9,046.3%
Total	140,000	85,969	366	-	140,366	85,969	62.8%

¹Malcolm Naish retired as chairman on 31 March 2021.

²Paul Craig resigned as director on 16 September 2021.

³Barry Gilbertson was appointed as a director on 10 February 2021, and as Chair on 31 March 2021.

⁴Katherine Innes Ker and Jane Vessey were appointed as directors on 27 September 2021.

⁵Katherine Innes Ker was paid £30,328 in 2022 including £328 that related to the prior year

⁶Jane Vessey was paid £30,329 in 2022 including £329 that related to the prior year

⁷Reimbursement of travel costs to the Company's registered office for Board meetings

Any director who performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid additional remuneration to be determined by the directors, subject to the previously mentioned fee cap.

The Board and its committees exclusively comprise non-executive directors. No director past or present has an entitlement to a pension from the Company, and the Company has not, and does not intend to, operate a share scheme for directors or to award any share options or long-term performance incentives to any director. No director has a service contract with the Company, however directors have a letter of appointment. Directors do not receive exit payments and are not provided with any compensation for loss of office. No other payments are made to directors other than the reimbursement of reasonable out-of-pocket expenses incurred in attending to the Company's business.

Implementation of policy

The terms of directors' letters of appointment are available for inspection at the Company's registered office address during normal business hours and during the AGM at the location of such meeting.

The Board did not seek the views of shareholders in setting this remuneration policy. Any comments on the policy received from shareholders would be considered on a case-by-case basis.

As the Company does not have any employees, no employee pay and employment conditions were taken into account when setting this remuneration policy and no employees were consulted in its construction.

Directors' fees are reviewed annually and take into account research from third parties on the fee levels of directors of peer group companies, as well as industry norms and factors affecting the time commitment expected of the directors.

New directors are subject to the provisions set out in this remuneration policy.

Directors' annual report on remuneration (unaudited)

This report sets out how the directors' remuneration policy was implemented during the year ended 30 September 2022.

Consideration of matters relating to directors' remuneration

Directors' remuneration was last reviewed by the Board in April 2023. Following this, the Board agreed that the fees should be increased as follows:

Director	Fees effective 1 October 2021 – 31 March 2023	New fees (from 1 April 2023)
Barry Gilbertson	£45,000	£60,000
Bill Holland	£35,000	£42,500
Jane Vessey	£30,000	£33,750
Katherine Innes Ker	£30,000	£33,750

One-off payments for additional work were also agreed of £15,000 for the Chair, £7,500 for the Audit and Risk Committee Chair, and £3,750 for each of the other independent non-executive directors.

Expenditure by the Company on remuneration and distributions to shareholders

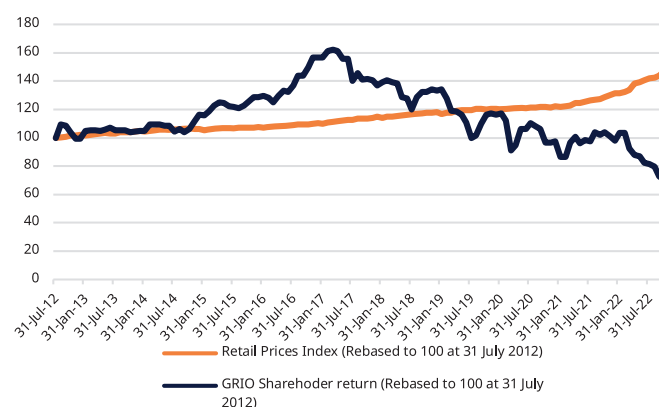
The table below compares the remuneration payable to directors to distributions made to shareholders during the year under review and the prior financial year. In considering these figures, shareholders should take into account the Company's investment objective.

	Year ended 30 Sep 2022 £'000	Year ended 30 Sep 2021 £'000	Change %
Remuneration payable to directors	141 ¹	86	64.0
Dividends	2,877	3,841	(25.1)
Total distributions paid to shareholders	2,877	3,841	(25.1)

¹Including £657 paid to Katherine Innes Ker and Jane Vessey that relates to prior year.

Ten year share price and Retail Prices Index total returns

The graph below compares the Company's share price total return with the Retail Prices Index, which is considered to be an appropriate index by which to assess the Company's relative performance.



Directors' share interests

The Company's articles of association do not require directors to own shares in the Company. Directors' interests in the Company's shares are shown below. Where directors are not mentioned below, they do not own shares in the Company.

	Ordinary shares at 30 Sep 2022	Ordinary shares at 30 Sep 2021
Barry Gilbertson	13,513	13,513
Bill Holland	13,614	13,614
Jane Vessey	13,000	nil

There have been no changes notified since the year end.

On behalf of the Board

Bill Holland
Director

5 June 2023

Independent auditors' report to the members of Ground Rents Income Fund plc

Report on the audit of the financial statements

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph below, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on Ground Rents Income Fund plc's financial statements (the "financial statements").

We were engaged to audit the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Consolidated and Company Statements of Financial Position as at 30 September 2022; Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Cash Flows, and Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies. The financial reporting framework that has been applied in their preparation is UK-adopted international accounting standards.

Basis for disclaimer of opinion

During the course of our audit, we identified a pervasive limitation of scope in relation to the valuation of investment properties. As disclosed in note 8 to the financial statements, a material proportion of the investment property portfolio (£22,640k) is subject to a material valuation uncertainty clause from the valuer who has independently valued the Group's property portfolio. The valuer has applied fire safety discounts of £11,417k to this proportion of the portfolio. We have been unable to gain sufficient appropriate audit evidence to support those discounts. The valuer has relied upon a risk matrix prepared by management in forming their judgement of the discount required. Given the early stages of the endorsement of the Building Safety Act 2022 ("BSA") into law and the requirement to obtain fire safety assessments in line with Publicly Available Specification ("PAS") guidelines, we have not been able to obtain evidence over management's assumptions used to quantify the potential remediation costs associated with these properties and have not been able to conclude which party will be responsible to bear any associated liabilities. These are the two key assumptions within the risk matrix provided to the valuer that he has used when applying fire safety discounts to the portfolio. We are further unable to gain sufficient appropriate audit evidence over the carrying value of the investment in subsidiaries and recoverability of the intercompany receivables balances within the Company financial statements, given the inherent linkage of these balances to the property valuations outlined above. Consequently, we were unable to determine whether any adjustments were necessary to the Group and Company financial statements.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

Notwithstanding our disclaimer of an opinion on the financial statements, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. The Group's severe downside scenario highlights uncertainty in the forecast cash flow that is sensitive to assumptions made when considering the Group's and Company's potential exposure to building safety remediation, highlighting that additional funding would be required in such a situation. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a 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.

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- we obtained management's cash flow forecasts for both the base case and severe downside scenarios and evaluated and assessed the process by which the Group's future cash flow forecasts were prepared;
- we obtained the terms of the Group's financing facility and the covenants in place in relation to this facility, which show that the Group's cash flow forecasts are in compliance with all covenant conditions for at least 12 months from the date of the approval of financial statements;
- we agreed the opening position of the Group's cash flow forecasts to the September 2022 management accounts. We also agreed the gross debt and cash per the September 2022 management accounts to the Group's bank statements;
- we evaluated the appropriateness of the severe downside scenario used in management's determination of the going concern basis of preparation, which included an assessment of any key assumptions underpinning the cash flows throughout the going concern period; and

- we have reviewed the Company's Articles of Association, legal advice surrounding the wind-up resolution and subsequent amendments to the Articles.

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

Our audit approach

Overview

Audit scope

- The Group includes 37 statutory entities, excluding dormant entities, all of which are included within scope to support the Group and Company audit opinion. All components are managed by the same finance team and operate entirely within the UK.

Key audit matters

- Material uncertainty related to going concern
- Disclaimer of opinion in relation to the valuation of investment properties under material valuation uncertainty (Group)
- Disclaimer of opinion in relation to the carrying value of investments and recoverability of intercompany receivables (Company)
- Valuation of investment properties (Group)

Materiality

- Overall Group materiality: £1,122k (2021: £1,223k) based on 1% of total assets.
- Overall Company materiality: £755k (2021: £828k) based on 1% of total assets.
- Performance materiality: £841k (2021: £917k) (Group) and £566k (2021: £621k) (Company).
- For income statement line items we applied a lower specific materiality of £141k (2021: £176k) for the Group and £134k (2021: £58k) for the Company. For 2022 this is based on 5% of profit/loss before tax excluding revaluation loss.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, and the matters described in the Basis for disclaimer of opinion paragraph above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Carrying value of investments and recoverability of intercompany receivables is a new key audit matter this year. Otherwise, the key audit matters are consistent with last year.

Independent Auditors' Report to the Members of Ground Rents Income Fund plc continued

