Schroders

Ground Rents Income Fund plc

Half-yearly Consolidated Financial Report

For the six months ended 31 March 2019

Registered number: 8041022

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Company information

Directors	Robert Malcolm Naish – Chairman Paul Anthony Craig Simon Paul Wombwell
Company Secretary	Schroder Real Estate Investment Management Limited[1] 1 London Wall Place London EC2Y 5AV
Alternative Investment Fund Manager / Investment Manager	Schroder Real Estate Investment Management Limited[1] 1 London Wall Place London EC2Y 5AV
Depositary	INDOS Financial Limited 54 Fenchurch Street London EC3M 3JY
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Hardman Square Manchester M3 3EB
Registrars	Link Asset Services The Registry 34 Beckenham Road Kent BR3 4TU
Principal Bankers	Royal Bank of Scotland Southern Corporate Office PO Box 391 40 Islington High Street London N1 8JX
Solicitors	CMS Cameron McKenna Nabarro Olswang LLP 1 The Avenue Manchester M3 3AP
TISE Listing Sponsor	Appleby Securities (Channel Islands) Limited PO Box 207 13-14 Esplanade St Helier Jersey JE1 1BD
Broker	N+1 Singer Capital Markets Limited One Bartholomew Lane London EC2N 2AX
Registered Office	1 London Wall Place London EC2Y 5AU
Registered Number	8041022

[1] Appointed on 13 May 2019.

Chairman's statement

I am pleased to present the unaudited interim results of Ground Rents Income Fund plc ('GRIO' or the 'Company') for the six months ended 31 March 2019.

Overview

The residential ground rent sector continues to experience challenging market uncertainty due to ongoing leasehold reform and this, along with low transaction volumes, contributed to a 1.8% decline in the value of the underlying portfolio. This dilution resulted in a 2.9% reduction in the net asset value ('NAV') to £109.9 million or 113.2 pence per share (30 September 2018: £113.2 million or 116.6 pence per share). Dividends totalling 1.96 pence per share, or £1.9 million, during the period resulted in a NAV total return of -1.3%.

The Investment Manager is engaging with the government and other stakeholders in the leaseholder reform process, most recently evidenced by the Company signing the government-backed Public Pledge for Leaseholders. This pledge formalises a commitment which we have already taken action on, as outlined in the Investment Manager's Report. The Company is also working proactively to resolve construction-related challenges, such as at Beetham Tower in Manchester, where legal and other third-party fees and expenses are diluting earnings.

Despite these challenges, the portfolio's underlying cash flows remain attractive in the current environment due to its high proportion of inflation-linked leases and the yield premium above fixed income investments.

Appointment of Schroders

Schroder Real Estate Investment Management Limited ('Schroders') replaced Brooks Macdonald Funds Limited as the Alternative Investment Fund Manager ('AIFM' or the 'Investment Manager') for the Company on 13 May 2019. The Board is pleased the appointment retains the experience of the existing management team, while combining with Schroders' broader real estate expertise to support complex situations such as managing the impact of Carillion's liquidation and related litigation at Beetham Tower in Manchester.

Schroders' appointment is for an initial period of three years following which the termination notice period will be one year. Schroders is paid a simplified, transparent, tiered fee of 1.0% per annum of NAV up to £200 million, payable quarterly in arrears. The fee will be 0.9% per annum of NAV above £200 million up to £400 million and 0.8% per annum of NAV above £400 million. For the initial twelve-month period, the fee will be 0.9% of NAV with the potential to increase this up to 1.0% of NAV subject to delivering income-enhancing initiatives. The Board believes the revised fee structure is in line with comparable real estate funds and aligns Schroders' remuneration to long-term shareholder value.

As part of the mandate transfer, the Company announced a review of the strategy to determine the best course to maximise sustainable shareholder total returns, including a review of the dividend policy.

The Company will report the findings of the review to the market in due course.

Corporate governance

As previously announced, Simon Wombwell intends to resign as a Director following the appointment of Schroders. The exact timing will be determined by the appointment of a new independent director for which a search has commenced but will be no later than 30 September 2019. The Directors will continue to take appropriate measures to ensure that the Company appropriately complies with the UK Code on Corporate Governance taking into account, among other things, the size of the Company and the nature of its business.

Debt

The Company has bank debt funding provided by Santander UK plc ('Santander') of £19.5 million at a composite fixed interest rate of 3.37% maturing in November 2021. The loan-to-value of the assets charged to Santander of 29.5% compares with the Group's consolidated net loan-to-value ratio at 31 March 2019 of 11.1% (30 September 2018: 10.7%). The terms and cost of debt will be reviewed as part of the ongoing Company review.

