Ground Rents Income Fund plc

Annual Report and Financial Statements

For the year ended 30 September 2019

About Us

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

Company summary

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

At 30 September 2019 the Company had 97,006,497 shares in issue and had 40 active subsidiaries and eight dormant subsidiaries which, together with the Company, form the Group ("GRIO"). The Company is a Real Estate Investment Trust ("REIT"). Accordingly, it will distribute at least 90% of its distributable profits by way of dividends.

The Company's Alternative Investment Fund Manager ("AIFM") is Schroder Real Estate Investment Management Limited ("the Investment Manager", "Schroders"). The Investment Manager took over as AIFM on 13 May 2019 and has completed a strategic review of the Group with the Board and external advisors. The Board is pleased that the Group is able to draw on the experience and specialist skills of the wider Schroders business.

Sector reform

The Government has launched a number of consultations since 2017 focused on reforming the residential leasehold sector. We welcome the Government's efforts to work with industry to improve the leasehold system and protect consumers. In March 2019 the Company signed the Government's 'Public Pledge for Leaseholders', which we believe is an important step towards positive change reflecting our desire to bring about sensible, well-thought-out reform. We are also supportive of the Law Commission's efforts to make the enfranchisement process simpler and more effective. Improvements to building safety standards are also a critical issue that needs to be quickly and definitively addressed.

The timescale and outcome of leasehold reform is uncertain, but current proposals include a ban on the sale of leasehold houses and restricting future ground rents on apartments to zero. Legislation implementing these proposals could adversely impact the Group. But any potential reform may be subject to an economic impact assessment and 'sufficient' compensation paid to landlords. We continue to engage with ministers and policymakers in order to work towards meaningful reform that protects all stakeholders in the sector.

Investment objective

The Company has been established to provide secure long-term performance through investment in long dated UK ground rents, which have historically had little correlation to traditional property asset classes and have seen their value remain consistent regardless of the underlying state of the economy.

The Company will give investors the opportunity to invest, through the Company, in a portfolio of ground rents. The Company will seek to acquire a portfolio of assets with the potential for income generation from the collection of ground rents. These investments also have the potential for capital growth, linked to contractual increases in ground rents over the long-term.

The Company will seek to generate consistent income returns for shareholders by investing in a diversified portfolio of ground rents including freeholds and head leases of residential, retail and commercial properties located in the United Kingdom.

Investment strategy

The Group's strategy is to invest in a diversified portfolio of residential and commercial freeholds and head leases offering the potential for income generation from ground rents that are hedged against inflation and for capital growth from active asset management.

In other parts of the real estate market there is strong demand for investments offering similar, annuity-style cash flows and we expect this demand to continue. The Board believes that the Group's portfolio continues to provide attractive revenues for a number of reasons:

- Highly-diversified, long-term portfolio of approximately 19,000 units across 400 assets with a low default risk
- Predictable revenue with upward-only rental increases, of which 70% of the ground rent income is indexed-linked, predominantly to the Retail Prices Index ("RPI")
- Long-term income with weighted average lease duration of 344 years
- 34.4% of the portfolio ground rent income is due to be reviewed over the next five years. Assuming future RPI inflation of 3.0% per annum, ground rent income should increase by approximately 35.3% over the next 10-year period, or by an annualised figure of 3.1%

Asset class and geographic restrictions

The Group intends that no single ground rent property should represent more than 25% of the gross asset value of the Group at the time of investment.

Other restrictions

The Group does not expect to engage in any hedging transactions, save for interest rate hedging. At the sole discretion of the directors, the Group may use hedging, financial and money market instruments in the management of its assets and risk. The Group may reinvest both realised invested capital and any profits that have not been distributed, subject to distributing 90% of distributable income profits arising from the Group's Qualifying Property Rental Business in each accounting year in order to comply with the Group's REIT obligations.

Borrowing policy

The Group may make use of structural or long-term debt facilities for investment purposes, and, if a portfolio of assets was available to be acquired in a corporate structure which has some existing borrowings within its corporate vehicles, these may be retained. In all cases the borrowing anticipated would be limited in scale to no more than 25% of the gross assets of the Group.

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Portfolio at a Glance

Top 10 properties by value

	Property	Valuation at September 2019 (£m)	(%)	Property type
1	The Student Village, York	7.9	6.5	Student
2	Masshouse Plaza, Birmingham	3.9	3.2	Residential
3	The Gateway, Leeds	3.6	2.9	Residential
4	One Park West, Liverpool	3.4	2.8	Residential
5	Wiltshire Leisure Village	3.2	2.6	Residential
6	Ladywell Point, Manchester	3.2	2.6	Residential
7	Rathbone Market, London	3.1	2.5	Residential
8	First Street, Manchester	2.7	2.2	Student
9	Richmond House, Southampton	2.3	1.9	Student
10	City Island, Leeds	1.9	1.5	Residential

Number of investment units

19,000+

Total investment property value

£122.9m

Percentage of the portfolio value comprised of top ten properties

28.7%

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

34.4%

Chairman's Statement

Overview

The residential ground rent sector continues to be negatively impacted by uncertainty relating to leasehold reform. Against this background the Group experienced a 3.6% decline in the value of the underlying portfolio over the year. This contributed to a 4.6% decline in the Group's net asset value ("NAV") to £108 million or 111.3 pence per share ("pps") as at 30 September 2019, which compares with £113.2 million or 116.6 pps at the start of the financial year.

The Group's underlying earnings of £5.6 million were negatively impacted by the recognition of exceptional costs of £1.4 million that principally related to litigation at Beetham Tower in Manchester. These exceptional items mean that the dividend was uncovered by earnings. Further details are included on page 7. Total dividends of £2.85 million were paid during the year resulting in a NAV total return of -2.1%.

Further steps were taken this year to meet the headwinds facing the Company, including the appointment of Schroders, the appointment of a new director to the Board and a review of the strategy, which resulted in a high level of activity focused on reducing risk, growing income and demonstrating best-in-class residential management.

Appointment of Schroders

In May 2019 Schroders replaced Brooks Macdonald Funds Limited as the AIFM for the Company. The appointment combined retention of the existing management team with Schroders' broader real estate expertise to support complex situations such as the Beetham Tower litigation, as well as to meet increasingly demanding risk management requirements arising from regulatory change.

Schroders' appointment is for an initial period of three years following which it may be terminated at any time by one year's notice. Schroders is paid a simplified, tiered annual fee comprising 1% of NAV up to £200 million; 0.9% of NAV between £200 million and £400 million; and 0.8% of NAV above £400 million. For the initial 12-month period, the fee will be 0.9% of NAV with the potential to increase up to 1% of NAV subject to the delivery of income-enhancing initiatives. The Board believes the revised fee structure is in line with comparable real estate funds and better aligns Schroders' remuneration to long-term shareholder value.

Board composition

On 1 September 2019, Bill Holland was appointed as an independent non-executive director of the Company and as Chairman of the Audit, Valuation and Risk Committee of the Board (the "Audit Committee"). Bill brings extensive audit and accounting experience to the Board as a former partner of the KPMG real estate practice and former representative of KPMG on the British Property Federation's finance committee.

Simon Wombwell retired from the Board on 1 September 2019 and we are grateful for the significant contribution he made since the Company's inception in 2012.

Review of strategy

Following Schroders' appointment, the Board and the Investment Manager undertook a review of strategy to determine the best course to maximise sustainable shareholder returns during challenging market conditions. The review focused on key areas including the Group's investment objective, leasehold and regulatory reform, the Beetham Tower litigation and sustainable dividend policy. The results of this review are summarised below:

Investment objective

The Group's investment objective is to provide secure, long-term performance through investment in long-dated UK ground rents, which historically have had little correlation to returns in mainstream real estate sectors. This is reflected in the current portfolio where approximately 70% of the underlying ground rent income is index-linked, predominantly to the RPI, with a weighted average lease term of 344 years.

In other parts of the real estate market there is strong demand for investments offering similar annuity-style cash flows, and we expect this demand to continue. The Board and Investment Manager believe the weakness in the Company's share price rating principally relates to leasehold reform, and the Company is taking the steps outlined below to ensure that shareholders' interests are fairly represented in this ongoing legislative process.

Leasehold and regulatory reform

Leasehold reform is focused on improving consumer protections in ground rents and, more broadly, in areas such as onerous lease terms, tenant rights, service charges and health and safety. We welcome any reform that delivers a more equitable, transparent and better experience for homeowners.

As part of the Company's commitment to be a best-in-class operator in the sector we took part in the Public Pledge for Leaseholders (the "Pledge"). The Pledge was published by the Ministry of Housing, Communities and Local Government ("MHCLG") in March 2019 and was signed by a large cross-section of freeholders, housebuilders and developers. The Pledge commits signatories to take steps to assist leaseholders with lease terms deemed to be onerous or unfair and should be an important step towards positive change in the sector. We believe it reflects desires in the wider professional investor community to bring about meaningful, sensible and well-thought-out reform.

In addition, the AIFM, on behalf of the Company, is currently assisting the Competition and Markets Authority to develop its understanding of the leasehold market and, in particular, the consequences of certain terms in long leases for homeowners.

The final outcome of the ongoing leasehold reform activity is uncertain and greater clarity is not expected until draft legislation is published in 2020. The following features of the underlying portfolio, as well as other pro-active steps outlined below, should help mitigate the risk to the Company:

- 96% of ground rent income review mechanisms are index-linked, fixed, flat (no review) or double less frequently than every 20 years and are, therefore, not deemed 'onerous' by the leasehold reform review
- Since 2017 we have proactively offered all leaseholders with doubling ground rent review provisions the opportunity to convert their review mechanism to the lesser of doubling or RPI inflation (consistent with the approach subsequently mandated by the Pledge)
- Exposure to leasehold houses, which are a focus of the review, generates only 11% of total ground rent income

The Investment Manager's report provides a more detailed review of activity in response to the proposed leasehold reform.

Alongside leasehold reform we have also responded to the Government's consultation on high-rise building safety which followed the Grenfell Tower tragedy. This consultation introduces the concept of a 'golden thread' documenting the life of a building from its design and construction through to its use and subsequent repairs and maintenance. It also introduces the concept of a responsible duty-holder accountable for building safety and regulatory compliance. The discharging of these duties will become a major focus for property managers and investors. Against this backdrop, we generally believe that institutional landlords with fair ground rent entitlements have the necessary incentive, expertise and resource required to perform these duty-holder obligations.

Beetham Tower, Manchester

The freehold title of Beetham Tower, a prominent residential and hotel building in Manchester city centre, is owned by the Company's wholly-owned subsidiary, North West Ground Rents Limited ("NWGR"). In January 2019, the High Court determined that NWGR was liable for certain building defects and related damages and also ordered it to carry out external repairs to the building. NWGR's liability for repair follows the failure of the contractor, Carillion Construction Limited (in Liquidation) ("Carillion"), which fell into liquidation while in the process of rectifying these building defects. NWGR recognised litigation-related expenses of £1.4 million over the financial year and, due to uncertainty in the recovery of these sums or any costs associated with the repairs, the value of the Company's investment in NWGR has been written down to nil. NWGR continues to pursue Carillion's insurers and sub-contractor under collateral warranties, as well as proactively engage with all relevant parties in order to find a commercial resolution. Additional detail on this asset is provided in the Investment Manager's Review.

Dividend policy

A key focus for the review of strategy was to determine a sustainable level of dividend in the context of the current shortfall in dividend cover and ongoing expenses relating to both the Beetham Tower litigation to meet the challenges of leasehold and regulatory reform. While these and other factors are expected to dilute net income over the next financial year, the visibility of ground rent increases and asset management activity has enabled the Board to maintain the current level of dividend to date. This approach will be kept under review as further developments in these key areas, and profitability, take shape.

With effect from 1 July 2019, dividends are no longer paid in advance of a quarter end and will instead be paid once the results of each quarter are known, bringing the Company in line with industry practice.

General meetings of the ordinary shareholders and warrantholders were held on 8 November 2019 to approve the conversion of the Company's share premium account into distributable reserves. Both resolutions passed and the related court process to permit the reduction of the share premium account has now been completed. As a result, the fourth quarter dividend is to be announced before 31 December 2019 and paid in January 2020.

Outlook

The short-term outlook for the Group will be influenced by further developments in the current leasehold reform which could, in turn, be impacted by a change in Government policy. While we support reform that addresses unfair leasehold terms and practices, we will continue to advocate for leasehold reform that strikes a fair balance for all stakeholders in the sector, supports the legitimate value of the Group's portfolio and continues to provide differentiated and attractive returns to shareholders.

Malcolm Naish
Chairman

12 December 2019

Investment Manager's Review

Focused on long-term shareholder value

Dividend maintained and initiatives implemented to deliver sustainable returns

Performance
The Group's NAV as at 30 September 2019 was £108.0 million or 111.3 pence per share ("pps") compared with £113.2 million or 116.6 pps as at 30 September 2018. This reflected a decrease of 5.3 pps or 4.5%, with the underlying movement in NAV per share set out in the table below:

	£ million	Pence per share ("pps")
NAV as at 30 September 2018	113.2	116.6
Unrealised change in valuation	(4.9)	(5.0)
Realised gains on disposal	0.5	0.5
Net revenue	2.1	2.2
Dividends paid	(2.9)	(3.0)
NAV as at 30 September 2019	**108.0**	**111.3**

The 4.5% NAV decline was driven by a 3.6% decline in the independent valuation of the underlying portfolio to £122.9 million. The NAV total return, including dividends paid of £2.85 million, was -2.1%.