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties (Group) Refer to page 48 (Accounting policies) and note 8 (Notes to the Consolidated Financial Statements).</p> <p>The valuation of the investment property portfolio is inherently subjective and is underpinned by a number of assumptions. The valuation of the Group's investment properties is the key component of the net asset value and underpins the Group's result for the year. The closing investment property valuation at 30 September 2022 was £109,020k, which led to a revaluation loss for the year of £10,342k (2021: loss of £4,732k), which is accounted for within 'Net revaluation loss on investment properties' and is a significant component of the result for the year.</p> <p>The Group's property portfolio has been independently valued by a valuer (in accordance with the RICS Valuation – Professional Standard ('RICS')).</p> <p>In determining a property's valuation, the valuer takes into account property-specific information such as the current rental income, the rent review mechanism and the time to the next rent review. They were also provided with a RAG matrix detailing expected cost remediation and liability for assets with fire safety issues. They apply assumptions for Years Purchase (YP) multiples and estimated market rent increases, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation.</p> <p>The valuer's final report contained a material valuation uncertainty ('MVU') in relation to a portion of the portfolio with fire safety issues and subsequent valuation discounts. The portion of the portfolio with no fire safety issues ('Non-MVU' portion) was valued at £86,380k, and the portion covered by the MVU was valued at £22,640k after fire safety discounts of £11,417k.</p> <p>Our audit paid particular attention to the impact of the Government's ongoing reforms of the residential leasehold sector, and the impact of fire safety issues on specific valuations.</p> <p>The existence of significant estimation uncertainty, coupled with the fact that only a small percentage of difference in individual property valuations, when aggregated, could result in a material misstatement on the income statement and balance sheet, warrants specific audit focus in this area.</p>	<p>Work performed over the non-MVU portion of the portfolio (£86,380k):</p> <p>Experience of the valuer and relevance of their work: We read the valuer's report and held direct discussion with the valuer's valuation team. We confirmed that the approaches used were consistent with the RICS guidelines and suitable for use in determining the carrying value for the purpose of the financial statements. We assessed the valuer's qualifications and expertise and read their terms of engagement with the Group, to determine whether there were any matters that might have affected their objectivity or imposed scope limitations upon them.</p> <p>Data provided to the valuer: We performed testing, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the valuer by management. This data included annual rental income, the rent review mechanism and the rent review cycle. This data was agreed to supporting evidence, such as the original lease.</p> <p>Assumptions and estimates used by the valuer: We attended meetings with the valuer independently of the manager, at which the valuations and the key assumptions therein were discussed. Our work covered the valuation of every property in the Group.</p> <p>We challenged the valuer on the consistency of the application of the key assumptions used in the valuations, including the YP multiple, and ensured the responses reflected the particular characteristics of each property.</p> <p>This challenge also considered whether the review methodology for the properties required any adjustment given the market effects residential leasehold reform and fire safety issues. Our testing which involved the use of our real estate valuation specialists, qualified chartered surveyors with appropriate market knowledge, indicated that the estimates and assumptions used were appropriate in the context of the Group's property portfolio and reflected the circumstances of the market at the balance sheet date.</p> <p>Work performed over the MVU portion of the portfolio (£22,640k): The MVU portion of the portfolio was considered alongside the non-MVU test discussed above, however we were not able to perform the following procedures over these assets:</p> <ul style="list-style-type: none"> • We were not able to obtain sufficient appropriate evidence over the valuer's fire safety discounts due to the lack of available market transactional data. • We were not able to audit the expected costs of remediation per the RAG matrix for a material portion of assets with fire safety issues due to the infancy in the cost estimation cycle. We could therefore not assess if the valuer's discount was sufficient or if additional provisions were required. • We were not able to evidence which third party is liable for remediation costs for a material portion of the portfolio. <p>The above limitations in our audit approach, coupled with the highly material and judgemental nature of the valuation of the portfolio under MVU, have resulted in a disclaimer of opinion. This is determined to be pervasive in nature due to it representing a significant proportion of the financial statements.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group includes 37 statutory entities, excluding dormant entities, all of which are included within scope to support the Group and Company audit opinion. All components are managed by the same finance team and operate entirely within the UK.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group and Company overall materiality	Group and Company specific materiality for income statement account balances
<i>Overall materiality</i>	Group: £1,122k (2021: £1,223k) Company: £755k (2021: £828k)	Group: £141k (2021: £176k) Company: £134k (2021: £58k)
<i>How we determined it</i>	1% of total assets	5% of profit/loss before tax excluding revaluation loss
<i>Rationale for benchmark applied</i>	The key measure of the Group and Company's performance is the valuation of investment properties and the balance sheet as a whole. Given this, consistent with the prior year, we set an overall Group materiality level based on total assets.	In addition to the overall materiality, a specific materiality was applied to income statement account balances. In 2022, this was determined on the basis of 5% profit/loss before tax excluding revaluation loss. A specific materiality was considered as the most appropriate method to ensure sufficient coverage across the income statement.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3k and £737k. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £841k (2021: £917k) for the Group financial statements and £566k (2021: £621k) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £56k (Group audit) (2021: £61k) and £37k (Company audit) (2021: £41k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on the Strategic Report and Directors' Report

Notwithstanding our disclaimer of an opinion on the financial statements, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Notwithstanding our disclaimer of an opinion on the financial statements, in light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit and performed subject to the pervasive limitation described above, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent Auditors' Report to the Members of Ground Rents Income Fund plc continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the financial statements in accordance with ISAs (UK) and to issue an auditors' report. However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the REIT regime and BSA, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to improve financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- reviewing relevant meeting minutes, including those of the Board of Directors;
- auditing the tax computations to ensure compliance with tax legislation;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of expenses;
- challenging assumptions and judgements made by management in their significant accounting estimates (due to risk of management bias) in particular around the valuation of investment properties (see related key audit matter);
- discussions with the Audit and Risk Committee and management including consideration of known or suspected instances of non-compliance with laws and regulations or fraud; and
- identifying and testing journal entries, in particular journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Arising from the limitation of our work referred to in the Basis for disclaimer of opinion paragraph above we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Under the Companies Act 2006 we are also required to report to you if, in our opinion:

- we were unable to determine whether adequate accounting records have been kept by the Company; or
- returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Victoria Tallon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

5 June 2023

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2022

	Note	2022 £	2021 £
Continuing operations			
Revenue	2	5,595,994	5,693,787
Operating (expenses)/income	3	(2,060,400)	495,092
Profit on sale of investment properties		23,677	340,774
Net revaluation loss on investment properties	8	(10,342,245)	(4,731,925)
Operating (loss)/profit		(6,782,974)	1,797,728
Finance income	5	1,364	618
Finance expenses	6	(738,570)	(605,440)
Net finance expense		(737,206)	(604,822)
(Loss)/profit before tax		(7,520,180)	1,192,906
Taxation	7	-	-
(Loss)/profit after tax and total comprehensive (loss)/profit		(7,520,180)	1,192,906
(Loss)/earnings per share			
Basic	13	(7.84p)	1.23p
Diluted	13	(7.84p)	1.18p

The accompanying notes on pages 46 to 59 form an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 September 2022

	Note(s)	2022 £	2021 £
Assets			
Non-current assets			
Investment properties subject to Material Valuation Uncertainty	8	22,640,000	–
Investment properties not subject to Material Valuation Uncertainty	8	86,380,000	119,380,000
		109,020,000	119,380,000
Current assets			
Trade and other receivables	9	1,295,894	1,833,250
Interest rate derivative contracts		6,814	35,961
Cash and cash equivalents	18	1,912,499	1,090,027
		3,215,207	2,959,238
Total assets		112,235,207	122,339,238
Liabilities			
Non-current liabilities			
Financial liabilities measured at amortised cost	11 & 18	(20,730,770)	(19,111,112)
		(20,730,770)	(19,111,112)
Current liabilities			
Trade and other payables	10	(2,982,173)	(3,513,957)
Total liabilities		(23,712,943)	(22,625,069)
Net assets		88,522,264	99,714,169
Equity			
Share capital	15	47,833,813	48,373,248
Capital redemption reserve	15	669,500	130,000
Retained earnings		47,539,131	50,018,015
(Loss)/profit for the financial year		(7,520,180)	1,192,906
Total equity		88,522,264	99,714,169
Net asset value per ordinary share			
Basic	14	92.5p	103.1p
Diluted	14	92.5p	102.9p

The consolidated financial statements on pages 42 to 45 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Bill Holland
Director

Jane Vessey
Director

Ground Rents Income Fund plc
Company registered number: 08041022

Date 5 June 2023

The accompanying notes on pages 46 to 59 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 September 2022

	Note	2022 £	2021 £
Cash flows from operating activities			
Cash generated from operations	17	3,541,166	2,779,236
Interest paid on bank loan and bank charges		(589,765)	(507,585)
Net cash generated from operating activities		2,951,401	2,271,651
Cash flows from investing activities			
Interest received		1,364	618
Receipts from the sale of investment properties		41,432	418,849
Net cash generated from investing activities		42,796	419,467
Cash flows from financing activities			
Bank loan receipts	18	1,500,000	-
Net proceeds from issuance of shares	15	130	-
Net cash used in share buyback	17	(795,148)	(195,392)
Dividends paid to shareholders	16	(2,876,707)	(3,841,457)
Net cash used in financing activities		(2,171,725)	(4,036,849)
Net increase/(decrease) in cash and cash equivalents	18	822,472	(1,345,731)
Net cash and cash equivalents at the beginning of the year	18	1,090,027	2,435,758
Net cash and cash equivalents at the end of the year	18	1,912,499	1,090,027

The accompanying notes on pages 46 to 59 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2022

	Note(s)	Share capital £	Capital redemption reserve £	Retained earnings £	Total equity £
At 1 October 2020		48,503,248	-	54,054,864	102,558,112
Comprehensive profit					
Profit for the year		-	-	1,192,906	1,192,906
Total comprehensive profit		-	-	1,192,906	1,192,906
Transactions with owners					
Buyback of ordinary shares	15 & 17	(130,000)	130,000	(195,392)	(195,392)
Dividends paid	16	-	-	(3,841,457)	(3,841,457)
At 30 September 2021		48,373,248	130,000	51,210,921	99,714,169
Comprehensive loss					
Loss for the year		-	-	(7,520,180)	(7,520,180)
Total comprehensive loss		-	-	(7,520,180)	(7,520,180)
Transactions with owners					
Issue of share capital	15	65	-	65	130
Buyback of ordinary shares	15 & 17	(539,500)	539,500	(795,148)	(795,148)
Dividends paid	16	-	-	(2,876,707)	(2,876,707)
At 30 September 2022		47,833,813	669,500	40,018,951	88,522,264

The accompanying notes on pages 46 to 59 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2022

1 Accounting policies

Ground Rents Income Fund plc (the 'Company') is a closed-ended investment company domiciled and incorporated in the UK as a public company limited by shares. The Company has been listed on TISE and traded on the SETSqx platform of the Stock Exchange since 13 August 2012. The Company's registered address is 1 London Wall Place, London, EC2Y 5AU. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group').

Statement of compliance

The financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards ('IFRS') and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 October 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments, which have been measured at fair value. The functional and presentational currency is sterling.

Going concern

The Manager has prepared detailed forward-looking cash flow forecasts that present the Group's expected liquidity and covenant position for a going concern period of at least 12 months from the date of signing the annual report.