Outlook

We believe the long-term and inflation-hedged revenues generated by the Company's underlying portfolio should support sustainable returns during an anticipated period of greater economic and political uncertainty.

Since the year-end results, the Investment Manager and broader industry have continued to engage constructively with the government to address concerns regarding leasehold practices. While the final outcome of leasehold reform remains uncertain, we remain confident that institutional management of ground rent assets on fair terms offers the best long-term outcome for consumers and other stakeholders.

Yours faithfully,

RMNaish

Robert Malcolm Naish – Chairman

26 June 2019

Investment Manager's report

The Company's Unaudited Net Asset Value ('NAV') as at 31 March 2019 was £109.9 million or 113.2 pence per share ('pps') compared with £113.2 million or 116.7 pps as at 30 September 2018. This reflected a decrease of 3.5 pps or 2.9%, with the underlying movement in NAV set out in the table below:

	£m	PPS
Audited NAV as at 30 September 2018	**113.2**	**116.7**
Revaluation plus costs of acquisition	(2.6)	(2.7)
Net revenue	1.2	1.2
Dividends paid	(1.9)	(2.0)
Unaudited NAV 31 March 2019	**109.9**	**113.2**

The independent portfolio valuation as at 31 March 2019 of £125.2 million represented a decrease in value of £2.3 million or -1.8% compared to the 30 September 2018 valuation. The like-for-like decrease, after adjusting for a small acquisition, was £2.6 million or -2.0%.

The valuation reflects weaker market sentiment which can be attributed to lower transactional volumes, the government's recent response to its own consultations and the subsequent review of residential leasehold law by the Law Commission.

During the period the Company paid two dividends totalling £1.9 million or 1.96 pps, reflecting dividend cover of 63% (H1 2018: 83%). Dividend cover excluding costs incurred in connection with the litigation at Beetham Tower in Manchester was 94% (H1 2018: 88%).

Market overview

Residential ground rent transactional volumes remain low and this is thought to be at least in part due to continuing uncertainty relating to leasehold reform. The current government proposals under consultation are not retrospective, but there is a stated desire from policymakers to make leasehold enfranchisement and extensions simpler, fairer and cheaper.

In the Company's view, any reform of legislation impacting value would need to strike a fair balance and would require sufficient compensation to be paid to landlords, to be compliant with Article 1 of the First Protocol to the European Convention on Human Rights, as previously asserted in its submission to the government's consultation on this topic.

In contrast, commercial ground rents have become increasingly popular over the past 12-24 months, experiencing strong demand from institutional investors seeking long-dated, inflation-proof income streams. In this environment, the average net initial yield for commercial ground rents was 2.6% in 2018, 20 basis points lower than in 2017[2].

The annual retail prices index ('RPI') slowed to 3.0% in April 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.

There are a number of potential factors that will influence inflation, including commodity prices, trade wars, Brexit and currency fluctuations. The Company remains well hedged to inflation with approximately 70% of the portfolio ground rent reviews being index-linked. It is also worth noting that inflation-linked gilt yields fell from -1.7% to -2.2% over the period[3], increasing the yield premium offered by the Company's underlying portfolio.

[2] Source: Knight Frank
[3] Source: Domestic bond Gilt 0.125r 22mar2029 (ISIN: GB00B3Y1JG82)

Portfolio overview

As at 31 March 2019 the portfolio comprised approximately 19,000 ground rent units across approximately 400 assets valued at £125.2 million. The portfolio produces a ground rent income of £4.79 million per annum, reflecting an average Years Purchase ('YP') of 26.1 or a gross income yield of 3.8%. The median annual ground rent charge is £110 for houses and £250 for apartments (excluding student assets). During the period the Company acquired one asset in Manchester for £270,000.

The portfolio's weighted average lease term as at 31 March 2019 was 345 years, with 93% of the ground rent income subject to indexed or fixed increases. 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, the like-for-like portfolio ground rent income would increase by approximately 2.6% per annum.

Detailed review type	Ground rent income (£k)	% of ground rent total	Market value (£m)	% of market value total
Index-linked	3,336	69.6	90.6	72.3
Doubling	779	16.2	20.0	16.0
Fixed	343	7.2	8.6	6.9
Flat (no review)	334	7.0	6.0	4.8
Total	**4,792**	**100.0**	**125.2**	**100.0**

During the six months to 31 March 2019 1.8% of ground rents were subject to review which realised an average uplift of 12%. This increased portfolio-level ground rents by 0.2%.