Dividend payments
During the year the Company moved to the industry-standard practice of paying dividends in arrears. This change resulted in one less dividend being paid during the financial year. The Company declared and paid the following interim dividends to its ordinary shareholders:

Dividend for quarter	Date paid	Rate
1 October 2018 – 31 December 2018	9 January 2019	0.98 pence per share
1 January 2019 – 31 March 2019	1 April 2019	0.98 pence per share
1 April 2019 – 30 June 2019	28 June 2019	0.98 pence per share

Paying three rather than four dividends during the year boosted dividend cover from 67%[1] to 91%[2]. Dividend cover, excluding non-recurring asset specific items such as Beetham Tower expenses was 123%[3], or 91%[2] had the Company paid four dividends.

A dividend for the period July to September 2019 is expected be paid in January 2020.

1 Based on the Company maintaining its current level of dividends of 3.96p per share per annum.
2 This is calculated as (full profit for the year/three dividend payments during the year).
3 Adjusting for asset-specific expenses, including the Beetham Tower, Manchester, ongoing expenses.

The Company's anticipated interim dividend timetable for 2020 is as follows:

Period	Expected payment date
October – December 2019	February 2020
January – March 2020	May 2020
April – June 2020	August 2020
July – September 2020	November 2020

Strategy
Following the appointment of Schroders as the Company's AIFM, the Board announced its intention to undertake a strategy review to determine the best course to maximise sustainable shareholder total returns, including a review of the dividend policy.

A detailed review was undertaken and the output from that process was announced on 7 August 2019 as follows:
- The Board and Investment Manager will continue to engage with Government, the Law Commission and other stakeholders regarding reform of the leasehold sector and building safety
- The Group, as an institutional landlord, has the expertise, resource and experience needed to provide the required risk, governance and health and safety oversight
- The Board believes the investment objective and policy remains differentiated and viable. While the Government review of the residential leasehold sector is ongoing, the Group is assessing other complementary assets that generate long-term, secure and inflation-protected income
- The Board has decided to maintain the current dividend policy of paying 3.96 pence per share per annum, with the level kept under review on a periodic basis, while reverting to paying dividends in arrears. While exceptional asset-specific expenses, including costs relating to the Beetham Tower litigation, will continue to negatively impact dividend cover in the near term, we are focused on delivering asset management and financing initiatives to increase net income

Progress has been made since the strategy review including:
- Active management approach to increase net income, including restructure of the head-lease with Vita Group ("Vita") in relation to six of the Group's purpose-built student accommodation ground rent assets, which delivered a £1.0 million staged payment and increased the rent paid by Vita from £305,000 to £320,000 per annum
- Review of key supplier agreements to drive operational efficiencies, including renegotiating the Company's agreement with its principal property manager which generated additional net income of approximately £115,000 per annum
- Integration of the management team into Schroders Group with operational projects completed to enhance risk management and governance. This has included:
  - A compartmentalisation audit covering fire doors, riser cupboards and automatic opening vents
  - Digitisation of fire strategy and fire safety documentation
  - Façade investigation in accordance with the latest Government guidance (note section on Advice Note 14 below)
  - Engagement with management company directors and agents in the non-managed estate
  - Harmonisation of the Group's insurance arrangements with the wider Schroder real estate portfolio
- Assessing the potential to refinance the Group's debt given the low interest rate environment

– Evolving the residential management strategy to incorporate 'positive impact' and Environmental, Social and Governance ("ESG") considerations

Looking forward, the key objectives remain unchanged from the strategy review and we are focused on executing on these initiatives to deliver attractive income returns from our highly-diversified, long-term and index-linked portfolio of ground rents.

Leasehold reform
The Group is engaging with the Ministry of Housing, Communities and Local Government ("MHCLG") and the Law Commission and other stakeholders regarding potential reform of the leasehold sector.

The proposed reforms include a ban on the sale of leasehold houses and restricting future ground rents on apartments to zero, with some limited exceptions.

The Government responded to the Housing, Communities and Local Government Select Committee's report on Leasehold Reform in July 2019 and noted that leasehold remains a "legitimate form of home ownership" and "leasehold can be an effective tool for making multiple ownership more straightforward, such as in blocks of flats with shared fabric and common areas".

As we have articulated through the reform process, we believe professional investors with an economic interest in fair, transparent ground rents have a clear incentive to participate in the underlying management of their portfolios. In their response to the Select Committee the Government commented that in complex, mixed-use developments and retirement properties, significantly higher level of oversight and customer service are evident.

This echoes many of the stewardship arguments made to ministers and civil servants at MHCLG over the past 24 months and accords with our own experience in the sector. We and other major institutional investors believe this provides an opportunity for the industry to make a clear and demonstrable case for an exemption from zero grounds rents for complex and mixed-use developments.

The Company and Investment Manager's commitment to be a best-in-class operator in the sector is reflected in our commitment to the Public Pledge for Leaseholders (the "Pledge"). The Pledge was published by MHCLG in March 2019 and signed by a large cross-section of freeholders, house-builders and developers, including the Group.

Both the Board and the Investment Manager believe the Pledge is an important step towards positive and transparent change in the residential leasehold sector and reflects the desire of the wider professional investor community to bring about meaningful, sensible and well-thought-out reform. It is encouraging to find many similarities between the requirements of the Pledge and the 'Asset Management Plan' initiated by the Group in 2017.

We fully support the Government's proposals to establish a New Homes Ombudsman, whilst encouraging meaningful changes to Solicitors Regulation Authority's code of conduct to ensure there is greater emphasis on clear independent legal advice to consumers during the home purchase process.

The Government and Law Commission have, at various times, stated that any legislative reform will be subject to both economic impact assessments and a requirement that, if required, 'fair' or 'sufficient' compensation be paid to landlords. Any changes in legislation should also be compliant with Article 1 Protocol 1 of the European Convention on Human Rights and the principle of legal certainty.

Market overview
Transactional volumes have fallen over the year due to uncertainty relating to leasehold reform. Interest in commercial ground leases has increased since the beginning of residential leasehold reform in mid-2017, with a number of large transactions taking place. This in part reflects strong demand for real estate investments offering similar, annuity-style cash flows, and we expect this to continue.

The annual RPI slowed to 2.1% in October 2019 from a peak of 4.1% at the end of 2017. Most of the deceleration has been due to the fading impact of sterling's depreciation in 2016, which followed the UK's vote to leave the EU. The forthcoming UK general election and resultant spending plans are likely to impact the inflation outlook. In the scenario that the UK makes an orderly exit from the EU in early 2020, RPI is expected to remain between 2.5% and 3.0% through 2019-2020. The Group remains well hedged to inflation with approximately 70% of the portfolio ground rent reviews being index-linked.

The UK Statistics Authority has agreed to compile RPI for at least another five years and there will be a consultation next year on what might happen after 2025.

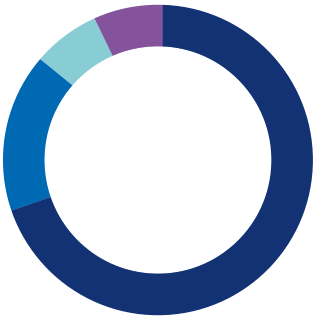
The yield on conventional 10-year gilts fell to a record low of 0.4% in August but has since risen to around 0.75% as the perception of the risk of a no-deal Brexit has receded. The yield on 40-year index linked gilts is currently negative at -1.7% (as at 27 November 2019). By comparison the dividend yield on GRIO is 4.3% (as at 10 December 2019).

Real estate portfolio
As at 30 September 2019 the portfolio comprised approximately 19,000 units across 400 assets valued at £122.9 million. The top ten properties comprised 28.7% of the portfolio value. The portfolio produced a ground rent income of £4.82 million per annum, reflecting an average Years Purchase ("YP") of 25.5 or a gross income yield of 3.9%. The median annual ground rent charge was £110 for houses and £250 for apartments (excluding student assets). During the year the Group acquired one asset in Manchester for £270,000. Ground rent assets under contract at the year end are expected to cost an additional £2.47 million to complete.

The portfolio's weighted-average lease term as at 30 September 2019 was 344 years, with 93% of the ground rent income subject to indexed or fixed increase review mechanisms. This is broken down in the table below and, for illustrative purposes only, if the RPI were to be 3.0% per annum over the next 10 years, all other things being equal, the like-for-like portfolio ground rent income would increase by approximately 3.1% per annum.

Investment Manager's Review continued

Review type



	Ground Rent Income (%)
RPI	69.8%
Doubling	16.1%
Fixed	7.1%
Flat	7.0%
Total	**100.0%**

During the year to 30 September 2019, 6.8% of ground rents were subject to review, which realised an average uplift of 12.2%. This increased portfolio-level ground rents by 0.8%. The rent review profile is shown in the table below with 34.4% of the ground rent income due for review over the next five years:

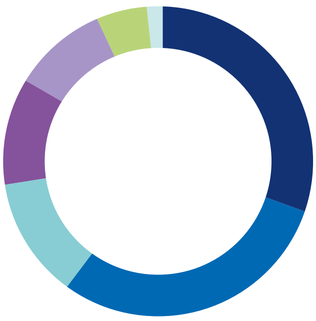
Years to next review	Ground rent income (%)
0-5	34.4
5-10	30.0
10-15	18.7
15-20	7.6
Over 20	2.3
Flat (no review)	7.0
Total	**100.0**

The top 10 assets by value represent 28.7% of the total portfolio valuation as at 30 September 2019:

	(£m)	(%)
The Student Village, York	7.9	6.5
Masshouse Plaza, Birmingham	3.9	3.2
The Gateway, Leeds	3.6	2.9
One Park West, Liverpool	3.4	2.8
Wiltshire Leisure Village	3.2	2.6
Ladywell Point, Manchester	3.2	2.6
Rathbone Market, London	3.1	2.5
First Street, Manchester	2.7	2.2
Richmond House, Southampton	2.3	1.9
City Island, Leeds	1.9	1.5
Total	**35.2**	**28.7**

The geographic spread of the portfolio as at 30 September 2019 is shown in the chart below:

Location



	Ground Rent Income (%)	Valuation at September 2019 (%)
North West	30.4	28.7
North East	29.6	29.6
Midlands	12.1	13.1
London	10.8	10.6
South West	10.4	11.2
South East (exc. London)	5.2	5.2
Wales	1.5	1.5
Total	**100.0**	**100.0**

North West Ground Rents Limited – Beetham Tower, Manchester

The Company acquired North West Ground Rents Limited ("NWGR"), the freeholder of Beetham Tower, in August 2012, which consists of 219 residential leases that now produce ground rent income of £33,250 per annum and a single lease of the hotel, now owned by Blue Manchester ("BML"), for a 999-year term that now produces £30,902 per annum. The BML hotel lease expressly prohibits the freeholder from recovering costs that relate to a failure in the original design and construction. This prohibition does not feature in the residential leases.

In 2014, routine maintenance identified that the structural bond used to fix certain glass cladding panels to the frame was failing. NWGR notified the original main contractor, Carillion, which subsequently installed fixings to secure the glazing. This was intended to be a temporary solution while Carillion and its specialist cladding subcontractor, BUG Alutechnik GmbH ("BUG"), developed a permanent solution. Despite reassurances that Carillion and BUG were working on a solution, progress was limited and Carillion fell into liquidation in 2018.

Due to health and safety concerns at that point, NWGR implemented a maintenance regime that recorded the condition of the Carillion fixings. Following an application under Section 20ZA of the Landlord and Tenant Act 1985, the First tier Tribunal ("FtT") unconditionally approved these costs on 28 March 2019, which have been paid via the service charge in subsequent years by the residential leaseholders.

In January 2019, BML obtained a High Court ruling that NWGR must implement a permanent solution and complete the works by July 2020. The Court also awarded BML as yet unspecified damages and costs against NWGR.

The works directed by the High Court include removing affected glazing units from the frames, removing the defective structural bond and then re-fixing to the building. NWGR is advised that this solution is technically very challenging to deliver with significant risk from weather-related delays. Alternative repair strategies are being considered that could reduce the costs of the works.

NWGR commenced proceedings against Carillion's insurer, BUG and the original architect, SimpsonHaugh, under collateral warranties that may enable recovery of costs if NWGR can prove a failure in the original design. BML has also claimed on warranties it has from the original construction. The residents of Beetham Tower do not benefit from these warranties. To date NWGR has incurred costs pursuing these parties and in August 2019 a notice pursuant to Section 20B(2) of the Landlord and Tenant Act, 1985 (as amended) was issued, advising leaseholders of a proportion of these costs (£0.7 million) to be paid via the service charge. This forms part of a broader communication strategy with the residents and their association to ensure a high level of transparency.

All parties are currently engaged in a mediation process to achieve a resolution to the dispute and, while there is no guarantee of success, NWGR views this as a positive step.

The Company has stated that it wants an outcome that is in the interests of stakeholders, including its shareholders, residents and BML.

NWGR is reliant on the financial support of the Company to finance all legal action and comply with the January 2019 High Court Judgment. Due to litigation and uncertainty the value of NWGR's total investment in Beetham Tower has been written down to nil. At the present time, it is the intention of the Board to continue to support NWGR in achieving an outcome which does not have a negative outcome for the stakeholders described above, including the Company's shareholders. If the financial support provided by the Company is withdrawn, the director of NWGR would need to assess the ongoing viability of NWGR at that time.

In the event that NWGR was placed into liquidation there would be no material impact on the Group's consolidated NAV. All of the legal and professional costs incurred to date have been expensed in full, and the valuation of the property has been written down to nil.

