Ground Rents Income Fund plc

Half Year Report and Condensed Consolidated Interim Financial Statements

For the six months ended 31 March 2024

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Schroders capital

About us

Ground Rents Income Fund plc (the 'Company')

Company summary

The Company is a closed-ended real estate investment trust incorporated on 23 April 2012 in the United Kingdom ('UK'). 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 2024 the Company had 95,667,627 shares in issue and had 37 active subsidiaries and seven 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[1]

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.

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.

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.

[1] Approved by shareholders at an EGM on 24 April 2023 with effect from that date.

Top 10 assets by value

	Asset	Location	Valuation at 31 March 2024 (£ million)	Valuation at 31 March 2024 (%)
1	Lawrence Street Student Village	York	8.3	10.2
2	First Street	Manchester	3.4	4.2
3	Masshouse Plaza	Birmingham	3.1	3.8
4	One Park West	Liverpool	2.7	3.3
5	Richmond House	Southampton	2.2	2.7
6	Rathbone Market	London	2.1	2.6
7	Vita Tinlings	Liverpool	2.1	2.6
8	Brentford Lock West	London	2.1	2.6
9	Brewery Wharf	Leeds	1.8	2.2
10	Wiltshire Leisure Village	Royal Wootton Bassett	1.6	2.0
	Total		**29.4**	**36.2**

Cover image: One Park West, Liverpool.
This is not a sustainable product for the purposes of the FCA rules. References to the consideration of sustainability factors and ESG integration should not be construed as a representation that the Company seeks to achieve any particular sustainability outcome.

Contents

Portfolio at a glance:

Number of assets

390

Number of investment units

19,000+

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

46.3%

Total portfolio value

£81.5 million

Percentage of the portfolio value comprising top ten assets

36.2%

Chair's Statement

My overview

I am pleased to provide shareholders with the unaudited interim report for the six-month period ended 31 March 2024. This distribution follows shortly after the delayed release of the Company's Annual Report for the year to 30 September 2023 (the '2023 Annual Report') released earlier in July. The delay occurred not only due to managing the headwinds relating to complex building safety projects but also due to leasehold reform changes instigated by the previous Government, including a consultation in November 2023 contemplating restricting extant residential ground rents payable (the 'Consultation'). It was critically important for the Company to respond in detail to the Consultation, including seeking appropriate legal and other advice, and diverting resources to enable us to do so. The 11 Board and Committee meetings provide an indication of the high activity levels of the Board and the Manager during the six-month period.

The 2023 Annual Report, available via this link https://schro.link/grio24, provided extensive information relating to both of these headwinds. This interim report is in a shorter format and designed to be read in conjunction with the 2023 Annual Report. I sincerely urge you to click the link, if you have not read, at least, my Chair's Statement which set out very important information for you as a shareholder, aimed at increasing your understanding of the matters, almost all out of our own hands, affecting the Company.

Consistent with last year, the 2023 Annual Report continued to include a disclaimer of opinion within the Auditors' report ('Modified Auditors' Report'). The disclaimer is due to there being a lack of evidence available to appropriately determine the likely cost of both cladding and non-cladding remediation and who the liability for these costs sits with, coupled with a lack of transactions within the market meaning that the assets of the Company are subject to a Material Valuation Uncertainty Clause ('MUC') and a lack of audit evidence available for the auditors to form an opinion.

The uncertainty relating to the extent of leasehold reform, the next Continuation Vote, building safety and related matters has led to the Board and Manager to note in the 2023 Annual Report that there are factors which may materially affect the Company's status as a going concern in the future. Consequently, this resulted in an Emphasis of Matter audit opinion relating to Going Concern.

Performance

The Company's NAV was £66.2 million, or 69.2 pence per share ('pps') as at 31 March 2024, which compared with £86.2 million or 90.1 pps at the start of the period. This outcome resulted in a NAV total return of -23.2% over the six-month period, with no dividends paid due to the Modified Auditors' Report applying to the 2023 Annual Report. The movement in NAV over the six-month period to 31 March 2024 is set out in the below table.

The independent portfolio valuation carried out by Savills Advisory Services Limited ('Savills') as at 31 March 2024 of £81.5 million (30 September 2023: £106.1 million), represented a like-for-like reduction (net of disposals) of £21.3 million or 20.7% over the six-month period.

This reduction was caused by a shift in the previous Government's approach to leasehold reform via the Consultation, which sought views on restricting (or eliminating) extant residential ground rents payable, whilst suggesting that no compensation would be paid to freeholders. The Company provided a comprehensive response to the Consultation, available at the following link https://schro.link/c224c3.

	£ million	pps	Comment
Audited* NAV as at 30 September 2023	**86.2**	**90.1**	
Portfolio valuation	-21.2	-22.1	Decreased to £81.5 million due to softening base yields applied to the portfolio caused by the previous Government's November 2023 Consultation. Includes negative adjustments for building safety and leasehold reform risk totalling £12.1 million (30 September 2023: £13.3 million). This is explained in further detail in the Investment Manager's Report on page 7.
Profit on sale of investment properties	0.2	0.2	Sale of freehold ground rent interests in Bristol and Exeter.
Net revenue	1.0	1.0	Includes the impact of increasing legal fees together with a higher interest rate on the unhedged portion of the Company's revolving credit facility.
Unaudited NAV as at 31 March 2024	66.2	69.2	

* 2023 Annual Report subject to a disclaimer of opinion within the Auditor's report (the 'Modified Auditor's Report')

However, once the General Election was announced on 22 May 2024 the previous Government rushed the enactment of new leasehold legislation, the Leasehold and Freehold Reform Act (the 'Act'), through the so-called 'wash-up' sitting of Parliament on 24 May. As such, the previous Government is yet to respond to the Consultation, and the Act does not impose restrictions on extant residential ground rents payable. I discuss the Act in more detail below and uncertainty remains about whether the new Labour Government will continue to advance residential leasehold reform in whole, in part, or at all.

As might have been predicted, from a ground rents market perspective, the shift in sentiment led to a rapid pause in market activity which, in turn, led Savills, in discussion with other valuers and the Royal Institution of Chartered Surveyors ('RICS'), to adopt a MUC across the entire residential ground rent market, with effect from 31 March 2024 (affecting 97% of the Company's portfolio, by value). Savills have now confirmed that the MUC will continue to be adopted in valuing our portfolio until there is clear evidence of a normal, functioning market. Further detail relating to the period end valuation is included in the Investment Manager's Report on page 7.

Leasehold Reform and Building Safety

Since the release of the 2023 Annual Report, the Labour Party has formed a new Government with a 172 seat majority. This should enable the new Government to advance its legislative agenda with less Parliamentary opposition.

It is therefore worthwhile considering the Labour Party's manifesto pledges relating to leasehold reform, which do not include the previous Government's proposal to cap existing residential ground rents payable. The Labour Party has however made the following important commitments concerning leasehold and building safety reform:

1. To take action to improve building safety, including a review of how to better protect leaseholders from (egregious) costs, as well as to take steps to accelerate the pace of remediation across the country. This includes a renewed focus on ensuring those responsible for the building safety crisis pay to put it right, which, at this stage, we assume to mean original developers of the products, the designers and the builders.
2. To enact the package of Law Commission proposals (available via this link: https://schro.link/rlac) to make it 'easier, quicker and cheaper' for a leaseholder to acquire their landlord's interest by extending their lease, acquiring their freehold or buying out their ground rent (a process known as 'enfranchisement'), and to standardise, improve and extend rights available to leaseholders. It is worth highlighting that these proposals did not recommend changes to extant residential ground rents payable. Several of the proposals are already included in the Act but are subject to secondary legislation being introduced.
3. To ban new leasehold flats and ensure commonhold is the default tenure in the future.
4. To tackle 'unregulated and unaffordable' ground rent charges and unfair maintenance costs.

NB: what we do not yet know, in addition to the detail of the four points noted, is the Labour Party's view on the need for appropriate financial compensation if the Government legislates to erode landlords' legitimate property interests. The 2023 Annual Report discusses this point in detail, including the potential for a legal approach to compensatory remediation and the likely contravention of the rights of the Company's shareholders under Article 1 of the First Protocol of the European Convention on Human Rights ('A1P1').

The Labour Party's manifesto commitments follow the Act becoming law. The Act aims to improve homeownership for leaseholders, including provisions to make enfranchisement easier and cheaper. Such enfranchisement provisions include abolishing 'marriage value' payable in this context, capping the treatment of ground rent in the calculation of the premium (or compensation) payable to landlords at 0.1% of the property's unencumbered freehold value, and standardising rights for apartments and houses. However, important detail that determines future premiums payable, such as what are known as capitalisation and deferment rates, are subject to as-yet-unknown, future secondary legislation being introduced by the new Government.

