

# Ground Rents Income Fund plc

Half Year Report and Condensed Consolidated  
Interim Financial Statements

For the six months ended 31 March 2023



# About us

## Ground Rents Income Fund plc (the 'Company')

### Company summary

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

As at 31 March 2023 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').

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

### Investment policy<sup>1</sup>

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.

<sup>1</sup> Approved by shareholders at an EGM on 24 April 2023 with immediate effect.

### Top 10 assets by value

			Valuation at 31 March 2023 (£ million)	Valuation at 31 March 2023 (%)	Asset type
Asset	Location				
1 Lawrence Street Student Village	York		9.0	8.1	Student
2 Masshouse Plaza	Birmingham		4.4	4.0	Residential
3 First Street	Manchester		3.7	3.2	Student
4 One Park West	Liverpool		3.6	3.2	Residential
5 Rathbone Market	London		2.9	2.7	Residential
6 Brentford Lock West	London		2.9	2.6	Residential
7 Wiltshire Leisure Village	Royal Wootton Bassett		2.5	2.3	Residential
8 Brewery Wharf	Leeds		2.4	2.2	Residential
9 Richmond House	Southampton		2.3	2.1	Student
10 The Portland	Hull		2.2	2.0	Student
<b>Total</b>			<b>35.9</b>	<b>32.4</b>	

Cover image: One Park West, Liverpool.

Please note: figures in the tables throughout this report are set out to one decimal place. For ease of reading, figures included in the body of the report have generally been rounded to the nearest whole number.

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## Portfolio at a glance:

### Number of assets

**392**

### Number of investment units

**19,000+**

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

**49.7%**

### Total portfolio value

**£110.9 million**

### Percentage of the portfolio value comprising top ten assets

**32.4%**

# Letter from the Chair of the Board of Directors



## My overview

In the year ended 30 September 2022, during the six-month period to 31 March 2023, and subsequently, the Company has continued to operate in a challenging environment, principally due to the complex issues arising from the introduction of the Building Safety Act 2022 (the 'BSA') in April 2022. Whilst I will repeat this point later, I make no apology for stating here that the BSA is said to be 'the most significant regulatory reform to the UK's built environment in almost 40 years'. The subsequent implications of the implementation of the legislation and related regulations led to a delay to the preparation and publication of the Company's Annual Report for the year to 30 September 2022 (the '2022 Annual Report'), eventually published (with regulator consent to the delay) in June 2023.

Uncertainty relating to the practical and financial impact of the BSA on our portfolio also resulted in a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report') in the 2022 Annual Report. This modification was caused by our Auditor, PwC, being unable to adequately verify the various 'broad brush' negative assumptions made by our independent valuer, Savills. The assumptions concerned future remedial cost liabilities, whether possible, potential or just presumed.

Despite the Company having significant reserves and good visibility of earnings, within the 2022 Annual Report we also highlighted that future dividend payments were likely to be withheld until the Modified Auditor's Report was removed or sufficiently diluted. Although these interim accounts are unaudited, the portfolio valuation as at 31 March 2023 of £110.9 million remains subject to the same Material Uncertainty Clause ('MUC') as at the prior year end, relating to 16% of our assets by value, including a negative valuation adjustment for future remedial cost liabilities of £9.3 million as at the end of the period. This negative valuation adjustment has reduced from £11.4 million at 30 September 2022. From discussion with our Auditors, PwC, we believe that the market factors and availability of evidence that led to the Modified Auditor's Report contained within the 2022 Annual Report currently remains largely unchanged at the period end.

Consequent to the Board's determination that all our shareholder communications must be as transparent as possible, the 2022 Annual Report provided shareholders with a high level of transparency on the year to 30 September 2022. In addition, due to the delayed publication of those results, we were able to include early visibility on the six month period to March 2023. Therefore, this unaudited interim report is intended to be read in conjunction with the recently released 2022 Annual Report.

As previously announced, following an 11% decline in the net asset

value ('NAV') over the year to 30 September 2022, the NAV over the six month period to 31 March 2023 increased by 1.9% to £90.2 million or 94.3 pence per share ('pps'). We had, by then, begun to better understand the impact of the BSA on the portfolio, and, together with dividends paid of £1.2 million or 1.25 pps, achieved a positive NAV total return of 3.3%. Further progress has been made since the period end, thereby reducing risk across the portfolio, which we reasonably anticipate will reduce future remedial cost adjustments made by the independent valuer at the forthcoming year end as at 30 September 2023, and beyond.

During the six-month period, the Company carried out an extensive shareholder consultation on proposals to change the Continuation Vote mechanism included in the Articles (which date from 2012), as well as the Board's proposed changes to the Investment Policy. These Articles pre-dated the appointment of the current Manager, Schroders, in mid 2019, and, of course, my own subsequent appointment as Chair in 2021, together with a new enlarged Board, thereby increasing the available experience and expertise for the benefit of both shareholders and leaseholders.

The Continuation Vote proposals were designed to facilitate a controlled, orderly and timely sale process in order to optimise value for shareholders. The proposals were strongly supported by shareholders. The Board and Manager are now jointly focused on delivering this outcome. Our new Investment Policy also includes our clear intention to concurrently continue to deliver best-in-class residential asset management, to demonstrate fairness, transparency and affordability for leaseholders, many of whom will be adversely impacted by the rising cost of living.

Having secured strong shareholder support for the change in strategy, we have a parallel priority to ensure that the developers and related parties who constructed or refurbished our buildings, (some of which are now deemed defective under the BSA) accept liability under the Government's insistence on the application of the 'Polluter Pays' principle. Where these parties do not exist, or are currently not accepting liability, we are seeking Government funding to accelerate remediation, which we expect will mitigate, over time, any negative impact on our shareholders. The scale of the nationwide building safety crisis means there are often frustrating delays (caused by the various third parties, including the Government agency's restricted resources) in implementing this strategic approach. However, steady progress is being made, with works currently ongoing across the portfolio totalling approximately £129 million, funded by developers, related parties and Government. To date, due to our proactive approach to managing risk, neither our leaseholders nor the Company have suffered any material cost associated with these remediation works. Whilst future (as yet unknown) costs to be borne by the Company cannot be ruled out, experience to date suggests that the negative valuation adjustment assumed within the independent valuation is unlikely to be fully realised.

As we continue to develop a better understanding of the BSA, we are also closely monitoring developments relating to leasehold reform, the outcome of which remains uncertain. These factors, together with broader economic uncertainty, mean that transactional activity in the ground rent market remains at very low levels. The Board and Manager are therefore working with external advisors to assess the optimum timing and approach for selling assets and returning proceeds thereby realised to shareholders. We are also progressing an extension of the Company's loan facilities from January 2025 to provide more financial flexibility, with future disposals used to reduce Group

borrowings, which are 18.9% of the portfolio valuation at the period end on a consolidated basis.