Responsible and positive impact investing

The Investment Manager believes that corporate social responsibility is key to the long-term future success of the Company and that a sustainable investment programme should deliver enhanced returns to investors, improved business performance to tenants and tangible positive impacts to local communities, the environment and wider society.

We are working to integrate the Company within Schroders' sustainability framework. Among our first actions was to start to assess the potential to switch to renewable energy tariffs for electricity and LED lighting for those parts of the portfolio where we have management control.

Asset management

Schroders has a stated objective of providing shareholders and consumers with best-in-class residential asset management. Health and safety considerations, specifically fire safety, are central to delivering this objective.

All identified cladding and façade matters are being actively addressed, and proposals for site rectification are under close analysis and management. We have engaged with developers, building contractors and other professionals to deliver appropriate, permanent solutions to affected sites, providing input into legislative requirements and operational diligence to managing agents, resident management companies and leaseholders.

Following recommendations from Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety and the Government's recent consultation "Building a safer future: proposals for reform of the building safety regulatory system", we have taken a number of active steps to protect the Group and leaseholders within the portfolio.

We have continued our regular correspondence with the directors of resident management companies and their managing agents across the non-managed estates in the portfolio. This interaction is designed to drive awareness and standards in the industry and to encourage high levels of governance from the sharing of regulatory requirements and best practice.

A digitisation exercise is ongoing relating to operation and maintenance manuals, fire strategy and fire risk assessments, in keeping with the "golden thread" principle. Fire doors have also been a focus in the past six months, with a detailed audit undertaken of all directly-managed assets. The Group has subsequently instructed service providers on a fire door repair and remedial works programme.

Investment Manager's Review continued

The Grenfell Tower fire had a major impact on building safety regulation, particularly for high-rise residential structures. After focusing largely on Aluminium Composite Material ("ACM") cladding in the immediate aftermath, the scope of the Government's investigation has widened. In December 2018, the Government published Advice Note 14 ("AN14"), aimed at providing clear guidance for building owners on what steps to take with regard to non-ACM materials on the external walls of high-rise buildings.

AN14 also requires the building owner or "responsible person" to have an up-to-date fire risk assessment for their building and states that building owners should check the external wall systems to ensure that their buildings are safe. There are expectations in the industry that AN14 will be included in a new building safety bill, which will include the creation of a new building safety regulator. We await further clarity on this issue from the Government and will in the meantime continue to work with our managing agents across the portfolio for buildings higher than 18 metres to ensure proactive risk management with reference to AN14.

Finance

The Group has bank debt funding provided by Santander of £19.5 million at an average fixed interest rate of 3.37% maturing in November 2021. The loan-to-value ratio of the assets charged to Santander of 30.5% compares with the Group's consolidated net loan-to-value ratio of 10.9%. The table below shows the Santander loan position at the end of the year.

Lender	Loan (£m)	Maturity	Interest rate (%)	Loan to Value ("LTV") ratio (%)	LTV ratio covenant (%)	Interest cover ratio (%)	ICR ratio covenant (%)	Forward looking ICR ratio (%)	Forward looking ICR ratio covenant (%)
Santander	£19.5m	Nov 2021	3.37	30.5	40.0	320.8	270.0	320.8	270.0

The level, structure and cost of debt is being assessed as part of the ongoing output from the strategy review.

Summary

The Group's strategy is to invest in long-dated UK ground rents which have historically had a low correlation to mainstream real estate sectors. In other parts of the real estate market there is strong demand for investments offering similar, annuity-style cash flows and we expect this demand to continue.

While there are headwinds facing the sector arising from leasehold reform and regulatory change, we have a clear strategy focused on delivering best-in-class residential asset management and sustainable shareholder total returns.

James Agar
Fund Manager
Schroder Real Estate Investment Management Limited

12 December 2019

Business Model

Company's business

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

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

It is not intended that the Company should have a limited life. The Articles of Association contain provisions for a continuation vote at specified intervals. The next such continuation vote is to be put forward at the Annual General Meeting in 2023.

As at the date of this Report, the Company had 48 subsidiaries, details of which are set out in note 5 on pages 46 and 47.

Purpose

The Company has been established to provide secure, long-term performance through investment in long-dated UK ground rents, which have historically had little correlation to traditional property asset classes.

Portfolio

The Group's portfolio of ground rents includes freeholds and head leaseholds of well-located residential and commercial properties located throughout the United Kingdom. The Group generates income primarily from the collection of such ground rents, approximately 70% of which rise in line with inflation. It generates additional income from other commercial relationships and fees for performing specific obligations under individual leases.

Management

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

Schroders also undertakes active asset management activities across the portfolio including overseeing managing agents and engaging with leaseholders and tenants' associations, with a detailed focus on Health & Safety and risk management. In addition to this Schroders oversees property management matters ranging from issuing service charge budgets and year end accounts, to more complex situations such as assisting managing agents and Residents Management Companies in the management of remedying building defects. Further details of the Investment Manager's duties are described on page 16.

Oversight

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

Income

The ground rents and other income sources generate income which is paid out as dividends to shareholders.

Investment objective and strategy

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

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

Investment strategy

Details of the Group's investment strategy are set out on the inside front cover.

Diversification and asset allocation

Details of the Group's policy in relation to diversification and asset allocation are set out on page 11.

Borrowing

The Group utilises gearing with the objective of improving shareholder returns. Details of the Group's policy in relation to borrowing are set out in note 11 on page 35.

Investment restrictions and spread of investment risk

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

Business Model continued

Promotion
The Company promotes its shares to a broad range of investors which have the potential to be long-term supporters of the investment strategy. The Company seeks to achieve this through its Investment Manager and its corporate broker which promote the shares of the Company through regular contact with both current and potential shareholders.

Promotion is focused via three channels:
- Discretionary fund managers. The Investment Manager promotes the Company via both London and regional sales teams. This market is the largest channel by a significant margin.
- Execution-only investors. The Company promotes its shares via engaging with platforms and through its web page. Volume is smaller but platforms have experienced strong growth in recent times and are an important focus for the Investment Manager.
- Institutional investors. These activities consist of investor lunches, one-on-one meetings, regional road shows and attendances at conferences for professional investors. In addition, the Company's shares are supported by the Investment Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with adviser and execution-only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on Schroders' website.

The Board also seeks active engagement with investors and meetings with the Chairman are offered to professional investors where appropriate.

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

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

Corporate and social responsibility
Board gender diversity
As at 30 September 2019, the Board comprised three men. The Board's approach to diversity is that candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of those of the overall Board, taking into account the specific criteria for the role being offered.

Candidates are not specifically selected on the grounds of their gender but this is taken into account in terms of overall balance, skillset and experience. Further information about the Board and their biographical details can be found on pages 14 and 15.

Responsible investment policy
The Company delegates to its Investment Manager the responsibility for taking environmental, social and governance ("ESG") issues into account when assessing the selection, retention, management and realisation of investments. The Board expects the Investment Manager to engage with stakeholders on these issues and to promote best practice.

A description of the Investment Manager's policy on these matters can be found on the Schroders website at: www.schroders.com/ri.

The Board monitors the implementation of this policy through regular reporting by the Investment Manager on its engagement activity.

Corporate responsibility
The Group is committed to carrying out its business in a responsible manner and has appropriate policies in place relating to the key areas of corporate responsibility, including in respect of anti-bribery and corruption and the prevention of the facilitation of tax evasion.

Greenhouse gas emissions
The Group is outside of the scope of the greenhouse gas emissions reporting regime.

Key Information Document ("KID")
KIDs for the Company's ordinary shares and warrants were published by the Investment Manager in October 2019, in accordance with the Packaged Retail and Insurance-Based Investment Products Regulations. The calculation of figures and performance scenarios contained in the KIDs have been neither set nor endorsed by the Board nor the Investment Manager.

Principal risks and uncertainties

The Board is responsible for the Group's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Group's business as a REIT and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the Audit Committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives. The principal risks, emerging risks and the monitoring system are also subject to robust assessment at least annually. The last assessment took place in December 2019.

Although the Board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. The principal risks and uncertainties faced by the Group changed from those detailed in the 2018 Annual Report and Accounts to those detailed below on 5 December 2019. Actions taken by the Board and, where appropriate, its committees, to manage and mitigate the Group's principal risks and uncertainties are set out in the table below.

Emerging risks and uncertainties

During the year, the Board also discussed and monitored risks that could potentially impact the Group's ability to meet its strategic objectives. The main emerging risk monitored was political risk, specifically leasehold reform, which could adversely impact the value of the Group's portfolio. Political risk also includes Brexit and the Board continues to monitor developments for the UK's departure from the European Union and to assess the potential consequences for the Group's future activities, but believes that the Group's business model's lack of exposure to foreign exchange currency rates or other measures of economic growth, positions the Group to be suitably insulated from Brexit related risks.

Risk	Mitigation and management
Political Leasehold reform legislation may be enacted by the UK Government which forcibly enfranchises tenants, depriving the Group of its assets.	The Group would rely on Article 1, Protocol 1 of the European Convention on Human Rights to ensure that it is not deprived of its assets at an undervalue. The Investment Manager seeks to engage constructively with the Government and the Law Commission in relation to leasehold reform. The Company is engaging with the Ministry of Housing, Communities and Local Government ("MHCLG") and the Law Commission and other stakeholders regarding potential reform of the leasehold sector, including signing the Pledge.
Operational In light of recommendations from Dame Judith Hackitt's Independent Review of Building Regulations and Fire Safety, and the Government's recent consultation 'Building a safer future: proposals for reform of the building safety regulatory system" (the 'Hackitt Review'), heightened regulatory requirements are recommended to protect the Company and consumers.	The Investment Manager reviewed and updated fire strategy decisions in the managed estate. Fire safety management policies and procedures, risk assessments, and fire records were improved in keeping with the "Golden Thread" principle of the Hackitt Review. Maintenance regimes have been improved to increase testing and planned preventative maintenance. We continue to work closely with The Ministry of Housing, Communities and Local Government, local fire authorities and fire safety experts to ensure fire safety and address any remedial actions following Grenfell Tower learnings. The Investment Manager engages in regular correspondence with the directors of resident management companies and their managing agents, in the non-managed estate. There is a proposed partnership between the Company and Greater Manchester Fire and Rescue Service to provide high-level advice and assistance in formulating and implementing policy.
Asset The properties ultimately owned by the Group are unable to be used or deteriorate in value as a result of structural defects or other unforeseen events.	Insurance is maintained to cover against certain events. The Investment Manager has a monitoring programme in place to mitigate against certain types of asset risk. Other than in exceptional circumstances, leaseholders are responsible for the costs of repair of issues with the fabric of buildings.

Business Model continued

Risk	Mitigation and management
Valuation/liquidity The market for the onward sale of the Group's freeholds is small and this may result in volatility in the price achieved when selling or valuing assets.	The Group does not seek to actively trade its assets, instead focusing on managing them responsibly and effectively. External valuers provide independent valuation of all assets at least half-yearly. Members of the Audit Committee will meet with the external valuers to discuss the basis of their valuations and their quality control processes on at least an annual basis.
Investment policy and strategy An inappropriate investment strategy, or failure to implement the strategy, could lead to underperformance and the share price being at a larger discount, or smaller premium, to NAV. This fall in values would be amplified by the Group's external borrowings.	The Board seeks to mitigate these risks by: – Diversification of its property portfolio through its investment restrictions and guidelines which are monitored and reported on by the Investment Manager; – Determining borrowing policy, and ensuring the Investment Manager operates within borrowing restrictions and guidelines; – Receiving from the Investment Manager timely and accurate management information including performance data, attribution analysis, property level business plans and financial projections; – Monitoring the implementation and results of the investment process with the Investment Manager; and – Reviewing marketing and distribution activity and considering the use of a discount control mechanism as necessary.
Service provider The Group has no employees and has delegated certain functions to a number of service providers. Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss.	Service providers are appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations. Regular reports are provided by key service providers and the quality of services provided are monitored. Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements.
Custody Safe custody of the Group's assets may be compromised through control failures by the depositary, including cyber hacking.	The depositary reports on the safe custody of the Group's assets, including cash and portfolio holdings, which are independently reconciled with the Investment Manager's records. Review of audited internal controls reports covering custodial arrangements is undertaken. An annual report from the depositary on its activities, including matters arising from custody operations is reviewed.
Cyber The Group's service providers are all exposed to the risk of cyber attacks. Cyber attacks could lead to loss of personal or confidential information or disrupt operations.	Service providers report on cyber risk mitigation and management at least annually, which includes confirmation of business continuity capability in the event of a cyber attack.
Accounting, legal and regulatory In order to continue to qualify as a REIT, the Group must comply with the requirements of the REIT regime. Breaches of the TISE Listing Rules, the Companies Act or other regulations with which the Group is required to comply, could lead to a number of detrimental outcomes.	Confirmation of compliance with relevant laws and regulations by key service providers. Shareholder documents and announcements, including the Group's published annual report are subject to stringent review processes. Procedures have been established to safeguard against disclosure of inside information.

Risk assessment and internal controls

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

Viability statement

The directors have assessed the viability of the Company over a five year period, taking into account the Company's position at 30 September 2019 and the potential impact of the principal risks and uncertainties it faces for the review period. A period of five years has been chosen as the Board believes that this reflects a suitable time horizon for strategic planning, taking into account the investment policy, liquidity of investments, potential impact of economic cycles, nature of operating costs and dividends.

