TRINITY LAND & INVESTMENTS NO.2 LIMITED

Report and Financial Statements

30 September 2022

Registered number

05312784

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Company Information

Board of Directors

Christopher Moore

Christopher Leek (appointed 11 November 2021)

James Agar (resigned 5 October 2021)

Independent Auditors

PricewaterhouseCoopers LLP

7 More London

More London Riverside

London

SE1 2RT

Registered office

1 London Wall Place

London

EC2Y 5AU

Registered number

05312784

Strategic Report

The Directors present their Strategic report on the Company for the year ended 30 September 2022.

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 number of properties in the United Kingdom.

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 £79,197 (2021: loss £75,365). The net asset position of the Company at year end was £605,065 (2021: £528,868).

Investment strategy

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

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.

During the financial year the Government reset its approach to building safety and introduced the Building Safety Act 2022 (the 'BSA'), the most significant regulatory reform to the UK's built environment in almost 40 years. This complex area of legislation and associate regulations, guidance and government funding (together the 'Building Safety Framework'), together with the continued uncertainty surrounding potential future leasehold reform, continues to impact the Company, including the portfolio valuation.

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.

Financial risk management

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

Leasehold Reform

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

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

The detail of a second, more comprehensive programme of reform, is yet to be formally proposed but, based on recent Government statements and recommendations from the Law Commission, will seek to move to an easier and fairer housing system that better protects and empowers leaseholders, whilst ensuring 'sufficient compensation' is paid to landlords to reflect their legitimate property interests. 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 improve the professionalism and standards among property managers. The Government intends to introduce reforms in Autumn 2023.

Building Safety Reform

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

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

Alongside the BSA, the Government and British Standards Institute introduced more proportionate risk-based guidance (as opposed compliance based) to appraise the risks associated with the spread of fire and, in turn, identify what building safety works need to be undertaken. Known as 'PAS9980', these more holistic guidelines should result in a reduced scope for remedial works and, therefore, associated costs. Dame Judith Hackitt, who independently reviewed Building Regulations and fire safety issues following the Grenfell Tower tragedy, welcomed the change in approach.

Developer 'Pledge'

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

Strategic Report (continued)

Subsequently, 49 of the 51 developers the Government deems 'eligible' for the Pledge, including the top ten biggest housebuilders in the UK, have signed the legally binding contract codifying the Pledge, known as the Self Remediation Terms ('SRT'). Eligibility is to be expanded in due course based on a developer's primary business and profitability, and the Government has made clear that developers who refuse to sign the SRT, or fail to comply with its terms, will face significant consequences. For example, regulations (currently in draft form) to establish a Responsible Actors Scheme will give the Government powers to prevent developers from operating in the housing market by blocking planning and building control approvals should they not have signed and complied with the terms of the SRT. These steps should lead all major residential developers to eventually sign the SRT.

Building safety framework

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

Type of defect

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

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

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

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

Type of leaseholder

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

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

Strategic Report (continued)

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

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

The qualification status of the Company's relevant leaseholders is currently being assessed, with a particular focus on those 'orphaned' properties that may require building safety remediation. This will help appropriately apportion remediation costs under the BSA if/when required.

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

Risks

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

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

Whilst these cash flow issues are of concern, we expect to mitigate a material proportion of costs associated with known building safety issues.

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

Outlook

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

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

We are well-positioned to execute the strategy of improving the liquidity of the underlying portfolio, whilst continuing to support our leaseholders by delivering best-in-class residential asset management, and ultimately optimising value for our shareholders.

On behalf of the Board,

Christopher Moore

Director

14 September 2023

Directors' Report

The Directors present their report and audited financial statements for the year ended 30 September 2022.

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 £79,197 (2021: loss £75,365). The net asset position of the Company at year end was £605,065 (2021: £528,868).

Going concern

At September 2022, the company is in a net current liabilities position as a result of an intergroup loan due to Ground Rent Income Fund plc (the 'parent company') and relies on the support of its ultimate controlling parent (Ground Rent Income Fund plc).

In the Ground Rent Income Fund plc financial statements for the year ended 30 September 2022 that were issued on the 4 July 2023 there were indications of material uncertainty which may cast significant doubt on Ground Rent Income Fund plc's ability to continue as going concern. This in turn leads to uncertainty about Ground Rent Income Fund plc's ability to support the company which indicates a material uncertainty may exist which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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 (2021: £nil).