Given ongoing uncertainty following the introduction of the Building Safety Act 2022, the Manager has prepared a base case and a severe downside scenario, which include the following assumptions:

- Base case: Ground rent review income increases in line with current portfolio of leases held, forecast finance expenses reflect market expectations, other expenses reflect the Manager's forecast assumptions, increased management time and cost and legal expenditure incurred in continuing to progress building safety remediation. Based on current experience managing building safety related projects, with further details set out in the Chair's Statement and the Manager's Report, there is reasonable evidence to support the base case being achievable, without the requirement for asset disposals.
- In assessing the severe downside case, the Manager has included the following assumptions:
 - Future RPI-linked ground rent income is assumed to be 2 percentage points lower than the base case, non-ground rent income falls by 50%, and an additional £1 million of remediation resolution management cost is incurred.
 - An estimate of the unlikely potential exposure to cost remediation that in an extreme scenario could be required to be funded by the Group as landlord.
 - In determining this assumption, for assets impacted by the independent valuer's Material Valuation Uncertainty Clause and building safety issues, the Manager has adopted the published Barratt Developments plc average remediation cost of £21,000 per unit, multiplied by the combined unit size of the higher risk assets. This remediation cost per unit has been discounted to 30% to determine the severe position of cost liability. This results in a total liability for remediation costs of £12.6 million. As noted above, based on current experience managing building safety related projects, these assumptions are very unlikely to be realised.
 - The cash flows incorporate an assumed period for obtaining fire safety assessments, submitting funding applications, completing building remediation.
 - An additional £3 million is drawn down from the RCF to match the assumed timings of cost phasing.

Based on these assumptions, the cash headroom at the lowest point within the forecast period is £2.9 million (at June 2024) and falls to £1.8 million (at September 2024). The above assumptions give rise to a material uncertainty in relation to going concern.

In both scenarios, the Group loan-to-value restriction and financing covenants are maintained throughout the forecast period. As shown within the Consolidated Statement of Financial Position, the Group holds assets valued at £86 million that are not subject to Material Valuation Uncertainty or building safety issues, of which £52.6 million are unencumbered assets, which could be marketed for sale in the event of further cash flow needs.

In addition to the matters described above, in arriving at their conclusion the Directors have also considered:

- The Group's consolidated liquidity position, and undrawn debt facility with Santander, at the date of approval of the accounts: As at 31 May 2023, cash held was £1 million and the undrawn RCF remained at £4 million – the combined total being £5 million. This sum is deemed to provide more than sufficient headroom for the Group to meet its liabilities as they fall due since the nature and timing of the majority of the Group's expenses can be predicted with reasonable accuracy, notwithstanding the increased cost base in connection to ongoing Building Safety Act requirements;

1 Accounting policies continued

- Recent rent collection statistics, current ground rent receivables and other receivables owed to the Company;
- The remaining life of the Group's £25 million loan facility with Santander, which comprises a £12.5 million fixed rate loan attracting an interest rate of 2.68% per annum, and a £12.5 million revolving credit facility ('RCF') attracting an interest rate of 1.85% per annum plus SONIA of which £5.5 million is capped at 2.85%. The facility extends to January 2025. Discussions have begun to extend the facility;
- Compliance with third party debt covenants and in particular Loan-to-Value covenants and Interest Cover ratios; and
- The Company's sustainable dividend policy, which is reviewed regularly to ensure the Company's liquid resources will be sufficient to cover any working capital requirements, while conforming to the requirement to distribute dividends in compliance with REIT regulations. Further details can be found within the Chairman's statement on page 2 and the Directors' Report on page 28.

The Directors have therefore satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future and considers it appropriate to adopt the going concern basis in preparing the Group consolidated financial statements and Company financial statements; the performance of which is intrinsically linked to that of the Group.

Adoption of new and revised standards

During the year, the Group has applied the following amendments for the first time for the annual reporting period commencing 1 October 2021:

Amendment to IFRS 16 – Leases – Covid-19 related rent concessions

Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets

Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The Group also elected to adopt the following amendments early:

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37

Annual Improvements to IFRS Standards 2018-2020

Reference to the Conceptual Framework – Amendments to IFRS 3.

The amendments listed above did not have any impact on the amounts recognised in prior periods and have/are not expected to significantly affect the current or future periods respectively.

New standards and interpretations not yet adopted by the Group

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 30 September 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Estimates

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The most significant estimate is:

- Carrying value of investment properties
 Investment properties are stated at fair value. Fair value is inherently subjective because the valuer makes assumptions which may not prove to be accurate. The Group uses external professional valuers to determine the relevant amounts. For the current year, these estimates include valuation adjustments to reflect potential future remediation as a result of recent building safety and leasehold reform legislation. See note 8 for further detail.

Judgements

There are no significant judgements made by management in the application of IFRS, with no corresponding material impact on the financial statements of the Group.

Notes to the Consolidated Financial Statements **continued**

For the year ended 30 September 2022

1 Accounting policies continued

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity where it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Revenue

Revenue represents the value of ground rent income due in the year together with any supplementary income earned in the year, including insurance income, tenant fees, lease restructure premiums and other income. The policy is in line with IFRS 15 – Revenue from contracts with customers, and reflects the nature, amount, timing and uncertainty of revenue under freehold and head leasehold contracts.

Rental income, including fixed rental uplifts, from investment property leased out under operating leases is recognised as revenue on a straight-line basis over the lease term, apart from:

- Any rent adjustments based on open market estimated rental values or indexed-linked rent reviews which are recognised, based on management estimates, from the rent review date in relation to unsettled rent reviews; and
- Contingent rents, being those lease payments that are not fixed at the inception of the lease, which are recognised in the year they are earned and as defined by the lease.

Finance income and expenses

Finance income comprises interest receivable on bank deposits. Finance expenses comprise interest payable and transaction costs incurred in connection with the borrowing of funds under the loan facilities. Finance income and expenses are recognised in the Consolidated Statement of Comprehensive Income on an accruals basis in the year to which they relate.

Loan arrangement fees are capitalised and deducted from the amount outstanding on the loan. They are expensed to the Consolidated Statement of Comprehensive Income over the period of the loan facility. This loan amortisation is included within finance expenses in the consolidated financial statements.

Taxation

Tax on the profit for the year comprises current tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end date.

Deferred tax

Generally, the Group is not exposed to deferred tax because it is a REIT. REITs do not pay tax on property income and gains.

Exceptional items

Exceptional items are those that in the Directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size or incidence. In determining whether an item should be disclosed as an exceptional item, the Directors consider quantitative as well as qualitative factors such as frequency, predictability of occurrence and significance. This is consistent with the way in which the financial performance is managed by the Manager and reported to the Directors. Disclosing exceptional items separately provides additional understanding of the performance of the Group.

Investment properties

Investment properties are carried in the Consolidated Statement of Financial Position at their open market value. The Directors have applied the fair value model in IAS 40 – Investment Property. Investment properties are revalued at the Consolidated Statement of Financial Position date by an independent valuer. The fair value also reflects estimated future cash flows and anticipated cash outflows where building fire safety issues may arise and be payable by the Group. Expenses that are directly attributable to the acquisition of an investment property are capitalised into the cost of investment. Gains and losses on changes in fair value of investment properties are recognised in the Consolidated Statement of Comprehensive Income. The Directors instruct the independent valuers biannually and, in addition, on acquisition of investment properties as the need arises. Gains and losses on changes in fair value are recognised at the time of each valuation.

Cash and cash equivalents

Cash comprises call deposits held with banks.

Capital management

The capital managed by the Group consists of cash held across different bank accounts in several banking institutions. The Group's objectives when managing capital are set out in note 12. The Group also utilises a debt facility as detailed in note 11.

Derivative financial assets and liabilities

Derivative financial assets and liabilities comprise an interest rate cap for hedging purposes, as an economic hedge. This has been initially recognised at cost and subsequently revalued to fair value of £6,814 (2021: £35,961), with the revaluation gains or losses recognised in the Consolidated Statement of Comprehensive Income.

1 Accounting policies continued

Financial assets and liabilities

Non-derivative financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. These are initially recognised at fair value and subsequently measured at amortised cost and discounted as appropriate. On initial recognition and at each year end the Group calculates the expected credit loss for non-derivative assets based on lifetime expected credit losses under the IFRS 9 simplified approach.

Deferred income

Deferred income arises because ground rents are usually billed annually in advance. Deferred income is classified in the deferred income account within payables and released to the Consolidated Statement of Comprehensive Income over the year to which it relates.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Ordinary share capital

Ordinary share capital is classed as equity. Incremental costs directly attributable to the issue of new ordinary shares are charged to retained earnings.

Share buyback

Shares repurchased are recognised on the trade date and the nominal value of shares repurchased is credited to the capital redemption reserve in the Consolidated Statement of Changes in Equity. Acquisition costs including share premium and broker fees are charged to retained earnings.

Warrants

Warrants were issued on a one for five basis with the issue of the ordinary share capital in August 2012. Each warrant gave the holder the right to subscribe for an ordinary share for £1 on the anniversary of their issue for a period of ten years. During the year, 130 warrants were exercised at a subscription price of £1 each and dealings in the new ordinary shares commenced on 14 September 2022. All remaining warrants expired on 31 August 2022 and have subsequently been cancelled.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's consolidated financial statements in the year in which the dividends are approved by the Company's Directors.

2 Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being the collection of ground rent from its investment properties. The Group receives some ancillary income to which it is entitled as a result of its position as property freeholder or head leaseholder. Schroders acts as adviser to the Board of Directors, who then make management decisions after considering its recommendations. As such, the Board is considered to be the chief operating decision maker. A set of consolidated IFRS information is provided to the Board on a quarterly basis.

	2022 £	2021 £
By activity		
Ground rent income	4,945,755	4,942,648
Other income	650,239	751,139
	5,595,994	5,693,787

All income of the Group is derived from activities carried out within the UK. The Group is not reliant on any one property or group of connected properties for the generation of its revenues.