In their assessment the directors have considered each of the Group's principal risks and uncertainties detailed on pages 11 and 12 and in particular the impact of a significant fall in the value of the Group's investment portfolio. The directors have also considered the Group's income and expenditure projections and the £19.5 million term loan repayable in September 2021. Based on the Investment Manager's discussions with a number of lenders ahead of the expiry of this facility, the directors know of no reason that an equivalent facility will not be in place by the expiry of this credit facility.

Based on the Group's processes for monitoring operating costs, the share price discount, the Investment Manager's compliance with the investment objective, asset allocation, the portfolio risk profile, gearing, counterparty exposure, liquidity risk and financial controls, the directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to 30 September 2024. In reaching this decision, the Board has taken into account the Company's next continuation vote, to be put forward at the AGM in 2023. The directors have no reason to believe that such a resolution will not be passed by shareholders.

Going concern

The directors have examined significant areas of possible financial risk and have reviewed cash flow forecasts and compliance with the debt covenants, in particular the LTV covenant and interest cover ratio. They have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the financial statements. The directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

By order of the Board

Schroder Investment Management Limited
Company Secretary

12 December 2019

Board of Directors

Malcolm Naish

Independent Non-executive Chairman

Date of appointment: 11 July 2012

Experience
Malcolm was the director of real estate at Scottish Widows Investment Partnership ("SWIP") until June 2012 and was responsible for overseeing its portfolio of commercial property assets across the UK, Europe and North America.

He has more than 40 years' experience of working in the real estate industry. Prior to joining SWIP, he was director and head of DTZ Investment Management, where he was responsible for business development in the UK and in international markets. He was also a founding partner of Jones Lang Wootton Fund Management, and UK managing director of LaSalle Investment Management. In 2002, he co-founded Fountain Capital Partners, a pan-European real estate investment manager and adviser.

He qualified as a chartered surveyor in 1976 and was Chairman of the Scottish Property Federation from 2010 to 2011.

Committee membership
Audit Committee, Management Engagement Committee (chair)

Current remuneration
£30,000 per annum

Material interests in any contract which is significant to the Group's business
None

Shared directorships with any other director of the Company
None

Paul Craig

Independent Non-executive Director

Date of appointment: 11 July 2012

Experience
Paul is Portfolio Manager at Quilter Investors. He has more than 20 years' investment experience, including 10 years at Exeter Investment Group and six years at New Star Asset Management, where he was a director of the asset management subsidiary.

During the past 18 years, his focus has been multi-manager products with an emphasis on closed-ended funds.

He is an Associate of the UK Society of Investment Professionals.

Committee membership
Audit Committee, Management Engagement Committee

Current remuneration
£25,000 per annum

Material interests in any contract which is significant to the Group's business
None

Shared directorships with any other director of the Company
None

Bill Holland
Independent Non-executive Director

Date of appointment: 1 September 2019

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

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

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

Committee membership
Audit Committee (chair), Management Engagement Committee

Current remuneration
£27,500 per annum

Material interests in any contract which is significant to the Group's business
None

Shared directorships with any other director of the Company
None

Directors' Report

The directors submit their report and the audited consolidated financial statements for the Company and its subsidiaries for the year ended 30 September 2019.

Dividend policy

The stated policy of the Company is to pay quarterly interim dividends and details of the interim dividends paid during the year are set out in Note 18 of the notes to the Group consolidated financial statements.

In accordance with the directors' policy of paying all dividends as interim dividends, the directors do not recommend payment of a final dividend. In line with best practice, a resolution on the Company's dividend policy will be put to shareholders at the Company's next annual general meeting.

Listing requirements

Throughout the year ended 30 September 2019, the Group complied with the conditions set out in the TISE Rules for Companies. The directors monitor the compliance at Board meetings and take advice from the Group's TISE Listing sponsor where required.

Directors and their interests

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

Robert Malcolm Naish

Paul Anthony Craig

Simon Paul Wombwell served as a director during the year and retired on 1 September 2019.

William Edward John Holland was appointed as a director on 1 September 2019.

Further information about the directors of the Company and their biographical details can be found on pages 14 and 15. No director owns shares in the Company.

Share capital

As at the date of this report, the Company had 97,006,497 ordinary shares of 50 pence each in issue. No shares are held in treasury. Accordingly the total number of voting rights in the Company at the date of this report is 97,006,497. The total number of warrants outstanding was 4,423,876. Full details of the Company's share capital are set out in note 15 on page 38.

Substantial share interests

The Company has received notifications of the below interests in 5% or more of the voting rights attaching to the Company's issued share capital:

	30 September 2019 no. of shares	30 September 2019 % of total voting rights
Schroders	18,330,000	18.89
Integrated Financial Arrangements Ltd	9,737,956	10.04
Quilter Plc	8,935,025	9.21
IntegraLife (UK) Limited	7,782,419	8.02
CG Asset Management	7,844,226	8.08
Brooks Macdonald Group plc	5,991,234	6.18
NW Brown Group Limited	5,948,586	6.13
Close Group	5,181,115	5.34

There have been no notified changes to the above holdings since the year end.

Political donations

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

Key service providers

The Investment Manager

The Company is an alternative investment fund as defined by the AIFM Directive and appointed Schroder Real Estate Investment Management Limited ("Schroders") as the Investment Manager on 13 May 2019 in accordance with the terms of an alternative investment fund manager ("AIFM") agreement. Prior to this date, Brooks Macdonald Funds Limited was appointed as the AIFM. The AIFM agreement, which is governed by the laws of England and Wales, can be terminated by either party on 12 months' notice or on immediate notice in the event of certain breaches or the insolvency of either party, subject to an initial three year term. As at the date of this report no such notice had been given by either party.

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

The Schroders Group manages £450.8 billion (as at 30 September 2019) on behalf of institutional and retail investors, financial institutions and high net-worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

The Investment Manager is responsible for operating the Group's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. The Audit Committee will review annually the Investment Manager's approach to internal control to ensure it is working effectively. There were no internal control breaches during the year.

The management fee payable in respect of the year ended 30 September 2019 amounted to £562,000 (2018: £372,000).

Further details of the amounts payable to the Investment Manager are set out in the Chairman's statement on page 2.

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

Depositary

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

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

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

Corporate Governance

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

The Board will consider its governance arrangements against the revised 2018 UK Corporate Governance Code published in July 2018 which applies to financial years beginning on or after 1 January 2019 for the financial year beginning on 1 October 2019.

Compliance statement

The TISE Listing Rules require the Company to report against a code of corporate governance, or explain the reasons for not doing so. This Corporate Governance Statement, together with the Statement of Directors' Responsibilities on page 19 and the viability and going concern statements set out on page 13, indicate how the Company has complied with the UKCG Code's principles of good governance and its requirements on internal control.

The Board believes that the Company has, throughout the year under review, complied with all relevant provisions set out in the UKCG Code, save in respect of the appointment of a senior independent director, where departure from the UKCG Code is considered appropriate given the Company's size and adoption of a fully outsourced model. The Board has considered whether a senior independent director should be appointed. As the Board comprises entirely non-executive directors, the appointment of a senior independent director is not considered necessary. However, the Chairman of the Audit Committee effectively acts as the senior independent director and is available to directors and/or shareholders if they have concerns which cannot be resolved through discussion with the Chairman.

Operation of the Board

Chairman

The Chairman is an independent non-executive director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman's other significant commitments are detailed on page 14.

Role and operation of the Board

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

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

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

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

Training and development

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

Directors' Report continued

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

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

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

The number of meetings of the Board and its committees held during the financial year and the attendance of individual directors is shown below. Whenever possible all directors attend the AGM.

Director	Board	Audit Committee	Management Engagement Committee
Malcolm Naish	4/4	1/1	1/1
Paul Craig	4/4	N/A	1/1
Simon Wombwell[1]	4/4	1/1	1/1
Bill Holland[2]	–	–	–

1. Simon Wombwell resigned as a director on 1 September 2019.
2. Bill Holland was appointed as a director effective 1 September 2019. No quarterly Board meetings, Audit Committee or Management Engagement Committee meetings took place between 1 September and 30 September 2019.

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

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

It is the intention of the Board that the annual report and notice of the AGM be issued to shareholders so as to provide at least 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the company secretary at the address given on the outside back cover.

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

Board committees
The Board has established the Audit Committee and the Management Engagement Committee. All directors sit on both committees.

The Audit Committee, chaired by Bill Holland (previously chaired by Simon Wombwell), meets at least once a year and reviews the financial reporting process and system of internal control and management of financial risks. The Audit Committee is responsible for overseeing the Group's relationship with the external auditors, including making recommendations to the Board on the appointment of the external auditors and their remuneration. The Audit Committee considers the nature, scope and results of the auditors' work and reviews. The Audit Committee primarily focuses on compliance with legal requirements, accounting standards and the TISE Listing Rules and ensures that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and financial statements remains with the Board.

The Management Engagement Committee is chaired by Malcolm Naish. The committee meets a minimum of once a year. The function of the committee is to ensure that the Investment Manager complies with the terms of the Investment Management Agreement and that the provisions of the agreement follow industry practice and remain competitive and in the best interests of shareholders. The Management Engagement Committee will also consider the appointment, remuneration and performance of suppliers of services to the Group.

The directors have not established remuneration or nomination committees as they do not believe that such committees would be appropriate given the nature of the Group's operations. The Board annually reviews the remuneration of the directors and agrees the level of non-executive fees. The Board actively considers future succession plans as well as consideration as to whether the Board has the skills required to manage the Group effectively. The assessment of the performance of the Chairman is determined by the other directors.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed earlier in the Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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 Group and Company's auditors are unaware; and
- they have 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 Group and Company's auditors are aware of that information.

By order of the Board

Robert Malcolm Naish
Chairman

12 December 2019

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

Report on the audit of the financial statements

Opinion

In our opinion, Ground Rents Income Fund plc's Group financial statements and Company financial statements (the "financial statements"):
- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2019 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 30 September 2019; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

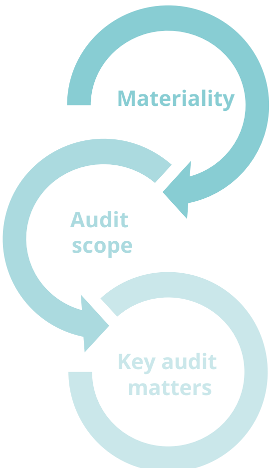
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

Our audit approach

Overview



- Overall Group materiality: £1,301,403 (2018: 1,349,716), based on 1% of total assets.
- Overall Company materiality: £919,504 (2018: 956,710), based on 1% of total assets.
- For income statement line items we applied a lower specific materiality of £129,386 (2018: £173,602) for the Group and £65,698 (2018: £164,922) for the Company based on 5% of loss/profit before tax excluding revaluation loss.

- We audited the complete financial information of each entity held within the Group.

- Valuation of investment properties (Group).
- North West Ground Rents Limited legal case (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties – Group Refer to page 29 (accounting policies) and pages 33 to 34 (notes to the financial statements). The valuation of the investment property portfolio is inherently subjective and is underpinned by a number of assumptions. The valuation of the Group's investment properties is the key component of the net asset value and underpins the Group's result for the year. The result of the revaluation this year was a loss of £4,877k (2017: 14,160k), which is accounted for within 'Net revaluation on investment properties' and is a significant component of the result for the year. The Group's property portfolio has been independently valued by Savills Advisory Services Limited ('Savills' or the 'Valuer') in accordance with the RICS Valuation – Professional Standard ('RICS'). In determining a property's valuation, the Valuer takes into account property-specific information such as the current rental income, the rent review mechanism and the time to the next rent review. They apply assumptions for Years Purchase (YP) multiples and estimated market rent increases, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation. Our audit paid particular focus to the relevant specific valuations impacted by the Government's consultation paper "Tackling unfair practices in the leasehold market". The existence of significant estimation uncertainty, coupled with the fact that only a small percentage of difference in individual property valuations, when aggregated, could result in a material misstatement on the income statement and balance sheet, warrants specific audit focus in this area.	**Experience of the Valuer and relevance of their work** We read the Valuer's report and held direct discussion with Savills valuation team. We confirmed that the approaches used were consistent with the RICS guidelines and suitable for use in determining the carrying value for the purpose of the financial statements. We assessed the Valuer's qualifications and expertise and read their terms of engagement with the Group, to determine whether there were any matters that might have affected their objectivity or imposed scope limitations upon them. We found no evidence to suggest that the objectivity of the Valuer in their performance of the valuations was compromised. **Data provided to the Valuer** We performed testing, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the Valuer by management. This data included annual rental income, the rent review mechanism and the rent review cycle to supporting evidence, such as the original lease. **Assumptions and estimates used by the Valuer** We attended meetings with the Valuer independently of management, at which the valuations and the key assumptions therein were discussed. Our work covered the valuation of every property in the Group. We challenged management's expert on the consistency of the application of the key assumptions used in the valuations, including the YP multiple, and ensured the responses reflected the particular characteristics of each property. Our testing which involved the use of our internal real estate valuation specialists, qualified chartered surveyors with deep market knowledge, indicated that the estimates and assumptions used were appropriate in the context of the Group's property portfolio and reflected the circumstances of the market in the year.
North West Ground Rents Limited legal case – Group Refer to page 41 (notes to the financial statements) A subsidiary of the Company, North West Ground Rent Limited (NWGR) lost a legal claim brought about by one of the tenants of a property owned by NWGR during 2019. The legal judgement makes NWGR responsible for remedial works associated with the property, a damages claim brought about by the tenant, and associated costs. The estimation of the amounts that are obliged to be paid by NWGR is judgemental, as is the likelihood of recovery of some or all of those costs by third parties and other leaseholders.	We discussed the claim with management, and reviewed correspondence and other documents exchanged between NWGR and the other parties involved in the ongoing mediations. We obtained and reviewed management's estimate of the cashflows associated with the legal judgement, including an expert's analysis of the costs needed to make the remedial improvements to the property. This analysis assumes that some of the costs associated with the legal claim will be recoverable by third parties, or existing leaseholders. We challenged management on the recoverability of these amounts, including reviewing the legal advice commissioned by management to justify the likelihood of successfully reclaiming certain amounts. We challenged management in relation to how these future cashflows are recorded in the accounting records in accordance with IAS 40 Investment properties, and reviewed the disclosures in the financial statements for completeness, based on our procedures. We reviewed the accounting for these cashflows, to ensure compliance with the accounting standards, including IAS 40, Investment Properties.

