EAST ANGLIA GROUND RENTS LIMITED

Report and Financial Statements

30 September 2021

Registered number

07541198

Schroders
capital

Contents

Company Information

Directors

Christopher Moore

Christopher Leek (appointed 11 November 2021)

James Agar (resigned 5 October 2021)

Independent Auditors

PricewaterhouseCoopers LLP

No 1 Spinningfields

Hardman Square

Manchester

M3 3EB

Registered office

1 London Wall Place

London

EC2Y 5AU

Registered number

07541198

Strategic Report

The Directors present their Strategic report on the Company for the year ended 30 September 2021.

Review of the business, principal activities and future developments

The Company's principal activity during the year continued to be the operation of a property investment and rental business. The Company owns the ground rents of a portfolio of properties in East Anglia, England.

The Company will continue to collect ground rent income due under the terms of the leases and maximise returns to shareholders.

Position and performance

The profit for the financial year was £29,085 (2020: £28,885). The net asset position of the Company at year end was £286,271 (2020: £257,186).

Investment strategy

The Company has acquired and intends to continue to acquire ground rents. Ground rents can comprise of freeholds and long dated head leases of residential, retail and commercial properties in the United Kingdom. These interests have and will have a pre-determined long-term income stream from the lease and, ultimately, when the lease comes to an end, a reversionary value.

Key performance indicators ('KPIs')

Due to the straightforward nature of the business, the Directors do not feel it is necessary to report KPIs in order to understand the performance of the Company.

Principal risks and uncertainties

Investment market conditions

A systematic fall in the valuation of real estate could lead to a fall in the Company's net asset value. Valuations are linked to multiples of the ground rent payable and ground rents payable are subject to pre-determined, contractual review dates and amounts. The multiples vary according to market sentiment, the nature of the rent review and the time until the next rent review.

Investment performance

The returns to investors, over the long term, are dependent on the income stream from ground rents and any movement in the valuation of the underlying assets. Income from the collection of ground rents is one of the most secure sources of income available in the UK, due to the ability of a freeholder and/or head leaseholder to forfeit the lease on any property where the leaseholder fails to pay the ground rent.

Real Estate Investment Trust ('REIT') rules

The Company forms part of a group known as Ground Rents Income Fund plc ('the Group') which must remain compliant with the REIT rules in order to take advantage of the potential efficiencies in its tax affairs, including exemption from UK corporation tax on profits and gains from its UK property rental business. The Directors receive a quarterly report on the Group's compliance with the REIT rules and take independent tax advice on the conduct of its business to ensure that it remains compliant with the REIT regime.

The impact of Coronavirus ('Covid-19')

The Directors are closely monitoring the ongoing impact of the Covid-19 pandemic on rent collection, which has remained strong during the year and to the date of this report.

In February 2022, the UK government announced the removal of all of the government Covid-19 restrictions in England.

Financial risk management

The Company's financial risk management is set out in note 10 to the financial statements.

Future developments

The Directors continue to seek suitable ground rent acquisitions.

Leasehold Reform

In January 2021 the Government committed to reform the residential leasehold sector through two new pieces of legislation.

Firstly, the Government has banned the creation of new residential ground rents via the Leasehold Reform (Ground Rent) Act 2022, which comes into force on 30 June 2022. The legislation is not retrospective and, whilst it should not impact the Company's portfolio, it will reduce the supply of residential ground rents over time.

The second, more wide ranging piece of legislation is yet to be formally proposed but, based on previous Government statements and recommendations from the Law Commission, will seek to improve fairness and transparency in the residential housing market. This is expected to include reform to the enfranchisement process (whereby a leaseholder can buy their freehold or extend their lease in exchange for a premium payable to their landlord) and the regulation of property managers.

The Queen's Speech in May 2022 set out the Government's agenda for the 2022-23 parliamentary session and it had been expected to introduce a Leasehold and Commonhold Reform Bill to cover this secondary programme of reform. However, amongst 38 new Parliamentary Bills, the Government prioritised other housing reforms, such as the planning process and social housing, with no further detail on residential leasehold reform.