Notes to the Consolidated Financial Statements **continued**

For the year ended 30 September 2022

3 Operating expenses

	2022 £	2021 £
Directors' salaries (note 4)	155,148	94,460
Auditors' remuneration – see below	191,121	169,950
Management fees (note 19)	870,885	987,499
Professional fees excluding exceptional items	514,952	374,352
Insurance	65,336	24,612
Sponsor fees	50,000	52,511
Valuation fees	92,242	47,502
Registrar fees	13,692	63,864
Listing fees	13,919	11,765
Public relations and printing costs	27,183	25,426
Other operating expenses	65,922	56,109
Operating expenses before exceptional items	2,060,400	1,908,050
Litigation costs	–	496,858
Release of provision for remedial works	–	(2,900,000)
Total operating expenses/(income)	2,060,400	(495,092)

The provision for remedial works was reversed during the previous year as it was no longer required. Please see note 20 for further details.

Services provided by the Company's Auditors comprise:

	2022 £	2021 £
Fees payable to the Auditors for the audit of parent company and consolidated financial statements	108,611	89,610
Fees payable to the Auditors for other services:		
– The audit of the Group's subsidiaries	82,510	80,340
	191,121	169,950

No non-audit services were provided by the Company's Auditors during the year (2021: none).

4 Directors' emoluments

The Directors are the only officers of the Company and there are no other key personnel. The average number of Directors during the year was 4 (2021: 3). The Directors' annual remuneration for services is set out in the Directors' Remuneration Report on pages 34 to 35. The total charge for Directors' fees is shown in note 3 and is inclusive of employer's National Insurance Contributions. There were no post-employment benefits, other long-term benefits, termination benefits or share-based payments accrued or paid out in the year (2021: none).

5 Finance income

	2022 £	2021 £
Interest on bank deposits	1,364	618

6 Finance expenses

	2022 £	2021 £
Loan interest	549,518	466,835
Amortisation of loan arrangement fees and bank charges	159,905	160,408
Net change in fair value of financial instruments	29,147	(21,803)
	738,570	605,440

Total capitalised loan arrangement and associated professional fees of £0.3 million at the year end date are to be amortised over the remaining loan term to January 2025. See note 11 for further details.

7 Taxation

The Company applied to HMRC to join the REIT taxation regime on 14 August 2012. The REIT regime affords the Company a number of potential efficiencies in its tax affairs including exemption from UK corporation tax on profits and gains from its UK property rental business. The Company is compliant with the rules of the REIT regime in order to achieve these potential benefits. No tax charge arose in the year (2021: £nil). For the current year ended 30 September 2022, the Group did not have any non-qualifying profits and accordingly there is no tax charge in the year.

	2022 £	2021 £
(Loss)/profit before taxation	(7,520,180)	1,192,906
Standard rate of corporation tax in the UK	19%	19%
	£	£
(Loss)/profit before taxation multiplied by the standard rate of corporation tax	(1,428,834)	226,652
Effects of:		
Unrealised revaluation loss not tax deductible	1,965,027	899,066
Property profit not taxable under the REIT regime	(536,193)	(1,125,718)
Total tax charge for year	-	-

Deferred tax

No deferred tax arises on revaluation of investment properties due to the REIT status of the Company. UK REITs are exempt from Capital Gains Tax on property sales.

Factors affecting current and future tax charges

From 1 April 2023, there is no longer a single Corporation Tax rate. The Corporation Tax main rate will increase to 25% profits above £250,000. A small profits rate of 19% will apply for companies with profits of £50,000 or less. Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. If there were any non-qualifying profits and gains for the Company, these would be subject to relevant corporation tax rate.

8 Investment properties

	£
Fair value	
At 1 October 2020	124,190,000
Disposals	(78,075)
Net revaluation loss recognised in Consolidated Statement of Comprehensive Income	(4,731,925)
At 30 September 2021	119,380,000
Disposals	(17,755)
Net revaluation loss recognised in Consolidated Statement of Comprehensive Income	(10,342,245)
At 30 September 2022	109,020,000

Fair value hierarchy

Non-financial assets carried at fair value, as is the case for investment property held by the Group, are required to be analysed by level depending on the valuation method adopted under IFRS 13 'Fair Value Measurement'.

The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

All investment property held by the Group is classified as Level 3.

There have been no transfers between levels of the fair value hierarchy during the year.

Notes to the Consolidated Financial Statements **continued**

For the year ended 30 September 2022

8 Investment properties continued

Key assumptions within the basis of fair value are:

The value of each of the properties has been assessed in accordance with the relevant parts of the Royal Institution of Chartered Surveyors' ('RICS') Valuation – Global Standards (incorporating the IVSC International Valuations Standards) effective from 31 January 2022 together where applicable with the UK National Supplement effective 14 January 2019, together the "Red Book", which is consistent with IFRS 13 measurement requirements.

The RICS Red Book provides two definitions of fair value. The one appropriate for the IFRS basis of accounting is as follows: "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

The commentary under VPS 4 (1.5.3) of the Red Book states that, for most practical purposes, fair value is consistent with the concept of market value and there is no difference between the two.

The Group's investment property was revalued at 30 September 2022 by Savills. The valuer within Savills is a RICS Registered Valuer. The valuer has confirmed to the Directors that the fair value as set out in the valuation report has been primarily derived using comparable investment market transactions on an arm's length basis.

The properties have been valued individually and not as part of a portfolio. The valuation takes into account external factors such as interest rates and the availability of other fixed rate investments in the market.

The valuation of a ground rent investment property is principally dependent on the aggregate income generated, and the potential for this to increase in future through rent reviews. The most valuable ground rent investment property assets are those which are RPI-linked with reviews every 10 years or less. Other types of ground rents are 'doubling' where the rent doubles at a fixed time interval and 'fixed increases' where the uplifts are fixed and detailed in the lease. The least attractive ground rents are those which are flat with no future rental increases which attract the lowest Years Purchase ('YP') multiple and the highest yield.

The valuer applied a Material Valuation Uncertainty Clause ('MUC') to the valuation as at 30 September 2022. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the assets in buildings over 11 metres in height, where remediation issues are still in existence and particularly where building safety remediation costs, and who will pay, are unknown or uncertain. However, it is noted that the aim of the act is to ensure the original developers are held liable in the first instance, which will then cascade down what has been deemed a 'waterfall' of liability, as set out in the Manager Report.

To support the valuer's assessment of the portfolio, the Manager has provided a risk matrix including all available information relating to building safety known at the valuation date, such as legal advice received by the Company, a summary of each affected asset including developer due diligence, and technical assessments where completed. The valuer used this information in determining valuation adjustments for fire safety risks of £11.4 million. These adjustments applied to 30 properties as at 30 September 2022, which represent 21% of the portfolio valuation.

It is important to note that this valuation adjustment is not attributable to known building issues, but instead reflects a general discount to the value of affected assets to reflect the risk of the Group meeting remediation costs, along with management time and lack of liquidity of the assets following the change in legislation during the period.

As at 30 September 2022, 79% of the portfolio valuation is unaffected by building safety. Of the remaining 21%, the Directors are satisfied that the valuers were able to conduct an independent rigorous analysis of all available market data and other relevant factors when determining the impact of the MUC on the fair value of the affected properties.

Further discounts have been applied to reflect the risk associated with proposed leasehold reform by the Government in the residential leasehold sector. Including discounts applied in prior years, these amount to £3.8 million.

8 Investment properties continued

Information about fair value measurement using significant unobservable inputs (Level 3):

Valuation Category – type of rent review

As at and for the year ended 30 September 2022	Indexed	Doubling	Fixed increases	Flat
Cost (£)	76,295,000	13,591,000	6,464,000	5,685,000
Fair value (£)	85,879,000	12,278,000	6,280,000	4,583,000
Gross rent roll (£)	3,682,000	743,000	332,000	323,000
Rental yield on purchase price	4.8%	5.5%	5.1%	5.7%
Rental yield on fair value	4.3%	6.1%	5.3%	7.0%

As at and for the year ended 30 September 2021	Indexed	Doubling	Fixed increases	Flat
Cost (£)	76,306,000	13,591,000	6,464,000	5,688,000
Fair value (£)	92,260,000	15,618,000	7,227,000	4,275,000
Gross rent roll (£)	3,486,000	742,000	330,000	323,000
Rental yield on purchase price	4.6%	5.5%	5.1%	5.7%
Rental yield on fair value	3.8%	4.8%	4.6%	7.6%

All categories of ground rent investment properties have been valued by the valuer using available market comparisons.

Sensitivity analysis – YP sensitivity

The average YP across the portfolio is 21.5 (2021: 24.5). The table below shows the principal sensitivity to the key valuation metrics and the resultant change to the valuation:

+/- effect on valuation – impact on fair value of YP change	1 YP £	3 YP £	5 YP £
At 30 September 2022	5,080,000	15,240,000	25,400,000
At 30 September 2021	4,881,000	14,643,000	24,405,000

Sensitivity analysis – building safety valuation adjustment

As discussed above, the total valuation adjustments for fire safety risks of £11.4 million have been applied to specific assets within the portfolio, which represent 21% of the portfolio valuation. The valuer has applied percentage-based remediation discounts between 0% and 75% to risk affected assets based on a risk ranking from low to high risk, to reflect potential remediation risks to be borne by a willing purchaser.

The table below shows the independent portfolio valuation along with two further sensitised outcomes – the effect of a reduction (upside) and increase (downside) to the applied discounts.

The 'Upside' valuation reduces the total existing remediation discount by 28%, leading to an increase in the overall portfolio valuation. The 'Downside' valuation increases the total existing remediation discount by 52%, including a 100% valuation discount for assets deemed to be 'high risk' by the valuer, showing a decrease in the overall portfolio valuation:

Sensitised independent valuation as at 30 September 2022

	Independent portfolio valuation £	Upside £	Downside £
Assets gross value where remediation discounts have been applied	34,057,000	34,057,000	34,057,000
Remediation discounts applied	11,417,000	8,214,000	17,383,000
Remaining portfolio valuation	22,640,000	25,843,000	16,674,000
Total portfolio valuation	109,020,000	112,223,000	103,054,000

Notes to the Consolidated Financial Statements **continued**

For the year ended 30 September 2022

9 Trade and other receivables

	2022 £	2021 £
Trade receivables	681,177	665,948
Other taxes and social security costs	-	22,842
Other receivables	490,698	1,105,098
Prepayments and accrued income	124,019	39,362
	1,295,894	1,833,250

The ageing analysis of trade receivables is as follows:

	Up to 3 months £	Over 3 months £	Total £
30 September 2022			
Trade receivables	142,093	548,166	690,259
Provision for doubtful debts	-	(9,082)	(9,082)
	142,093	539,084	681,177
30 September 2021			
Trade receivables	252,596	413,352	665,948
Provision for doubtful debts	-	-	-
	252,596	413,352	665,948

Management usually considers trade receivables to be fully collectable due to the secure nature of the receipts. This is due to the Director's belief that all financial assets that are neither past due nor impaired to be fully recoverable as the amounts can ultimately be recovered via forfeiture. However, a bad debt provision of £9,082 (2021: £nil) is now included in trade receivables, which relates to a debtor that is currently in liquidation, where there is no realistic prospect of recovery.