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

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

The Group engagement team audited all entities within the Group and therefore all audit matters relevant to the Group were communicated on a frequent basis.

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

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

	Group and Company overall materiality	Group and Company specific materiality for income statement account balances
Overall materiality	Group: £1,301,403 (2018: £1,349,716) Company: £919,504 (2018: £956,710)	Group: £129,386 (2018: £173,602) Company: £65,698 (2018: £164,922)
How we determined it	1% of total assets.	5% of loss/profit before tax excluding revaluation loss.
Rationale for benchmark applied	The key measure of the Group and Company's performance is the valuation of investment properties and the balance sheet as a whole. Given this, consistent with the prior year, we set an overall Group materiality level based on total assets.	In addition to the overall materiality, a specific materiality was applied to income statement account balances. This was determined on the basis of 5% loss/profit before tax excluding the revaluation loss. A specific materiality was considered as the most appropriate method to ensure sufficient coverage across the income statement.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £516 and £408,388. Components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £65,070 (Group audit) (2018: £67,488) and £45,975 (Company audit) (2018: £47,878) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

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 the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 and ISAs (UK) require 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 2019 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 Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

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

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

Auditors' responsibilities for the audit of the financial statements
Our 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.

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 received 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 Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

12 December 2019

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2019

	Note	2019 £	2018 £
Continuing operations			
Revenue	2	**5,638,348**	5,356,965
Administrative expenses	3	**(2,809,134)**	(1,322,983)
Profit on sale of investment properties		**485,145**	165,469
Net revaluation loss on investment properties	8	**(4,876,845)**	(14,160,078)
Operating loss		**(1,562,486)**	(9,960,627)
Finance income	5	**25,903**	26,129
Finance expenses	6	**(752,539)**	(753,539)
Net finance expense		**(726,636)**	(727,410)
Loss before tax		**(2,289,122)**	(10,688,037)
Taxation	7	**–**	–
Loss after tax and total comprehensive loss		**(2,289,122)**	(10,688,037)
Losses per share			
Basic	13	**(2.36p)**	(11.05p)
Diluted	13	**(2.36p)**	(11.05p)

The accompanying notes on pages 28 to 41 form an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 September 2019

	Note	2019 £	2018 £
Assets			
Non-current assets			
Investment properties	8	**122,893,000**	127,509,800
		122,893,000	127,509,800
Current assets			
Trade and other receivables	9	**1,110,402**	1,895,271
Cash and cash equivalents		**6,136,854**	5,566,561
		7,247,256	7,461,832
Total assets		**130,140,256**	134,971,632
Liabilities			
Non-current liabilities			
Financial liabilities measured at amortised cost	11	**(19,304,928)**	(19,211,693)
		(19,304,928)	(19,211,693)
Current liabilities			
Trade and other payables	10	**(2,820,454)**	(2,604,005)
		(2,820,454)	(2,604,005)
Total liabilities		**(22,125,382)**	(21,815,698)
Net assets		**108,014,874**	113,155,934
Equity			
Share capital	15	**48,503,248**	48,503,198
Share premium account	16	**45,884,305**	45,884,305
Retained earnings	17	**15,916,443**	29,456,468
Loss for the financial year	17	**(2,289,122)**	(10,688,037)
Total equity		**108,014,874**	113,155,934
Net asset value per ordinary share			
Basic	14	**111.3p**	116.6p
Diluted	14	**110.9p**	115.9p

The financial statements on pages 24 to 27 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Robert Malcolm Naish
Director
Ground Rents Income Fund plc

William Edward John Holland
Director
Ground Rents Income Fund plc

Company registered number: 08041022

12 December 2019

The accompanying notes on pages 28 to 41 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 September 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	19	**3,830,532**	4,787,311
Interest paid on bank loan and bank charges		**(659,304)**	(753,539)
Net cash generated from operating activities		**3,171,228**	4,033,772
Cash flows from investing activities			
Interest received		**25,903**	26,129
Receipts from the sale of investment properties		**513,221**	452,350
Purchase of investment properties	8	**(288,121)**	(2,628,828)
Net cash generated from/(used in) investing activities		**251,003**	(2,150,349)
Cash flows from financing activities			
Net proceeds from issuance of shares	19	**50**	284,292
Dividends paid to shareholders	18	**(2,851,988)**	(3,829,799)
Net cash used in financing activities		**(2,851,938)**	(3,545,507)
Net increase/(decrease) in cash and cash equivalents	20	**570,293**	(1,662,084)
Net cash and cash equivalents at 1 October 2018/2017		**5,566,561**	7,228,645
Net cash and cash equivalents at 30 September		**6,136,854**	5,566,561

The accompanying notes on pages 28 to 41 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2019

	Share capital £	Share premium account £	Retained earnings £	Total equity £
At 1 October 2017	**48,356,050**	**45,747,161**	**33,286,267**	**127,389,478**
Comprehensive loss				
Loss for the year	–	–	(10,688,037)	(10,688,037)
Total comprehensive loss	–	–	(10,688,037)	(10,688,037)
Transactions with owners				
Issue of share capital (note 15)	147,148	147,149	–	294,297
Share issue costs (note 16)	–	(10,005)	–	(10,005)
Dividends paid (note 18)	–	–	(3,829,799)	(3,829,799)
At 30 September 2018	**48,503,198**	**45,884,305**	**18,768,431**	**113,155,934**
At 1 October 2018	**48,503,198**	**45,884,305**	**18,768,431**	**113,155,934**
Comprehensive loss				
Loss for the year	–	–	(2,289,122)	(2,289,122)
Total comprehensive loss	**–**	**–**	**(2,289,122)**	**(2,289,122)**
Transactions with owners				
Issue of share capital (note 15)	50	50	–	100
Share issue costs (note 16)	–	(50)	–	(50)
Dividends paid (note 18)	–	–	(2,851,988)	(2,851,988)
At 30 September 2019	**48,503,248**	**45,884,305**	**13,627,321**	**108,014,874**

The accompanying notes on pages 28 to 41 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2019

1 Accounting policies

Ground Rents Income Fund plc (the 'Company') is registered in England and Wales as a public company limited by shares. The Company's registered address is 1 London Wall Place, London, EC2Y 5AU. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the 'Group').

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and therefore comply with Article 4 of the EU IAS regulation, and in accordance with the Companies Act 2006.

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties. They are presented in sterling, which is the Group's functional currency.

At the year end date, the Group had a fully drawn down debt facility of £19,500,000, expiring on 15 November 2021.

The directors continue to prepare the financial statements on a going concern basis.

The accounting policies applied to the results, assets, liabilities and cash flows of the entities included in the consolidated financial statements are consistent with those of the previous year other than as set out in note 1(c) below.

(c) Adoption of new and revised standards

During the year, the Group adopted the following standards:

IFRS 9 – Financial instruments

The new standard introduces an expected credit loss model, requiring expected credit losses to be recognised on all financial assets held at amortised cost.

The new IFRS 9 impairment model requires impairment allowances for all exposures from the time a loan is originated, based on the deterioration of credit risk since initial recognition. If the credit risk has not increased significantly (Stage 1), IFRS 9 requires allowances based on twelve month expected losses. If the credit risk has increased significantly (Stage 2) and if the loan is 'credit impaired' (Stage 3), the standard requires allowances based on lifetime expected losses. The assessment of whether a loan has experienced a significant increase in credit risk varies by product and risk segment. It requires use of quantitative criteria and experienced credit risk judgement.

The expected credit risk model has been applied to the trade receivables in the Group and amounts due to the Company from subsidiary companies. IFRS 9 does not apply to any other asset held by the Group.

There is no material quantitative impact for the year ended 30 September 2019 upon application of this new accounting policy for assessing asset impairment. The Group will continue to assess its financial assets periodically using the credit loss model and recognise an expected credit loss if required.

IFRS 15 – Revenue from contracts with customers

The new standard sets out a five-step model for the recognition of revenue and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers.

The new standard does not apply to rental income or other income defined within leases which is in the scope of IAS 17, but does apply to commission income and investment property disposals.

The adoption of IFRS 15 has not had a quantitative impact upon the Group's financial statements.

IFRS 16 – Leases (not yet effective, for periods beginning on or after 1 January 2019)

The new standard requires recognition on the balance sheet for the head rent payable by a lessee over the lease term. For lessees, it will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases will be removed.

The accounting for lessors will not significantly change.

This standard does not impact the Group's financial position since it is a lessor of investment properties.

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 Group.

1 Accounting policies continued

(d) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's directors.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of assumptions, estimates and judgements about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, the directors believe that the accounting policies where judgement is necessarily applied are those that relate to valuations. The underlying assumptions are reviewed on an ongoing basis.

The valuation of investment properties is dependent on external factors such as the availability of fixed rate investments in the market as well as factors specific to the nature of the investment. While interest rates remain low, ground rents are viewed as attractive investments due to the secure, fixed income streams. The value is also dependent on the timing and amount of future rental uplifts, the most attractive being those linked to RPI with rental cycles of 10 years or less. The least attractive are those ground rents which are flat with no future uplifts.

Property valuations often refer to the YP multiple, otherwise known as Years Purchase (equivalent to the valuation divided by the current ground rent).

Valuations are provided by an independent third-party valuer and reviewed carefully by the directors before inclusion in the financial statements. Further information about the qualifications of the independent third-party valuer and the valuation methods can be found in note 8.

(f) Basis of consolidation

The Group's financial statements comprise a consolidation of the financial statements of the parent company (Ground Rents Income Fund plc) and its subsidiaries. The financial statements of the subsidiaries are prepared using consistent accounting policies. Subsidiaries are entities controlled by the Group and control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of the subsidiaries are included from the date on which control is transferred to the Group. Financial statements of subsidiaries are deconsolidated from the date on which control ceases.

All intra-group transactions and balances are eliminated on consolidation.

(g) 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 and other income.

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 in which they are earned and as defined by the lease.

(h) Finance income and expenses

Finance income comprises interest receivable on bank deposits. Finance expenses comprise interest and other costs incurred in connection with the borrowing of funds. Finance income and expenses are recognised in the income statement on an accruals basis in the period to which they relate.

(i) 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 substantially enacted at the year end date.

(j) Deferred tax

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

(k) 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. 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 income statement. The directors instruct the independent valuers biannually and, in addition, on acquisition of investment properties as the need arises. Gains and losses on changes in fair value are recognised at the time of each valuation.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2019

1 Accounting policies continued

(l) Cash and cash equivalents

Cash comprises of call deposits held with banks.

(m) Capital management

The capital managed by the Company consists of cash held across different bank accounts in several banking institutions. 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 individual assets. The Group monitors capital through cash and dividend forecasts which are prepared and reviewed on a quarterly basis. The Group has a fully drawn down £19,500,000 debt facility which expires on 15 November 2021. See note 12 – Financial Instruments for further information on the loan. Associated costs are capitalised and amortised over the duration of the loan.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost less an allowance for any uncollectable amounts.

(o) Trade and other payables

Trade and other payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. They are classed as current liabilities if payment is due within one year or less. They are initially recognised at fair value and subsequently held at amortised cost.

(p) Deferred income

Deferred income arises because ground rents are usually billed annually in advance. Deferred income is held in the deferred income account within payables and released against the income statement over the period to which it relates.

(q) Amortisation of loan arrangement fees

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

(r) 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.

(s) Warrants

Warrants were issued on a one for five basis with the issue of the ordinary share capital in August 2012. Each warrant gives the holder the right to subscribe for an ordinary share for £1 on the anniversary of their issue for a period of ten years.

(t) Provisions

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

2 Segmental reporting

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

	2019 £	2018 £
By activity:		
Ground rent income	**4,796,641**	4,681,600
Other income	**841,707**	675,365
	5,638,348	5,356,965

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

3 Administrative expenses

	2019 £	2018 £
Directors' salaries	**71,697**	59,715
Auditors' remuneration – see below	**88,935**	74,500
Management fees	**562,234**	372,210
Professional fees	**1,730,289**	472,727
Insurance	**24,083**	21,392
Sponsor fees	**55,170**	44,218
Valuation fees	**95,559**	69,149
Registrar fees	**27,207**	55,448
Listing fees	**30,559**	23,412
Public relations and printing costs	**29,548**	77,465
Other operating expenses	**93,853**	52,747
	2,809,134	1,322,983

No direct operating expenses were incurred in relation to investment property in the year (2018: £nil).

Services provided by the Company's auditors:

	2019 £	2018 £
Fees payable to the auditors for the audit of parent company and consolidated financial statements	**32,000**	20,000
Fees payable to the auditors for other services:		
– The audit of the Group's subsidiaries	**56,935**	54,500
	88,935	74,500

4 Directors' emoluments

The Company does not have any employees other than the directors.