The Directors do not recommend payment of a final dividend (2021: £nil).

Events after the year end date

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

Company Board 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 have taken 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 September 2023

Independent auditors' report to the members of Trinity Land & Investments No.2 Limited

Report on the audit of the financial statements

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph below, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on Trinity Land & Investments No.2 Limited's financial statements (the "financial statements").

We were engaged to audit the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 September 2022; 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. The financial reporting framework that has been applied in their preparation is UK-adopted international accounting standards.

Basis for disclaimer of opinion

During the course of our audit, we identified a pervasive limitation of scope in relation to the valuation of investment properties. As disclosed in note 7 to the financial statements, a material proportion of the investment property portfolio (£581k) is subject to a material valuation uncertainty clause from the valuer who has independently valued the Group's property portfolio. The valuer has applied fire safety discounts of £143k to this proportion of the portfolio. We have been unable to gain sufficient appropriate audit evidence to support those discounts. The valuer has relied upon a risk matrix prepared by management in forming their judgement of the discount required. Given the early stages of the endorsement of the Building Safety Act 2022 ("BSA") into law and the requirement to obtain fire safety assessments in line with Publicly Available Specification ("PAS") guidelines, we have not been able to obtain evidence over management's assumptions used to quantify the potential remediation costs associated with these properties and have not been able to conclude which party will be responsible to bear any associated liabilities. These are the two key assumptions within the risk matrix provided to the valuer that he has used when applying fire safety discounts to the portfolio. Consequently, we were unable to determine whether any adjustments were necessary to the Company financial statements.

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.

Material uncertainty related to going concern

Notwithstanding our disclaimer of an opinion on the financial statements, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The company is reliant on the support of Ground Rents Income Fund plc (the "Parent Company") for its day to day financing activities. In the Ground Rents Income Fund plc Annual Report and Financial Statements for the year ended 30 September 2022 that were issued on 5 June 2023, there were indicators of material uncertainty which may cast significant doubt on Ground Rents Income Fund plc's ability to continue as a going concern. The Ground Rents Income Fund plc's severe downside scenario highlights uncertainty in the forecast cash flow that is sensitive to assumptions made when considering the potential exposure to building safety remediation, highlighting that additional funding would be required in such a situation. This in turn leads to uncertainty about Ground Rents Income Fund plc's ability to support the company. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

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

Reporting on the Strategic Report and Directors' Report

Notwithstanding our disclaimer of an opinion on the financial statements, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2022 is consistent with the financial statements we were unable to determine whether adequate accounting records have been kept by the company.

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

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

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the REIT regime and Building Safety Act 2022 ("BSA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to improve financial performance, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- reviewing relevant meeting minutes, including those of the Board of Directors;
- auditing the tax computations to ensure compliance with tax legislation;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of expenses;

- challenging assumptions and judgements made by management in their significant accounting estimates (due to risk of management bias) in particular around the valuation of investment properties;
- discussions with the Parent Company's Audit and Risk Committee and management including consideration of known or suspected instances of non-compliance with laws and regulations or fraud; and
- identifying and testing journal entries, in particular journal entries posted with unusual account combinations

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

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

We have no exceptions to report arising from this responsibility.

Victoria Tallon

Victoria Tallon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 September 2023

Statement of Comprehensive Income

For the year ending 30 September 2022

	Note	2022 £	2021 £
Continuing operations			
Revenue	3	143,183	141,667
Administrative expenses		(1,286)	(1,050)
Net revaluation loss on investment properties	7	(65,700)	(215,982)
Operating profit/(loss)		**76,197**	**(75,365)**
Profit/(Loss) before taxation	**4**	**76,197**	**(75,365)**
Taxation	6	–	–
Profit/(loss) after tax and total comprehensive income/(loss)		**76,197**	**(75,365)**

The accompanying notes from pages 16 to 24 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 2022

	Note	2022 £	2021 £
Assets			
Non-current assets			
Investment properties subject to Material Valuation Uncertainty	7	580,764	–
Investment properties not subject to Material Valuation Uncertainty	7	2,158,554	2,805,018
Total non-current assets		**2,739,318**	**2,805,018**
Current assets			
Trade and other receivables	8	16,265	17,012
Total assets		**2,755,583**	**2,822,030**
Current liabilities			
Trade and other payables	9	(2,150,518)	(2,293,162)
Total current liabilities		**(2,150,518)**	**(2,293,162)**
Net assets		605,065	528,868
Financed by:			
Equity			
Share capital	11	1,000	1,000
Retained earnings opening balance		527,868	603,233
Profit/(loss) for the financial year		76,197	(75,365)
Total Equity		**605,065**	**528,868**

The accompanying notes from pages 16 to 24 form an integral part of the financial statements.