The rent review profile is shown in the table below with 42.4% of the ground rent income due for review over the next five years:

Years to next review	Ground rent income (%)
0–5	42.4
5–10	22.6
10–15	21.8
15–20	3.9
Over 20	2.3
Flat (no review)	7.0
Total	**100.0**

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

Unit type	No. of units (%)	Median ground rent (£)	Ground rent income (%)	Portfolio valuation (%)
Apartments	72.8	250	68.9	67.0
Houses	15.0	110	11.0	10.5
'Residential' subtotal	**87.8**	**250**	**79.9**	**77.5**
Student	10.6	350	16.6	18.9
Commercial	1.6	250	3.5	3.6
Total	**100.0**	**250**	**100.0**	**100.0**

The top 10 assets represent 29.1% of the total portfolio valuation as at 31 March 2019:

Property	Current valuation (£m)	Portfolio valuation (%)
The Student Village, York	8.5	6.8
Masshouse Plaza, Birmingham (Hive and H&I)	4.0	3.2
The Gateway, Leeds	3.8	3.1
One Park West, Liverpool	3.5	2.8
Rathbone Market, London	3.4	2.7
Wiltshire Leisure Village, Royal Wootton Bassett	3.3	2.6
Ladywell Point, Manchester	2.9	2.3
First Street, Manchester	2.8	2.2
Richmond House, Southampton	2.4	1.9
City Island, Leeds	1.9	1.5
Total	**36.6**	**29.1**

The geographic spread of the portfolio as at 31 March 2019 is shown in the chart below:

Asset location	Portfolio ground rent income (%)	Portfolio valuation (%)
North West	30.6	28.1
North East	29.7	30.0
Midlands	12.2	13.0
London	10.9	11.0
South West	9.8	11.1
South East	5.3	5.2
Wales	1.5	1.6
Total	**100.0**	**100.0**

Leasehold reform

The Investment Manager continues to engage with the Ministry of Housing, Communities and Local Government (MHCLG), the Law Commission and other policymakers regarding potential reform of the leasehold sector. Reform activity has been ongoing since the government's consultation was announced in 2017. The government and the Law Commission have, at various times, emphasised that any potential legislative reform will be subject to both economic impact assessments and a requirement that 'fair' or 'sufficient' compensation be paid to landlords.

Schroders and the Company welcomed the government's aims to reform and simplify many aspects of leasehold legislation as we recognise the need for a system that delivers a more equitable, transparent and better service for homeowners. Institutional landlords have the expertise, resource and experience needed to provide the required risk, governance and health and safety oversight.

The Company and the Investment Manager are committed to being a best-in-class operator in the leasehold sector and this is reflected in our commitment to the Public Pledge for Leaseholders, outlined below.

The MHCLG Public Pledge for Leaseholders was published in March 2019 and signed by a large cross section of freeholders, housebuilders and developers, including the Company. Both the Board and the Investment Manager believe the pledge is an important step towards positive and transparent change in the leasehold sector and reflects the desire of the wider professional investor community to bring about meaningful, sensible and well-thought-out reform. The pledge is published in full on the MHCLG website:

www.gov.uk/government/publications/leaseholder-pledge/public-pledge-for-leaseholders.

The announcement committed the Company to initiatives that the management team, who have since transitioned to Schroders, was already implementing, including the eradication of onerous leases.

Onerous leases

Under the government's definition 'onerous leases' contain ground rents that double more frequently than every 20 years. The Company has proactively addressed this in its Asset Management Plan, announced in 2017, which offers in-scope leaseholders with a doubling rent review mechanism of any review cycle a simple deed of variation to amend that review to the lesser of doubling or RPI on the same cycle.

The Asset Management Plan involves 2,855 residential units with doubling review patterns from 10 to 50 years across 42 properties:

Review cycle	No. of units	Ground rent income (£)	Portfolio ground rent income (%)
10	377	188,350	4.1
15	4	400	0.0
25	1,945	466,115	9.7
33	44	13,400	0.4
35	54	12,800	0.3
50	431	83,500	1.7
Total	**2,855**	**764,565**	**16.2**

Leaseholders at 434 of the apartments across the in-scope properties have expressed an interest in a lease variation. Of these, 91 have formally completed the process, with the necessary documents having been registered at HM Land Registry.