The services of Simon Paul Wombwell as a director of the Group were provided by Brooks Macdonald Funds Limited and invoiced on a monthly basis.

	2019 £	2018 £
Short term employee benefits paid as directors' remuneration	**69,364**	59,715
Invoiced by Brooks Macdonald Funds Limited	**14,000**	24,000
	83,364	83,715
Highest paid director:		
Emoluments	**30,000**	30,000
	30,000	30,000

	Number	Number
Monthly average number of directors during the year	**3**	3

There were no post-employment benefits, other long-term benefits, termination benefits or share-based payments accrued or paid out in the year ended 30 September 2019 (2018: none).

5 Finance income

	2019 £	2018 £
Interest on bank deposits	**25,903**	26,129

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2019

6 Finance expenses

	2019 £	2018 £
Loan interest	**655,099**	659,110
Amortisation of loan arrangement fees and bank charges	**97,440**	94,429
	752,539	753,539

Loan set-up costs of £195,072 have been capitalised and deducted from the total loan amount outstanding. These costs will be amortised over 26 months to 15 November 2021.

7 Taxation

The Company applied to HMRC to join the REIT taxation regime on 14 August 2012. The REIT regime affords the Company a number of potential efficiencies in its tax affairs including exemption from UK corporation tax on profits and gains from its UK property rental business. The Company intends to comply with the rules of the REIT regime in order to achieve these potential benefits. No tax charge arose in the year (2018: £nil).

	2019 £	2018 £
Loss before taxation	**(2,289,122)**	(10,688,037)
Standard rate of corporation tax in the UK	**19.0%**	19.0%
	£	£
Loss before taxation multiplied by the standard rate of corporation tax	**(434,933)**	(2,030,727)
Effects of:		
Unrealised revaluation loss not taxable	**926,601**	2,690,415
Property profit not taxable under the REIT regime	**(491,668)**	(659,688)
Total tax charge for year	**–**	–

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

Factors affecting current and future tax charges
The Government has announced that the corporation tax standard rate is to be reduced to 17% with effect from 1 April 2020.

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 2019, 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.

8 Investment properties

	2019 £	2018 £
Market value		
At 1 October 2018/2017	**127,509,800**	139,088,000
Additions	**288,121**	2,628,828
Net revaluation loss recognised in statement of comprehensive income	**(4,876,845)**	(14,160,078)
Disposals	**(28,076)**	(46,950)
At 30 September 2019/2018	**122,893,000**	127,509,800

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

8 Investment properties continued

The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active market 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 levels of the fair value hierarchy during the year.

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

Key assumptions within the basis of fair value are:

The value of each of the properties has been assessed in accordance with the relevant parts of the Royal Institution of Chartered Surveyors Valuation – Global Standards 2017, incorporating the IVSC International Valuations Standards (the 'RICS Red Book'), which is consistent with IFRS 13 measurement requirements. The RICS Red Book provides two definitions of fair value ("FV"). The one appropriate for the IFRS basis of accounting is as follows:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

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

The Group's investment property was revalued at 30 September 2019 by Savills Advisory Services Limited ("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. Most of the properties have previously been valued by Savills when they were acquired and from time to time as requested by the directors. The valuation of ground rent investment properties takes into account external factors such as interest rates and the availability of other fixed rate investments in the market.

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

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

Valuation category – type of rent review

30 September 2019	Indexed	Doubling	Fixed increases	Flat
Cost (£)	**74,323,798**	**13,867,377**	**6,708,293**	**5,758,820**
Fair value (£)	**89,240,000**	**19,389,000**	**8,306,000**	**5,958,000**
Gross rent roll (£)	**3,365,906**	**776,490**	**342,773**	**335,091**
Rental yield on purchase price	**4.5%**	**5.6%**	**5.1%**	**5.8%**
Rental yield on fair value	**3.8%**	**4.0%**	**4.1%**	**5.6%**
30 September 2018	**Indexed**	**Doubling**	**Fixed increases**	**Flat**
Cost (£)	74,053,798	13,867,377	6,708,293	5,758,820
Fair value (£)	93,294,800	20,173,000	8,400,000	5,642,000
Gross rent roll (£)	3,328,050	782,360	339,174	323,589
Rental yield on purchase price	4.5%	5.6%	5.1%	5.6%
Rental yield on fair value	3.6%	3.9%	4.0%	5.7%

All categories of ground rent investment properties have been valued by independent valuers using available market comparisons. During the year, some assets held with doubling rent reviews transitioned to a flat review profile.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2019

8 Investment properties continued

The table below shows the principal sensitivity to the key valuation metrics and the resultant change to the valuation.

+/- effect on valuation	Indexed	Doubling	Fixed increases	Flat
Impact on fair value of 1 YP change (£)	3,365,906	776,490	342,773	335,091

The average YP across the portfolio is 25.5 (2018: 26.7).

Included within the Group portfolio valuation is a £nil value for the investment property Beetham Tower, Manchester, held within the North West Ground Rents Limited subsidiary undertaking. This valuation reflects all future cash flows associated with the remediation of the building as required. Estimated cash flows include those for construction works and a share of recoverable monies from associated leaseholders.

The directors are of the view that no further material irrecoverable losses will arise in respect of the remediation of the investment property at the date of these financial statements.

9 Trade and other receivables

	2019 £	2018 £
Trade receivables	**679,576**	1,251,146
Other receivables	**381,847**	588,213
Prepayments and accrued income	**48,979**	55,912
	1,110,402	1,895,271

Included in Other receivables is £221,864 (2018: £221,864) held in a client account at the Company's solicitors which was for deals in progress to complete after the year end date, in addition to an £83,000 deposit (2018: £83,000). The fair value of trade and other receivables is equal to the book value.

The ageing analysis of trade receivables is as follows:

	2019 £	2018 £
Up to 3 months	**383,263**	884,299
Over 3 months	**296,313**	366,847
	679,576	1,251,146

Management consider the trade receivables to be fully collectable due to the secure nature of the receipts. The directors believe all financial assets that are neither past due nor impaired to be fully recoverable as the amounts are represented by either cash held at a secure client account at the Company's solicitors or other trading amounts which are considered fully recoverable and of good quality. Therefore no expected credit loss by ageing is presented above. Neither is the movement in the provision allowable for doubtful debts as this is £nil throughout the year.

10 Trade and other payables

	2019 £	2018 £
Trade payables	**16,163**	158,866
Other taxes and social security costs	**14,106**	4,780
Other payables	**124,764**	1,759
Accruals	**1,267,706**	619,159
Deferred income	**1,397,715**	1,819,441
	2,820,454	2,604,005

Trade payables and Other taxes and social security amounts fall due within the next three months.

11 Financial liabilities measured at amortised cost

	2019 £	2018 £
Bank loan repayable over one year	**19,500,000**	19,500,000
Capitalised loan arrangement fees net of amortisation	**(195,072)**	(288,307)
	19,304,928	19,211,693

The loan facility is with Santander UK plc and has a termination date of 15 November 2021. The rate of interest payable on the loan is set in advance at 1.097% per annum for the first tranche of £15 million and 0.986% per annum for the second tranche of £4.5 million. Both of these rates are to subject to an additional 2.300% per annum margin, giving the fully drawn loan a composite rate of 3.371%.

The loan facility is secured over assets held in group companies, namely Admiral Ground Rents Limited, Clapham One Ground Rents Limited, GRIF040 Limited, GRIF041 Limited, GRIF044 Limited, GRIF048 Limited, Masshouse Block HI Limited, Masshouse Residential Block HI Limited, OPW Ground Rents Limited, The Manchester Ground Rent Company Limited and Wiltshire Ground Rents Limited.

No security or guarantee exists in relation to the facility over any other Company or subsidiary company assets.

The loan facility includes loan-to-value and interest cover covenants that are measured at a Group level and the Group has maintained significant headroom against all measures throughout the financial year. The Group is in full compliance with all loan covenants at 30 September 2019.

Borrowing restrictions
The Group has self-imposed borrowing restrictions of 25% of gross assets, these being the Group's investment properties. At 30 September 2019, Group borrowings were 15.9% (30 September 2018: 15.3%) of gross assets.

Leverage ratio
For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives.

It is expressed as a ratio between the Group's gross assets and its NAV and is calculated under the gross and commitment methods, in accordance with the AIFMD. This differs to the Group's borrowing restriction which is expressed as an absolute measure as quoted above.

The Group is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD as at 30 September 2019, and are as follows:

Leverage exposure	Maximum limit	Actual exposure
Gross method	175%	115%
Commitment method	175%	120%

The gross method represents the sum of the Group's positions (total assets) after deducting cash balances. The commitment method represents the sum of the Group's positions without deducting cash balances.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2019

12 Financial instruments

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

Financial assets carried at amortised cost

The book value and fair value of the Group's financial assets, other than non-interest bearing short-term trade and other receivables, for which book value equates to fair value, were as follows:

	2019		2018	
	Book value £	Fair value £	Book value £	Fair value £
Trade receivables	679,576	679,576	1,251,146	1,251,146
Other receivables	381,847	381,847	588,213	588,213
Cash at bank and in hand	6,136,854	6,136,854	5,566,561	5,566,561

As of 30 September 2019 no trade receivables (2018: £nil) were impaired or provided for as detailed in note 9.

Financial liabilities carried at amortised cost

The book value and fair value profile of the Group's financial liabilities, other than non-interest bearing short-term trade and other payables, for which book value equates to fair value, were as follows:

	2019		2018	
	Book value £	Fair value £	Book value £	Fair value £
Trade payables	16,163	16,163	158,866	158,866
Other payables and accruals	1,406,576	1,406,576	625,698	625,698
Bank loan	19,304,928	19,304,928	19,211,693	19,211,693

Financial risk management

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

Capital risk management

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

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

	2019 £	2018 £
Cash and cash equivalents	6,136,854	5,566,561
Total borrowings (note 11)	(19,304,928)	(19,211,693)
Net debt	(13,168,074)	(13,645,132)
Total equity	108,014,874	113,155,934
Total capital	94,846,800	99,510,802
Gearing ratio	17.9%	17.0%

12 Financial instruments continued

Credit risk

Cash deposits are placed with a number of financial institutions whose financial strength and credit quality have been considered by the directors based on advice received from the AIFM. The panel of suitable counterparties is subject to regular review by the Board.

Interest rate risk

The 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.

13 Loss per share

Basic loss per share

Losses used to calculate earnings per share in the financial statements were:

	30 September 2019 £	30 September 2018 £
Loss attributable to equity shareholders of the Company	(2,289,122)	(10,688,037)
Basic loss per share have been calculated by dividing losses by the weighted average number of ordinary shares in issue throughout the year.		
Weighted average number of shares in issue in the year	97,006,402	96,726,613
Basic loss per share	(2.36p)	(11.05p)

Diluted loss per share

Diluted loss per share is the basic loss per share, adjusted for the effect of contingently issuable warrants in issue during the year, weighted for the relevant periods.

	2019 £	2018 £
Loss attributable to equity shareholders of the Company	(2,289,122)	(10,688,037)

	2019 Number	2018 Number
Weighted average number of shares – basic	97,006,402	96,726,613
Potential dilutive impact of warrants	–	–
Diluted total shares	97,006,402	96,726,613
Diluted losses per share	(2.36p)	(11.05p)

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2019

14 Net asset value per ordinary share

The NAV calculates the net asset value per share in the financial statements. The diluted NAV per ordinary share is calculated after assuming the exercise of all outstanding warrants at £1, which would increase the aggregated NAV by £4,423,876.

	2019 £	2018 £
Net assets	**108,014,874**	113,155,934
	Number	Number
Number of ordinary shares in issue	**97,006,497**	97,006,397
Outstanding warrants in issue	**4,423,876**	4,423,976
Diluted number of shares in issue	**101,430,373**	101,430,373
NAV per ordinary share – basic	**111.3p**	116.6p
NAV per ordinary share – dilutive	**110.9p**	115.9p

15 Share capital

	2019 Number	2019 £	2018 Number	2018 £
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	**97,006,497**	**48,503,248**	97,006,397	48,503,198
Shares issued during the year:				
Ordinary shares of £0.50 each	**100**	**50**	294,297	147,148

Resolutions were passed at an annual general meeting on 24 July 2012 to authorise the directors to allot shares up to an aggregate nominal amount of £65,000,000.

Warrants were issued for £nil consideration on the basis of one warrant for every five subscription shares in August 2012. Warrant-holders have the right to subscribe £1 per share for the number of ordinary shares to which they are entitled on 31 August in each year following admission up to and including 31 August 2022. 294,297 warrants were exercised and ordinary shares issued in September 2018. 100 warrants were exercised and ordinary shares issued in September 2019. At 30 September 2019 there were 4,423,876 warrants in issue.

16 Share premium account

	2019 £	2018 £
At 1 October 2018/2017	**45,884,305**	45,747,161
Shares issued	**50**	147,149
Expenses of issue	**(50)**	(10,005)
At 30 September	**45,884,305**	45,884,305

17 Retained earnings

	2019 £	2018 £
At 1 October 2018/2017	**18,768,431**	33,286,267
Dividends paid	**(2,851,988)**	(3,829,799)
Retained earnings	**15,916,443**	29,456,468
Loss for the financial year	**(2,289,122)**	(10,688,037)
At 30 September	**13,627,321**	18,768,431

18 Dividends

It is the policy of the Group to pay quarterly interim dividends to ordinary shareholders. The interim dividend relating to the fourth quarter of the year is due to be paid before the end of December 2019.