The financial statements on pages 12 to 24 were approved by the Board and signed on its behalf by:

Christopher Moore

Director

14 September 2023

Trinity Land & Investments No.2 Limited

Registered number: 05312784

Statement of Cash Flows

For the year ended 30 September 2022

	2022 £	2021 £
Cash flows from operating activities		
Profit/(loss) before taxation	76,197	(75,365)
Adjustments for:		
Non-cash revaluation loss	65,700	215,982
Operating cash flows before movements in working capital	**141,897**	**140,617**
Movements in working capital:		
Decrease in trade and other receivables	747	3,641
Decrease in trade and other payables	(142,644)	(144,258)
Net cash generated from operations	**–**	**–**
Net movement in cash and cash equivalents	**–**	**–**
Net cash and cash equivalents at beginning of year	**–**	**–**
Net cash and cash equivalents at the end of the year	**–**	**–**

The accompanying notes from pages 16 to 24 form an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 30 September 2022

	Share capital £	Retained earnings £	Total equity £
At 1 October 2020	**1,000**	**603,233**	**604,233**
Comprehensive loss			
Loss for the financial year	–	(75,365)	(75,365)
Total comprehensive loss	**–**	**(75,365)**	**(75,365)**
At 30 September 2021	**1,000**	**527,868**	**528,868**
At 1 October 2021	**1,000**	**527,868**	**528,868**
Comprehensive income			
Profit for the financial year	–	76,197	76,197
Total comprehensive income	**–**	**76,197**	**76,197**
At 30 September 2022	**1,000**	**604,065**	**605,065**

The accompanying notes from pages 16 to 24 form an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 30 September 2022

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

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

Basis of preparation

The 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

At September 2022, the company is in a net current liabilities position as a result of an intergroup loan due to Ground Rent Income Fund plc (the 'parent company') and relies on the support of its ultimate controlling parent (Ground Rent Income Fund plc).

In the Ground Rent Income Fund plc financial statements for the year ended 30 September 2022 that were issued on the 4 July 2023 there were indications of material uncertainty which may cast significant doubt on Ground Rent Income Fund plc's ability to continue as going concern. This in turn leads to uncertainty about Ground Rent Income Fund plc's ability to support the company which indicates a material uncertainty may exist which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Adoption of new and revised standards

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

- Amendment to IFRS 16 – Leases – Covid-19 related rent concessions
- IFRS 17 – Insurance contracts
- Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets
- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The Company also elected to adopt the following amendments early:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to IFRS 3

2. Accounting policies continued

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

New standards and interpretations not yet adopted by the Company

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

Use of estimates and judgements

The preparation of financial statements in accordance with UK-adopted 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 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 Company uses external professional valuers to determine the relevant amounts.

  For the current year, these estimates include valuation adjustments to reflect potential future remediation as a result of recent building safety and leasehold reform legislation. See note 7 for further detail

Judgements

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

2. Accounting policies continued

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 Company 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. Loss before taxation

	2022 £	2021 £
This is stated after charging: Auditors' remuneration	–	–

Auditors' fee of £191,121 (2021: £169,950) for the Group was borne by the parent company, Ground Rents Income Fund plc. This fee is broken down into £108,611 relating to the parent company and £82,510 relating to the underlying SPVs of which £2,171 relates to Trinity Land & Investments No.2 Limited for the 2022 financial year.

5. Staff costs and director emoluments

There were no employees in the current or preceding year and hence staff costs were £nil (2021: £nil).