In summary, the six-month period has seen an intense level of activity for the Company, for the Board and for the Manager. We continue to deal with complex regulatory headwinds and also legacy issues (generally pre-dating the present Board and Manager) that are not of our making, but greater clarity is emerging on how to best mitigate the risks associated with the BSA and on potential opportunities to enhance returns for our shareholders.

## Performance

The Company's NAV was £90.2 million or 94.3 pps as at 31 March 2023, which compares with £88.5 million or 92.5 pps at the start of the period. This reflected a NAV increase of £1.7 million or 1.9%, and a positive NAV total return of 3.3% (year to 30 September 2022: negative 7.4%), which includes dividends paid over the period of £1.2 million or 1.25 pps.

The movement in NAV over the six-month period to 31 March 2023 is set out in the table below:

	£ million	PPS	Comment
<b>Audited* NAV as at 30 September 2022</b>	<b>88.5</b>	<b>92.5</b>	
Portfolio valuation	1.9	2.0	Increased to £110.9 million due to a narrowing in the building safety valuation adjustment and positive rental value growth, partly offset by an increase in the 'base yield' of the portfolio due to rising interest rates.
Net revenue	1.0	1.1	Includes the impact of increasing legal fees and interest rates on the unhedged portion of the Company's revolving credit facility.
Dividends paid	-1.2	-1.3	Year to date dividend per share of 1.25p, comprising two interim dividends of 0.75p and 0.5p respectively.
<b>Unaudited NAV as at 31 March 2023</b>	<b>90.2</b>	<b>94.3</b>	

\* 2022 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

The independent portfolio valuation carried out by Savills as at 31 March 2023 of £110.9 million (30 September 2022: £109.0 million) represented an increase of £1.9 million or 1.8% over the period.

As with the Company's final accounts to 30 September 2022, Savills, in conjunction with industry peers, and as recommended by the Royal Institution of Chartered Surveyors ('RICS'), continued to adopt a MUC applied to assets impacted by building safety related defects and made associated valuation assumption adjustments. At the period end, the MUC applied to 26 assets representing 16% of the portfolio by value with a total negative valuation adjustment of £9.3 million (30 September 2022: 30 assets; 21% of portfolio valuation; and a £11.4 million negative valuation adjustment). Further progress has been made since the period end, with the MUC currently estimated to apply to 23 assets representing 15% of the portfolio by value.

The independent valuation also includes an additional negative valuation adjustment for residential leasehold regulatory reform risk of £4.0 million (30 September 2022: £3.8 million), which is not subject to the MUC.

## Dividend Policy

In January 2023, major shareholders were consulted on issues that could impact the sustainability of the dividend, such as reducing

ancillary income, increasing frictional costs relating to building safety, and legacy issues being managed across the portfolio. Whilst partly mitigated by the Company's growing underlying ground rent income and likely future cost recovery from third parties, it was acknowledged that earnings would remain under pressure.

In order to enable the Board and Manager to more effectively assess the sustainable level of future dividends, shareholders approved (at a recent General Meeting) moving to determine dividend payments on a semi-annual basis following full year and interim accounts being released. This new Dividend Policy will now be the approach going forward. However, as set out in 2022 Annual Report, while the Modified Auditor's Report remains in place, all future dividend payments will be withheld, despite the Company having significant distributable reserves, cash available to pay dividends, and good visibility on earnings. We anticipate setting aside the likely dividend amounts to be paid out at a later date, in full or in part, once permitted to do so.

The Board, the Manager and its advisors are therefore working closely with the Auditor and the independent valuer to determine what additional information is required (relating to remedial costs, and third party recovery) in order for the Modified Auditor's Report to be removed or diluted. This is a highly unusual situation resulting from the introduction and implementation of the BSA and the practical challenges of understanding and predicting the financial impact on the portfolio. We understand many shareholders place significant value on the dividend, and reinstating the Company's ability to pay is being treated as an urgent priority. Importantly, the Board has received advice that the Company remains compliant with REIT rules as to the distribution of profits.

## Building safety reform

The 2022 Annual Report deliberately provided shareholders with a transparent and detailed overview of the BSA, said to be 'the most significant regulatory reform to the UK's built environment in almost 40 years'. We endorse the BSA's aims to improve building standards, to protect leaseholders living in their own homes from uncapped costs of remediating building safety issues, and to provide new powers to pursue those responsible under the "Polluter Pays" principle.

There has been little change to the BSA, or associated legislation, regulations, guidance, and Government funding (together the 'Building Safety Framework') since publication of the 2022 Annual Report in June 2023. In those results, I noted that 48 developers, including the top ten largest housebuilders in the UK, had signed legally binding pledges with the Government. They pledged to accept liability for life-critical fire-safety defects at properties 11 metres and over in height in England in which they had a role in constructing or refurbishing over the last 30 years. At the time of writing, this list of developers has increased by one to 49, including seven developers relevant to 11 of our 23 remaining affected assets (as at 19 July 2023).

At a portfolio level, our extensive corporate and related activity continues to reduce the risk of the Company incurring the full remediation costs assumed in the independent valuation as at 30 September 2022. Our progress is reflected in the downward movements of the independent valuer's adjustments being applied to the portfolio, which, including progress made post period end, is currently estimated to relate to 15% of our assets by value.

However, it is fair to say that we have continued to experience some challenges addressing the building safety risks in the portfolio, particularly on the 'Non-Managed Estate' (17 of the 23 remaining affected assets (as at 19 July 2023)), where a Residents Management Company ('RMC') is responsible for managing the building. As one can easily imagine, the RMCs (whose legal responsibilities generally sit with

volunteer leaseholder directors, some with relevant experience and expertise, some without) have proved to be slower to react and slower to process the various and extensive tasks required to be performed before remedial work can begin. This is not a criticism of the RMCs, but simply a statement of fact, demonstrating a further restriction slowing the progress we want to make in satisfactorily resolving the issues promptly and efficiently.

Managing these risks, whether practical or financial, whether managed directly or indirectly, is central to our strategy of improving the liquidity of the underlying portfolio, whilst continuing to support our leaseholders.