	2019 £	2018 £
Dividends declared and paid by the Company during the year	**2,851,988**	3,829,799
	2,851,988	3,829,799
Analysis of dividends by type:		
Interim PID dividend of 0.98p per share	**–**	947,778
Interim PID dividend of 0.98p per share	**–**	947,779
Interim PID dividend of 0.98p per share	**–**	947,779
Interim PID dividend of 1.02p per share	**–**	986,463
Interim PID dividend of 0.98p per share	**950,663**	–
Interim PID dividend of 0.98p per share	**950,662**	–
Interim PID dividend of 0.98p per share	**950,663**	–
	2,851,988	3,829,799
Since the year end, the following dividends have been announced:		
Interim PID dividend of 0.98p per share – announced		950,663

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2019

19 Cash generated from operations

Reconciliation of operating loss to net cash inflow from operating activities

	2019 £	2018 £
Loss before income tax	(2,289,122)	(10,688,037)
Adjustments for:		
Non-cash revaluation movement	4,876,845	14,160,078
Profit on sale of ground rent assets and leasehold property	(485,145)	(165,469)
Net finance expense	726,636	727,410
Operating cash flows before movements in working capital	2,829,214	4,033,982
Movements in working capital:		
Decrease in trade and other receivables	784,869	690,738
Increase in trade and other payables	216,449	62,591
Net cash generated from operations	3,830,532	4,787,311

Proceeds of share issue

The proceeds from issue of shares is as follows:

	2019 £	2018 £
Warrants converted on 14 September 2018	–	294,297
Warrants converted on 13 September 2019	100	–
Share issue costs associated with issue of ordinary shares	(50)	(10,005)
	50	284,292

20 Analysis of changes in net cash

	At 1 October 2018 £	Cash flows £	Non-cash changes £	At 30 September 2019 £
Cash at bank and in hand	5,566,561	570,293	–	6,136,854
Total	5,566,561	570,293	–	6,136,854

21 Related party transactions

The Company's balances with fellow group companies at 30 September 2019 are set out in note 14 to the Company's financial statements.

Simon Paul Wombwell was also a director of Brooks Macdonald Funds Limited ("BMF"), which provided services to the Company during the financial year.

BMF provided investment management and administration services to the Company up until 12 May 2019, the fees for which were 0.55% per annum of the market capitalisation of the Company. In addition, BMF was entitled to an agency fee of 2% of the purchase price of any property acquired by the Company, where no other agency fee was payable. Where a third party agency fee was less than 2% of the purchase price, BMF was entitled to an agency fee of 50% of the difference between 2% of the purchase price and the third party agency fee. BMF also received a share of event fees from an unrelated party Braemar Estates Limited.

Transactions between BMF and Ground Rents Income Fund plc during the financial year were as follows:

	2019 £	2018 £
Investment management fee paid to BMF	208,039	417,912
Acquisition fees paid to BMF	–	28,759
Other amounts paid to BMF	42,165	39,080
Directors fees paid to BMF	14,000	24,000
	264,204	509,751

21 Related party transactions continued

No amounts were due from the Company to BMF at the year end date (2018: £60,000).

Schroder Real Estate Investment Management Limited ("Schroders") is also deemed to be a related party in that it acted as the Investment Manager from 13 May 2019.

Transactions with Schroders during the year were as follows:

	2019 £	2018 £
Investment management fee	132,726	–
	132,726	–

No amount was due from the Company to Schroders at the year end date (2018: £nil).

During the prior year, Braemar Estates Limited (formerly Braemar Estates (Residential) Limited) ("Braemar Estates") was also a related party by virtue of being under common control with BMF until 1 December 2017, from when control passed to an unrelated party Rendall & Rittner Limited. Transactions between Braemar Estates and the Company during the financial year were as follows:

	2019 £	2018 £
Other amounts paid to Braemar Estates while under common control	–	1,980
	–	1,980

No amounts were due from the Company to Braemar Estates at the year end date (2018: £nil).

22 Other financial commitments and contingencies

The Group has a number of investment property acquisitions in the pipeline. At 30 September 2019, the Group had £221,864 of cash held at solicitors for acquisitions which were in progress to complete after the year end date (see note 9) (2018: £221,864). The ground rent deals are expected to cost £2,470,650 to complete.

In January 2019 a High Court Judgment was handed down against North West Ground Rents Limited ("NWGR"), a wholly owned subsidiary of the Company, concerning the repair of Beetham Tower, Manchester, held as an investment property by NWGR. All key parties are currently engaged in a mediation process to determine the mechanics of repairing the building and the contributions to be paid by various parties involved.

The investment property valuation of £nil reflects estimated cash flows for construction works and recoverables from leaseholders. See note 8 for further details.

The damages associated with this Judgment are still to be determined in a separate hearing, for which a date has not yet been set. In line with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, no provision has been made in NWGR for the possible obligations of these damages as these are, as yet, not reliably measurable.

All costs and recoverable contributions, from both leaseholders and third party contractors, and any potential damages, are subject to the ongoing mediation process. While there is no guarantee of success, the Board of NWGR is seeking to reach a solution agreeable to all parties which does not have any further material impact on the Group NAV (although some reimbursable costs of repair may occur).

The Company has stated that it wants to deliver a solution that is in the interests of stakeholders, including its shareholders and leaseholders at no further material net cost to the Group.

NWGR is reliant on the financial support of the Company to finance further legal action and to comply with the Judgment. If financial support for NWGR is withdrawn, the director of NWGR would need to assess the ongoing viability of NWGR at that time. If that then ultimately led to the administration or liquidation of NWGR, then such a process would not be expected to have any material impact on the Group NAV, with the exception of the expense of reasonable associated professional fees.

23 Events after the year end date

Following the approval by shareholders and warrantholders at a General Meeting held in November 2019, the Company cancelled its share premium account in order to create distributable reserves to better facilitate the payment of future dividends.

Company Statement of Financial Position

As at 30 September 2019

	Note	2019 £	2018 £
Assets			
Non-current assets			
Investments	5	**1,340,116**	1,665,010
		1,340,116	1,665,010
Current assets			
Trade and other receivables	6	**84,473,423**	88,439,471
Cash and cash equivalents		**6,136,854**	5,566,561
		90,610,277	94,006,032
Total assets		**91,950,393**	95,671,042
Liabilities			
Current liabilities			
Trade and other payables	7	**(834,925)**	(389,690)
		(834,925)	(389,690)
Total liabilities		**(834,925)**	(389,690)
Net assets		**91,115,468**	95,281,352
Equity			
Share capital	9	**48,503,248**	48,503,198
Share premium account	9	**45,884,305**	45,884,305
Accumulated losses	10	**(1,958,139)**	(3,728,845)
(Loss)/profit for the financial year	10	**(1,313,946)**	4,622,694
Total equity		**91,115,468**	95,281,352

The Company financial statements on pages 42 to 44 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Robert Malcolm Naish
Director
Ground Rents Income Fund plc

William Edward John Holland
Director
12 December 2019

Company registered number: 08041022

The accompanying notes from pages 45 to 52 form an integral part of the Company financial statements.

Company Statement of Cash Flows

For the year ended 30 September 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	12	**3,396,979**	1,870,474
Net cash generated from operating activities		**3,396,979**	1,870,474
Cash flow from investing activities			
Interest received		**25,252**	12,949
Net cash generated from investing activities		**25,252**	12,949
Cash flows from financing activities			
Proceeds from issuance of shares	12	**50**	284,292
Dividends paid to shareholders		**(2,851,988)**	(3,829,799)
Net cash used in financing activities		**(2,851,938)**	(3,545,507)
Net increase/(decrease) in cash and cash equivalents	13	**570,293**	(1,662,084)
Net cash and cash equivalents at 1 October 2018/2017		**5,566,561**	7,228,645
Net cash and cash equivalents at 30 September		**6,136,854**	5,566,561

The accompanying notes from pages 45 to 52 form an integral part of the Company financial statements.

Company Statement of Changes in Equity

For the year ended 30 September 2019

	Note	Share capital £	Share premium account £	Retained earnings/ (accumulated losses) £	Total equity £
At 1 October 2017		**48,356,050**	**45,747,161**	**100,954**	**94,204,165**
Comprehensive income					
Profit for the year		–	–	4,622,694	4,622,694
Total comprehensive income		–	–	4,622,694	4,622,694
Transactions with owners					
Issue of share capital	9	147,148	147,149	–	294,297
Share issue costs	9	–	(10,005)	–	(10,005)
Dividends paid	10	–	–	(3,829,799)	(3,829,799)
At 30 September 2018	11	**48,503,198**	**45,884,305**	**893,849**	**95,281,352**
At 1 October 2018		48,503,198	45,884,305	893,849	95,281,352
Comprehensive loss					
Loss for the year		–	–	(1,313,946)	(1,313,946)
Total comprehensive loss		–	–	(1,313,946)	(1,313,946)
Transactions with owners					
Issue of share capital	9	50	50	–	100
Share issue costs	9	–	(50)	–	(50)
Dividends paid	10	–	–	(2,851,988)	(2,851,988)
At 30 September 2019	11	**48,503,248**	**45,884,305**	**(3,272,085)**	**91,115,468**

The accompanying notes from pages 45 to 52 form an integral part of the Company financial statements.

Notes to the Company Financial Statements

For the year ended 30 September 2019

1 General information

The Company is a public 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 rental and investment business.

2 Accounting policies

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

The accounting policies of the Company are consistent with those of the Group, which can be found in note 1 to the Group financial statements. As with the Group, during the year the Company adopted IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers.

The adoption of IFRS 9 and IFRS 15 has not had a quantitative impact upon the Company's financial statements.

Accounting policies specific to the Company are set out below.

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and therefore comply with Article 4 of the EU IAS regulation, and in accordance with the Companies Act 2006.

(b) Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The functional and presentational currency is sterling.

(c) Investments in subsidiary companies

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

(d) Capital management

The capital managed by the Company consists of cash held across different bank accounts in several banking institutions. The Company'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 individual assets. The Company monitors capital through cash and dividend forecasts which are prepared and reviewed on a quarterly basis. The Company had £6,136,854 of cash at the year end. The directors intend to retain an amount for working capital at least equal to the next quarter's dividend payment.

(e) Dividend distributions

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

3 Results for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the financial year. Ground Rents Income Fund plc reported a loss after tax for the financial year of £1,313,946 (2018: profit £4,622,694). Auditors' remuneration for the audit of the Group's financial statements was £88,935 (2018: £74,500). The average monthly number of employees during the year was three (being the directors). Directors' emoluments are set out in note 4 of the Group financial statements.

4 Dividends

Details of the Company's dividends paid and proposed are set out in note 18 of the Group financial statements.

Notes to the Company Financial Statements continued

For the year ended 30 September 2019

5 Investments in subsidiary companies

Cost	Investments in subsidiary companies £
At 1 October 2018	1,665,010
Impairments	(324,894)
At 30 September 2019	1,340,116

During the year, an impairment assessment of the investments held by the Company led to an impairment charge of £0.3 million (2018: £nil) being recorded.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the subsidiary undertakings of the Company at 30 September 2019 all of which are wholly owned and included in the financial statements are given below (* indicates those indirectly held).

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

Company	Type of share	Nature of business	Country of incorporation
Admiral Ground Rents Limited	Ordinary £1	Ground rents	UK
Azure House Ground Rents Limited	Ordinary £1	Ground rents	UK
Banbury Ground Rents Limited	Ordinary £1	Ground rents	UK
BH Ground Rents Limited	Ordinary £1	Ground rents	UK
Clapham One Ground Rents Limited	Ordinary £1	Ground rents	UK
DG Ground Rents Limited	Ordinary £1	Ground rents	UK
East Anglia Ground Rents Limited	Ordinary £1	Ground rents	UK
Ebony House Ground Rents Limited	Ordinary £1	Ground rents	UK
Enclave Court Ground Rents Limited	Ordinary £1	Ground rents	UK
Greenhouse Ground Rents Limited	Ordinary £1	Ground rents	UK
GRIF Cosec Limited	Ordinary £1	Corporate director	UK
GRIF Student Ground Rents Limited	Ordinary £1	Ground rents	UK
GRIF027 Limited	Ordinary £1	Ground rents	UK
GRIF028 Limited	Ordinary £1	Ground rents	UK
GRIF033 Limited	Ordinary £1	Ground rents	UK
GRIF034 Limited	Ordinary £1	Ground rents	UK
GRIF036 Limited	Ordinary £1	Ground rents	UK
GRIF037 Limited	Ordinary £1	Ground rents	UK
GRIF038 Limited	Ordinary £1	Ground rents	UK
GRIF039 Limited	Ordinary £1	Ground rents	UK
GRIF040 Limited	Ordinary £1	Ground rents	UK
GRIF041 Limited	Ordinary £1	Ground rents	UK
GRIF042 Limited	Ordinary £1	Ground rents	UK
GRIF043 Limited	Ordinary £1	Ground rents	UK
GRIF044 Limited	Ordinary £1	Ground rents	UK
GRIF045 Limited	Ordinary £1	Ground rents	UK