Since March 2022 and the four subsequent independent valuations of our portfolio to date, Savills have included negative adjustments for leasehold reform risk in relation to capping the treatment of ground rent in the enfranchisement premium calculation at 0.1% of the property's unencumbered capital value. This risk is in addition to a softening in base yields over the period and, as at 31 March 2024, amounted to a discount of £4.9 million (30 September 2023: £4.2 million). Further detail relating to the proportion of the Company's portfolio potentially affected is included in the Investment Manager's Report on page 7.

The Act also facilitates leaseholders taking over the management of their building more easily, improves transparency over service charge and insurance costs, and prohibits the sale of new leasehold houses, except in exceptional circumstances. It also improves leaseholders' access to redress and makes minor amendments to the Building Safety Act 2022 (the 'BSA'). We are supportive of these redress enhancements, and the Company's property manager is already a member of a pre-existing redress scheme, the Property Ombudsman.

The Act has received criticism for its piecemeal nature and, as I have already mentioned, critical detail remains unclear and subject to secondary legislation. It is not known when the various provisions within the Act will take effect, or how negatively they may affect our portfolio. Only the BSA amendments contained within the Act will come into force on 24 July 2024. The remaining provisions will only come into force with future secondary legislation.

We are considering how best to address our concerns about the Act. This is because, whilst the Act does not contain a cap on extant residential ground rents payable as suggested in the Consultation, it does contain potentially adverse provisions, such as the abovementioned changes to the enfranchisement process.

On 17 July, the new Government set out its legislative priorities in the King's Speech, including a Draft Leasehold and Commonhold Reform Bill. Largely based on the above manifesto commitments, the new Government will seek to implement the provisions within the Act and further reform the leasehold system, including enacting the remaining Law Commission recommendations relating to enfranchisement and Right to Manage, regulate existing ground rents and, following consultation, ban the sale of new leasehold flats so a reinvigorated commonhold legal framework becomes the default tenure.

We are working closely with our advisers and other institutional owners to better understand the Act and the King's Speech, and look forward to engaging positively with the new Government to advocate for reform that fairly balances the interests of our shareholders and leaseholders.

There has been little change in terms of building safety since the 2023 Annual Report with, at time of writing, only 24 of our 392 properties still requiring building safety remediation, with work to eight properties now complete or not required after further detailed inspection. Remedial work is ongoing at nine properties, representing 8.9% of portfolio value as at 31 March 2024, and qualifying applications for Government funding having been made at a further seven (of the remaining 15) properties, or 1.4% of portfolio value. Negotiations are ongoing across the last eight properties to receive funding to enable us to complete the organisation of remediation works. This is explained in further detail in the Investment Manager's Report. The 2023 Annual Report provided a comprehensive summary of the Building Safety Framework and subsequent confirmation of secondary legislation and regulations.

Strategy

I previously noted in the 2023 Annual Report that the ongoing headwinds, and the resultant impact on liquidity, were key matters to be considered in respect of the Company's Continuation Vote, as originally included in the Articles from its first listing in August 2012. We carried out an extensive shareholder consultation in early 2023. The consequent important changes to the Company's Continuation Vote mechanism and to the Investment Policy, were approved by more than 99% of votes cast by shareholders at an Extraordinary General Meeting ('EGM') on 24 April 2023.

The new Continuation Vote mechanism requires the Company to hold a Continuation Resolution before 31 December 2024, and at three-year intervals thereafter. At each Vote, the Resolution proposed will need a simple majority of votes cast to pass. During the quarter ending 31 December 2024, the Company therefore expects to convene a further EGM to hold a Continuation Vote, where the Board and the Manager will provide an update to progress on delivering the new Investment Policy. The 2024 Annual Report (as at 30 September 2024) will also be an important milestone for the Auditor to reassess the imposition of the Modified Auditor's Report, and consequently for the Board and Manager to reassess the Company's ability to pay dividends.

Significant work continues improving the liquidity of the underlying portfolio. However, market-wide transaction volumes remain very low – almost non-existent at present, in fact. It is therefore highly likely that the Board will ask shareholders to vote for continuation, to provide more time to sell the portfolio for optimum value and to return cash to shareholders in a controlled, orderly, and timely manner.

Against this challenging backdrop we have, nonetheless, made some progress during the period, with the disposal of the Company's freehold ground rent interests in Bristol and Exeter, for a combined price of £3.45 million. This represented a 4% premium to the 30 September 2023 independent valuation of £3.3 million, and a net initial yield of 3.1%. Further disposals are planned and in progress.

Alongside disposals and the headwinds relating to managing the effects of leasehold reform and building safety reform, we continue to deal with a range of legacy issues relating to historical transactions and portfolio activity carried out prior to the Board and the Manager's respective involvement with the Company. As an example of this granular work, the Company recently commenced forfeiture proceedings against a problematic commercial tenant and simultaneously entered into an Agreement for Lease with a new tenant to resolve complex issues at a property in Yorkshire. This will crystallise a £400,000 payment to the Company relating to historic arrears upon completion of the new lease.

As a result of the significant workload relating to leasehold reform and building safety reform, as in the previous financial year, the Board has approved, as envisaged by the Investment Management Agreement, additional out-of-scope fees for the Manager that are set out in Note 16 of this interim report.

Financing

In March 2024, we completed an important and timely refinancing of our £25 million loan facility with Santander UK ('Santander'), which was due to expire in January 2025. The key terms of the new facility are:

- A new £19.5 million facility with an extension in the term from January 2025 to 10 July 2026.
- The new loan has a margin of 2.75% per annum, an increase of 90 basis points compared to the previous margin of 1.85% per annum.
- Pre-existing hedging arrangements remain in place until expiry in January 2025, consisting of an interest rate swap on £12.5 million at 0.83% per annum and an interest rate cap on £5.5 million at 1.00% per annum. Based on the previous total loan drawn of £21.0 million and existing hedging, the effective interest rate was 3.5% per annum (inclusive of a non-utilisation fee). Post refinance, in May 2024, the interest rate was 3.6% per annum, with £19.5 million drawn.
- Five assets were added to the security pool for a combined value of £9.5 million, increasing total charged assets to £53.6 million, according to Santander's independent external valuation. This reflected a Loan-to-Value ('LTV') ratio of 36.4% compared to a covenant of 50% of the value of the charged assets.
- At completion of the refinance in March 2024, the interest cover ratio ('ICR') was 301%, which compares to the ICR covenant ratio of 200%, with this covenant level reducing to 160% in January 2025, which provides more headroom when the pre-existing hedging expires.

As part of the refinancing, the Company used £1.5 million of cash from disposals to reduce the loan facility to £19.5 million. Santander require all future proceeds from charged asset disposals to be used to repay the loan facility. The new loan facility also requires amortisation of £62,500 per quarter from January 2025. If the loan facility is repaid in an amount equal to remaining repayment instalments (other than the amount of the final repayment instalment) from future disposal proceeds and/or voluntary prepayments, no further amortisation payments are required until 10 July 2026. There are no early repayment fees.

Based on the Company's independent portfolio valuation as at 31 March 2024 and following the refinancing, the Group LTV, net of cash, is 17.9%. The Company's remaining assets are uncharged and comprise property assets valued at £39.0 million (as at 31 March 2024).

Importantly, the refinancing strengthens the Company's balance sheet, especially at this time of uncertainty in the ground rents market sector, provides greater financial flexibility and improves financial stability to support delivery of our strategy. The Board and Manager will continue to monitor hedging options in advance of the existing hedging expiring in January 2025, having regard to the then outlook for interest rates and progress with disposals.

Outlook

The Board and Manager remain committed to the strategic priorities of delivering the new Investment Policy, advocating for fair leasehold reform, and delivering best-in-class asset management.

Our efforts, and those of the wider ground rent market sector, combined with the change of Government, has arguably led to a better leasehold reform outcome for the Company than contemplated by the previous Government in the November 2023 Consultation. However, greater clarity is needed on the new Government's manifesto commitments both in terms of detail and priority of timing. This detail, together with ongoing work resolving building safety issues, will be important factors in determining whether the Modified Auditors Report continues to apply to the forthcoming September 2024 year end results, and therefore our ability to pay dividends in the future.

We will continue to provide a high level of transparency on progress implementing the strategy as we approach the Continuation Vote later this year. Your Directors hope that, as shareholders, you will feel able to express your continuing support for your Board and the Manager by voting in favour of the Resolutions proposed at that time.