## Leasehold regulatory reform

There has been little progress over the period, or subsequently, in relation to the Government's programme of additional leasehold reform. Whilst in January 2023 the Government vowed to 'abolish' the residential leasehold system, more recent announcements have emphasised a commitment to move to an easier and fairer housing legal system that better protects and empowers leaseholders, whilst ensuring 'sufficient compensation' is paid to landlords to reflect their legitimate property interests. The Government intends to introduce reforms in the Autumn, and we continue to advocate for leasehold reform that is fair to both responsible landlords such as the Company, as well as our leaseholders.

Despite the lack of clarity, there remains an expectation that prospective reform will include changes to the enfranchisement process following previous recommendations made by the Law Commission. We set out the detail of this process within our 2022 Annual Report. It could include capping ground rents assumed in the enfranchisement formula at 0.1% of the property's unencumbered value. Based on our latest analysis, 51% and 53% of the Company's assets, by rent and value respectively, are either below a 0.1% cap, or unlikely to be in scope of the legislation. Similarly, 46% and 44% of the portfolio, by rent and value respectively, are residential ground rents that exceed the 0.1% cap, but with the majority being under 0.2% of the property's unencumbered value.

The unaudited independent portfolio valuation at the period end reflects a £4.0 million negative adjustment (30 September 2022: negative £3.8 million) to reflect the risk and uncertainty associated with residential leasehold regulatory reform.

## Financing

The Company has a £25 million facility with Santander UK plc which matures in January 2025, originally put in place as part of a refinancing following Schroders' appointment in 2019. The loan comprises a £12.5 million term loan and a £12.5 million Revolving Credit Facility ('RCF'). As at 31 March 2023, an aggregate £21 million (of the combined £25 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, of which £5.5 million is capped at 2.85%. At the period end, we calculate that the effective overall interest rate was 3.3%.

The latest bank valuation (£50.3 million as at May 2022) of the charged assets reflected a loan to value on the Santander facility of 41.8%, which compares with the covenant level of 50%. The Group's unaudited independent portfolio valuation as at 31 March 2023, shows the value of the assets charged to Santander was £48.8 million, reflecting a loan to value of 43.0%. The remaining assets in the portfolio are uncharged.

Reflecting the change in strategy and the new Investment Policy, we are in detailed discussions with Santander to extend the facility to provide additional flexibility, should the realisation strategy be delayed. Negotiations are at an advanced stage, with the objective to complete

the loan extension by the end of this financial year in September. The draft loan terms include the ability for the Company to use any future disposal proceeds to repay the loan without penalty.

## Outlook

The Board and the Manager have undertaken a significant volume of activity over the past several years, including scheduled fortnightly meetings since September 2022 to review progress addressing building safety legislation related headwinds, in addition to regular quarterly Board meetings. This has resulted in a clear strategy to address the Government-created complex headwinds (of building safety legislative reform and leasehold reform) and thereby to optimise value for shareholders, whilst demonstrating best-in-class residential asset management as far as possible in such a challenging environment.

We will continue to provide a high level of transparency on progress implementing the strategy. The forthcoming 2023 Annual Report (as at 30 September 2023) will be an important milestone for the Auditor to reassess the imposition of the Modified Auditor's Report, and consequently the Board and Manager, to reassess the payment of any withheld, and future, dividends.

Against this difficult backdrop, I, together with the Board and the Manager, express our thanks for the continued positive engagement, and the overwhelming support, shown by our shareholders in the recent AGM and two EGMs.

## Barry Gilbertson

Chair

19 July 2023

## Portfolio information

As at 31 March 2023, the portfolio comprised approximately 19,000 units across 392 assets independently valued at £110.9 million. The portfolio produced ground rent income of £5.1 million per annum, reflecting a gross income yield of 4.6% or an average Years Purchase (YP) of 21.6 (as at the period end).

Due to the complex issues arising from building safety, the valuation as at 31 March 2023 was subject to an MUC relating to 16% of assets by value, including a negative valuation adjustment for future remedial cost liabilities of £9.3 million. The valuation also included an additional negative valuation adjustment for residential leasehold regulatory reform risk of £4.0 million, which is not subject to the MUC.

A summary of key valuation metrics since 30 September 2021 is set out in the table below:

	30 September 2021	31 March 2022 <sup>1</sup>	30 September 2022	31 March 2023 <sup>1</sup>
Ground rent income (£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%
<b>Portfolio valuation adjustments</b>				
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):	<b>-7.2</b>	<b>-18.5</b>	<b>-15.2</b>	<b>-13.3</b>
<b>MUC</b>				
No. of Assets	17	63 <sup>2</sup>	30	26
% of portfolio valuation	11%	31% <sup>2</sup>	21%	16%

<sup>1</sup> Unaudited

<sup>2</sup> 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.

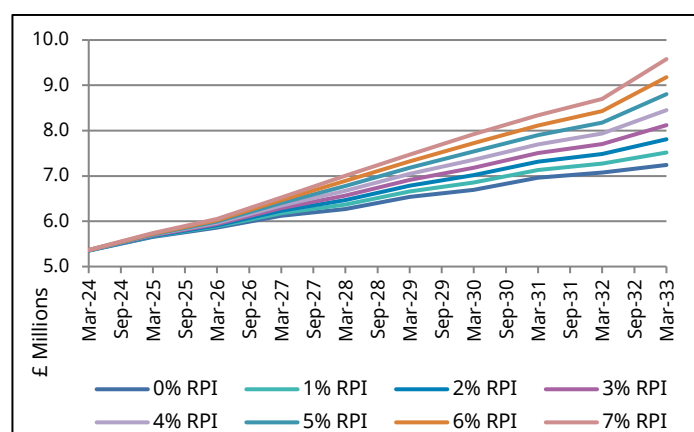
The portfolio's weighted-average lease term as at 31 March 2023 was 393 years, with 94% of ground rent income subject to upwards only reviews. The rent reviews are set out in the table below:

	Ground Rent Income (£000)	Ground Rent Income (%)	Valuation at 31 March 2023 (£m)	Valuation at 31 March 2023 (%)
RPI	3,734	72.7	89.6	80.8
Doubling	745	14.5	11.5	10.5
Fixed	332	6.5	5.4	4.8
Flat	323	6.3	4.3	3.9
<b>Total</b>	<b>5,134</b>	<b>100.0</b>	<b>110.9</b>	<b>100.0</b>

The rent review profile is shown in the table below, with 49.7% of the ground rent income due for review over the next five years:

Years to next review	Ground Rent Income (£000)	Ground Rent Income (%)	Valuation at 31 March 2023 (£m)	Valuation at 31 March 2023 (%)
0-5	2,550	49.7	60.3	54.4
5-10	1,330	25.9	25.6	23.0
10-15	505	9.8	11.0	10.0
15-20	170	3.3	4.1	3.7
Over 20	134	2.6	2.8	2.5
Flat (no review)	445	8.7	7.1	6.4
<b>Total</b>	<b>5,134</b>	<b>100.0</b>	<b>110.9</b>	<b>100.0</b>

The chart below demonstrates the forecast income performance based on various levels of Retail Price Index ('RPI') inflation, which was 4.1% per annum over the ten years to and including May 2023:



Assuming future RPI inflation of 4.1% per annum, ground rent income would increase approximately 4.4% over the year to end March 2024, or 30 basis points above the forecast RPI. On the same basis, ground rent income would increase approximately 30.2% over the next five years, an annualised figure of 5.4%, or 1.3 percentage points above the forecast RPI.