Whilst the impact of potential legislation is uncertain, take up of enfranchisement rights across the portfolio has been low on a historical basis and may continue to be so due to the relatively low level of ground rent payable per residential unit, the capital required by leaseholders and the short average ownership period for a typical residential unit in the UK.

Building Safety Reform

In January 2022 the Housing Secretary, Michael Gove MP, reset the Government's approach to building safety issues, emphasising the need to protect leaseholders; restore proportionality; and prioritise government funding on the highest risk buildings. Mr Gove also replaced proposals for loans to leaseholders to help fund remediation costs with a new scheme requiring housebuilders and developers to pledge to remediate impacted buildings.

In April 2022, the Building Safety Act ("BSA") received Royal Assent and aims to improve building standards, ensure the safety of people in or about buildings; and protect leaseholders from the costs of building safety remediation. To provide these protections, the legislation seeks to over-ride the repairing obligations contained within lease agreements that make leaseholders responsible for all costs associated with historical building safety defects. Instead, the BSA seeks to assign the responsibility for such costs to the original developers with freeholders being ultimately required to meet the cost of remediation where the developers, contractors, cladding manufacturers, cladding suppliers, and relevant professional service providers are untraceable, insolvent, or no longer exist. This approach has led to many large, listed, residential developers recently announcing increased provisions in their latest accounts for these liabilities, along with signing up to a commitment to carry out the required BSB works at their own cost.

The final, consolidated version of the legislation has only recently been published but, at this time, its aim to reassign remediation costs appears to be three fold.

Firstly, together with the housebuilders' pledge, cladding remediation costs are to be met by said developers or other relevant third parties, with the Building Safety Fund ("BSF") the ultimate backstop. Landlords nor leaseholders should have to bear these costs.

Secondly, non-cladding remediation costs are to cascade down what has been deemed a 'waterfall', with each step being triggered only if the higher levels produce insufficient money. This system proposes that developers and manufacturers of dangerous cladding products bear remedial costs in the first instance. Then building owners, who will be protected by a 'net worth' affordability test of £2 million per building over 11 metres high a landlord owns. Then leaseholders, who will be protected by a cap on contributions if they own less than four properties in the UK. Then any such remaining non-cladding remediation costs are expected to be apportioned between building owners.

Finally, building owners have benefited from more proportionate guidelines to assess external walls and are to benefit from greater powers to pursue those directly responsible for defects through the courts. These include an extended limitation period under the Defective Premises Act 1972 and various court orders.

The practical impact of building safety reforms remain uncertain, with primary legislation not taking effect for another year to 18 months, and secondary legislation and regulation needing to be developed between government and industry. Importantly, the Company did not act as developer of any of the buildings within the portfolio but, as a building owner, it may be subject to BSA remediation costs in the event that the original developers are untraceable, insolvent, or no longer exist, and actions under new BSA provisions to facilitate recovery of the cost of remediation from the other aforementioned parties, including leaseholders where relevant, are not successful.

The Company continues to take all steps to ensure that risk is managed efficiently to protect shareholder value and ensure our leaseholders are safe in their homes. Where relevant, we expect to mitigate a material quantum of the risks and costs associated with known building safety issues, which should lead to an improvement in the relevant asset values. However, we are operating in a complex and rapidly evolving Government-led regulatory landscape and there is always a risk that further building safety issues are identified or legislated.

Competition and Market Authority Investigation

Since 2019 the Competition and Markets Authority ("CMA") has been investigating potential breaches of consumer law in the leasehold housing market and has previously secured undertakings with an institutional landlord and two major housebuilders – Countryside and Taylor Wimpey – to remove rent reviews that double more frequently than every 20 years, as well as undertakings from another housebuilder, Persimmon, in relation to the mis-selling of leasehold houses.

The CMA has announced that 15 landlords who had purchased Countryside freeholds have now given their commitment to remove rent reviews that double more frequently than every 20 years at those freeholds. In return, Countryside will pay the freeholders an undisclosed amount for changes to their legitimate property interests. The Company does not own any properties built by Countryside where the rents double more frequently than every 20 years and was therefore not a party to the undertakings.