Barry Gilbertson
Chair

23 July 2024

Investment Manager's Report

The independent portfolio valuation as at 31 March 2024 was £81.5 million, reflecting a gross income yield of 6.4% or an average Years Purchase ('YP') multiplier of 15.6 based on annual ground rent roll of £5.2 million. This represents a like-for-like reduction (net of disposals) of £21.3 million or 20.7% over the six-month period (30 September 2023: £106.1 million).

As at 31 March 2024, 97% of the portfolio valuation was subject to a MUC being adopted across the entire residential ground rent market because of uncertainty relating to both leasehold reform and building safety. The valuation includes a negative adjustment for building safety of £7.2 million (30 September 2023: £9.1 million) and, notwithstanding a softening in base yields, a continued negative adjustment for leasehold reform risk of £4.9 million (30 September 2023: £4.2 million) attributed to relatively high residential ground rents when compared to the underlying, unencumbered freehold property value (see below section, analysis of ground rent levels. Further detail is provided in the Investment Manager's Report on page 11 of the 2023 Annual Report). The Company's independent valuer, Savills, have confirmed the MUC will continue to be adopted until there is clear evidence of a normal, functioning market.

A summary of key valuation metrics since 30 September 2022 is set out in the table below:

	30-Sep-22	31-Mar-23[1]	30-Sep-23	31-Mar-24[1]
Ground rent income (£million)	5.1	5.1	5.2	5.2
Portfolio valuation (£million)	109.0	110.9	106.1	81.5
Years Purchase ('YP')	21.5	21.6	20.4	15.6
Gross Initial Yield ('GIY')	4.7%	4.6%	4.9%	6.4%
Portfolio valuation adjustments				
Building safety adjustment (£million)	−11.4	−9.3	-9.1	-7.2
Leasehold reform adjustment (£million)	−3.8	−4.0	-4.2	-4.9
Total adjustment (£million):	−15.2	−13.3	-13.3	-12.0
MUC				
No. of Assets	30	26	24	386
% of portfolio valuation	21%	16%	18%	97%[2]

[1] Unaudited

[2] As at 31 March 2024, 97% of the portfolio valuation is subject to the industry-wide MUC because of uncertainty relating to both leasehold reform and building safety reform. This includes 24 assets which have building safety remediation requirements

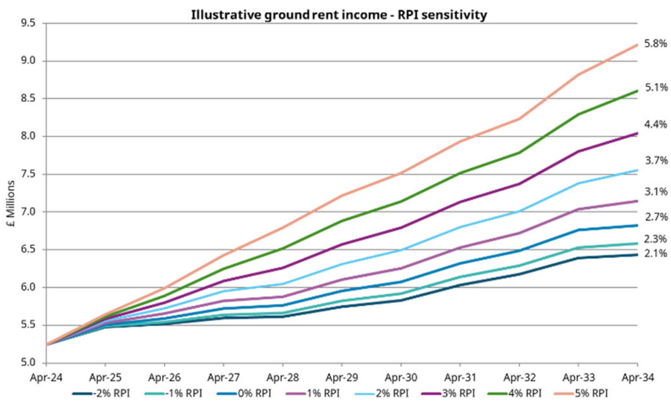
The portfolio's weighted-average lease term as at 31 March 2024 was 392 years, with 94% of ground rent income subject to upwards only reviews. The rent reviews are set out in the table below:

Review mechanism	Ground Rent Roll (£000)	Ground Rent Roll (%)	Valuation at 31 March 2024 (£m)	Valuation at 31 March 2024 %
RPI	3,845	73.3	66.5	81.6
Doubling	744	14.2	7.7	9.4
Fixed	332	6.3	3.8	4.7
Flat	323	6.2	3.5	4.3
	5,244	**100.0**	**81.5**	**100.0**

The rent review profile is shown in the table below, with 46.3% 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 31 March 2024 (£m)	Valuation at 31 March 2024 %
0-5	2,429.0	46.3	41.3	50.7
5-10	1,414.0	27.0	19.7	24.2
10-15	538.0	10.3	8.0	9.8
15-20	169.0	3.2	2.9	3.6
Over 20	167.0	3.2	2.4	2.9
Flat (no review)	527.0	10.0	7.2	8.8
	5,244	**100.0**	**81.5**	**100.0**

The chart below demonstrates the forecast income performance based on various levels of Retail Price Index ('RPI') inflation, which was 4.2% per annum over the ten years to and including May 2024:



Assuming future RPI inflation of 4.2% per annum, ground rent income should increase approximately 7.1% over the year to end March 2024, or 2.9 percentage points above the forecast RPI. On the same basis, ground rent income should increase approximately 33% over the next five years, an annualised figure of 5.8%, or 1.6 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 CPIH-linked rental growth following the change may be lower, but this will impact all RPI-linked assets, including other ground rent portfolios and index-linked gilts.

Note, all of the above figures are on an actual basis. The improved offer to do with rents that double more frequently than every 20 years has been provided to all relevant residential leaseholders but, in some instances, not yet taken up.

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 31 March 2024 (£m)	Valuation at 31 March 2024 %
Apartment	250	3,645	69.5	50.1	61.5
House	100	527.0	10.0	8.0	9.8
Residential subtotal	**250**	**4,172**	**79.5**	**58.1**	**71.3**
Commercial	427	176	3.4	3.7	4.5
Student	668	896	17.1	19.7	24.2
Total	**250.0**	**5,244**	**100.0**	**81.5**	**100.0**

The top 10 assets by value represent 36.2% of the total portfolio valuation as summarised below:

Property	Location	Valuation at 31 March 2024 (£m)	Valuation at 31 March 2024 %
Lawrence Street Student Village	York	8.3	10.2
First Street	Manchester	3.4	4.2
Masshouse Plaza	Birmingham	3.1	3.8
One Park West	Liverpool	2.7	3.3
Richmond House	Southampton	2.2	2.7
Rathbone Market	London	2.1	2.6
Vita Tinlings	Liverpool	2.1	2.6
Brentford Lock West	London	2.1	2.6
Brewery Wharf	Leeds	1.8	2.2
Wiltshire Leisure Village	Royal Wootton Bassett	1.6	2.0
Total		**29.4**	**36.2**

To provide shareholders with an illustration of the potential impact of leasehold reform, we have worked with Rightmove to analyse the proportion of the portfolio potentially affected. This exercise is specifically in relation to the proposal to cap ground rents assumed in the enfranchisement formula at 0.1% of unencumbered freehold property value. Based on our latest analysis, 49% and 45% 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 18.8% and 16.5% respectively above the 0.1% cap basis, as summarised below:

Portfolio	Ground rent income (%)	Valuation at 31 March 2024 (%)
Unlikely to be fully in scope of residential legislation	23.8%	30.3%
Residential ground rent below 0.1%	24.2%	22.3%
Residential ground rent between 0.1% and 0.2% (in aggregate/net above 0.1% cap)	32.5% / 7.4%	30.4% / 6.9%
Residential ground rent above 0.2% (in aggregate/net above 0.1% cap)	16.6% / 11.4%	14.2% / 9.6%
Residential ground rent but underlying freehold value yet to be determined	2.9%	2.8%
Total	**100.0%**	**100.0%**

Over the six-month period to 31 March 2024 the number of assets impacted by building safety related defects and associated valuation adjustments was unchanged at 24, representing 13% of the portfolio value at period end.

Further progress has been made since and, at time of writing, the number of assets remains 24, representing 13% of the portfolio value as at 31 March 2024, as summarised below[1]:

Remediation, as of 30 Sept 2023	**Number of Assets MEST / NMEST / Total**			**% of Portfolio Value (30 Sept 2023) MEST / NMEST / Total**		
	MEST	**NMEST**	**Total**	**MEST**	**NMEST**	**Total**
Assets requiring remediation:	7	17	**24**	9.4%	8.8%	**18.2%**
Remediation, as of 31 Mar 2024	**Number of Assets MEST / NMEST / Total**			**% of Portfolio Value (31 Mar 2024) MEST / NMEST / Total**		
	MEST	**NMEST**	**Total**	**MEST**	**NMEST**	**Total**
Assets requiring remediation:	8	16	**24**	6.7%	6.6%	**13.3%**
Remediation, as of 23 July 2024	**Number of Assets MEST / NMEST / Total**			**% of Portfolio Value (31 Mar 2024) MEST / NMEST / Total**		
	MEST	**NMEST**	**Total**	**MEST**	**NMEST**	**Total**
Assets requiring remediation:	8	16	**24**	6.7%	6.6%	**13.3%**
Analysed as:						
Pledged developer	3	8	**11**	4.9%	4.1%	**8.9%**
Non-pledged developer	3	3	**6**	1.6%	1.7%	**3.4%**
Developer no longer in existence (orphaned asset)	2	5	**7**	0.2%	0.8%	**1.0%**
	MEST	**NMEST**	**Total**	**MEST**	**NMEST**	**Total**
Government funding applications ongoing (exc. Pledged developer assets):	3	8	**11**	0.2%	2.5%	**2.7%**
Remedial work commenced:	4	5	**9**	5.3%	3.6%	**8.9%**

[1]Managed Estate ('MEST') and Non-Managed Estate ('NMEST').