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.

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

Unit type	Median Ground Rent (£000)	Ground Rent Income (£000)	Ground Rent Income (%)	Valuation at 31 March 2023 (£m)	Valuation at 31 March 2023 (%)
Apartment	250	3,520	68.5	70.8	63.8
House	100	522	10.2	11.3	10.2
<b>Residential subtotal</b>	<b>250</b>	<b>4,042</b>	<b>78.7</b>	<b>82.1</b>	<b>74.0</b>
Commercial	427	172	3.3	4.1	3.7
Student	401	921	18.0	24.7	22.3
<b>Total</b>	<b>250</b>	<b>5,134</b>	<b>100.0</b>	<b>110.9</b>	<b>100.0</b>

The top 10 assets by value represent 32.4% of the total portfolio valuation as summarised below:

Property	Location	Valuation at 31 March 2023 (£m)	Valuation at 31 March 2023 (%)
Lawrence Street Student Village	York	9.0	8.1
Masshouse Plaza	Birmingham	4.4	4.0
First Street	Manchester	3.7	3.2
One Park West	Liverpool	3.6	3.2
Rathbone Market	London	2.9	2.7
Brentford Lock West	London	2.9	2.6
Wiltshire Leisure Village	Royal Wootton Bassett	2.5	2.3
Brewery Wharf	Leeds	2.4	2.2
Richmond House	Southampton	2.3	2.1
The Portland	Hull	2.2	2.0
<b>Total</b>		<b>35.9</b>	<b>32.4</b>

The geographic spread of the portfolio is summarised below:

Location	Ground Rent Income (£000)	Ground Rent Income (%)	Valuation at 31 March 2023 (£m)	Valuation at 31 March 2023 (%)
North East	1,630	31.7	32.0	28.8
North West	1,446	28.2	30.7	27.7
Midlands	601	11.7	15.9	14.3
London	602	11.7	12.4	11.2
South West	508	9.9	12.0	10.8
South East	277	5.4	6.3	5.7
Wales	70	1.4	1.6	1.5
<b>Total</b>	<b>5,134</b>	<b>100.0</b>	<b>110.9</b>	<b>100.0</b>

In order to provide shareholders with an illustration of the potential impact of leasehold reform, the Manager has worked with Rightmove to analyse the proportion of the portfolio potentially affected. This exercise is specifically in relation to a proposal to cap ground rents assumed in the enfranchisement formula at 0.1% of unencumbered freehold property value. Based on our latest analysis, 46% and 44% of the portfolio rent and value respectively have residential ground rents that exceed the 0.1% cap. On a net basis, these assets have a portfolio rent and value 16.4% and 14.8% respectively above the 0.1% cap basis, as summarised below:

Portfolio	Ground rent income (%)	Valuation at 31 March 2023 (%)
Unlikely to be fully in scope of residential legislation	24.4	27.5
Residential ground rent below 0.1%	26.3	25.2
Residential ground rent between 0.1% and 0.2% (in aggregate/net above 0.1% cap)	32.7 / 7.5	33.2 / 7.5
Residential ground rent above 0.2% (in aggregate/net above 0.1% cap)	13.3 / 8.9	11.0 / 7.3
<b>Net amount above the 0.1% cap</b>	<b>16.4</b>	<b>14.8</b>
Residential ground rent but underlying freehold value yet to be determined	3.3	3.1
<b>Total (portfolio aggregate)</b>	<b>100.0</b>	<b>100.0</b>

Over the six month period to 31 March 2023 the number of assets impacted by building safety related defects and associated valuation adjustments reduced from 30 to 26, representing 16% of the portfolio value at period end. Further progress has been made since and, at time of writing, the number of assets has reduced to 23, representing 15% of the portfolio value, as summarised below:

Remediation, as of 30 Sept 2022	Number of Assets MEST / NMEST / Total <sup>1</sup>	% of Portfolio Value (30 Sept 2022) MEST / NMEST / Total <sup>1</sup>
Assets requiring remediation <sup>2</sup> :	8 / 22 / 30	8.8 / 12.0 / 20.8

Remediation, as of 31 March 2023	Number of Assets MEST / NMEST / Total <sup>1</sup>	% of Portfolio Value (31 March 2023) MEST / NMEST / Total <sup>1</sup>
Assets requiring remediation <sup>2</sup> :	6 / 20 / 26	5.9 / 9.7 / 15.6

Remediation, as of 19 July 2023	Number of Assets MEST / NMEST / Total <sup>1</sup>	% of Portfolio Value (31-Mar-23) MEST / NMEST / Total <sup>1</sup>
Assets requiring remediation <sup>2</sup> :	6 / 17 / 23	5.9 / 8.8 / 14.7

Analysed as:	Analysis	Analysis
Pledged developer	3 / 8 / 11	5.0 / 4.4 / 9.4
Non-pledged developer	2 / 5 / 7	0.6 / 2.9 / 3.5
Developer no longer in existence (orphaned asset)	1 / 4 / 5	0.3 / 1.5 / 1.8

Government funding applications ongoing (exc. Pledged developer assets):	3 / 6 / 9	0.9 / 2.9 / 3.8
Remedial work commenced:	1 / 5 / 6	0.4 / 4.6 / 5.0

<sup>1</sup> Managed Estate (MEST) and Non-Managed Estate (NMEST).

<sup>2</sup> At the time of writing and since the start of the period, the number of assets requiring remediation has reduced by seven from 30 (as at 30 September 2022) to 23 (as at 19 July 2023) due to: six assets where assessments have confirmed no building safety remediation is required; two assets where building safety remediation has been completed; offset by one asset, backed by a pledged developer, where new building safety issues have been identified.



# Directors' Report

## Principal risks and uncertainties

The principal risks and uncertainties associated with the Company's business fall into the following risk categories: valuation/liquidity, asset, strategic, service provider, accounting, legal and regulatory, building safety, cyber, custody, and sustainability. This list of risks and uncertainties has not materially changed during the six months ended 31 March 2023. However, these risks are being monitored closely.