10 Trade and other payables

	2022 £	2021 £
Trade payables	3,672	52,019
Other taxes and social security costs	29,414	-
Other payables	-	135,940
Accruals and deferred income	2,949,087	3,325,998
	2,982,173	3,513,957

11 Financial liabilities measured at amortised cost

	2022 £	2021 £
Bank loans repayable after more than one year	21,000,000	19,500,000
Capitalised loan arrangement fees net of amortisation	(269,230)	(388,888)
	20,730,770	19,111,112

The Group has access to loan facilities held with Santander UK plc. Of the £21 million drawn down, £12.5 million is held within a term loan which carries a fixed interest rate of 2.68% per annum, payable quarterly. The remaining £8.5 million is held within a coterminous £12.5 million RCF, which carries an interest rate per annum of 1.85% plus SONIA, subject to a cap of 1.0% on £5.5 million of the total £12.5 million, payable quarterly. Both facilities expire in January 2025. Associated costs are capitalised and amortised over the duration of the loan.

During the year, the Santander loan facility transitioned from the London Interbank Offered Rate ('LIBOR'), to the Sterling Overnight Index Average ('SONIA') for interest payments due after 31 December 2021.

An additional fixed fee of 0.74% per annum is payable on amounts undrawn under the RCF.

The lender has charges over investment property owned by the Group with a value of £50.3 million. A pledge of all shares in the borrowing Group company and loan obligor companies is in place.

11 Financial liabilities measured at amortised cost continued

As at the year end date, the loan facility was secured over assets held in the following Group companies: Admiral Ground Rents Limited, Clapham One Ground Rents Limited, GRIF040 Limited, GRIF041 Limited, GRIF044 Limited, GRIF048 Limited, Masshouse Block HI Limited, Masshouse Residential Block HI Limited, OPW Ground Rents Limited, The Manchester Ground Rent Company Limited and Wiltshire Ground Rents Limited.

No security or guarantee exists in relation to the facility over any other Group assets or assets within the parent company.

The combined amended facility has a Loan-to-Value ('LTV') covenant of 50% and Interest Cover covenant of 270%. The Group was in full compliance with the covenants throughout the year. As at 10 November 2022 the actual LTV over secured assets was 41.8% with headroom of £8.3 million and Interest Cover was 355.6% with headroom of £0.5 million.

Group borrowings

At 30 September 2022, Group borrowings were 19.3% (30 September 2021: 16.3%) of non-current assets.

12 Financial instruments

The Group's financial instruments comprise cash and various items such as trade and other receivables and trade and other payables which arise from its operations.

Financial assets carried at amortised cost

The book value and fair value profile of the Group's financial assets, were as follows:

	2022		2021	
	Book value £	Fair value £	Book value £	Fair value £
Trade receivables	681,177	681,177	665,948	665,948
Other receivables, other taxes and social security costs	598,291	598,291	1,127,940	1,127,940
Cash and cash equivalents	1,912,499	1,912,499	1,090,027	1,090,027

As at 30 September 2022, trade receivables included a £9,082 provision for doubtful debts (2021: £nil) as detailed in note 9.

Financial liabilities carried at amortised cost

The book value and fair value profile of the Group's financial liabilities, were as follows:

	2022		2021	
	Book value £	Fair value £	Book value £	Fair value £
Trade payables	3,672	3,672	52,019	52,019
Other payables, other taxes and social security costs and accruals	893,155	893,155	1,508,940	1,508,940
Bank loans	20,730,770	20,730,770	19,111,112	19,111,112

Financial risk management

The Group has identified the risks arising from its activities and has established policies and procedures as part of a formal structure of managing risk.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maximise the interest return on funds which have yet to be invested while ensuring there is enough free cash to meet day-to-day liabilities. In order to maintain or adjust the capital structure the Directors have the option to adjust the dividends paid to shareholders, return cash to shareholders, sell assets or delay purchase of additional assets. The Group monitors capital through cash and dividend forecasts which are prepared and reviewed on a quarterly and semi-annual bases respectively in line with the updated dividend policy.

A gearing ratio measures the proportion of a Group's borrowed funds to its equity. The Group's gearing ratio at the year end date was as follows:

	2022 £	2021 £
Cash and cash equivalents	1,912,499	1,090,027
Total borrowings (note 11)	(20,730,770)	(19,111,112)
Net debt	(18,818,271)	(18,021,085)
Total equity	88,522,264	99,714,169
Total capital	69,703,993	81,693,084
Gearing ratio	23.4%	19.2%

Notes to the Consolidated Financial Statements **continued**

For the year ended 30 September 2022

12 Financial instruments continued

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. In order to mitigate such risks, cash deposits are placed with a number of financial institutions whose financial strength and credit quality have been considered by the Directors based on advice received from the AIFM. The panel of suitable counterparties is subject to regular review by the Board.

Interest rate risk

The Group has limited its exposure to interest rate risk through interest rate movements for interest incurred on bank loans by capping the rate on £5.5 million of the total £8.5 million drawn down from the coterminous £12.5 million RCF. The remaining £3 million is exposed to interest rate movements. The Group has limited exposure to interest rate risk through interest rate movements for interest earned on cash balances. The Company places excess cash of the Group on deposit in interest-bearing accounts to maximise returns.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. The Directors, based on advice received from the AIFM, manage and monitor short-term liquidity requirements to ensure that the Group maintains a surplus of immediately realisable assets over its liabilities, such that all known and potential cash obligations can be met.

Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through the default or non-performance of the counterparties with whom it transacts.

The Group's largest counterparty exposure is to its property manager Rendall & Rittner Limited ('R&R'), who are responsible for ground rent collection for all properties held by the Group, property management services, and other related activities. The Group's exposure to R&R is subject to certain risks, including credit risk, market risk, and operational risk. The Group manages these risks through a variety of measures, including regular credit control meetings, annual service level reviews and ongoing communication.

The Group also has significant exposure to two other counterparties: Santander UK plc ('Santander'), which provides the Group's banking services and is its lender, and HSBC Holdings plc ('HSBC'), which also provides the Group's banking services. As both have high long-term ratings (Santander plc: Standard & Poor's A, Moody's A1, Fitch A+ & HSBC: Standard & Poor's A-, Moody's A3, Fitch A+) as at date of signing of this annual report, the Group is confident that its exposure is not a significant risk.

13 (Loss)/earnings per share Basic (loss)/earnings per share

(Loss)/earnings used to calculate (loss)/earnings per share in the financial statements were:

	2022 £	2021 £
(Loss)/earnings attributable to equity shareholders of the Company	(7,520,180)	1,192,906
Basic (loss)/earnings per share has been calculated by dividing (losses)/earnings by the weighted average number of ordinary shares in issue throughout the year		
Weighted average number of shares in issue in the year	95,919,646	96,996,881
Basic (loss)/earnings per share	(7.84p)	1.23p

Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is the basic (loss)/earnings per share, adjusted for the effect of contingently issuable warrants in issue during the year, weighted for the relevant periods. All outstanding warrants expired on 31 August 2022.

Diluted (loss)/earnings per share	(7.84p)	1.18p
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14 Net asset value per ordinary share

The net asset value ('NAV') per ordinary share is calculated by dividing the total net asset value in the financial statements by the total number of ordinary shares in issue. For the financial year to 30 September 2021, the diluted NAV per ordinary share was calculated after assuming the exercise of all outstanding warrants at £1, which would have increased the aggregated NAV by £4,423,876. All outstanding warrants expired on 31 August 2022.

	2022 £	2021 £
Net assets	88,522,264	99,714,169
	Number	Number
Number of ordinary shares in issue	95,667,627	96,746,497
Outstanding warrants in issue	-	4,423,876
Diluted number of shares in issue	95,667,627	101,170,373
NAV per ordinary share – basic	92.5p	103.1p
NAV per ordinary share – dilutive	92.5p	102.9p

15 Share capital and capital redemption reserve

	Number of shares	Share capital ¹ £	Capital redemption reserve £
Issued, authorised and fully paid			
At 1 October 2020	97,006,497	48,503,248	-
Share buyback	(260,000)	(130,000)	130,000
At 30 September 2021	96,746,497	48,373,248	130,000
Share buyback	(1,079,000)	(539,500)	539,500
Conversion of warrants	130	65	-
At 30 September 2022	95,667,627	47,833,813	669,500

¹£0.50 par value per share

Warrants were issued for £nil consideration on the basis of one warrant for every five subscription shares in August 2012. Warrant-holders had the right to subscribe £1 per share for the number of ordinary shares to which they are entitled on 31 August in each year following admission up to and including 31 August 2022. 130 warrants were exercised and thus 130 ordinary shares were issued in the year to 30 September 2022 (2021: nil). All outstanding warrants expired on 31 August 2022 and were subsequently cancelled.

At the Company's AGM in March 2021, the Company was given the authority to purchase up to 14.99% of its issued share capital. In September 2021 the Company commenced an open market share buyback programme with the aim to deliver shareholder value and narrow the discount to NAV.

During the financial year to 30 September 2022, the Company repurchased 1,079,000 shares (2021: 260,000) from distributable reserves. To preserve the Company's capital, the Company transferred to a capital redemption reserve an amount equivalent to the nominal value of the shares of £539,500 (2021: £130,000).

Notes to the Consolidated Financial Statements **continued**

For the year ended 30 September 2022

16 Dividends

During the financial year and until the date of preparation of these financial statements, it was the Company's policy to pay quarterly interim dividends to ordinary shareholders. However, the Group intends to assess the payment of dividends on a semi-annual basis following the full year audited and interim accounts being released. The interim dividend relating to the fourth quarter of the year was paid on 31 December 2022.