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, building safety, strategic, political developments, asset, service provider, legal and regulatory, cyber, custody, and sustainability. This list of risks and uncertainties has not materially changed during the six months ended 31 March 2024. 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 19 to 21 of the Company's audited Annual Report and Consolidated Financial Statements for the year ended 30 September 2023 (the '2023 Annual Report'), published on 4 July 2024.

The 2023 Annual Report included a disclaimer of opinion within the Auditors' report (the 'Modified Auditors' Report'). While the Modified Auditors' 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 2023 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 16, and have reviewed detailed cash flow forecasts and compliance with the debt covenants.

In forming its assessment of using the going concern basis when preparing the financial statements, the Board and Manager have prepared both base case and severe, but plausible, downside scenarios.

Furthermore, the Board has examined significant areas of possible financial risk when considering the preparation basis of the Group's, and Company's, Financial Statements.

As detailed below, the Group currently faces significant uncertainties in connection with a number of factors including building safety and leasehold reform, which lead to greater uncertainty around the future net income from, and valuation of, its portfolio of assets, and the Continuation Vote due by 31 December 2024.

Based on the assessment performed, as detailed below, the Board and Manager conclude that there is material uncertainty in relation to going concern in both the Base Case and Downside scenarios.

Leasehold reform

The previous Government had introduced a programme of leasehold reform, following the launch of a leasehold reform agenda in 2017, and including the enactment of the Leasehold Reform (Ground Rent) Act 2022; the introduction of the Leasehold and Freehold Reform Bill into Parliament in November 2023; and the publication of the Consultation on restricting the level of existing ground rent that leaseholders pay in England and Wales.

The passage of the 2023 Bill through Parliament has been subject to a number of delays but, whilst the Leasehold and Freehold Reform Bill has passed into law on 24 May 2024 with no ground rent cap, the ultimate outcome remains uncertain into the next Parliament, where further legislation may be tabled to cap existing ground rents.

Building safety reform

The Building Safety Act 2022 (the 'Act'), associated legislation, guidance, and government funding (together the "Building Safety Framework") is the most significant regulatory reform to the UK's built environment in almost 40 years. Whilst the Board and Manager endorse the aim of the Building Safety Framework to improve building standards, it has increased the challenges associated with resolving complex building safety issues. For example, 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. This set of provisions aims to protect residential leaseholders from most building safety costs.

Building safety defects can be 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. Non-cladding defects are usually associated with the interior of a building, such as defective fire doors and compartmentation.

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

Liability for 'non-cladding' costs is more complicated and depends on whether the lease is deemed 'qualifying' for cost protections and whether the landlord is associated with the original developer or, if not, and such as the Company, meets a group net worth test or 'contribution condition'. It is worth noting that the Company, or any Group company, does not meet this condition (being a group net worth of more than £2 million per relevant building as of the relevant date of 14 February 2022, but this could be subject to change in future).

Loan finance and compliance with covenants

As at the year-end date, the Company held a £25 million facility with Santander maturing in January 2025, comprising a £12.5 million term loan, and a £12.5 million revolving credit facility, with an aggregate drawn amount of £21 million. In March 2024 this facility was refinanced to a new sum of £19.5 million and extended to 10 July 2026.

Including the addition of five new assets, Santander's independent external valuation of the security pool is £53.6 million, reflecting a LTV ratio of 36.4%. This compares to an LTV covenant of 50%. Santander's independent external valuation includes the industrywide Material Uncertainty Clause arising from because of uncertainty relating to both leasehold and building safety reform. The ICR was 3.0x in March 2024, which compares to a current ICR covenant ratio of 2.0x. The covenant level will reduce to 1.6x in January 2025.

Based on the Company's latest unaudited independent portfolio valuation by Savills as at 31 March 2024, the charged portfolio was valued at £42.5 million, which compares with the latest bank valuation of £53.6 million provided in Q1 2024, a difference of -£11.1 million or -20.7%. The bank LTV, adopting the more recent Savills valuation, is 45.8% compared with the covenant of 50%.

Several cure rights are available if a breach of the bank covenants were to occur, which can be applied at the discretion of the lender, including additional cure deposits, loan prepayments, and the addition of further investment property assets as security. All of the cure rights are exercisable a maximum of four times in aggregate during the life of the Facility, excluding the ICR covenant deposit cure which is available without restriction on or after 1 February 2025.

The Group is in compliance with, and further is expected to comply with, the bank covenants under the Base Case for the full going concern period until June 2025 (and until the loan's maturity in July 2026). The key assumptions of the Base Case scenario are set out below.

Continuation Vote and New Investment Policy

The Continuation Vote mechanism requires the Company to hold a non-binding Continuation Resolution before 31 December 2024, and at three-year intervals thereafter. At each Vote, the Resolution proposed will need a simple majority of votes cast to pass. During the final quarter of 2024 the Company therefore expects to convene a further EGM to hold a Continuation Vote, where the Board and the Manager will provide an update on the Company's progress in delivering on its new

Investment Policy.

Whilst any continuation is dependent on the shareholder vote, it is the expectation of the Board and Manager that shareholders will vote for the Company to continue.

Other considerations

The Group has an established leaseholder base with ground rents receivable under lease arrangements.

The Group has complied with the distribution requirements of the HMRC REIT tax regime to date. The Company has historically distributed profits on a quarterly basis, and at a level higher than that required by the REIT tax rules, except for FY2022 and FY2023 where, due to the Modified Auditors' Report, and having received supporting legal advice, the Company was prevented in law from distributing further profits. This restriction will apply until the disclaimer of the audit opinion is removed.

Cash flow forecasts

The Manager, on behalf of the Board and Group, has prepared a detailed forward-looking analysis that presents both a Base Case and a Severe Downside Case of the Group's expected liquidity and loan covenant position for a going concern period of at least 12 months from the date of the signing of the financial statements, and which includes the following assumptions:

Base Case:

Leasehold reform

•An updated portfolio valuation as at 31 March 2024 of £81.5 million has been applied.

Building safety reform

•An assessment of non-cladding, non-recoverable costs of £1.2 million incurred over FY24, based on historical analysis across the portfolio indicating building safety remediation costs of £57,000 per unit, of which 2.3% is 'non-cladding'. A 50% recovery factor is then applied. This factor is prudently based on the estimation that at least two thirds of GRIO's residential tenants are buy-to-let investors (and therefore may be determined as 'non-qualifying' for building safety cost protections; and where we have completed the certification process to determine the qualifying/non-qualifying status of leaseholders (e.g. Masshouse and Kingsland) this has confirmed approximately 90% of leaseholders are non-qualifying for building safety cost protections). The 12-month timeframe (FY24) reflects the relatively minor nature of non-cladding works.

Loan finance and compliance with covenants

•Terms agreed in the new loan facility agreement have been reflected in the modelling, including an increased margin of 2.75%, and a sum of £62,500 of quarterly amortisation to be paid;

•The SONIA interest rate applied to the loan has been assumed as follows: calendar year ('CY') 2024 5.0% and for the CY 2025 4.5%;

•The existing hedging products expire in January 2025 and are not replaced; and

•From Q3 FY24 the loan covenant analysis is based on the Savills portfolio valuation of charged assets as at 31 March 2024.

Disposal strategy

•The actual sales of the Vitas Bristol and Exeter assets, which occurred in February 2024, have been reflected (totalling £3.4 million) with no further disposals forecasted.

Other

•Semi-annual dividends, of 90% of property profits, are paid to maintain the Company's REIT tax compliance, currently delayed until FY2025 due to the existing Modified Auditors' Report;

•There are additional fees paid to the Manager for out-of-scope work: (£200,000 per year in Q1 FY2024);

•An insurance premium shortfall loan is made to leaseholders and management companies each year of £600,000 every Q4, and which is repaid over the subsequent four quarters (recovery back-loaded); and

•Other expenses have been modelled to reflect the Manager's forecast assumptions, increased management time and cost, and the legal and professional fees and expenditure incurred in continuing to progress building safety remediation.