A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 21 to 25 of the Company's audited Annual Report and Consolidated Financial Statements for the year ended 30 September 2022 (the '2022 Annual Report'), published on 6 June 2023.

The 2022 Annual Report included a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report'). While the Modified Auditor's Report remains in place, all future dividend payments will be withheld, despite the Company having significant distributable reserves, cash available to pay dividends, and good visibility on earnings. Further details are set out in the Letter from the Chair of the Board of Directors and in the 2022 Annual Report.

## Going concern

The Directors have examined significant areas of possible financial risk, as detailed in note 1 of the condensed consolidated interim financial statements on page 14, and have reviewed detailed cash flow forecasts and compliance with the debt covenants.

Given ongoing uncertainty following the introduction of the Building Safety Act 2022, the Manager has prepared detailed forward-looking cash flow forecasts that present 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 could be required in an extreme scenario, to be funded by the Group as landlord. The severe scenario was first performed as part of the Group and Company audit process for the financial year ended 30 September 2022, and 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.

## Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

- This Half Year Report and condensed consolidated interim financial statements have been prepared in accordance with the UK adopted IAS 34 Interim Financial Reporting; and
- This Half Year Report includes a fair review of the important events that have occurred during the first six months of the financial year, their impact on the condensed consolidated interim financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year and any relevant related party transactions.

## Barry Gilbertson

Chair  
19 July 2023



# Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 March 2023

	Note	Unaudited 6 months to 31 March 2023 £	Unaudited 6 months to 31 March 2022 £	Audited year ended 30 September 2022* £
<b>Continuing operations</b>				
Revenue	2	2,890,907	2,762,542	5,595,994
Operating expenses	3	(1,548,366)	(993,743)	(2,060,400)
Profit on sale of investment properties		13,929	22,770	23,677
Net revaluation gain/(loss) on investment properties	6	1,929,922	(9,408,120)	(10,342,245)
<b>Operating profit/(loss)</b>		<b>3,286,392</b>	<b>(7,616,551)</b>	<b>(6,782,974)</b>
Finance income	4	12,550	109	1,364
Finance expenses	5	(402,826)	(316,086)	(738,570)
<b>Net finance expense</b>		<b>(390,276)</b>	<b>(315,977)</b>	<b>(737,206)</b>
<b>Profit/(loss) before tax</b>		<b>2,896,116</b>	<b>(7,932,528)</b>	<b>(7,520,180)</b>
Taxation		-	-	-
<b>Profit/(loss) after tax and total comprehensive income/(loss)</b>		<b>2,896,116</b>	<b>(7,932,528)</b>	<b>(7,520,180)</b>
<b>Earnings/(loss) per share</b>				
Basic	11	3.03p	(8.25p)	(7.84p)
Diluted	11	3.03p	(8.25p)	(7.84p)

\* 2022 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

The accompanying notes on pages 14 to 23 form an integral part of the unaudited condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Financial Position

As at 31 March 2023

	Note	Unaudited 31 March 2023 £	Unaudited 31 March 2022 £	Audited 30 September 2022* £
<b>Assets</b>				
<b>Non-current assets</b>				
Investment properties subject to Material Valuation Uncertainty	6	17,346,000	34,554,000	22,640,000
Investment properties not subject to Material Valuation Uncertainty	6	93,590,000	75,415,000	86,380,000
		<b>110,936,000</b>	109,969,000	109,020,000
<b>Current assets</b>				
Trade and other receivables	7	2,437,719	2,085,519	1,295,894
Interest rate derivative contracts	10	836	38,777	6,814
Cash and cash equivalents		1,459,949	1,915,741	1,912,499
		<b>3,898,504</b>	4,040,037	3,215,207
<b>Total assets</b>		<b>114,834,504</b>	114,009,037	112,235,207
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Financial liabilities measured at amortised cost	9	(20,790,599)	(20,670,941)	(20,730,770)
		<b>(20,790,599)</b>	(20,670,941)	(20,730,770)
<b>Current liabilities</b>				
Trade and other payables	8	(3,821,370)	(3,793,298)	(2,982,173)
<b>Total liabilities</b>		<b>(24,611,969)</b>	(24,464,239)	(23,712,943)
<b>Net assets</b>		<b>90,222,535</b>	89,544,798	88,522,264
<b>Equity</b>				
Share capital	13	47,833,813	47,833,748	47,833,813
Capital redemption reserve	13	669,500	669,500	669,500
Retained earnings		38,823,106	48,974,078	47,539,131
Profit/(loss) for the period		2,896,116	(7,932,528)	(7,520,180)
<b>Total equity</b>		<b>90,222,535</b>	89,544,798	88,522,264
<b>Net asset value per ordinary share</b>				
Basic	12	94.3p	93.6p	92.5p
Diluted	12	94.3p	93.9p	92.5p

\* 2022 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

The unaudited condensed consolidated interim financial statements on pages 10 to 13 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

**Barry Gilbertson**  
Director  
19 July 2023

**Bill Holland**  
Director

Ground Rents Income Fund plc  
Company registered number: 08041022

The accompanying notes on pages 14 to 23 form an integral part of the unaudited condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 March 2023

	Note	Unaudited 6 months to 31 March 2023 £	Unaudited 6 months to 31 March 2022 £	Audited Year ended 30 September 2022* £
<b>Cash flows from operating activities</b>				
Cash generated from operations	15	1,039,913	1,795,872	3,541,166
Interest paid on bank loan and bank charges		(337,018)	(258,959)	(589,765)
<b>Net cash generated from operating activities</b>		<b>702,895</b>	<b>1,536,913</b>	<b>2,951,401</b>
<b>Cash flows from investing activities</b>				
Interest received	4	12,550	109	1,364
Receipts from the sale of investment properties		27,850	25,535	41,432
<b>Net cash generated from investing activities</b>		<b>40,400</b>	<b>25,644</b>	<b>42,796</b>
<b>Cash flows from financing activities</b>				
Bank loan receipts		-	1,500,000	1,500,000
Net proceeds from issuance of shares	13	-	-	130
Net cash used in share buyback	15	-	(795,148)	(795,148)
Dividends paid to shareholders	14	(1,195,845)	(1,441,695)	(2,876,707)
<b>Net cash used in financing activities</b>		<b>(1,195,845)</b>	<b>(736,843)</b>	<b>(2,171,725)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(452,550)</b>	<b>825,714</b>	<b>822,472</b>
<b>Net cash and cash equivalents at the beginning of the period</b>		<b>1,912,499</b>	<b>1,090,027</b>	<b>1,090,027</b>
<b>Net cash and cash equivalents at the end of the period</b>		<b>1,459,949</b>	<b>1,915,741</b>	<b>1,912,499</b>