	2022 £	2021 £
Dividends declared and paid by the Company during the year	2,876,707	3,841,457
Analysis of dividends by type:		
Interim PID dividend of 0.99p per share	-	960,364
Interim PID dividend of 0.99p per share	-	960,364
Interim PID dividend of 0.99p per share	-	960,364
Interim PID dividend of 0.99p per share	-	960,365
Interim PID dividend of 0.75p per share	722,179	-
Interim PID dividend of 0.75p per share	719,516	-
Interim PID dividend of 0.75p per share	717,506	-
Interim PID dividend of 0.75p per share	717,506	-
	2,876,707	3,841,457
Since the year end, the following dividends has been announced and paid:		
Interim PID dividend of 0.75p per share – paid on 31 December 2022	717,507	
Interim PID dividend of 0.50p per share – paid on 31 March 2023	478,338	

17 Cash generated from operations

Reconciliation of (loss)/profit before tax to net cash generated from operations

	2022 £	2021 £
(Loss)/profit before tax	(7,520,180)	1,192,906
Adjustments for:		
Net revaluation loss on investment properties	10,342,245	4,731,925
Profit on sale of investment properties	(23,677)	(340,774)
Net finance expense	737,206	604,822
Exceptional items – release of provision for remedial works not required	-	(2,900,000)
Operating cash flows before movements in working capital	3,535,594	3,288,879
Movements in working capital:		
Decrease in trade and other receivables	537,356	19,165
Decrease in trade and other payables	(531,784)	(528,808)
Net cash generated from operations	3,541,166	2,779,236

Costs of share buyback

The costs from the share buyback are as follows:

	2022 £	2021 £
Buyback of ordinary shares	793,545	195,000
Costs associated with buyback of ordinary shares	1,603	392
Net cash used in share buyback	795,148	195,392

18 Analysis of changes in net debt

	At 1 October 2021 £	Cash flows £	Amortisation of finance costs £	At 30 September 2022 £
Cash and cash equivalents	1,090,027	822,472	–	1,912,499
Bank loans	(19,111,112)	(1,500,000)	(119,658)	(20,730,770)
Total	(18,021,085)	(677,528)	(119,658)	(18,818,271)

	At 1 October 2020 £	Cash flows £	Amortisation of finance costs £	At 30 September 2021 £
Cash and cash equivalents	2,435,758	(1,345,731)	–	1,090,027
Bank loans	(18,991,454)	–	(119,658)	(19,111,112)
Total	(16,555,696)	(1,345,731)	(119,658)	(18,021,085)

19 Related party transactions

The Company's balances with fellow group companies at 30 September 2022 are set out in note 12 to the Company's financial statements.

The Directors' annual remuneration for services is set out in note 4.

Schroders Real Estate Investment Management Limited ('SREIM') is paid a simplified, tiered annual fee comprising 1% of NAV up to £200 million; 0.9% of NAV between £200 million and £400 million; and 0.8% of NAV above £400 million. Transactions between SREIM and Ground Rents Income Fund plc were as follows:

	2022 £	2021 £
Management fee paid to SREIM	870,885	987,499

No amounts were due from the Company to SREIM at the year end date (2021: £nil).

20 Provisions for liabilities

During 2021, the disposal of Beetham Tower in Manchester (the 'Property') and its wholly-owned subsidiary GRIF027 Limited released the Company and its subsidiaries from litigation and freeholder obligations relating to the Property that was originally acquired in 2012. An existing cost provision of £2.9 million was subsequently released to Operating expenses in the Consolidated Statement of Comprehensive Income. No similar disposals or releases occurred during 2022.

21 Other financial commitments and contingencies

The Company acts as guarantor for the payment of annual insurance premiums through credit facilities for a number of insured investment properties within its portfolio, where annual premiums are over £30,000 per annum. At the date of the financial statements, all premiums guaranteed have been collected from leaseholders in line with agreed credit terms.

22 Events after the year end date

On 21 October 2022, the Group passed a Special Written Resolution to voluntarily wind up GRIF Cossec Limited and Grant Thornton UK LLP were appointed liquidator of the company.

Company Statement of Financial Position

As at 30 September 2022

	Note	2022 £	2021 £
Assets			
Non-current assets			
Investments	5	1,305,755	1,305,755
		1,305,755	1,305,755
Current assets			
Trade and other receivables	6	72,315,746	80,354,884
Cash and cash equivalents	11	1,912,499	1,090,027
		74,228,245	81,444,911
Total assets		75,534,000	82,750,666
Liabilities			
Current liabilities			
Trade and other payables	7	(4,061,179)	(2,836,122)
Total liabilities		(4,061,179)	(2,836,122)
Net assets		71,472,821	79,914,544
Equity			
Share capital	9	47,833,813	48,373,248
Capital redemption reserve	9	669,500	130,000
Retained earnings		27,739,506	32,561,731
Loss for the financial year	3	(4,769,998)	(1,150,435)
Total equity		71,472,821	79,914,544

The Company financial statements on pages 60 to 62 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Bill Holland
Director

Jane Vessey
Director

Ground Rents Income Fund plc
Company registered number: 08041022

5 June 2023

The accompanying notes from pages 63 to 68 form an integral part of the Company financial statements.

Company Statement of Cash Flows

For the year ended 30 September 2022

	Note	2022 £	2021 £
Cash flows from operating activities			
Cash generated from operations	10	4,492,885	2,690,550
Bank charges		(52)	(50)
Net cash generated from operating activities		4,492,833	2,690,500
Cash flows from investing activities			
Interest received		1,364	618
Net cash generated from investing activities		1,364	618
Cash flows from financing activities			
Net proceeds from issuance of shares	9	130	-
Net cash used in share buyback	10	(795,148)	(195,392)
Dividends paid to shareholders	4	(2,876,707)	(3,841,457)
Net cash used in financing activities		(3,671,725)	(4,036,849)
Net increase/(decrease) in cash and cash equivalents	11	822,472	(1,345,731)
Net cash and cash equivalents at the beginning of the year	11	1,090,027	2,435,758
Net cash and cash equivalents at the end of the year	11	1,912,499	1,090,027

The accompanying notes from pages 63 to 68 form an integral part of the Company financial statements.

Company Statement of Changes in Equity

For the year ended 30 September 2022

	Note(s)	Share capital £	Capital redemption reserve £	Retained earnings £	Total equity £
At 1 October 2020		48,503,248	-	36,598,580	85,101,828
Comprehensive loss					
Loss for the year	3	-	-	(1,150,435)	(1,150,435)
Total comprehensive loss		-	-	(1,150,435)	(1,150,435)
Transactions with owners					
Buyback of ordinary shares	9 & 10	(130,000)	130,000	(195,392)	(195,392)
Dividends paid	4	-	-	(3,841,457)	(3,841,457)
At 30 September 2021		48,373,248	130,000	31,411,296	79,914,544
Comprehensive loss					
Loss for the year	3	-	-	(4,769,998)	(4,769,998)
Total comprehensive loss		-	-	(4,769,998)	(4,769,998)
Transactions with owners					
Issue of share capital	9	65	-	65	130
Buyback of ordinary shares	9 & 10	(539,500)	539,500	(795,148)	(795,148)
Dividends paid	4	-	-	(2,876,707)	(2,876,707)
At 30 September 2022		47,833,813	669,500	22,969,508	71,472,821

The accompanying notes from pages 63 to 68 form an integral part of the Company financial statements.

Notes to the Company Financial Statements

For the year ended 30 September 2022

1 General information

The Company is a public company limited by shares, domiciled and incorporated in England in the UK. The Company has been listed on TISE and traded on the SETSqx platform of the Stock Exchange since 13 August 2012. The address of its registered office is 1 London Wall Place, London, EC2Y 5AU.

The Company's principal activity during the year was to operate as a holding company for a group operating a property rental and investment business.

2 Accounting policies

The financial statements of the Company are separate to those of the Group.

The accounting policies of the Company are, where relevant, consistent with those of the Group, which can be found in note 1 to the Group financial statements. Accounting policies specific to the Company are set out below.

Statement of compliance

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards ('IFRS') and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards in its company financial statements on 1 October 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention. The functional and presentational currency is sterling.

Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Estimates

The estimates are consistent with those of the Group, which can be found in note 1 to the Group financial statements.

The significant estimates are:

- Expected credit loss
IFRS 9 requires an impairment review to be made for certain financial assets held on the Group's balance sheet using a forward-looking expected credit loss model. Where any impairment is required to be made, appropriate recognition is required in the Statement of Comprehensive Income together with appropriate disclosure in the notes to the consolidated financial statements. All intercompany loans are considered to be such financial assets and must therefore be assessed at each reporting year for potential impairment, as detailed in note 6.

Investments in subsidiary companies

Investments in subsidiary companies are carried at cost less any provision for impairment, which is reviewed on an annual basis.

Capital management

The capital managed by the Company and its objectives are set out in note 1 to the Group financial statements.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the year in which the dividends are approved by the Company's Directors.

3 Results for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the financial year. Ground Rents Income Fund plc reported a loss after tax for the financial year of £4,769,998 (2021: loss of £1,150,435). Auditors' remuneration and the average number of Directors and their remuneration are set out in notes 3 and 4 of the Group consolidated financial statements.

4 Dividends

Details of the Company's dividends paid and proposed are set out in note 16 of the Group financial statements.

Notes to the Company Financial Statements **continued**

For the year ended 30 September 2022

5 Investments

Cost	Investments in subsidiary companies £
At 30 September 2021 and at 30 September 2022	1,305,755

Details of the subsidiary undertakings of the Company at 30 September 2022, all of which are wholly owned and included in the financial statements, are given below.