Severe Downside Case – which assumes the following over the Base Case:

Building safety

•An estimate of 'non-cladding' remediation costs of £5.2 million to be incurred over the next twelve months; and

•An estimate of 'cladding' remediation costs of £10 million to be incurred over the next three years. This is based on historical analysis across the portfolio indicating building safety remediation costs of £57,000 per unit, of which 97.7% is 'cladding'. For the modelled estimate, a 10% risk factor is attributed to the 97.7% portion of overall remediation costs, applied to assets where a liability is unsubstantiated due to lack of evidence and assumed to be wholly unrecoverable.

Other

•Non-ground rent income falls by 50%.

Within the Base Case, the minimum and maximum cash balances during the going concern period are £4.0 million (December 2024) and £5.3 million (March 2025) respectively, and £5.0 million in June 2025. Sufficient headroom would also exist within both the loan LTV and ICR covenants throughout the period.

The Group cannot support the non-recoverable building safety costs assumed in the Severe Downside Case. The Group cash balance initially turns negative in Q4 FY24 (-£1.4 million) and the bank LTV covenant is breached in Q4 FY24 without mitigating measures outside the scope of the modelling. Mitigating measures may include the sale of assets; the timing of any cash outflows for remediation works where such expenditure can be controlled; pursuing the Government for leasehold reform compensation pursuant to A1P1; and pursuing third parties to mitigate building safety costs incurred.

The bank ICR covenant goes on to breach in Q2 FY25 as the difficulties are compounded by the existing interest rate hedging expiring in January 2025. Mitigating measures may include: the sale of assets; pursuing the Government for leasehold reform compensation; and pursuing third parties to mitigate building safety costs incurred.

Within the Severe Downside Case, the minimum and maximum cash balances during the going concern period are -£3.5 million (June 2025) and £1.3 million (June 2024).

Conclusion

In reaching their conclusion, the Board has assessed the going concern status of the Group and Company, taking into account potential financial impacts of the principal risks and uncertainties as discussed above.

The Board has further considered the cash flow forecasts prepared by the Manager, which incorporate the cash requirements for the Group throughout the going concern period. The directors have concluded that there is a reasonable expectation that the Group and Company will be able to continue in operation and meet their liabilities as they fall due, over the going concern period.

Based on the assessment performed, the Board and Manager have also concluded that there is a material uncertainty in relation to going concern as a result of the potential impact of building safety remediation costs on the Group and the continuation vote that falls within the going concern period.

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
23 July 2024

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 March 2024

	Note	**Unaudited 6 months to 31 March 2024 £**	Unaudited 6 months to 31 March 2023 £	Audited year ended 30 September 2023* £
Continuing operations				
Revenue	2	**2,976,903**	2,890,907	5,724,087
Operating expenses	3	**(1,515,021)**	(1,548,366)	(3,248,703)
Profit on sale of investment properties		**238,437**	13,929	64,861
Net revaluation (loss)/gain on investment properties	6	**(21,248,393)**	1,929,922	(2,886,611)
Operating (loss)/gain		**(19,548,074)**	3,286,392	(346,366)
Finance income	4	**50,602**	12,550	46,604
Finance expenses	5	**(519,976)**	(402,826)	(825,144)
Net finance expense		**(469,374)**	(390,276)	(778,540)
(Loss)/gain before tax		**(20,017,448)**	2,896,116	(1,124,906)
Taxation		**–**	–	–
(Loss)/gain after tax and total comprehensive (loss)/income		**(20,017,448)**	2,896,116	(1,124,906)
Basic and diluted (loss)/earnings per share	11	**(20.9p)**	3.0p	(1.2p)

*2023 Annual Report subject to the Modified Auditors' Report

The accompanying notes on pages 16 to 28 form an integral part of the unaudited condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

As at 31 March 2024

	Note	**Unaudited 31 March 2024 £**	Unaudited 31 March 2023 £	Audited 30 September 2023* £
Assets				
Non-current assets				
Investment properties subject to Material Valuation Uncertainty	6	**10,843,000**	17,346,000	19,304,000
Investment properties not subject to Material Valuation Uncertainty	6	**70,697,000**	93,590,000	86,791,000
		81,540,000	110,936,000	106,095,000
Current assets				
Trade and other receivables	7	**3,223,934**	2,437,719	2,753,044
Interest rate derivative contracts	10	**27**	836	216
Cash and cash equivalents		**6,376,712**	1,459,949	1,601,872
		9,600,673	3,898,504	4,355,132
Total assets		**91,140,673**	114,834,504	110,450,132
Liabilities				
Non-current liabilities				
Financial liabilities measured at amortised cost	9	**(19,251,057)**	(20,790,599)	(20,850,428)
		(19,251,057)	(20,790,599)	(20,850,428)
Current liabilities				
Trade and other payables	8	**(4,171,304)**	(3,821,370)	(3,398,191)
Financial liabilities measured at amortised cost	9	**(1,534,247)**	–	–
		(5,705,551)	(3,821,370)	(3,398,191)
Total liabilities		**(24,956,608)**	(24,611,969)	(24,248,619)
Net assets		**66,184,065**	90,222,535	86,201,513
Equity				
Share capital	13	**47,833,813**	47,833,813	47,833,813
Capital redemption reserve	13	**669,500**	669,500	669,500
Retained earnings		**37,698,200**	38,823,106	38,823,106
(Loss)/profit for the period		**(20,017,448)**	2,896,116	(1,124,906)
Total equity		**66,184,065**	90,222,535	86,201,513
Net asset value per ordinary share	12	**69.2p**	94.3p	90.1p

*2023 Annual Report subject to the Modified Auditor's Report

The unaudited condensed consolidated interim financial statements on pages 12 to 15 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Barry Gilbertson
Director
23 July 2024

Bill Holland
Director

Ground Rents Income Fund plc
Company registered number: 08041022

The accompanying notes on pages 16 to 28 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 2024

	Note	**Unaudited 6 months to 31 March 2024**	Unaudited 6 months to 31 March 2023	Audited Year ended 30 September 2023*
		£	£	£
Cash flows from operating activities				
Cash generated from operations	15	**1,629,925**	1,039,913	1,434,252
Interest paid on bank loan and bank charges		**(450,731)**	(337,018)	(698,887)
Net cash generated from operating activities		**1,179,194**	702,895	735,365
Cash flows from investing activities				
Interest received	4	**50,602**	12,550	46,604
Receipts from the sale of investment properties		**3,545,044**	27,850	103,249
Net cash generated from investing activities		**3,595,646**	40,400	149,853
Cash flows from financing activities				
Dividends paid to shareholders	14	**–**	(1,195,845)	(1,195,845)
Net cash used in financing activities		**–**	(1,195,845)	(1,195,845)
Net increase/(decrease) in cash and cash equivalents		**4,774,840**	(452,550)	(310,627)
Net cash and cash equivalents at the beginning of the period		**1,601,872**	1,912,499	1,912,499
Net cash and cash equivalents at the end of the period		**6,376,712**	1,459,949	1,601,872

*2023 Annual Report subject to the Modified Auditor's Report

The accompanying notes on pages 16 to 28 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 2024

	Note	Share capital	Capital redemption reserve	Retained earnings	Total equity
		£	£	£	£
At 01 October 2022		**47,833,813**	**669,500**	**40,018,951**	**88,522,264**
Comprehensive income					
Profit for the period		–	–	2,896,116	2,896,116
Total comprehensive income		–	–	2,896,116	2,896,116
Transactions with owners					
Dividends paid	14	–	–	(1,195,845)	(1,195,845)
At 31 March 2023 (unaudited)		**47,833,813**	**669,500**	**41,719,222**	**90,222,535**
Comprehensive loss					
Loss for the period		–	–	(4,021,022)	(4,021,022)
Total comprehensive loss		–	–	(4,021,022)	(4,021,022)
At 30 September 2023 (audited)		**47,833,813**	**669,500**	**37,698,200**	**86,201,513**
Comprehensive loss					
Loss for the period		–	–	(20,017,448)	(20,017,448)
Total comprehensive loss		–	–	(20,017,448)	(20,017,448)
At 31 March 2024 (unaudited)		**47,833,813**	**669,500**	**17,680,752**	**66,184,065**

*2023 Annual Report subject to the Modified Auditor's Report

The accompanying notes on pages 16 to 28 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 2024

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 SETSqx 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 2024 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 2023 were approved by the Board of Directors on 3 July 2024 and were delivered to the Registrar of Companies. The report of the auditors on those accounts included a disclaimer of opinion and an Emphasis of Matter paragraph in connection with going concern.