As part of the abovementioned Public Pledge for Leaseholders, information regarding the doubling ground rent offer has been made publicly available on the Company's website.

Property management

Health and safety compliance is a key focus, and we assess our own and suppliers' performance against best practice and legislation. We also work closely with our insurance broker, Lockton, to maintain effective oversight of health and safety. Finally, a comprehensive health and safety management system was implemented in 2017 to actively monitor and audit required actions together with obligations under the relevant legislation.

Following a detailed review of the portfolio, one asset has been identified as having aluminium composite material (ACM) cladding and requires remedial works. This site has a formally-constituted Residents Management Company (RMC) within the lease structure which holds the insuring, repairing and maintenance obligations. Works have begun to remediate the site after a proposal was agreed with the developer, main contractor and local authority. Completion of the project is expected to occur in 2021.

There are three other sites requiring works to the façade and/or insulation, but which do not involve ACM cladding. We are actively engaged at each of these sites with the key stakeholders with the aim of achieving a positive outcome.

The ongoing remedial work at these four assets is the responsibility of their respective RMC's and should not therefore negatively impact the Company's NAV.

Beetham Tower, Manchester

On 1 February 2019 the Company announced the High Court judgment in connection with the case between the Company's wholly-owned subsidiary, North West Ground Rents Limited ('NWGR'), and Blue Manchester Limited ('BML'), a leaseholder operating a hotel at Beetham Tower in Manchester (the 'Building'), the principal freehold property asset owned by NWGR.

The principal basis of BML's claim related to the failure of the structural sealant on a number of shadow box units, forming part of the façade of the Building, and the question of whether remedial work carried out by Carillion Construction Limited prior to its liquidation had kept the building in good and substantial repair.

The court found in favour of BML in determining that the Building was in disrepair and granted an order for specific performance that permanent remedial works be designed and implemented within 18 months of the judgment date. The court also determined that BML was entitled to related damages that are still to be quantified.

Due to the legal action and uncertainty of its outcome in September 2018, the value of the Building was reduced to £100,000 in the accounts of NWGR. NWGR continues to pursue Carillion's insurers and sub-contractors under collateral warranties. NWGR has no external third-party debt and is ring-fenced from the wider group.

During the period, NWGR incurred costs of approximately £1.1 million in relation to the judgment and will incur further sums as part of seeking to comply with the judgment timetable. NWGR is reliant on the financial support of the Company as its parent to finance further legal action and any decision on future funding requests will have appropriate regard to shareholders interests together with the interest of other stakeholders.

Responsible and positive impact investment

Corporate social responsibility is key to our long-term future business success. A successful sustainable investment programme should deliver enhanced returns to investors, improved business performance for leaseholders and deliver tangible positive impacts to local communities, the environment and wider society.

Following the appointment of Schroders as the Company's Investment Manager, the Company will seek to incorporate 'positive impact' investing within the strategy and activities of the Company.

Finance

The Company has bank debt funding provided by Santander of £19.5 million at a composite fixed interest rate of 3.37% maturing in November 2021. The loan-to-value of the assets charged to Santander of 29.5% compares with the Group's consolidated net loan-to-value ratio of 11.1%. The table below shows the Santander loan position at the end of the period.

Lender	Loan (£m)	Maturity	Interest rate (%)	Loan to Value ('LTV') ratio[4] (%)	LTV ratio covenant (%)	Interest cover ratio (%)[5]	ICR ratio covenant (%)	Forward looking ICR ratio (%)[6]	Forward looking ICR ratio covenant (%)[6]
Santander	£19.5m	Nov 2021	3.37	29.5	40.0	328.8	270.0	331.3	270.0

Outlook

Despite headwinds relating to regulatory reform, we believe the underlying portfolio offers well-secured, long term, inflation-linked income that should remain attractive to investors in a low interest rate environment.

[4] Loan balance divided by Santander secured portfolio bank valuation as at 18 March 2019.
[5] For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).
[6] For the four quarters following the IPD, ((rental income to be received – void rates, void service charge and void insurance)/interest paid).

The change of manager provides an opportunity to undertake a review of the strategy and portfolio with the Board to determine the best course to maximise sustainable shareholder total returns. The results of this review will be announced in due course.