The subsidiaries below are registered at the Company's registered office address, being 1 London Wall Place, London, EC2Y 5AU:

Company	Type of share	Nature of business	Country of incorporation
Admiral Ground Rents Limited	Ordinary £1	Ground rents	UK
Azure House Ground Rents Limited	Ordinary £1	Ground rents	UK
Banbury Ground Rents Limited	Ordinary £1	Ground rents	UK
BH Ground Rents Limited	Ordinary £1	Ground rents	UK
Clapham One Ground Rents Limited	Ordinary £1	Ground rents	UK
D G Ground Rents Limited	Ordinary £1	Ground rents	UK
East Anglia Ground Rents Limited	Ordinary £1	Ground rents	UK
Ebony House Ground Rents Limited	Ordinary £1	Ground rents	UK
Enclave Court Ground Rents Limited	Ordinary £1	Ground rents	UK
Greenhouse Ground Rents Limited	Ordinary £1	Ground rents	UK
GRIF Cosec Limited	Ordinary £1	Corporate director	UK
GRIF Student Ground Rents Limited	Ordinary £1	Ground rents	UK
GRIF028 Limited	Ordinary £1	Ground rents	UK
GRIF033 Limited	Ordinary £1	Ground rents	UK
GRIF034 Limited	Ordinary £1	Ground rents	UK
GRIF036 Limited	Ordinary £1	Ground rents	UK
GRIF037 Limited	Ordinary £1	Ground rents	UK
GRIF038 Limited	Ordinary £1	Ground rents	UK
GRIF039 Limited	Ordinary £1	Ground rents	UK
GRIF040 Limited	Ordinary £1	Ground rents	UK
GRIF041 Limited	Ordinary £1	Ground rents	UK
GRIF042 Limited	Ordinary £1	Ground rents	UK
GRIF043 Limited	Ordinary £1	Ground rents	UK
GRIF044 Limited	Ordinary £1	Ground rents	UK
GRIF045 Limited	Ordinary £1	Ground rents	UK
GRIF046 Limited	Ordinary £1	Ground rents	UK
GRIF047 Limited	Ordinary £1	Ground rents	UK
GRIF048 Limited	Ordinary £1	Ground rents	UK
GRIF049 Limited	Ordinary £1	Ground rents	UK
GRIF051 Limited	Ordinary £1	Ground rents	UK
GRIF052 Limited	Ordinary £1	Ground rents	UK
GRIF053 Limited	Ordinary £1	Ground rents	UK
Halcyon Wharf Ground Rents Limited	Ordinary £1	Ground rents	UK
Hill Ground Rents Limited	Ordinary £1	Ground rents	UK
Invest Ground Rents Limited	Ordinary £1	Ground rents	UK
Masshouse Block HI Limited	Ordinary £1	Ground rents	UK

5 Investments continued

Company	Type of share	Nature of business	Country of incorporation
Masshouse Residential Block HI Limited	Ordinary £1	Ground rents	UK
Metropolitan Ground Rents Limited	Ordinary £1	Ground rents	UK
Nikal Humber Quay Residential Limited	Ordinary £1	Ground rents	UK
Northwest Houses Ground Rents Limited	Ordinary £1	Ground rents	UK
OPW Ground Rents Limited	Ordinary £1	Ground rents	UK
The Manchester Ground Rent Company Limited	Ordinary £1	Ground rents	UK
Trinity Land & Investments No.2 Limited	Ordinary £1	Ground rents	UK
Wiltshire Ground Rents Limited	Ordinary £1	Ground rents	UK
XQ7 Ground Rents Limited	Ordinary £1	Ground rents	UK

6 Trade and other receivables

	2022 £	2021 £
Amounts owed by subsidiary undertakings (note 12)	72,217,455	79,252,781
Other taxes and social security costs	-	21,219
Other receivables	86,466	1,073,864
Prepayments and accrued income	11,825	7,020
	72,315,746	80,354,884

Amounts owed by subsidiary undertakings are unsecured, interest free and are repayable on demand.

At each year end the Company calculates the expected credit loss for amounts owed by subsidiary undertakings based on lifetime expected credit losses under the IFRS 9 simplified approach.

	2022 £	2021 £
Amounts owed by subsidiary undertakings (note 12)	77,668,112	80,974,457
Impairments	(5,450,657)	(1,721,676)
	72,217,455	79,252,781

An impairment assessment of the amounts owed by subsidiaries to the Company was determined by reference to the net assets of subsidiaries. The full movement in the impairment against amounts owed by subsidiaries has been released to the Company profit and loss account in the financial year.

The net assets of subsidiaries are driven by the investment property valuations and sensitivities in respect of property valuations. Level 3 unobservable input disclosures in connection with the investment property valuations are provided in note 8 to the Group consolidated financial statements.

7 Trade and other payables

	2022 £	2021 £
Amounts owed to subsidiary undertakings (note 12)	3,326,418	1,565,836
Trade payables	3,672	78,478
Other taxes and social security costs	26,523	-
Other payables	-	135,940
Accruals and deferred income	704,566	1,055,868
	4,061,179	2,836,122

Amounts owed to subsidiary undertakings are unsecured, interest free and are repayable on demand.

Notes to the Company Financial Statements **continued**

For the year ended 30 September 2022

8 Financial instruments

The Company's financial instruments comprise cash and various items such as trade and other receivables and trade and other payables which arise from its operations, which include amounts owed to and by subsidiary undertakings.

Financial assets carried at amortised cost

The book value and fair value of the Company's financial assets, were as follows:

	2022		2021	
	Book value £	Fair value £	Book value £	Fair value £
Amounts owed by subsidiary undertakings	72,217,455	72,217,455	79,252,781	79,252,781
Other receivables, other taxes and social security costs	86,466	86,466	1,102,103	1,102,103
Cash and cash equivalents	1,912,499	1,912,499	1,090,027	1,090,027

As at 30 September 2022, £5.5 million (2021: £1.7 million) of Amounts owed by subsidiary undertakings were impaired as set out in note 6. No other trade or other receivables (2021: £nil) were impaired or provided for.

Financial liabilities carried at amortised cost

The book value and fair value of the Company's financial liabilities, were as follows:

	2022		2021	
	Book value £	Fair value £	Book value £	Fair value £
Amounts owed to subsidiary undertakings	3,326,418	3,326,418	1,565,836	1,565,836
Trade payables	3,672	3,672	78,478	78,478
Other payables, accruals, and other taxes and social security costs	643,012	643,012	1,191,808	1,191,808

Financial risk management

The financial risk management objectives and policies applied by the Company are in line with those of the Group as disclosed in note 12 to the Group consolidated financial statements.

9 Share capital and capital redemption reserve

The movements in share capital and capital redemption reserve during the year are set out in note 15 of the Group financial statements.

10 Cash generated from operations

Reconciliation of loss before income tax to net cash generated from operations

	2022 £	2021 £
Loss before tax	(4,769,998)	(1,150,435)
Adjustments for:		
Net finance income	(1,312)	(568)
Operating cash flows before movements in working capital	(4,771,310)	(1,151,003)
Movements in working capital:		
Decrease in trade and other receivables	1,003,812	2,024
Decrease in amounts owed by subsidiary undertakings	7,035,326	3,153,126
Increase in amounts owed to subsidiary undertakings	1,760,582	511,709
(Decrease)/increase in trade and other payables	(535,525)	174,694
Net cash generated from operations	4,492,885	2,690,550

Costs of share buyback

The costs from the share buyback are set out in note 17 of the Group financial statements.

11 Analysis of changes in net cash

	At 1 October 2021 £	Cash flows £	At 30 September 2022 £
Cash and cash equivalents	1,090,027	822,472	1,912,499

	At 1 October 2020 £	Cash flows £	At 30 September 2021 £
Cash and cash equivalents	2,435,758	(1,345,731)	1,090,027

12 Related party transactions

Transactions between the Company and its subsidiaries which are related parties, are eliminated on consolidation. The Company's individual financial statements include the amounts attributable to subsidiaries. All amounts due to or from subsidiary companies are interest free and repayable on demand. These amounts are disclosed in aggregate in the relevant Company financial statements and in detail in the following tables:

Company	Amounts owed by related parties		Amounts owed to related parties	
	2022 £	2021 £	2022 £	2021 £
Admiral Ground Rents Limited	5,146,656	5,429,427	-	-
Azure House Ground Rents Limited	91,194	95,956	-	-
Banbury Ground Rents Limited	104,764	112,958	-	-
BH Ground Rents Limited	1,389,201	1,297,787	-	-
Clapham One Ground Rents Limited	2,756,929	2,694,293	-	-
D G Ground Rents Limited	1,425,014	1,467,305	-	-
East Anglia Ground Rents Limited	403,041	435,283	-	-
Ebony House Ground Rents Limited	158,574	168,140	-	-
Enclave Court Ground Rents Limited	109,169	116,036	-	-
Greenhouse Ground Rents Limited	521,768	533,769	-	-
GRIF Student Ground Rents Limited	821,243	856,850	-	-
GRIF033 Limited	586,337	619,640	-	-
GRIF038 Limited	41,422	41,422	-	-
GRIF039 Limited	703,396	722,294	-	-
GRIF040 Limited	13,696,269	14,255,826	-	-
GRIF041 Limited	2,477,807	2,609,416	-	-
GRIF042 Limited	551,146	593,642	-	-
GRIF043 Limited	898,998	942,467	-	-
GRIF044 Limited	1,318,121	1,391,712	-	-
GRIF045 Limited	777,781	833,770	-	-
GRIF046 Limited	2,081,267	2,164,758	-	-
GRIF047 Limited	123,890	133,420	-	-
GRIF048 Limited	-	-	3,326,418	1,565,836
GRIF051 Limited	16,887,028	17,418,584	-	-
GRIF052 Limited	1,606,138	1,679,363	-	-

Notes to the Company Financial Statements **continued**

For the year ended 30 September 2022

12 Related party transactions continued

Company	Amounts owed by related parties		Amounts owed to related parties	
	2022 £	2021 £	2022 £	2021 £
Halcyon Wharf Ground Rents Limited	292,974	308,865	-	-
Hill Ground Rents Limited	4,308,799	4,558,522	-	-
Invest Ground Rents Limited	194,579	208,294	-	-
Masshouse Block HI Limited	2,503,453	2,661,230	-	-
Masshouse Residential Block HI Limited	308,657	354,124	-	-
Metropolitan Ground Rents Limited	2,358,476	2,557,781	-	-
Nikal Humber Quay Residential Limited	158,821	178,614	-	-
Northwest Houses Ground Rents Limited	841,311	911,041	-	-
OPW Ground Rents Limited	3,552,387	3,699,828	-	-
The Manchester Ground Rent Company Limited	3,502,286	3,698,476	-	-
Trinity Land & Investments No.2 Limited	2,107,086	2,251,894	-	-
Wiltshire Ground Rents Limited	2,294,806	2,383,568	-	-
XQ7 Ground Rents Limited	567,324	588,102	-	-
	77,668,112	80,974,457	3,326,418	1,565,836

All the above subsidiaries are registered at the Company's registered office, being 1 London Wall Place, London, EC2Y 5AU.