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 2023.

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 2023 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 2023 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 2024 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

In forming its assessment of using the going concern basis when preparing the financial statements, the Board and Manager have prepared both base case and severe, but plausible, downside scenarios.

Furthermore, the Board has examined significant areas of possible financial risk when considering the preparation basis of the Group's financial statements.

As detailed below, the Group currently faces significant uncertainties in connection with a number of factors including building safety and leasehold reform, which lead to greater uncertainty around the future net income from, and valuation of, its portfolio of assets, and the Continuation Vote due by 31 December 2024.

Based on the assessment performed, as detailed below, the Board and Manager conclude that there is material uncertainty in relation to going concern.

Leasehold reform

The previous Government had introduced a programme of leasehold reform, following the launch of a leasehold reform agenda in 2017, and including the enactment of the Leasehold Reform (Ground Rent) Act 2022; the introduction of the Leasehold and Freehold Reform Bill into Parliament in November 2023; and the publication of the Consultation on restricting the level of existing ground rent that leaseholders pay in England and Wales.

The passage of the 2023 Bill through Parliament has been subject to a number of delays but, whilst the Leasehold and Freehold Reform Bill has passed into law on 24 May 2024 with no ground rent cap, the ultimate outcome remains uncertain into the next Parliament, where further legislation may be tabled to cap existing ground rents.

Building safety reform

The Building Safety Act 2022, associated legislation, guidance, and government funding (together the "Building Safety Framework") is the most significant regulatory reform to the UK's built environment in almost 40 years. Whilst the Board and Manager endorse the aim of the Building Safety Framework to improve building standards, it has increased the challenges associated with resolving complex building safety issues. For example, 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. This set of provisions aims to protect residential leaseholders from most building safety costs.

Building safety defects can be 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. Non-cladding defects are usually associated with the interior of a building, such as defective fire doors and compartmentation.

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

1 **Significant accounting policies** continued

Building safety reform continued
Liability for 'non-cladding' costs is more complicated and depends on whether the lease is deemed 'qualifying' for cost protections and whether the landlord is associated with the original developer or, if not, and such as the Company, meets a group net worth test or 'contribution condition'. It is worth noting that the Company, or any Group company, does not meet this condition (being a group net worth of more than £2 million per relevant building as of the relevant date of 14 February 2022, but this could be subject to change in future).

Loan finance and compliance with covenants
During the period, the Company refinanced its facility with Santander to a new sum of £19.5 million and extended to 10 July 2026.

Including the addition of five new assets, Santander's independent external valuation of the security pool is £53.6 million, reflecting a LTV ratio of 36.4%. This compares to a LTV covenant of 50%. Santander's independent external valuation includes the industrywide Material Uncertainty Clause ("MUC") arising from uncertainty relating to both leasehold and building safety reform. The ICR was 3.0x in March 2024, which compares to a current ICR covenant ratio of 2.0x. The covenant level will reduce to 1.6x in January 2025.

Based on the Company's latest unaudited independent portfolio valuation by Savills as at 31 March 2024, the charged portfolio was valued at £42.5 million, which compares with the latest bank valuation of £53.6 million provided in Q1 2024, a difference of -£11.1 million or -20.7%. The bank LTV, adopting the more recent Savills valuation, is 45.8% compared with the covenant of 50%.

Several cure rights are available if a breach of the bank covenants were to occur, which can be applied at the discretion of the lender, including additional cure deposits, loan prepayments, and the addition of further investment property assets as security. All of the cure rights are exercisable a maximum of four times in aggregate during the life of the Facility, excluding the ICR covenant deposit cure which is available without restriction on or after 1 February 2025.

The Group is in compliance with, and further is expected to comply with, the bank covenants under the Base Case for the full going concern period until July 2025 (and until the loan's maturity in July 2026). The key assumptions of the Base Case scenario are set out below.

Continuation Vote and New Investment Policy
The Continuation Vote mechanism requires the Company to hold a non-binding Continuation Resolution before 31 December 2024, and at three-year intervals thereafter. At each Vote, the Resolution proposed will need a simple majority of votes cast to pass. During the final quarter of 2024 the Company therefore expects to convene a further EGM to hold a Continuation Vote, where the Board and the Manager will provide an update on the Company's progress in delivering on its new Investment Policy.

Whilst any continuation is dependent on the shareholder vote, it is the expectation of the Board and Manager that shareholders will vote for the Company to continue.

Other considerations
The Group has an established leaseholder base with ground rents receivable under lease arrangements.

The Group has complied with the distribution requirements of the HMRC REIT tax regime to date. The Company has historically distributed profits on a quarterly basis, and at a level higher than that required by the REIT tax rules, except for FY2022 - FY2024 where, due to the Modified Auditors' Report and having received supporting legal advice, the Company was prevented in law from distributing further profits. This restriction will apply until the disclaimer of the audit opinion is removed.

Cash flow forecasts
The Manager, on behalf of the Board and Group, has prepared a detailed forward-looking analysis that presents both a Base Case and a Severe Downside Case of the Group's expected liquidity and loan covenant position for a going concern period of at least 12 months from the date of the signing of the financial statements, and which includes the following assumptions:

Base Case:
Leasehold reform
- The portfolio valuation as at 31 March 2024 of £81.5 million has been applied.

Building safety reform
- An assessment of non-cladding, non-recoverable costs of £1.2 million incurred over FY24 and FY25, based on historical analysis across the portfolio indicating building safety remediation costs of £57,000 per unit, of which 2.3% is 'non-cladding'. A 50% recovery factor is then applied. This factor is prudently based on the estimation that at least two thirds of GRIO's residential tenants are buy-to-let investors (and therefore may be determined as 'non-qualifying' for building safety cost protections; and where we have completed the certification process to determine the qualifying/nonqualifying status of leaseholders (e.g. Masshouse and Kingsland) this has confirmed approximately 90% of leaseholders are non-qualifying for building safety cost protections). The 12-month timeframe (FY24) reflects the relatively minor nature of non-cladding works.

Loan finance and compliance with covenants
- Terms agreed in the new loan facility agreement have been reflected in the modelling, including an increased margin of 2.75%, and a sum of £62,500 of quarterly amortisation to be paid;
- The SONIA interest rate applied to the loan has been assumed as follows: calendar year ("CY") 2024 5.0% and for the CY 2025 4.5%;
- The existing hedging products expire in January 2025 and are not replaced; and
- From Q3 FY24 the loan covenant analysis is based on the Savills portfolio valuation of charged assets as at 31 March 2024.

Disposal strategy
- No further disposals forecasted.

1 Significant accounting policies continued

Other

- Semi-annual dividends, of 90% of property profits, are paid to maintain the Company's REIT tax compliance, currently delayed until FY2025 due to the existing Modified Auditors' Report;
- There are additional fees paid to the Manager for out-of-scope work (£200,000 per year);
- An insurance premium shortfall loan is made to leaseholders and management companies each year of £600,000 every Q4, and which is repaid over the subsequent four quarters (recovery back-loaded); and
- Other expenses have been modelled to reflect the Manager's forecast assumptions, increased management time and cost, and the legal and professional fees and expenditure incurred in continuing to progress building safety remediation.

Severe Downside Case – which assumes the following over the Base Case:

Building safety

- An estimate of 'non-cladding' remediation costs of £5.2 million to be incurred over the next twelve months; and
- An estimate of 'cladding' remediation costs of £10m to be incurred over the next three years. This is based on historical analysis across the portfolio indicating building safety remediation costs of £57,000 per unit, of which 97.7% is 'cladding'. For the modelled estimate, a 10% risk factor is attributed to the 97.7% portion of overall remediation costs, applied to assets where a liability is unsubstantiated due to lack of evidence and assumed to be wholly unrecoverable.

Other

- Non-ground rent income falls by 50%.

Within the Base Case, the minimum and maximum cash balances during the going concern period are £4.0 million (December 2024) and £5.3 million (March 2025) respectively, and £5.0 million in July 2025. Sufficient headroom would also exist within both the loan LTV and ICR covenants throughout the period. The Group cannot support the non-recoverable building safety costs assumed in the Severe Downside Case.

The Group cash balance initially turns negative in Q4 FY24 (-£1.4 million) and the bank LTV covenant is breached in Q4 FY24 without mitigating measures outside the scope of the modelling. Mitigating measures may include the sale of assets; the timing of any cash outflows for remediation works where such expenditure can be controlled; pursuing the Government for leasehold reform compensation pursuant to A1P1; and pursuing third parties to mitigate building safety costs incurred.