The Company is not currently under investigation by the CMA but, as an active industry participant and as part of the Ground Rents Income Fund plc REIT group, we will continue to closely monitor its investigations and announcements.

On behalf of the Board,

Christopher Moore

Director

14 June 2022

Directors' Report

The Directors present their report and audited financial statements for the year ended 30 September 2021.

Principal activities

The Company operates a property investment and rental business and generates its revenue from the collection of ground rents and ancillary income from its freehold and head leases.

The profit for the financial year was £29,085 (2020: £28,885). The net asset position of the Company at year end was £286,271 (2020: £257,186).

Future developments

The Directors will continue to operate the property investment and rental business to maximise returns for the shareholders and to seek suitable ground rent acquisitions.

Financial instrument risk

The Company's financial risk management is set out in note 10 to the financial statements.

Dividends

The Company did not pay an interim dividend to its parent company Ground Rents Income Fund plc (2020: £nil).

The Directors do not recommend payment of a final dividend (2020: £nil).

Events after the reporting period

Details of any events after the year end date can be found in note 15 to the financial statements.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

- Christopher Moore
- Christopher Leek (appointed 11 November 2021)
- James Agar (resigned 5 October 2021)

Directors' indemnity insurance

The parent entity, Ground Rents Income Fund plc, has entered into Directors' and Officers' Insurance to cover itself and its subsidiaries with a qualifying third party indemnity provider. This was in force during the financial year and also at the date of approval of the financial statements.

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

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

Directors' confirmations

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

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

This report was approved by the Board and signed on its behalf by:

Christopher Moore

Director

14 June 2022

Independent auditors' report to the members of East Anglia Ground Rents Limited

Report on the audit of the financial statements

Opinion

In our opinion, East Anglia Ground Rents Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 September 2021; the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 September 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- reviewing relevant meeting minutes, including those of the Board of Directors;
- auditing the tax computations to ensure compliance with tax legislation;

- designing audit procedures to incorporate unpredictability around the nature, timing and extent of our testing of expenses;
- challenging assumptions and judgements made by management in their significant accounting estimates (due to risk of management bias) in particular around the valuation of investment properties;
- identifying and testing journal entries, in particular journal entries posted with unusual account combinations.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
14 June 2022

Statement of Comprehensive Income

For the year ending 30 September 2021

	Note	2021 £	2020 £
Continuing operations			
Revenue	3	29,110	29,110
Administrative expenses		225	(225)
Net revaluation on investment properties	7	(250)	–
Operating profit		**29,085**	**28,885**
Profit before taxation	4	**29,085**	**28,885**
Taxation	6	–	–
Profit after tax and total comprehensive income		**29,085**	**28,885**

The accompanying notes from pages 14 to 22 form an integral part of the financial statements.

Continuing operations

None of the Company's activities were acquired or discontinued during the above two financial years.

Statement of Financial Position

As at 30 September 2021

	Note	2021 £	2020 £
Non-current assets			
Investment properties – ground rents	7	727,750	728,000
Total non-current assets		**727,750**	**728,000**
Current assets			
Trade and other receivables	8	1,130	860
Total assets		**1,130**	**860**
Current liabilities			
Trade and other payables	9	(442,609)	(471,674)
Total current liabilities		**(442,609)**	**(471,674)**
Net assets		286,271	257,186
Financed by:			
Equity			
Share capital	11	1	1
Retained earnings opening balance		257,185	228,300
Profit for the financial year		29,085	28,885
Total equity		**286,271**	**257,186**

The accompanying notes from pages 14 to 22 form an integral part of the financial statements.