Alternative Performance Measures

The Group uses the following Alternative Performance Measures ('APMs') in its Annual Report and Financial Statements. The Board believes that each of the APMs provides additional useful information to the shareholders in order to assess the Company's performance.

Average rate of insurance commission – the total property insurance commission earned expressed as a percentage of the total property insurance cost incurred by leaseholders.

Average rent review pattern – the average rent review per unit weighted against the annual ground rent.

Base yield – the return made on investment property being annual ground rent charged expressed as a percentage of the current property valuation (note 8).

Compound Annual Growth Rate ('CAGR') – the rate of return on an investment over a specified period of time, assuming that the investment has been compounding over that time period.

Dividend cover – the ratio of recurring underlying earnings to dividends paid (note 16 to the Group financial statements) in the period.

Gearing – net debt (note 18 to the Group financial statements) as a percentage of net assets.

Gross income yield – the income generated by an investment property relative to its value.

Group borrowings – the outstanding loan amount (note 11 to the Group financial statements) expressed as a percentage of the current property valuation (note 8 to the Group financial statements).

Initial yield – the annualised net rents generated by the portfolio expressed as a percentage of the current property valuation (note 8 to the Group financial statements).

Interest cover – the number of times net interest payable is covered by net rental income.

Loan to value ('LTV') – a ratio which expresses gearing by dividing the outstanding loan amount (note 11 to the Group financial statements) by the value of the assets on which the loan is secured.

NAV total return – the return to shareholders calculated on a per share taking into account the timing of dividends, share buybacks and issuance in the period on a time-weighted basis to the increase or decrease in the NAV per share.

Net debt – the outstanding loan amount including capitalised loan arrangement less cash held (note 18 to the Group financial statements).

Net rental income – the rental income receivable in the year after payment of ground rents and net property outgoings. This excludes rental income for rent free periods currently in operation and service charge income.

Recurring underlying earnings – profit/loss before tax excluding profit on sale of investment properties, net revaluation gain/loss on investment properties and exceptional items (note 3).

Weighted-average lease term – the average time remaining on all the leases of a property, weighted by the amount of ground rent each lease generates

Years purchased ('YP') – the number of years required for annual ground rent charged to yield the current property valuation (note 8 to the Group financial statements).

The Unaudited Alternative Investment Fund Managers Directive ('AIFMD') remuneration and leverage disclosures for Schroder Real Estate Investment Management Limited ('SREIM') for the year to 31 December 2022 are as follows:

Remuneration disclosures (excerpt from the Schroders Plc's Annual Report & Accounts for the year ended 31 December 2022)

These disclosures should be read in conjunction with the Schroders plc Remuneration Report on pages 76 to 107 of its 2022 Annual Report & Accounts (available on its website – <https://www.schroders.com/en/investor-relations/results-and-reports/annual-report-and-accounts-2022/>), which provides more information on the activities of SREIM's Remuneration Committee and its remuneration principles and policies.

The AIF Material Risk Takers ('AIF MRTs') of SREIM are individuals whose roles within the Schroders Group can materially affect the risk of SREIM or any AIF fund that it manages. These roles are identified in line with the requirements of the AIFM Directive and guidance issued by the European Securities and Markets Authority.

The Remuneration Committee of Schroders plc has established a remuneration policy to ensure the requirements of the AIFM Directive are met for all AIF MRTs. The Remuneration Committee and the Board of Schroders plc review remuneration strategy at least annually. The directors of SREIM are responsible for the adoption of the remuneration policy and periodically reviewing its implementation in relation to SREIM. During 2022 the Remuneration Policy was reviewed to ensure compliance with the UCITS/AIFMD remuneration requirements and no significant changes were made.

The implementation of the remuneration policy is, at least annually, subject to independent internal review for compliance with the policies and procedures for remuneration adopted by the Board of SREIM and the SREIM Remuneration Committee. The most recent review found no fundamental issues but resulted in a range of more minor recommendations relating to process documentation.

The ratio of total costs to net income through the market cycle guides the total spend on remuneration each year. This is recommended by the SREIM Remuneration Committee to the Board of Schroders Plc. This approach aligns remuneration with Schroders' financial performance. In determining the remuneration spend each year, the underlying strength and sustainability of the business is taken into account, along with reports on risk, legal, compliance and internal audit matters from the heads of those areas.

The remuneration data that follows reflects amounts paid in respect of performance during 2022.

- The total amount of remuneration paid by SREIM to its staff is nil as SREIM has no employees. Employees of SREIM or other Schroders Group entities who serve as Directors of SREIM receive no additional fees in respect of their role on the Board of SREIM.
- The following disclosures relate to AIF MRTs of SREIM. Those AIF MRTs were employed by and provided services to other Schroders group companies and clients. In the interests of transparency, the aggregate remuneration figures that follow reflect the full remuneration for each SREIM AIF MRT. The aggregate total remuneration paid to the 73 AIF MRTs of SREIM in respect of the financial year ended 31 December 2022 is £53.67 million, of which £33.91 million was paid to senior management, £16.68 million was paid to MRTs deemed to be taking risk on behalf of SREIM or the AIF funds that it manages and £3.08 million was paid to control function MRTs.

For additional qualitative information on remuneration policies and practices see www.schroders.com/rem-disclosures.

Leverage disclosure for Ground Rents Income Fund Plc (the 'Group')

In accordance with AIFMD the Group is required to make available to investors information in relation to leverage. Under AIFMD, leverage is any method by which the exposure of the Group is increased through the borrowing of cash or securities, leverage embedded in derivative positions or by another means.

It is expressed as a ratio between the total exposure of the Group and its net asset value and is calculated in accordance with the "Gross method" and the "Commitment method" as described in the AIFMD. The Gross method represents the aggregate of all the Group's exposures other than cash balances held in the base currency, while the Commitment method, which is calculated on a similar basis, may also take into account cash and cash equivalents, netting and hedging arrangements, as applicable.

The Manager has set the expected maximum leverage percentages for the Group and calculated the actual leverages as at 30 June 2022 as shown below (the Group calculates and externally reports its leverage one quarter in arrears):

	Maximum limit set	Actual as at 30 June 2022
Gross leverage	175%	124%
Commitment leverage	175%	126%

There have been no changes to the maximum levels of leverage employed by the Group nor any breaches of the maximum levels during the financial reporting year.

Glossary

AGM means the Annual General Meeting of the Company.

AIFM means the Company's alternative investment fund manager under AIFMD, Schroder Real Estate Investment Management Limited

Alternative performance measure ('APM') please see page 69 for full details of the key APMs used by the Company.

Articles means the Company's Articles of Association, as amended from time to time. Companies Act means the Companies Act 2006.

Company is Ground Rents Income Fund plc.

Directors means the Directors of the Company as at the date of this document and their successors and 'Director' means any one of them.

Disclosure Guidance and Transparency Rules means the disclosure guidance and transparency rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.

Gearing is the Group's net debt as a percentage of net assets.

Earnings per share ('EPS') is profit/loss after taxation divided by the weighted average number of shares in issue during the year.

FCA is the UK Financial Conduct Authority.

Group is the Company and its subsidiaries.

IPO is the initial placing and offer made pursuant to a prospectus dated 24 July 2012.

LSE is the London Stock Exchange.

Net asset value ('NAV') the value of total assets minus total liabilities.

Par value is the face value of a share (per section 542, Companies Act 2006), debt security or other type of financial instrument as opposed to its market value which may be more or less than par.

RCF is a Revolving Credit Facility.

TISE is The International Stock Exchange, headquartered in Guernsey.

Shareholder Information

Web pages and share price information

The Company has dedicated web pages, which may be found at <http://www.groundrentsincomefund.com>. The web pages have been designed to be utilised as the Company's primary method of electronic communication with shareholders. They contain details of the Company's ordinary share price and copies of Report and financial statements and other documents published by the Company as well as information on the Directors, terms of reference of Committees and other governance arrangements. In addition, the web pages contain links to announcements made by the Company to the market.

Share price information may be found in the Financial Times and on the Company's web pages.

Individual Savings Account ('ISA') status

The Company's shares are eligible for stocks and shares ISAs.

Non-mainstream pooled investments status

The Company currently conducts its affairs so that its shares can be recommended by IFAs to ordinary retail investors in accordance with the UK Financial Conduct Authority's ('FCA's') rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Financial calendar

Annual general meeting	March
Half-year results announced	June*
Financial year end	30 September
Annual results announced	December

* The half-year report for the period to 31 March 2023 will be released on or before 31 October 2023

Alternative Investment Fund Managers Directive ('AIFMD') Disclosures

The AIFMD, as transposed into the FCA Handbook in the UK, requires that certain pre-investment information be made available to investors in Alternative Investment Funds (such as the Company) and also that certain regular and periodic disclosures are made. This information and these disclosures may be found either below, elsewhere in this Annual Report, or in the Company's AIFMD information disclosure document published on the Company's web pages.

Remuneration disclosures

The information required under the AIFMD to be made available to investors in the Company on request in respect of remuneration paid by the AIFM to its staff, and, where relevant, carried interest paid by the Company, can be found on the Company's web pages.

Publication of Key Information Document ('KID') by the AIFM

Pursuant to the Packaged Retail and Insurance-Based Investment Products ('PRIIPs') Regulation, the Manager, as the Company's AIFM, is required to publish a short KID on the Company. KIDs are designed to provide certain prescribed information to retail investors, including details of potential returns under different performance scenarios and a risk/reward indicator. The Company's KID is available on its web pages.

Corporate Information

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Bill Holland
Katherine Innes Ker
Jane Vessey

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Ticker (LSE SETSQX): GRI0
Ticker (TISE): GRI

Global Intermediary Identification Number (GIIN)

RY6D8C.99999.SL.826

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