\* 2022 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

The accompanying notes on pages 14 to 23 form an integral part of the unaudited condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 31 March 2023

	Note	Share capital £	Capital redemption reserve £	Retained earnings £	Total equity £
<b>At 1 October 2021</b>		<b>48,373,248</b>	<b>130,000</b>	<b>51,210,921</b>	<b>99,714,169</b>
<b>Comprehensive loss</b>					
Loss for the period		-	-	(7,932,528)	(7,932,528)
<b>Total comprehensive loss</b>		-	-	(7,932,528)	(7,932,528)
<b>Transactions with owners</b>					
Buyback of ordinary shares	15	(539,500)	539,500	(795,148)	(795,148)
Dividends paid	14	-	-	(1,441,695)	(1,441,695)
<b>At 31 March 2022 (unaudited)</b>		<b>47,833,748</b>	<b>669,500</b>	<b>41,041,550</b>	<b>89,544,798</b>
<b>Comprehensive income</b>					
Profit for the period		-	-	412,348	412,348
<b>Total comprehensive income</b>		-	-	412,348	412,348
<b>Transactions with owners</b>					
Issue of share capital	13	65	-	65	130
Dividends paid	14	-	-	(1,435,012)	(1,435,012)
<b>At 30 September 2022 (audited)*</b>		<b>47,833,813</b>	<b>669,500</b>	<b>40,018,951</b>	<b>88,522,264</b>
<b>Comprehensive income</b>					
Profit for the period		-	-	2,896,116	2,896,116
<b>Total comprehensive income</b>		-	-	2,896,116	2,896,116
<b>Transactions with owners</b>					
Dividends paid	14	-	-	(1,195,845)	(1,195,845)
<b>At 31 March 2023 (unaudited)</b>		<b>47,833,813</b>	<b>669,500</b>	<b>41,719,222</b>	<b>90,222,535</b>

\* 2022 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

The accompanying notes on pages 14 to 23 form an integral part of the unaudited condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 31 March 2023

## 1. Significant 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 SETSxq platform of the Stock Exchange since 13 August 2012. The Company's registered address is 1 London Wall Place, London, EC2Y 5AU. The condensed consolidated interim financial statements of the Company for the six months ended 31 March 2023 comprise those of the Company and its subsidiaries (together referred to as the 'Group'). These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Audited statutory accounts for the year ended 30 September 2022 were approved by the Board of Directors on 5 June 2023 and were delivered to the Registrar of Companies. The report of the auditors on those accounts included a disclaimer of opinion and a material uncertainty related to going concern paragraph.

### Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting. They do not include all the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 September 2022.

The condensed consolidated interim financial statements have been prepared on the basis of the accounting policies set out in the Group's audited consolidated financial statements for the year ended 30 September 2022 and 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. The Group's audited consolidated financial statements for the year ended 30 September 2022 refer to new Standards and Interpretations, none of which had a material impact on these condensed consolidated interim financial statements.

### Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 31 March 2023 and 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.

The accounting policies have been consistently applied to the results, assets, liabilities and cash flows of the entities included in the condensed consolidated interim financial statements and are consistent with those of the year-end financial report.

### 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 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, 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 remediation costs 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 £4 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 £0.5 million (at June 2024) and falls to £1.0 million (at September 2024). The above assumptions gave rise to a material uncertainty in relation to going concern as described within the Group's audited statutory accounts to 30 September 2022 – no significant events have led the Directors to believe this has changed while preparing these accounts.

In both scenarios, the Group loan-to-value restriction and financing covenants are maintained throughout the forecast period. As shown within the Condensed Consolidated Statement of Financial Position, the Group holds assets valued at £93.6 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.

## 1 Significant accounting policies continued

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 17 July 2023, cash held was £1.1 million and the undrawn RCF remained at £4 million – the combined total being £5.1 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;
- Recent rent collection statistics, current ground rent receivables and other receivables owed to the Group;
- 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 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 are progressing 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.

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 condensed consolidated interim financial statements.

### Use of estimates and judgements

The preparation of interim 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

These 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 period in which the estimates are revised and in any future periods 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 period, these estimates include valuation adjustments to reflect potential future remediation as a result of recent building safety and leasehold reform legislation. See note 6 for further detail.

#### Judgements

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

## 2 Segmental information

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.

	<b>Unaudited 6 months to 31 March 2023</b>	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
By activity			
Ground rent income	<b>2,586,344</b>	2,442,449	4,945,755
Other income	<b>304,563</b>	320,093	650,239
	<b>2,890,907</b>	2,762,542	5,595,994

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

# Notes to the Condensed Consolidated Interim Financial Statements **continued**

For the six months ended 31 March 2023

## 3 Operating expenses

	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Directors' salaries	119,482	78,089	155,148
Auditors' remuneration	171,011	90,000	191,121
Management fees	452,022	485,983	870,885
Professional fees	473,594	232,907	514,952
Insurance	19,642	13,142	65,336
Sponsor fees	105,000	28,900	50,000
Valuation fees	27,500	25,115	92,242
Registrar fees	6,865	8,670	13,692
Listing fees	11,002	4,682	13,919
Public relations and printing costs	12,746	11,271	27,183
Other operating expenses	149,502	14,984	65,922
<b>Total operating expenses</b>	<b>1,548,366</b>	<b>993,743</b>	<b>2,060,400</b>

## 4 Finance income

	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Interest on bank deposits	12,550	109	1,364

## 5 Finance expenses

	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Loan interest	322,228	238,531	549,518
Amortisation of loan arrangement fees and bank charges	74,619	80,371	159,905
Net change in fair value of financial instruments	5,979	(2,816)	29,147
<b>Total</b>	<b>402,826</b>	<b>316,086</b>	<b>738,570</b>

Total capitalised loan arrangement and associated professional fees of £0.2 million at the period end date are to be amortised over the remaining loan term to January 2025. See note 9 for further details.



## 6. Investment properties

	£
Fair value	
At 30 September 2021 (audited)	119,380,000
Disposals	(2,880)
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	(9,408,120)
At 31 March 2022 (unaudited)	109,969,000
Disposals	(14,875)
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	(934,125)
At 30 September 2022 (audited*)	109,020,000
<b>Disposals</b>	<b>(13,922)</b>
<b>Net revaluation gain recognised in Condensed Consolidated Interim Statement of Comprehensive Income</b>	<b>1,929,922</b>
<b>At 31 March 2023 (unaudited)</b>	<b>110,936,000</b>

\* 2022 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

### Key assumptions within the basis of fair value are:

#### 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 period.

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 31 March 2023 by Savills. The valuer has confirmed to the Directors that the fair value as set out in the valuation report has been primarily derived using comparable recent 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 31 March 2023. 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 was set out in the Manager Report within the audited Annual Report and Financial Statements for the year ended 30 September 2022.