James Agar

Schroder Real Estate Investment Management Limited

26 June 2019

Condensed Consolidated Income Statement for the six months ended 31 March 2019

	Note	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited year ended 30 September 2018 £
Continuing operations				
Revenue		2,732,490	2,625,379	5,356,965
Administrative expenses		(1,173,027)	(679,369)	(1,322,983)
Profit on sale of ground rent assets		6,500	4,350	165,469
Net revaluation loss on investment properties		(2,606,600)	(6,589,278)	(14,160,078)
Operating loss		**(1,040,637)**	**(4,638,918)**	**(9,960,627)**
Finance income		12,905	5,549	26,129
Finance expenses	4	(374,251)	(377,371)	(753,539)
Net finance expense		(361,346)	(371,822)	(727,410)
Loss before tax		**(1,401,983)**	**(5,010,740)**	**(10,688,037)**
Taxation		-	-	-
Loss after tax and total comprehensive income		**(1,401,983)**	**(5,010,740)**	**(10,688,037)**
Losses per share				
Basic	7	(1.45p)	(5.18p)	(11.05p)
Diluted	7	(1.45p)	(5.18p)	(11.05p)

There is no other comprehensive income for the period.

The accompanying notes from pages 17 to 23 form an integral part of the unaudited interim consolidated financial statements.

Condensed Consolidated Statement of Financial Position as at 31 March 2019

	Note	Unaudited 31 March 2019 £	Unaudited 31 March 2018 £	Audited 30 September 2018 £
Assets				
Non current assets				
Investment properties – ground rents	5	125,196,000	135,100,900	127,509,800
		125,196,000	135,100,900	127,509,800
Current assets				
Trade and other receivables		1,815,586	2,662,875	1,895,271
Cash and cash equivalents		5,309,077	5,426,099	5,566,561
		7,124,663	8,088,974	7,461,832
Total assets		**132,320,663**	**143,189,874**	**134,971,632**
Liabilities				
Non current liabilities				
Financial liabilities measured at amortised cost	6	(19,258,310)	(19,165,075)	(19,211,693)
		(19,258,310)	(19,165,075)	(19,211,693)
Current liabilities				
Trade and other payables		(3,209,727)	(3,541,618)	(2,604,005)
		(3,209,727)	(3,541,618)	(2,604,005)
Total liabilities		**(22,468,037)**	**(22,706,693)**	**(21,815,698)**
Net assets		**109,852,626**	**120,483,181**	**113,155,934**
Financed by:				
Equity				
Share capital	9	48,503,198	48,356,050	48,503,198
Share premium account		45,884,305	45,747,161	45,884,305
Retained earnings		16,867,106	31,390,710	29,456,468
Current period loss		(1,401,983)	(5,010,740)	(10,688,037)
Total equity		**109,852,626**	**120,483,181**	**113,155,934**
Net asset value per ordinary share				
Basic	8	113.24p	124.58p	116.65p
Diluted	8	112.67p	123.44p	115.92p

The accompanying notes from pages 17 to 23 form an integral part of the unaudited interim consolidated financial statements.

The unaudited financial statements on pages 12 to 23 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Yours faithfully,

RMNaish

Robert Malcolm Naish – Director and Chairman

26 June 2019

Ground Rents Income Fund plc

Company registered number: 8041022

Consolidated Statement of Cash Flows for the six months ended 31 March 2019

	Note	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited Year ended 30 September 2018 £
Cash flows from operating activities				
Cash generated from operations	11	2,244,532	3,015,227	4,787,311
Interest paid on bank loan and bank charges		(327,296)	(329,795)	(753,539)
Net cash generated from operating activities		**1,917,236**	**2,685,432**	**4,033,772**
Cash flows from investing activities				
Interest received		12,905	5,549	26,129
Receipts from the sale of ground rent assets		6,500	32,215	452,350
Purchase of ground rent assets		(292,800)	(2,630,043)	(2,628,828)
Net cash used in investing activities		**(273,395)**	**(2,592,279)**	**(2,150,349)**
Cash flows from financing activities				
Net proceeds of issuance of shares		-	-	284,292
Bank loan net proceeds		-	(142)	-
Dividends paid to shareholders		(1,901,325)	(1,895,557)	(3,829,799)
Net cash used in financing activities		**(1,901,325)**	**(1,895,699)**	**(3,545,507)**
Net decrease in cash and cash equivalents		**(257,484)**	**(1,802,546)**	**(1,662,084)**
Net cash and cash equivalents at 1 October		**5,566,561**	**7,228,645**	**7,228,645**
Net cash and cash equivalents at 31 March/30 September		**5,309,077**	**5,426,099**	**5,566,561**

The accompanying notes from pages 17 to 23 form an integral part of the unaudited interim consolidated financial statements.