The financial statements on pages 10 to 22 were approved by the Board and signed on its behalf by:

Christopher Moore

Director

14 June 2022

East Anglia Ground Rents Limited

Registered number: 07541198

Statement of Cash Flows

For the year ended 30 September 2021

	2021 £	2020 £
Cash flows from operating activities		
Profit before taxation	29,085	28,885
Adjustments for:		
Non-cash revaluation loss	250	–
Operating cash flows before movements in working capital	**29,335**	**28,885**
Movements in working capital:		
Increase in trade and other receivables	(270)	(70)
Decrease in trade and other payables	(29,065)	(28,815)
Net cash generated from operations	–	–
Net movement in cash and cash equivalents	–	–
Net cash and cash equivalents at the beginning of the year	–	–
Net cash and cash equivalents at the end of the year	–	–

The accompanying notes from pages 14 to 22 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 30 September 2021

	Share capital £	Retained earnings £	Total equity £
At 1 October 2019	1	228,300	228,301
Comprehensive income			
Profit for the financial year	–	28,885	28,885
Total comprehensive income	**–**	**28,885**	**28,885**
At 30 September 2020	**1**	**257,185**	**257,186**
At 1 October 2020	1	257,185	257,186
Comprehensive income			
Profit for the financial year	–	29,085	29,085
Total comprehensive income	**–**	**29,085**	**29,085**
At 30 September 2021	**1**	**286,270**	**286,271**

The accompanying notes from pages 14 to 22 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 30 September 2021

1. General information

The Company is a private company limited by shares, incorporated, registered and domiciled in England in the United Kingdom. The address of its registered office is 1 London Wall Place, London, EC2Y 5AU.

The Company's principal activity during the year was to operate a property investment and rental business and generate revenue from the collection of ground rents and ancillary income from its freehold and head leases.

2. Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006.

Basis of preparation

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

The accounting policies applied to the results, assets, liabilities and cash flows of the Company are consistent with those of the previous year other than as set out below.

Going concern

The Directors have examined significant areas of possible financial risk including: the non-collection of rent as a result of the Covid-19 pandemic, the potential resulting falls in property valuations, and the future implications of potential leasehold reform. The Investment Manager, Schroder Real Estate Investment Management Limited, has prepared detailed forward-looking cash flow forecasts with downside analysis and third party debt headroom and covenant calculations, in particular the Loan to Value covenant and Interest Cover ratios.

The Board and Investment Manager are closely monitoring the potential ongoing impact the Covid-19 pandemic may have on Group rental collection, which has remained strong during the year and to the date of this report.

The Group holds a loan facility with Santander UK plc ("Santander"). Half of the facility is a £12.5 million fixed rate loan attracting a total interest rate of 2.68% per annum. The Group also holds a £12.5 million revolving credit facility ("RCF") with Santander. As at the year end, the undrawn capacity was £5.5 million. The RCF is an efficient and flexible source of funding at an interest rate of 1.85% per annum plus three month LIBOR which can be repaid and redrawn as often as required. These figures remain consistent with the year ended 30 September 2020.

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

- The ongoing successful implementation of business continuity plans by the Investment Manager and key suppliers throughout the continued period of the Covid-19 pandemic to date which has ensured that the Group's day-to-day business operations have been able to be efficiently maintained;

- The Group's consolidated liquidity position, and undrawn debt facility with Santander, at the year end. This sum is deemed to provide more than sufficient headroom for the Group to meet its liabilities as they fall due (the nature and timing of the majority of the Group's expenses can be predicted with reasonable accuracy). At the date of signing these accounts, the undrawn RCF stands at £4 million, thereby still giving more than adequate headroom in view of the Group's cost base;

- Forward-looking compliance with third party debt covenants and in particular Loan to Value covenants and Interest Cover ratios;

- Recent rent and service charge collection statistics;

- Ongoing REIT compliance in view of distribution requirements; and

- The requirement for the Group Directors to propose a Wind-up Resolution, to be proposed at the Annual General Meeting in 2023. This will impact all Group entities.

No matters or any material uncertainties have been identified which would cast significant doubt on the Company's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements.

The Directors have therefore satisfied themselves that the Company has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board considers it is appropriate to adopt the going concern basis in preparing the Company financial statements, the performance of which is intrinsically linked to that of the Group.

Adoption of new and revised standards

During the year, the Company adopted the following standards:

IFRS 3 – Business Combinations

Amendments to IFRS 3 Business Combinations, effective for financial years commencing on or after 1 January 2020, provides a revised framework for evaluating a business and introduces an optional 'concentration test'. The amendment will impact the assessment and judgements used in determining whether future property transactions represent an asset acquisition or business combination. As a result of the amendment it is expected that future transactions are more likely to be treated as an asset acquisition. There is no material impact on the financial statements of the Company.