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 £9.3 million. These adjustments applied to 26 properties as at 31 March 2023, which represent 16% 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 in 2022.

As at 31 March 2023, 84% of the portfolio valuation is unaffected by building safety issues. Of the remaining 16%, 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 £4.0 million.

# Notes to the Condensed Consolidated Interim Financial Statements **continued**

For the six months ended 31 March 2023

## 6. Investment properties (continued)

### Valuation Category – type of rent review

As at 31 March 2023 (unaudited)	Indexed	Doubling	Fixed increases	Flat
Cost (£)	76,287,000	13,591,000	6,461,000	5,682,000
Fair value (£)	89,591,000	11,670,000	5,369,000	4,306,000
Gross rent roll (£)	3,734,000	745,000	332,000	323,000
Rental yield on purchase price	4.9%	5.5%	5.1%	5.7%
Rental yield on fair value	4.2%	6.4%	6.2%	7.5%

As at 31 March 2022 (unaudited)	Indexed	Doubling	Fixed increases	Flat
Cost (£)	76,306,000	13,591,000	6,464,000	5,685,000
Fair value (£)	86,028,000	12,839,000	6,577,000	4,525,000
Gross rent roll (£)	3,570,000	743,000	342,000	323,000
Rental yield on purchase price	4.7%	5.5%	5.3%	5.7%
Rental yield on fair value	4.1%	5.8%	5.2%	7.1%

As at 30 September 2022 (audited)	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%

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 21.6 (30 September 2022: 21.5; 31 March 2022: 22.1). 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
	£	£	£
As at 31 March 2023 (unaudited)	5,134,000	15,402,000	25,670,000
As at 31 March 2022 (unaudited)	4,978,000	14,934,000	24,890,000
As at 30 September 2022 (audited)	5,080,000	15,240,000	25,400,000

### Sensitivity analysis – building safety valuation adjustment

As discussed above, the total valuation adjustments for fire safety risks of £9.3 million have been applied to specific assets within the portfolio, which represent 16% of the portfolio valuation. The valuer has applied percentage-based remediation discounts of 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:

	Independent portfolio valuation £	Upside £	Downside £
Assets gross value where remediation discounts have been applied	26,630,000	26,630,000	26,630,000
Remediation discounts applied	(9,284,000)	(6,706,000)	(14,560,000)
Remaining portfolio valuation	17,346,000	19,924,000	12,070,000
Total portfolio valuation	93,590,000	93,590,000	93,590,000
	110,936,000	113,514,000	105,660,000

## 7 Trade and other receivables

	Unaudited 31 March 2023 £	Unaudited 31 March 2022 £	Audited 30 September 2022 £
Trade receivables	1,537,124	1,247,228	681,177
Other taxes and social security costs	3,298	4,127	-
Other receivables	623,662	239,313	490,698
Prepayments and accrued income	273,635	594,851	124,019
	2,437,719	2,085,519	1,295,894

Management usually considers trade receivables to be fully collectable due to the secure nature of the receipts. The Directors consider that all financial assets that are neither past due nor impaired to be fully recoverable, as the amounts can ultimately be recovered via forfeiture.

## 8 Trade and other payables

	Unaudited 31 March 2023 £	Unaudited 31 March 2022 £	Audited 30 September 2022 £
Trade payables	-	-	3,672
Other taxes and social security costs	-	-	29,414
Accruals and deferred income	3,821,370	3,793,298	2,949,087
	3,821,370	3,793,298	2,982,173

## 9 Financial liabilities measured at amortised cost

	Unaudited 31 March 2023 £	Unaudited 31 March 2022 £	Audited 30 September 2022 £
Bank loans repayable over one year	21,000,000	21,000,000	21,000,000
Capitalised loan arrangement fees net of amortisation	(209,401)	(329,059)	(269,230)
	20,790,599	20,670,941	20,730,770

The Group has access to loan facilities 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, of which £5.5 million of the total £12.5 million is capped at 2.85% (see note 10 for further details), payable quarterly. Both facilities expire in January 2025. Associated costs are capitalised and amortised over the duration of the loan.

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

The lender has charges over certain investment property owned by the Group with an aggregate value of £50.3 million (valuation as at May 2022), reflecting a loan to value of 41.8%, compared to the covenant level of 50%. The Group's unaudited independent portfolio valuation as at 31 March 2023, shows the value of the assets charged to Santander was £48.8 million, reflecting a loan to value of 43.0%. The remaining assets in the portfolio are uncharged. A pledge of all shares in the borrowing Group company and loan obligor companies is in place.

As at 31 March 2023, 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 facility has a LTV covenant of 50% and Interest Cover covenant of 270%. The Group was in full compliance with the covenants throughout

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the period. As at 10 May 2023, being the most recent quarterly interest payment and covenant compliance test date, the actual LTV over secured assets was 41.8% with headroom of £8.3 million and interest cover was 312.4% with rental income headroom of £0.3 million.

### **Group borrowings**

As at 31 March 2023, Group borrowings were 18.9% (30 September 2022: 19.3%; 31 March 2022: 19.1%) of non-current assets.

# Notes to the Condensed Consolidated Interim Financial Statements **continued**

For the six months ended 31 March 2023

## 10. Interest rate derivative contracts

The Group purchased an interest rate cap from Banco Santander SA for £50,650 that applies to £5.5 million of the total £12.5 million RCF, with a maturity date of 10 January 2025. The interest rate cap restricts the maximum floating rate option based on SONIA to 1%. This has been initially recognised at cost and subsequently revalued to fair value of £836 (30 September 2022: £6,814; 31 March 2022: £38,777) with the revaluation loss recognised in the Condensed Consolidated Interim Statement of Comprehensive Income.

## 11. Basic and diluted earnings/(loss) per share

Basic earnings/(loss) per share	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
Earnings/(loss) attributable to equity shareholders of the Company	<b>£2,896,116</b>	(£7,932,528)	(£7,520,180)
Basic earnings/(loss) per share has been calculated by dividing earnings/(losses) by the weighted average number of ordinary shares in issue throughout the period			
Weighted average number of shares in the period	<b>95,667,627</b>	96,159,426	95,919,646
Basic earnings/(loss) per share	<b>3.03p</b>	(8.25p)	(7.84p)

### Diluted earnings/(loss) per share

Diluted earnings/(loss) per share	<b>3.03p</b>	(8.25p)	(7.84p)
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## 12. 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 period to 31 March 2022, 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.