Consolidated Statement of Changes in Equity for the period ended 31 March 2019

	Share capital £	Share premium account £	Distributable reserve £	Total £
At 1 October 2017	**48,356,050**	**45,747,161**	**33,286,267**	**127,389,478**
Comprehensive expense				
Loss for the period	-	-	(5,010,740)	(5,010,740)
Total comprehensive expense	**-**	**-**	**(5,010,740)**	**(5,010,740)**
Transactions with owners				
Dividends paid (note 10)	-	-	(1,895,557)	(1,895,557)
At 31 March 2018	**48,356,050**	**45,747,161**	**26,379,970**	**120,483,181**
Comprehensive expense				
Loss for the period	-	-	(5,677,297)	(5,677,297)
Total comprehensive expense	**-**	**-**	**(5,677,297)**	**(5,677,297)**
Transactions with owners				
Issue of share capital	147,148	147,149	-	294,297
Share issue costs	-	(10,005)	-	(10,005)
Dividends paid (note 10)	-	-	(1,934,242)	(1,934,242)
At 30 September 2018	**48,503,198**	**45,884,305**	**18,768,431**	**113,155,934**
Comprehensive expense				
Loss for the period	-	-	(1,401,983)	(1,401,983)
Total comprehensive expense	**-**	**-**	**(1,401,983)**	**(1,401,983)**
Transactions with owners				
Dividends paid (note 10)	-	-	(1,901,325)	(1,901,325)
At 31 March 2019	**48,503,198**	**45,884,305**	**15,465,123**	**109,852,626**

The accompanying notes from pages 17 to 23 form an integral part of the unaudited interim consolidated financial statements.

Notes to the Condensed Financial Statements for the six months ended 31 March 2019

1. General information

Ground Rents Income Fund plc ('the Company') is the parent company of a group of companies which operate a property investment and rental business. The Company's primary activities are set out in its last annual report and financial statements for the financial year to 30 September 2018. A copy of the statutory annual report and financial statements has been delivered to the Registrar of Companies.

The Company is a closed-ended real estate investment trust ('REIT') incorporated in England and Wales and is listed on the International Stock Exchange ('TISE') and the SETSqx platform of the London Stock Exchange.

2. Accounting policies

Basis of preparation

These unaudited consolidated results are for the six months ended 31 March 2019. They have not been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended 30 September 2018.

The information in this announcement does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. The Company's financial statements for the financial year ended 30 September 2018 have been reported on by the auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not draw attention to any matters by way of emphasis. They also did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Company continues to adopt the going concern basis in preparing its consolidated interim financial statements. This financial information for the half-year ended 31 March 2019 has neither been audited nor reviewed. The financial information was approved by the Board on 26 June 2019.

Standards, interpretations and amendments to published standards that are effective for the first time

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Company's 31 March 2019 period end and had no material impact on the financial statements:

- IFRS 2 (amended) – Share Based Payments
- IFRS 4 (amended) – Insurance Contracts
- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from contracts with customers
- IAS 40 (amended) – Investment Property
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration; Annual Improvements to IFRSs (2014 – 2016 cycle)

Standards, interpretations and amendments to published standards that have been issued but are not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting period and have not been adopted early. Based on the Company's current circumstances, the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Company:

IFRS 16 – Leases (effective 1 January 2019) specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less of the underlying asset has a low value.

Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

3. Segmental information

The Company is mainly concerned with the collection of ground rent. The Company receives ancillary income to which it is entitled as a result of its position as property freeholder or head leaseholder.

	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited year ended 30 September 2018 £
By activity:			
Ground rent income accrued in the period	2,390,649	2,318,102	4,681,600
Other income falling due within the period	341,841	307,277	675,365
	2,732,490	**2,625,379**	**5,356,965**

All income of the Company is derived from activities carried out within the United Kingdom. The Company is not reliant on any one property or group of connected properties for the generation of its revenues.
The Board is the chief operating decision maker and runs the business as one segment.

4. Finance costs

	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited Year ended 30 September 2018 £
Loan interest costs	327,296	329,795	659,110
Amortisation of loan arrangement fees	46,955	47,576	94,429
	374,251	**377,371**	**753,539**

Loan set-up costs of £248,626 have been capitalised and deducted from the total loan amount outstanding. These costs are being amortised over 32 months to November 2021.