New standards and interpretations not yet adopted by the Group

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

As a result of the Covid-19 pandemic, rent concessions have been granted to lessees by landlords. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. However, due to the nature of the Company's rental income profile, this would not be expected to have a material impact on the rental income profile or the financial statements of the Company.

IFRS 17 – Insurance contracts

This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. No material impact on the financial statements of the Company is expected.

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

The amendments apply to costs a company can include when assessing whether a contract will be loss-making. This would not be expected to have a material impact on the financial statements of the Company.

There are no other standards or interpretations yet to be effective that would be expected to have a material impact on the financial statements of the Company.

Use of estimates and judgements

The preparation of financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Estimates

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

The most significant estimates made in preparing the financial statements relate to the carrying value of investment properties, as disclosed in note 7, which 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.

Judgements

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

Revenue

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

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

– Any rent adjustments based on open market estimated rental values or indexed-linked rent reviews which are recognised, based on management estimates, from the rent review date in relation to unsettled rent reviews; and

– Contingent rents, being those lease payments that are not fixed at the inception of the lease, which are recognised in the period they are earned and as defined by the lease.

Taxation

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

Deferred tax

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

Exceptional items

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

Investment properties

Investment properties are carried in the Statement of Financial Position at their open market value. The Directors have applied the fair value model in IAS 40 – Investment Property. Investment properties are revalued at the Statement of Financial Position date by an independent valuer. The fair value also reflects estimated future cash flows and anticipated cash outflows where cladding-linked fire safety issues may arise. Expenses that are directly attributable to the acquisition of an investment property are capitalised into the cost of investment.

Gains and losses on changes in fair value of investment properties are recognised in the Statement of Comprehensive Income. The Group Directors instruct the independent valuers biannually and, in addition, on acquisition of investment properties as the need arises. Gains and losses on changes in fair value are recognised at the time of each valuation.

Financial assets and liabilities

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

Deferred income

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

Provisions

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

Ordinary share capital

Ordinary share capital is classed as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the share premium account.

3. Revenue

All revenue was generated in the United Kingdom.

4. Profit before taxation

	2021 £	2020 £
This is stated after charging: Auditors' remuneration	–	–

Auditors' fee of £169,950 (2020: £145,000) for the Group was borne by the parent company, Ground Rents Income Fund plc. This fee is broken down into £89,610 relating to the parent company and £2,114 per Group SPV for the 2021 financial year.

5. Staff costs and director emoluments

There were no employees in the current or preceding year and hence staff costs were £nil (2020: £nil).

The Directors did not receive any emoluments in respect of their services to the Company (2020: £nil). The Directors' services to this Company and to a number of fellow subsidiaries are of a non-executive nature and accordingly, the financial statements do not include emoluments in respect of the Directors.

6. Taxation

Analysis of charge in year	2021 £	2020 £
Current tax:	–	–
UK corporation tax on profit of the year	–	–
Adjustments in respect of previous periods	–	–

Factors affecting tax charge for year

The Company is part of a group which is registered as a UK Real Estate Investment Trust. Entities under this HMRC regime pay tax only on their profits arising from non-property income at the standard UK Corporation tax rate.

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows:

	2021 £	2020 £
Profit before taxation	29,085	28,885
Standard rate of corporation tax in the UK	19.0%	19.0%
Profit multiplied by the standard rate of corporation tax	5,526	5,488
Effects of:		
Unrealised revaluation deficit not taxable	48	–
Property profit not taxable under the REIT regime	(5,574)	(5,488)
Total tax charge for year	–	–

Deferred tax

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

Factors affecting current and future tax changes

As a UK REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it meets certain conditions as set out in the UK REIT regulations. For the current year ended 30 September 2021, the Group did not have any non-qualifying profits and accordingly there is no tax charge in the year. If there were any non-qualifying profits and gains, these would be subject to corporation tax.