	Unaudited 31 March 2023	Unaudited 31 March 2022	Audited 30 September 2022
Net assets	<b>£90,222,535</b>	£89,544,798	£88,522,264
Number of ordinary shares in issue	<b>95,667,627</b>	95,667,497	95,667,627
Outstanding warrants in issue	-	4,423,876	-
Diluted number of shares in issue	<b>95,667,627</b>	100,091,373	95,667,627
NAV per ordinary share – basic	<b>94.3p</b>	93.6p	92.5p
NAV per ordinary share – dilutive	<b>94.3p</b>	93.9p	92.5p

## 13. Share capital and capital redemption reserve

	Number of shares	Share capital <sup>1</sup> £	Capital redemption reserve £
<b>Issued, authorised and fully paid</b>			
At 31 March 2022 (unaudited)	95,667,497	47,833,748	669,500
Conversion of warrants	130	65	-
At 30 September 2022 (audited)	95,667,627	47,833,813	669,500
<b>At 31 March 2023 (unaudited)</b>	<b>95,667,627</b>	<b>47,833,813</b>	<b>669,500</b>

1£0.50 par value per share

## Financial Statements

### 13. Share capital and capital redemption reserve continued

Following the expiration of all outstanding warrants on 31 August 2022 and subsequent cancellation, no warrants were exercised or converted to ordinary shares during the period (year to 30 September 2022: 130, period to 31 March 2022: nil).

At the Company's AGM in March 2023, the Company was given the authority to purchase up to 14.99% of its issued share capital. No shares were repurchased during the period.

### 14. Dividends

The Company's dividend policy is set out within the Letter from the Chair.

	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Dividends declared and paid by the Company during the period	1,195,845	1,441,695	2,876,707
Analysis of dividends by type:	-		
Interim PID dividend of 0.75p per share	-	722,179	722,179
Interim PID dividend of 0.75p per share	-	719,516	719,516
Interim PID dividend of 0.75p per share	-	-	717,506
Interim PID dividend of 0.75p per share	-	-	717,506
Interim PID dividend of 0.75p per share	717,507	-	-
Interim PID dividend of 0.50p per share	478,338	-	-
	1,195,845	1,441,695	2,876,707

### 15. Cash generated from operations

Reconciliation of operating profit/(loss) to net cash generated from operating activities	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Profit/(loss) before tax	2,896,116	(7,932,528)	(7,520,180)
Adjustments for:			
Net revaluation (gain)/loss on investment properties	(1,929,922)	9,408,120	10,342,245
Profit on sale of investment properties	(13,929)	(22,770)	(23,677)
Net finance expense	390,276	315,977	737,206
Operating cash flows before movements in working capital	1,342,541	1,768,799	3,535,594
Movements in working capital:			
(Increase)/decrease in trade and other receivables	(1,141,825)	(252,268)	537,356
Increase/(decrease) in trade and other payables	839,197	279,341	(531,784)
Net cash generated from operations	1,039,913	1,795,872	3,541,166

#### Costs of share buyback

The costs from the share buyback can be analysed as follows:

	Unaudited 6 months to 31 March 2023	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Buyback of ordinary shares	-	793,545	793,545
Costs associated with buyback of ordinary shares	-	1,603	1,603
Net cash used in share buyback	-	795,148	795,148

# Notes to the Condensed Consolidated Interim Financial Statements **continued**

For the six months ended 31 March 2023

## 16. Related party transactions

Transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation.

Schroders Real Estate Investment Management Limited ('SREIM') is paid a 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. It is also entitled to charge an additional fund management fee when the Company requires services which are out of scope that are agreed on a case by case basis.

Transactions between SREIM and the Company during the financial period were as follows:

	<b>Unaudited 6 months to 31 March 2023</b>	Unaudited 6 months to 31 March 2022	Audited year ended 30 September 2022
	£	£	£
Investment management fee paid to Schroders	<b>452,022</b>	485,983	870,885

# 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.

**AIFMD** means the Alternative Investment Fund Managers Directive (Directive 2011/61/EU), as transposed into UK law.

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

**Base yield** means the return made on investment property being annual ground rent charged expressed as a percentage of the current property valuation.

**Companies Act** means the Companies Act 2006.

**Company** means 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.

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

**FCA** means the UK Financial Conduct Authority.

**Gross income yield** ('GIY') means the income generated by an investment property relative to its value.

**GRIO** means the Company

**Group** means the Company and its subsidiaries.

**Group borrowings** means the outstanding loan amount expressed as a percentage of the current property valuation.

**Initial yield** means the annualised net rents generated by the portfolio expressed as a percentage of the current property valuation.

**Interest cover** means the number of times Group net interest payable is covered by Group net rental income.

**Loan to value** ('LTV') means a ratio which expresses gearing by dividing the outstanding loan amount by the value of the assets on which the loan is secured.

**LSE** means the London Stock Exchange plc.

**MEST** means the managed estate, those properties managed by the Company, including the collection of service charges.

**NAV total return** means the return to shareholders calculated on a per share basis 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 asset value** ('NAV') means the value of total assets minus total liabilities.

**NMEST** means the non-managed estate, those properties managed by parties other than the Company, for example, those managed by a residents' management company.

**Net rental income** means 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.

**Par value** means 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** means the Revolving Credit Facility.

**TISE** means The International Stock Exchange, headquartered in Guernsey.

**Unencumbered value** means the value of the property as if the freehold were to be owned by the leaseholder, free of any debt.

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

**Years purchase** ('YP') means the number of years required for annual ground rent charged to yield the current property valuation.



# Corporate information

## Directors

Barry Gilbertson (Chair)  
Bill Holland  
Katherine Innes Ker  
Jane Vessey

## Alternative Investment Fund Manager

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## Depository

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## Company Secretary

### Schroder Investment Management Limited

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## Registrar

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## Dealing codes

### Ordinary shares

ISIN:  
GB00B715WG26  
SEDOL: B8K0LM4  
Ticker (LSE SETSQX): GRI0  
Ticker (TISE): GRI

## Global Intermediary Identification Number (GIIN)

RY6D8C.99999.SL.826

## Legal Entity Identifier (LEI)

213800SL3SN8P6XCLM37

## Website

[www.schroders.com/grio](http://www.schroders.com/grio)

# Schroders capital

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