5. Investment Properties – Ground rents

Market value	Ground rent assets £
At 30 September 2017	**139,088,000**
Additions	2,630,043
Disposals	(27,865)
Net deficit on revaluation	(6,589,278)
At 31 March 2018	**135,100,900**
Additions	(1,215)
Disposals	(19,085)
Net deficit on revaluation	(7,570,800)
At 30 September 2018	**127,509,800**
Additions	292,800
Disposals	-
Net deficit on revaluation	(2,606,600)
At 31 March 2019	**125,196,000**
Net book value	
At 31 March 2019	125,196,000
At 30 September 2018	127,509,800
At 31 March 2018	135,100,900

The Company's investment in ground rents was revalued at 31 March 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. The valuation of ground rents takes into account external factors such as interest rates and the availability of other fixed rate investments in the market.

6. Financial liabilities measured at amortised cost

	Unaudited 31 March 2019 £	Unaudited 31 March 2018 £	Audited 30 September 2018 £
Bank loan repayable over one year	19,500,000	19,500,000	19,500,000
Capitalised loan arrangement fees net of amortisation	(241,690)	(334,925)	(288,307)
	19,258,310	**19,165,075**	**19,211,693**

The current 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% for the first tranche of £15m and 0.986% for the second tranche of £4.5m. Both of these rates are to subject to an additional 2.3% margin, giving the £19.5m loan a composite rate of 3.371%.

As at 31 March 2019, the loan facility was 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, North West Ground Rents Limited, OPW Ground Rents Limited, The Manchester Ground Rent Company Limited and Wiltshire Ground Rents Limited.

No security or guarantee exists in relation to the facility over any other group assets or assets within the parent company.

The loan facility includes loan-to-value of and interest cover covenants that are measured at a group level and the group has complied with all measures throughout the period. The group was in full compliance with all loan covenants at 31 March 2019.

7. Losses per share

Basic losses per share

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

	Unaudited 31 March 2019 £	Unaudited 31 March 2018 £	Audited 30 September 2018 £
Losses attributable to equity shareholders of the Company	(1,401,983)	(5,010,740)	(10,688,037)

Basic losses per share have been calculated by dividing losses by the weighted average number of shares in issue throughout the period.

Weighted average number of shares - basic	97,006,397	96,712,100	96,726,613
Basic losses per share	(1.45p)	(5.18p)	(11.05p)

Diluted losses per share

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

	Unaudited 31 March 2019 £	Unaudited 31 March 2018 £	Audited 30 September 2018 £
Losses attributable to equity shareholders of the Company	(1,401,983)	(5,010,740)	(10,688,037)
	Number	**Number**	**Number**
Weighted average number of shares - basic	97,006,397	96,712,100	96,726,613
Potential dilutive effect of warrants	-	854,711	-
Diluted total shares	97,006,397	97,566,811	96,726,613
Diluted losses per share	(1.45p)	(5.18p)	(11.05p)

8. Net asset value per ordinary share

The NAV represents the net asset value per share of the Company. The diluted NAV per ordinary share is calculated after assuming the exercise of all outstanding warrants.

	Unaudited 31 March 2019 £	Unaudited 31 March 2018 £	Audited 30 September 2018 £
Net assets	**109,852,626**	**120,483,181**	**113,155,934**
	Number	**Number**	**Number**
Number of ordinary shares in issue	97,006,397	96,712,100	97,006,397
Outstanding warrants in issue	4,423,976	4,718,273	4,423,976
Diluted number of shares in issue	101,430,373	101,430,373	101,430,373
NAV per ordinary share - basic	113.24p	124.58p	116.65p
NAV per ordinary share - dilutive	112.67p	123.44p	115.92p

9. Share capital

		Unaudited 31 March 2019	Unaudited 31 March 2018	Audited 30 September 2018
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	Number	97,006,397	96,712,100	97,006,397
	Amount £	48,503,198	48,356,050	48,503,198
Shares issued during the period:				
Ordinary shares of £0.50 each	Number	-	-	294,297
	Amount £	-	-	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 each year following admission up to and including 31 August 2022. 294,297 warrants were exercised and issued in September 2018. At 31 March 2019 there were 4,423,976 warrants in issue.

10. Dividends

It is the policy of the Company to pay quarterly dividends to ordinary shareholders.