The Directors did not receive any emoluments in respect of their services to the Company (2021: £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

Factors affecting tax charge for year

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

	2022 £	2021 £
Profit/(loss) before taxation	76,197	(75,365)
Standard rate of corporation tax in the UK	19%	19%
Profit/(loss) multiplied by the standard rate of corporation tax	14,477	(14,319)
Effects of		
Unrealised revaluation deficit not taxable	12,483	41,037
Property profit not taxable under the REIT regime	(26,960)	(26,718)
Total tax charge for year	–	–

Deferred tax

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

Factors affecting current and future tax changes

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

7. Investment properties – ground rents

Market value	Ground rents £
At 1 October 2020	3,021,000
Deficit on revaluation	(215,982)
At 30 September 2021	**2,805,018**
At 1 October 2021	2,805,018
Deficit on revaluation	(65,700)
At 30 September 2022	**2,739,318**
Net book value	
At 30 September 2022	2,739,318
At 30 September 2021	2,805,018

The Company's investment in ground rents was valued at 30 September 2022 by Savills Advisory Services Limited ('Savills') at open market value. The historical cost of the investment properties is £2,563,699 (2021: £2,563,699).

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 ('RICS') Valuation – Global Standards (incorporating the IVSC International Valuations Standards) effective from 31 January 2022 together where applicable with the UK National Supplement effective January 2019, together the 'Red Book', which is consistent with IFRS 13 measurement requirements.

IFRS 13 defines fair value as 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 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 2022 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 Company 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.

7. Investment properties – ground rents continued

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.

Subsequent to the Building Safety Act 2022 coming into force on 28 June 2022, the valuer applied a Material Valuation Uncertainty Clause to the Group portfolio valuation as at 30 September 2022. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the assets in buildings over 11 metres in height, where remediation issues are still in existence and particularly where building safety remediation costs, and who will pay, are unknown or uncertain.

Within Trinity Land & Investments No.2 Limited, two of the 25 properties is subject to the Material Valuation Uncertainty Clause, and an overall discount of £142,975 has been applied.

The Board expects 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, the Group is 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 for.

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	144,469

As discussed above, the total valuation adjustments for fire safety risks of £142,975 have been applied to specific assets within the portfolio, which represent 21% of the portfolio valuation. The valuer has applied percentage-based remediation discounts between 0% and 75% to risk affected assets based on a risk ranking from low to high risk, to reflect potential remediation risks to be borne by a willing purchaser.

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

The 'Upside' valuation reduces the total existing remediation discount by 45%, leading to an increase in the overall portfolio valuation. The 'Downside' valuation increases the total existing remediation discount by 136%, including a 100% valuation discount for assets deemed to be 'high risk' by the valuer, showing a decrease in the overall portfolio valuation:

Sensitised independent valuation as at 30 September 2022

	2022		
	Independent portfolio valuation £	Upside £	Downside £
Assets gross value where remediation discounts have been applied	723,739	723,739	723,739
Remediation discounts applied	(142,975)	(77,934)	(336,836)
	580,764	645,805	386,903
Remaining portfolio value	2,158,554	2,158,554	2,158,554
Total portfolio valuation	**2,739,318**	**2,804,359**	**2,545,457**

8. Trade and other receivables

	2022 £	2021 £
Trade receivables	16,265	17,012
	16,265	17,012

The ageing analysis of trade receivables is as follows:	2022 £	2021 £
Up to 3 months	499	6,789
Over 3 months	15,766	10,223
	16,265	17,012

9. Trade and other payables

	2022 £	2021 £
Amounts owed to Group undertakings	2,107,086	2,251,894
Accruals and deferred income	43,432	41,268
	2,150,518	2,293,162

The amounts owed to Group undertakings are unsecured and repayable on demand. 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 are shown in the tables below. 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 2022	16,265	16,265
30 September 2021	17,012	17,012

As at 30 September 2022 no trade receivables (2021: £nil) were impaired or provided for.

Liabilities

Trade and other payables	Book value £	Fair value £
30 September 2022	2,107,086	2,107,086
30 September 2021	2,293,162	2,293,162

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 the 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

		2022	2021
Ordinary shares, allotted, called up and fully paid	Nominal value (£)	1,000	1,000
	Number	1,000	1,000

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 (2021: £nil). The Directors do not recommend payment of a final dividend (2021: £nil).

13. Related party transactions

The Company's creditor balance with its parent company Ground Rents Income Fund plc, was £2,107,086 at the year end date (2021: £2,251,894).

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 2022. 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.