The bank ICR covenant goes on to breach in Q2 FY25 as the difficulties are compounded by the existing interest rate hedging expiring in January 2025. Mitigating measures may include: the sale of assets; pursuing the Government for leasehold reform compensation; and pursuing third parties to mitigate building safety costs incurred.

Within the Severe Downside Case, the minimum and maximum cash balances during the going concern period are -£3.5 million (July 2025) and £1.3 million (June 2024).

Conclusion

In reaching their conclusion, the Board has assessed the going concern status of the Group and Company, taking into account potential financial impacts of the principal risks and uncertainties as discussed above.

The Board has further considered the cash flow forecasts prepared by the Manager, which incorporate the cash requirements for the Group throughout the going concern period. The Directors have concluded that there is a reasonable expectation that the Group and Company will be able to continue in operation and meet their liabilities as they fall due, over the going concern period.

Based on the assessment performed, the Board and Manager has also concluded that there is a material uncertainty in relation to going concern as a result of the potential impact of building safety remediation costs on the Group and the continuation vote that falls within the going concern period.

1 Significant accounting policies continued

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.

	Unaudited 6 months to 31 March 2024 £	Unaudited 6 months to 31 March 2023 £	Audited year ended 30 September 2023 £
By activity			
Ground rent income	**2,670,194**	2,586,344	5,161,073
Other income	**306,709**	304,563	563,014
	2,976,903	2,890,907	5,724,087

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 2024

3 Operating expenses

	Unaudited 6 months to 31 March 2024	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
Directors' salaries[1]	**94,930**	119,482	234,371
Auditors' remuneration	**182,825**	171,011	323,847
Management fees	**565,089**	452,022	1,112,849
Professional fees	**468,033**	473,594	946,272
Insurance	**13,860**	19,642	32,640
Sponsor fees	**25,000**	105,000	130,000
Valuation fees	**27,500**	27,500	55,000
Registrar fees	**7,463**	6,865	26,830
Listing fees	**7,201**	11,002	22,303
Public relations and printing costs	**19,540**	12,746	23,925
Other operating expenses	**103,580**	149,502	340,666
Total operating expenses	**1,515,021**	1,548,366	3,248,703

[1] Gross of employer's national insurance contributions.

4 Finance income

	Unaudited 6 months to 31 March 2024	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
Interest on bank deposits	**50,602**	12,550	46,604

5 Finance expenses

	Unaudited 6 months to 31 March 2024	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
Loan interest	**354,584**	322,228	669,260
Amortisation of loan arrangement fees and bank charges	**165,203**	74,619	149,286
Net change in fair value of financial instruments	**189**	5,979	6,598
	519,976	402,826	825,144

Following the refinance of the loan facility during the period, £149,572 capitalised loan arrangement and associated professional fees relating to the existing loan facility were fully amortised. In relation to the new loan facility, £215,729 loan arrangement and associated professional fees were capitalised and deducted from the total outstanding loan amount. As at end of the period, total capitalised fees of £214,695 are to be amortised over the remaining loan term to July 2026. See note 9 for further details.

6 Investment properties

	£
Fair value	
At 1 October 2022	109,020,000
Disposals	(13,922)
Net revaluation gain recognised in Condensed Consolidated Interim Statement of Comprehensive Income	1,929,922
At 31 March 2023 (unaudited)	110,936,000
Made up of:	
Investment properties subject to Material Valuation Uncertainty	17,346,000
Investment properties not subject to Material Valuation Uncertainty	93,590,000
Disposals	(24,467)
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	(4,816,533)
At 30 September 2023 (audited*)	106,095,000
Made up of:	
Investment properties subject to Material Valuation Uncertainty	19,304,000
Investment properties not subject to Material Valuation Uncertainty	86,791,000
Disposals	**(3,306,607)**
Net revaluation loss recognised in Condensed Consolidated Interim Statement of Comprehensive Income	**(21,248,393)**
At 31 March 2024 (unaudited)	**81,540,000**
Made up of:	
Investment properties subject to Material Valuation Uncertainty	**10,843,000**
Investment properties not subject to Material Valuation Uncertainty	**70,697,000**

* 2023 Annual Report subject to 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 2024 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.

Following the King's Speech in November 2023, The Leasehold and Freehold Bill was introduced to Parliament and set out significant amendments to existing leasehold legislation, aimed at making it cheaper and easier for existing residential leaseholders to extend their lease or buy their freehold.

These proposals could severely impact anticipated income flows and the Government stated at the time that they would not expect to compensate freeholders for lost revenue. The plan would be to "override lease terms through primary legislation".

Pending the outcome of the consultation – and any subsequent legislation – the Valuer considered that, as at the valuation date, they can attach much less weight to previous market evidence for comparison purposes, to inform our opinions of value. Indeed, the current situation means that they are faced with an unprecedented set of circumstances on which to base a judgement.

At the last valuation in September 2023, the valuer applied a Material Valuation Uncertainty Clause ('MUC'), on selected buildings only, due to the impact of the Building Safety Act 2022. They remain in place for the March 2024 valuation.

The valuation is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to our valuation than would normally be the case.

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 £7.2 million (31 March 2023: £9.3 million; 30 September 2023: £9.1 million). These adjustments applied to 24 properties as at 31 March 2024 (31 March 2023: 26; 30 September 2023: 24), which represent 13.3% of the portfolio valuation (31 March 2023: 16%; 30 September 2023: 18%).

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 2024, 86.7% of the portfolio valuation (31 March 2023: 84%; 30 September 2023: 82%) is unaffected by building safety issues. However, 97% of the portfolio is subject to a MUC because of uncertainty relating to both leasehold reform and building safety.

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 £4.9 million (31 March 2023: £4.0 million; 30 September 2023: £4.2 million). The Investment Manager's report on page 7 sets out these discounts in further detail.

Notes to the Condensed Consolidated Interim Financial Statements continued

For the six months ended 31 March 2024

6 Investment properties (continued)

Valuation Category – type of rent review

As at 31 March 2024 (unaudited)	Indexed	Doubling	Fixed increases	Flat
Cost (£)	**72,365,000**	**11,008,000**	**6,462,000**	**9,701,000**
Fair value (£)	**65,884,000**	**6,516,000**	**3,753,000**	**5,387,000**
Gross rent roll (£)	**3,776,000**	**614,000**	**332,000**	**522,000**
Rental yield on purchase price	**5.2%**	**5.6%**	**5.1%**	**5.4%**
Rental yield on fair value	**5.7%**	**9.4%**	**8.8%**	**9.7%**

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 30 September 2023 (audited)	Indexed	Doubling	Fixed increases	Flat
Cost (£)	76,234,000	13,581,000	6,462,000	5,681,000
Fair value (£)	86,419,000	10,806,000	4,772,000	4,098,000
Gross rent roll (£)	3,806,000	745,000	332,000	323,000
Rental yield on purchase price	5.0%	5.5%	5.1%	5.7%
Rental yield on fair value	4.4%	6.9%	7.0%	7.9%

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 15.5 (31 March 2023: 21.6; 30 September 2023: 20.4). 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 2024 (unaudited)	**5,244,000**	**15,732,000**	**26,220,000**
As at 31 March 2023 (unaudited)	5,134,000	15,402,000	25,670,000
As at 30 September 2023 (audited)	5,206,000	15,618,000	26,030,000

Sensitivity analysis – building safety valuation adjustment

As discussed earlier, the total valuation adjustments for fire safety risks of £7.2 million (31 March 2023: £9.3 million; 30 September 2023: £9.1 million) have been applied to specific assets within the portfolio, which represent 13% (31 March 2023: 16%; 30 September 2023: 18%) of the portfolio valuation. The valuer has applied percentage-based remediation discounts of between 0% and 100% 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.