	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited year ended 30 September 2018 £
Dividends declared by the Company during the period:			
Dividends paid	1,901,325	1,895,557	3,829,799
Analysis of dividends by type:			
Interim PID dividend of 0.980p per share	-	947,778	947,778
Interim PID dividend of 0.980p per share	-	947,779	947,779
Interim PID dividend of 0.980p per share	-	-	947,779
Interim PID dividend of 1.020p per share	-	-	986,463
Interim PID dividend of 0.980p per share	950,662	-	-
Interim PID dividend of 0.980p per share	950,663	-	-
	1,901,325	**1,895,557**	**3,829,799**

Since the period ended 31 March 2019, the Company has announced an interim PID dividend of 0.980p per share (£950,663).

11. Gross cash flows

	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited year ended 30 September 2018 £
Reconciliation of profit before income tax to net cash inflow from operating activities			
Loss before income tax	(1,401,983)	(5,010,740)	(10,688,037)
Adjustments for:			
Non-cash revaluation deficit	2,606,600	6,589,278	14,160,078
Profit on sale of ground rents	(6,500)	(4,350)	(165,469)
Net finance cost	361,346	371,822	727,410
Operating cash flows before movements in working capital	1,559,463	1,946,010	4,033,982
Movements in working capital:			
Increase/(decrease) in trade receivables	79,685	(90,987)	690,738
Decrease in trade payables	605,384	1,160,204	62,591
Net cash generated from operations	2,244,532	3,015,227	4,787,311

12. Related party transactions

Transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation. The captions in the primary statements of the Company include the amounts attributable to subsidiaries. All amounts due to or from subsidiary companies are interest free and repayable on demand.

Simon Wombwell is also a director of Brooks Macdonald Funds Limited which provided services to Ground Rents Income Fund plc during the financial period.

Brooks Macdonald Funds Limited provided investment management and administration services to the Company during the period as the Alternative Investment Fund Manager ('AIFM'), the fees for which were 0.55% per annum of the market capitalisation of the Company. In addition, Brooks Macdonald Funds Limited 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, Brooks Macdonald Funds Limited was entitled to an agency fee of 50% of the difference between 2% of the purchase price and the third party agency fee.

Transactions between Brooks Macdonald Funds Limited and Ground Rents Income Fund plc during the financial period were as follows:

	Unaudited 6 months to 31 March 2019 £	Unaudited 6 months to 31 March 2018 £	Audited year ended 30 September 2018 £
AIFM fee payable to Brooks Macdonald Funds Limited	181,518	249,307	417,912
Acquisition fees payable to Brooks Macdonald Funds Limited	-	28,759	28,759
Other amounts payable to Brooks Macdonald Funds Limited	14,252	24,053	39,080
Directors fees payable to Brooks Macdonald Funds Limited	12,000	12,000	24,000
	207,770	**314,119**	**509,751**

Amounts owing of £41,969 were due to Brooks Macdonald Funds Limited in respect of invoices issued in the period 1 October 2018 – 31 March 2019 at 31 March 2019.

As noted above, Schroder Real Estate Investment Management replaced Brooks Macdonald Funds Limited as AIFM on 13 May 2019.

13. Other financial commitments and contingencies

The Company has two ground rent acquisitions under contract where it has paid deposits of £83,000 which should complete on during the next twelve months.

In January 2019 a High Court judgment was handed down against North West Ground Rents Limited ('NWGR'), a wholly owned subsidiary of the Company. The damages associated with this judgment have yet to be determined in a separate hearing, for which a date has not yet been set.

NWGR continues to evaluate what the next actions and consequences of the judgment may be. NWGR is reliant on the financial support of the Company to finance further legal action and to comply with the judgment. The Company continues to review its own obligations in regard to NWGR and NWGR's obligations under the judgment.

14. Events after the date of the accounts

Schroder Real Estate Investment Management Limited ('Schroders') were appointed as the new Company Alternative Investment Fund Manager ('AIFM'), replacing Brooks Macdonald Funds Limited on 13 May 2019. For the initial twelve-month period, the fee will be 0.9% of NAV with the potential to increase this up to 1.0% of NAV subject to delivering income-enhancing initiatives.

Upon completing the purchase of a property which has been introduced by Schroders, and for which no third-party introductory fees are payable, Schroders will be entitled to receive an acquisition fee of 1.0% of the acquisition price.

All additional payments and commissions that were previously received by Brooks Macdonald Funds Limited in connection with managing the portfolio and providing services to occupier and long leaseholders will be received by Ground Rents Income Fund plc.

Five Guernsey registered group entities completed voluntary strike off in April 2019, following completion of a project to onshore Guernsey assets.