7. Investment properties – ground rents

Market value	Ground Rents £
At 1 October 2019	**728,000**
At 30 September 2020	**728,000**
At 1 October 2020	728,000
Deficit on revaluation	(250)
At 30 September 2021	**727,750**
Net book value	
At 30 September 2021	727,750
At 30 September 2020	728,000

The Company's investment in ground rents was valued at 30 September 2021 by Savills Advisory Services Limited ('Savills') at open market value. The historical cost of the investment properties is £525,125 (2020: £525,125).

Fair value hierarchy

Non-financial assets carried at fair value, as is the case for investment property held by the Company, 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)
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs)

There have been no transfers between the levels of the fair value hierarchy during the year. All investment property held by the Company is classified as Level 3.

Key assumptions within the basis of fair value

The value of each of the properties has been assessed in accordance with the relevant parts of the Royal Institution of Chartered Surveyors Valuation – Global Standards 2020, incorporating the IVSC International Valuations Standards (the 'Red Book Global Standards'), 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 Company's investment property was revalued at 30 September 2021 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 valuer within Savills is a RICS Registered Valuer. The Group Directors instruct the independent valuers biannually and, in addition, on acquisition of investment properties as the need arises. The valuation of ground rent investment properties takes into account external factors such as legislative reform, interest rates and the availability of other fixed rate investments in the market.

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

The 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 1 YP change	29,110

8. Trade and other receivables

	2021 £	2020 £
Trade receivables	1,130	860
	1,130	860

The ageing analysis of trade receivables is as follows:	2021 £	2020 £
Up to 3 months	–	–
Over 3 months	1,130	860
	1,130	860

9. Trade and other payables

	2021 £	2020 £
Amounts owed to Group undertakings	435,283	464,388
Accrual and deferred income	7,326	7,286
	442,609	471,674

The amounts owed to Group undertakings are unsecured and repayable on demand. Interest is charged. It has been confirmed that the loan will not be demanded unless the Company has funds available to pay. There is no maturity date on these borrowings.

10. Financial instruments

The Company's financial instruments are comprised of various items such as trade and other receivables and trade and other payables which arise from its operations.

Financial instruments carried at amortised cost

The book value and fair value of the Company's principal financial instruments were as follows. For other financial assets and liabilities, which are all short term in nature, the carrying value approximates to the fair value.

Assets

Trade and other receivables	Book value £	Fair Value £
30 September 2021	1,130	1,130
30 September 2020	860	860

As at 30 September 2021 no trade receivables (2020: £nil) were impaired or provided for.

Liabilities

Trade and other payables	Book value £	Fair Value £
30 September 2021	442,609	442,609
30 September 2020	471,674	471,674

Financial risk management

The financial risk management objectives and policies applied by the Company are in line with those of the parent company and Group and are as follows:

Capital risk management

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

Credit risk

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

Cash deposits are placed with a number of financial institutions whose financial strength has been considered by the Directors based on advice received from the Group's Investment Manager, Schroder Real Estate Investment Management Limited. The panel of suitable counterparties is subject to regular review by the Board.

Interest rate risk

The Group has limited exposure to interest rate risk through interest rate movements, which primarily relates to interest earned on cash balances. The Company places excess cash of the Group on deposit in interest-bearing accounts to maximise returns.

Liquidity risk

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

11. Share capital

		2021	2020
Ordinary shares, allotted, called up and fully paid	Nominal value (£)	1	1
	Number	1	1

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

12. Dividends

It is the policy of the Company to pay dividends to its parent company from distributable reserves.

The Company did not pay an interim dividend to its parent company Ground Rents Income Fund plc (2020: £nil). The Directors do not recommend payment of a final dividend (2020: £nil).

13. Related party transactions

The Company's balance with its parent company Ground Rents Income Fund plc, was £435,283 at the year end date (2020: £464,388).

14. Ultimate controlling party

The immediate and ultimate parent undertaking is Ground Rents Income Fund plc, a company registered in England and Wales. Ground Rents Income Fund plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 30 September 2021. In the opinion of the Directors this is the Company's ultimate controlling party. Consolidated financial statements are available from the registered office, 1 London Wall Place, London, EC2Y 5AU.

15. Events after the year end date

There were no events of note after the year end date.