5 Investments in subsidiary companies continued

Company	Type of share	Nature of business	Country of incorporation
GRIF046 Limited	Ordinary £1	Ground rents	UK
GRIF047 Limited	Ordinary £1	Ground rents	UK
GRIF048 Limited	Ordinary £1	Ground rents	UK
GRIF049 Limited	Ordinary £1	Ground rents	UK
GRIF051 Limited	Ordinary £1	Ground rents	UK
GRIF052 Limited	Ordinary £1	Ground rents	UK
GRIF053 Limited	Ordinary £1	Ground rents	UK
Halcyon Wharf Ground Rents Limited	Ordinary £1	Ground rents	UK
Hill Ground Rents Limited	Ordinary £1	Ground rents	UK
Invest Ground Rents Limited	Ordinary £1	Ground rents	UK
Masshouse Block HI Limited*	Ordinary £1	Ground rents	UK
Masshouse Residential Block HI Limited*	Ordinary £1	Ground rents	UK
Metropolitan Ground Rents Limited	Ordinary £1	Ground rents	UK
Nikal Humber Quay Residential Limited*	Ordinary £1	Ground rents	UK
Northwest Houses Ground Rents Limited	Ordinary £1	Ground rents	UK
OPW Ground Rents Limited	Ordinary £1	Ground rents	UK
The Manchester Ground Rent Company Limited	Ordinary £1	Ground rents	UK
Trinity Land & Investments No.2 Limited	Ordinary £1	Ground rents	UK
Wiltshire Ground Rents Limited	Ordinary £1	Ground rents	UK
XQ7 Ground Rents Limited	Ordinary £1	Ground rents	UK

The subsidiaries below are registered at the following address: Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT:

Company	Type of share	Nature of business	Country of incorporation
Midlands Ground Rents Limited	Ordinary £1	Holding company	Guernsey
North West Ground Rents Limited	Ordinary £1	Ground rents	Guernsey

6 Trade and other receivables

	2019 £	2018 £
Trade receivables	**–**	7,567
Other receivables	**28,938**	206,594
Other taxes and social security costs	**12,158**	–
Amounts owed by subsidiary undertakings	**84,384,145**	88,170,440
Prepayments and accrued income	**48,182**	54,870
	84,473,423	88,439,471

Amounts owed by subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the Company Financial Statements continued

For the year ended 30 September 2019

6 Trade and other receivables continued

The ageing analysis of trade receivables is as follows:

	2019 £	2018 £
Over 3 months	–	7,567
	–	7,567

An impairment assessment of the amounts owed by subsidiaries to the Company led to an impairment charge of £4.7 million (2018: £nil) being recorded, which was determined by reference to the net assets of subsidiaries. The net assets are driven by the investment property valuations and sensitivities in respect of property valuations. Appropriate Level 3 unobservable input disclosures are provided in note 8 to the Group financial statements.

	2019 £
Amounts owed by subsidiary undertakings	89,151,983
Impairments	(4,767,838)
	84,384,145

7 Trade and other payables

	2019 £	2018 £
Trade payables	11,436	91,751
Other payables	123,005	–
Other taxes and social security costs	–	2,745
Accruals and deferred income	700,484	295,194
	834,925	389,690

8 Financial instruments

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

Financial assets carried at amortised cost

The book value and fair value of the Company's financial assets, other than non-interest bearing short-term trade and other receivables, for which book value equates to fair value, were as follows:

	2019		2018	
	Book value £	Fair value £	Book value £	Fair value £
Trade receivables	–	–	7,567	7,567
Other receivables	28,938	28,938	206,594	206,594
Other taxes and social securities	12,158	12,158	–	–
Cash at bank and in hand	6,136,854	6,136,854	5,566,561	5,566,561

As of 30 September 2019 no trade receivables (2018: £nil) were impaired or provided for.

Financial liabilities carried at amortised cost

The book value and fair value of the Company's financial liabilities, other than non-interest bearing short-term trade and other payables, for which book value equates to fair value, were as follows:

	2019		2018	
	Book value £	Fair value £	Book value £	Fair value £
Trade payables	11,436	11,436	91,751	91,751
Other payables	123,005	123,005	–	–

Financial risk management

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

9 Share capital and share premium account

The movements in share capital and share premium during the year were as follows:

	Number of shares	Share capital £	Share premium account £
At 1 October 2017	96,712,100	48,356,050	45,747,161
Shares issued	294,297	147,148	147,149
Expenses of issue	–	–	(10,005)
At 30 September 2018	97,006,397	48,503,198	45,884,305
Shares issued	100	50	50
Expenses of issue	–	–	(50)
At 30 September 2019	**97,006,497**	**48,503,248**	**45,884,305**

The total number of ordinary shares, issued and fully paid at 30 September 2019 was 97,006,497 (2018: 96,006,397) with a par value of £0.50 per share. Details of the shares issued are given in notes 15 and 16 of the consolidated financial statements.

10 Accumulated losses

	2019 £	2018 £
At 1 October 2018/2017	**893,849**	100,954
Dividends paid in the year (note 18 – consolidated financial statements)	**(2,851,988)**	(3,829,799)
Accumulated losses	**(1,958,139)**	(3,728,845)
(Loss)/profit for the financial year	**(1,313,946)**	4,622,694
At 30 September 2019/2018	**(3,272,085)**	893,849

11 Reconciliation of movements in total equity

	2019 £	2018 £
At 1 October 2018/2017	**95,281,352**	94,204,165
Dividends paid in the year (note 18 – consolidated financial statements)	**(2,851,988)**	(3,829,799)
(Loss)/profit for the financial year	**(1,313,946)**	4,622,694
Shares issued	**50**	284,292
At 30 September 2019/2018	**91,115,468**	95,281,352

Notes to the Company Financial Statements continued

For the year ended 30 September 2019

12 Cash generated from operations

Reconciliation of (loss)/profit before income tax to net cash inflow from operating activities

	2019 £	2018 £
(Loss)/profit before income tax	(1,313,946)	4,622,694
Adjustments for:		
Impairment of investment in subsidiary undertakings	324,894	–
Net finance income	(25,252)	(12,949)
Operating cash flows before movements in working capital	(1,014,304)	4,609,745
Movements in working capital:		
Decrease/(increase) in trade and other receivables	179,753	(27,303)
Decrease/(increase) in amounts owed by subsidiary undertakings	3,786,295	(2,648,306)
Increase/(decrease) in trade and other payables	445,235	(63,662)
Net cash generated from operations	3,396,979	1,870,474

Proceeds of share issue

The proceeds from issue of shares can be broken down as follows:

	2019 £	2018 £
Shares issued on exercise of warrants on 14 September 2018	–	294,297
Shares issued on exercise of warrants on 13 September 2019	100	–
Share issue costs associated with issue of ordinary shares	(50)	(10,005)
	50	284,292

13 Analysis of changes in net cash

	At 1 October 2018 £	Cash flows £	Non-cash changes £	At 30 September 2019 £
Cash at bank and in hand	5,566,561	570,293	–	6,136,854
Total	5,566,561	570,293	–	6,136,854

14 Related party transactions

Transactions between the Company and its subsidiaries which are related parties, are eliminated on consolidation. The Company's individual financial statements include the amounts attributable to subsidiaries. All transactions with fellow group companies are carried out at arm's length and all outstanding balances are to be settled in cash. All amounts due to or from subsidiary companies are interest free and repayable on demand. These amounts are disclosed in aggregate in the relevant Company financial statements and in detail in the following tables:

	Amounts owed by related parties		Amounts owed to related parties	
Company	2019 £	2018 £	2019 £	2018 £
Admiral Ground Rents Limited	6,058,890	6,042,932	–	–
Azure House Ground Rents Limited	106,178	101,782	–	–
Banbury Ground Rents Limited	130,499	124,825	–	–
BH Ground Rents Limited	1,425,128	1,442,268	–	–
Clapham One Ground Rents Limited	2,897,576	2,999,605	–	–
D G Ground Rents Limited	1,648,515	1,631,866	–	–
East Anglia Ground Rents Limited	493,408	488,655	–	–
Ebony House Ground Rents Limited	183,408	179,968	–	–

14 Related party transactions continued

Company	Amounts owed by related parties 2019 £	Amounts owed by related parties 2018 £	Amounts owed to related parties 2019 £	Amounts owed to related parties 2018 £
Enclave Court Ground Rents Limited	**132,486**	126,229	**–**	–
Greenhouse Ground Rents Limited	**579,413**	576,156	**–**	–
GRIF Student Ground Rents Limited	**976,026**	626,590	**–**	–
GRIF033 Limited	**691,497**	683,903	**–**	–
GRIF038 Limited	**104,835**	104,835	**–**	–
GRIF039 Limited	**785,712**	815,048	**–**	–
GRIF040 Limited	**13,837,803**	13,829,480	**–**	–
GRIF041 Limited	**2,892,455**	2,885,026	**–**	–
GRIF042 Limited	**681,389**	674,488	**–**	–
GRIF043 Limited	**1,030,697**	1,025,234	**–**	–
GRIF044 Limited	**1,544,162**	1,534,695	**–**	–
GRIF045 Limited	**1,034,390**	1,017,264	**–**	–
GRIF046 Limited	**2,321,754**	2,326,240	**–**	–
GRIF047 Limited	**150,282**	144,452	**–**	–
GRIF048 Limited	**–**	–	**529,765**	405,302
GRIF051 Limited	**18,564,080**	19,213,141	**–**	–
GRIF052 Limited	**1,818,356**	1,682,583	**–**	–
Halcyon Wharf Ground Rents Limited	**343,264**	336,922	**–**	–
Hill Ground Rents Limited	**5,121,942**	5,109,716	**–**	–
Invest Ground Rents Limited	**233,777**	229,097	**–**	–
Masshouse Block HI Limited	**2,935,917**	2,925,515	**–**	–
Masshouse Residential Block HI Limited	**15,637**	11,370	**–**	–
Metropolitan Ground Rents Limited	**2,949,178**	2,646,510	**–**	–
Nikal Humber Quay Residential Limited	**–**	–	**11,455**	16,921
Northwest Houses Ground Rents Limited	**1,058,356**	1,059,070	**–**	–
OPW Ground Rents Limited	**4,123,021**	4,044,601	**–**	–
The Manchester Ground Rent Company Limited	**4,093,358**	4,084,463	**–**	–
Trinity Land & Investments No.2 Limited	**2,525,652**	2,521,541	**–**	–
Wiltshire Ground Rents Limited	**2,469,932**	2,512,236	**–**	–
XQ7 Ground Rents Limited	**654,734**	648,559	**–**	–

Notes to the Company Financial Statements continued

For the year ended 30 September 2019

14 Related party transactions continued

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

	Amounts owed by related parties		Amounts owed to related parties	
	2019	2018	**2019**	2018
Company	**£**	£	**£**	£
Midlands Ground Rents Limited	**864,533**	821,031	**–**	–
North West Ground Rents Limited	**1,961,966**	1,042,559	**–**	–

All the above subsidiaries are registered at the same Guernsey address, being Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT.

15 Events after the year end date

During the year, the Company identified that historical dividends had not been paid in accordance with the Companies Act 2006 ("the Act"). At all relevant times sufficient distributable reserves would have been available to the Company if subsidiary companies had passed up distributable profits by declaring dividends from their own distributable reserves.

In addition, the Act provides that a public company may pay a dividend out of its distributable profits as shown in the last accounts circulated to members or, if interim accounts are used, those that have been filed at Companies House. The requirement for the relevant accounts to have been circulated to members or, in the case of interim accounts, to have been filed at Companies House applies even if the Company in question has sufficient distributable profits at the relevant time. The Company has always filed its statutory annual accounts on time in accordance with the requirements of the Act. However, for each of the relevant distributions, interim accounts were not filed with Companies House before making the relevant distributions.

Deeds of release with shareholders and each director of the Company who held office during the period were approved by the shareholders to resolve this issue.

Following the approval by shareholders and warrantholders at a General Meeting held on 8 November 2019, the Company cancelled its share premium account in order to create distributable reserves to better facilitate the payment of future dividends.

Glossary

AGM means the Annual General Meeting of the Company.

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

Companies Act means the Companies Act 2006.

Company is Ground Rents Income Fund plc.

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

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

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

FCA is the UK Financial Conduct Authority.

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

Group is the Company and its subsidiaries.

Initial yield is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation.

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

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

Loan to value ("LTV") is a ratio which expresses the gearing on an asset or within a company or group by dividing the outstanding loan amount by the value of the assets on which the loan is secured.

LSE is the London Stock Exchange.

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

NAV total return is calculated taking into account the timing of dividends, share buybacks and issuance.

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

TISE is The International Stock Exchange, headquartered in Guernsey.

Shareholder Information

Web pages and share price information

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

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

Individual Savings Account ("ISA") status

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

Non-mainstream pooled investments status

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

Financial calendar (2020)

First interim dividend paid	February
Annual general meeting	February
Second interim dividend paid	May
Half-year results announced	June
Third interim dividend paid	August
Financial year end	30 September
Fourth interim dividend paid	November/December
Annual results announced	December

Alternative Investment Fund Managers Directive ("AIFMD") Disclosures

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

Remuneration disclosures

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

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

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

Corporate Information

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Paul Anthony Craig
William Edward John Holland

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Dealing codes
Ordinary shares
ISIN: GB00B715WG26
SEDOL: B8K0LM4
Ticker (LSE SETSQX): GRIO
Ticker (TISE): GRI

Warrants
ISIN: GB00B8N43P05
SEDOL: B8K0RP9
Ticker (LSE SETSqx): GRIW
Ticker (TISE): GRIw

Global Intermediary Identification Number (GIIN)
RY6D8C.99999.SL.826

Legal Entity Identifier (LEI)
213800SL3SN8P6XCLM37

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