Sensitised independent valuation as at 31 March 2024

	Independent portfolio valuation £	Upside £	Downside £
Assets gross value where remediation discounts have been applied	**18,030,000**	**18,030,000**	**18,030,000**
Remediation discounts applied	**(7,187,000)**	**(5,252,000)**	**(10,828,000)**
	10,843,000	**12,778,000**	**7,202,000**
Remaining portfolio valuation	**70,697,000**	**70,697,000**	**70,697,000**
Total portfolio valuation	**81,540,000**	**83,475,000**	**77,899,000**

The 'Upside' valuation reduces the total existing remediation discount by 27%, leading to an increase in the overall portfolio valuation. The 'Downside' valuation increases the total existing remediation discount by 51%, 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 31 March 2023

	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)
	17,346,000	19,924,000	12,070,000
Remaining portfolio valuation	93,590,000	93,590,000	93,590,000
Total portfolio valuation	110,936,000	113,514,000	105,660,000

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 57%, 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 2023

	Independent portfolio valuation £	Upside £	Downside £
Assets gross value where remediation discounts have been applied	28,411,000	28,411,000	28,411,000
Remediation discounts applied	(9,107,000)	(6,681,000)	(14,492,000)
	19,304,000	21,730,000	13,919,000
Remaining portfolio valuation	86,791,000	86,791,000	86,791,000
Total portfolio valuation	106,095,000	108,521,000	100,710,000

The 'Upside' valuation reduces the total existing remediation discount by 27%, leading to an increase in the overall portfolio valuation. The 'Downside' valuation increases the total existing remediation discount by 59%, including a 100% valuation discount for assets deemed to be 'high risk' by the valuer, showing a decrease in the overall portfolio valuation.

7 Trade and other receivables

	Unaudited 31 March 2024 £	Unaudited 31 March 2023 £	Audited 30 September 2023 £
Trade receivables	**2,156,349**	1,537,124	1,037,415
Other taxes and social security costs	**–**	3,298	21,549
Other receivables	**916,519**	623,662	1,546,440
Prepayments and accrued income	**151,066**	273,635	147,640
	3,223,934	2,437,719	2,753,044

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 2024	Unaudited 31 March 2023	Audited 30 September 2023
	£	£	£
Trade payables	**–**	–	15,959
Other taxes and social security costs	**17,559**	–	–
Accruals and deferred income	**4,153,745**	3,821,370	3,382,232
	4,171,304	3,821,370	3,398,191

9 Financial liabilities measured at amortised cost

	Unaudited 31 March 2024	Unaudited 31 March 2023	Audited 30 September 2023
	£	£	£
Bank loans repayable over one year	**19,465,753**	21,000,000	21,000,000
Capitalised loan arrangement fees net of amortisation	**(214,696)**	(209,401)	(149,572)
	19,251,057	20,790,599	20,850,428

	Unaudited 31 March 2024	Unaudited 31 March 2023	Audited 30 September 2023
	£	£	£
Bank loans repayable within one year	**1,534,247**	–	–

During the period, the Group completed the refinancing of its £25 million loan facility with Santander, which was due to expire in January 2025. As part of the refinancing, the Company used £1.5 million of cash from disposals to reduce the loan facility to £19.5 million. This amount was held in the Company's bank account on behalf of the lender as of 31 March 2024. This resulted in extending the loan's term to July 2026. The new loan carries an annual margin of 2.75%, an increase of 90 basis points from the previous margin of 1.85%. Existing hedging arrangements will remain in place until their expiry in January 2025.

The new loan facility also requires amortisation of £62,500 per quarter from January 2025, with future disposal proceeds net against the aggregate remaining amortisation amounts.

The new loan is further secured by five additional assets, valued at £9.5 million, bringing the total value of charged assets to £53.6 million (valuation as at November 2023). No security or guarantee exists in relation to the facility over any other Group assets or assets within the parent company.

As at 31 March 2024, 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.

The combined amended facility has a Loan-to-Value ('LTV') covenant of 50% and Interest Cover covenant of 270%. The Interest Cover level will reduce to 160% in January 2025.The Group was in full compliance with the covenants throughout the period. As at 10 May 2024, the actual LTV over secured assets was 36.4% with headroom of £7.3 million and Interest Cover was 318.3% with headroom of £0.6 million.

Group borrowings
The table below sets out group borrowings at 31 March 2024, 31 March 2023 and 30 September 2023.

	Unaudited 31 March 2024	Unaudited 31 March 2023	Audited 30 September 2023
Loan amount (£m)	21.0	21.0	21.0
Valuation (£m)	81.5	110.9	106.1
Percentage of valuation (%)	25.8	18.9	19.8

Notes to the Condensed Consolidated Interim Financial Statements continued

For the six months ended 31 March 2024

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 facility, with a maturity date of 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 £27 (31 March 2023: £836; 30 September 2023: £216) with the revaluation loss recognised in the Condensed Consolidated Interim Statement of Comprehensive Income.

11 Basic and diluted (loss)/earnings per share

Basic (loss)/earnings per share	**Unaudited 6 months to 31 March 2024**	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
(Loss)/earnings attributable to equity shareholders of the Company	**(20,017,448)**	2,896,116	(1,124,906)
Basic and diluted (loss)/earnings per share has been calculated by dividing (losses)/earnings by the weighted average number of ordinary shares in issue throughout the period			
Weighted average number of shares in the period	**95,667,627**	95,667,627	95,667,627
Basic and diluted (loss)/earnings per share	**(20.9p)**	3.0p	(1.2p)

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.

	Unaudited 31 March 2024	Unaudited 31 March 2023	Audited 30 September 2023
Net assets	**66,184,065**	90,222,535	86,201,513

	Number	Number	Number
Number of ordinary shares in issue	**95,667,627**	95,667,627	95,667,627
NAV per ordinary share	**69.2p**	94.3p	90.1p

13 Share capital and capital redemption reserve

	Number of shares	Share capital[1] £	Capital redemption reserve £
Issued, authorised and fully paid			
At 31 March 2023 (unaudited)	95,667,497	47,833,813	669,500
At 30 September 2023 (audited)	95,667,497	47,833,813	669,500
At 31 March 2024 (unaudited)	**95,667,497**	**47,833,813**	**669,500**

1£0.50 par value per share

14 Dividends

It has previously been the Company's policy to pay quarterly interim dividends to ordinary shareholders. The Company intends to pay dividends on a semi-annual basis in future periods. However, the Company is currently restricted from making distributions due to the Modified Auditors Reports included within the Annual Reports and Financial Statements for the years ended 30 September 2022 and 30 September 2023.

	Unaudited 6 months to 31 March 2024	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
Dividends declared and paid by the Company during the period	**–**	1,195,845	1,195,845
Analysis of dividends by type:			
Interim PID dividend of 0.75p per share	**–**	717,507	717,507
Interim PID dividend of 0.50p per share	**–**	478,338	478,338
	–	1,195,845	1,195,845

15 Cash generated from operations

Reconciliation of operating (loss)/profit to net cash generated from operating activities	**Unaudited 6 months to 31 March 2024**	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
(Loss)/profit before tax	**(20,017,448)**	2,896,116	(1,124,906)
Adjustments for:			
Net revaluation loss/(gain) on investment properties	**21,248,393**	(1,929,922)	2,886,611
Profit on sale of investment properties	**(238,437)**	(13,929)	(64,861)
Net finance expense	**469,374**	390,276	778,540
Operating cash flows before movements in working capital	**1,461,882**	1,342,541	2,475,384
Movements in working capital:			
Increase in trade and other receivables	**(470,890)**	(1,141,825)	(1,457,150)
Increase in trade and other payables	**638,933**	839,197	416,018
Net cash generated from operations	**1,629,925**	1,039,913	1,434,252

Reconciliation of increase in trade and other payables

	Unaudited 6 months to 31 March 2024	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
Increase in trade and other payables	**773,113**	839,197	416,018
Non-cash adjustments:			
Capitalised loan arrangement fees	**(215,730)**	–	–
Accrued finance expenses	**81,550**	–	–
Net increase in trade and other payables	**638,933**	839,197	416,018

Notes to the Condensed Consolidated Interim Financial Statements continued

For the six months ended 31 March 2024

16 Related party transactions

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

Schroder 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:

	Unaudited 6 months to 31 March 2024	Unaudited 6 months to 31 March 2023	Audited year ended 30 September 2023
	£	£	£
Investment management fee paid to SREIM	**565,089**	452,022	1,112,849

For the six months' ended 31 March 2024 the investment management fee comprised £312,784 as part of the standard tiered fee and £252,305 as the net additional out-of-scope fees payable to the Investment Manager by the Group for the period (year ended 30 September 2023: £897,099 standard tiered fee and £215,750 out-of-scope fees; period ended 31 March 2023: £436,272 standard tiered fee and £15,750 out-of-scope fees).

17 Events after the period end

There were no events of note after the period end.

Glossary

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 of the 2023 Annual Report 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.

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

EGM means the Extraordinary General Meeting of the Company.

FCA is the UK Financial Conduct Authority.

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

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.

Corporate information

Directors
Barry Gilbertson (Chair)
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Dealing codes
Ordinary shares
ISIN: GB00B715WG26
SEDOL: B8K0LM4
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