Ground Rents Income Fund plc

Half Year Report and Condensed Consolidated Interim Financial Statements

For the six months ended 31 March 2020

About Us

Ground Rents Income Fund plc (the "Company") invests in long-term, income-generating real estate 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 31 March 2020 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").

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 supportive of the Law Commission's ("LC's") efforts to make the enfranchisement process simpler and more effective, and the Competition and Markets Authority's ("CMA's") ongoing investigation designed to improve industry practice and protect consumers. Improvement of building safety standards is 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, values of which have historically not been linked to traditional property asset classes and have generally been uncorrelated to the underlying state of the economy.

The Company will give investors the opportunity to invest, through the Company, in a portfolio 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 343 years
- 43% of the portfolio ground rent income is due to be reviewed over the next six years.

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 (shown below on map)

	Property	Valuation at March 2020 (£ million)	% of portfolio	Property type
1	The Student Village, York	7.9	6.5	Student
2	Masshouse Plaza, Birmingham	3.8	3.1	Residential
3	The Gateway, Leeds	3.6	2.9	Residential
4	One Park West, Liverpool	3.4	2.8	Residential
5	Wiltshire Leisure Village	3.3	2.7	Residential
6	Ladywell Point, Manchester	3.3	2.7	Residential
7	Rathbone Market, London	3.0	2.5	Residential
8	First Street, Manchester	2.7	2.2	Student
9	Richmond House, Southampton	2.4	2.0	Student
10	Bezier Apartments, London	1.9	1.5	Residential
	Total	**35.3**	**28.9**	

Number of investment units

19,000+

Total investment property value

£122.6 million

Percentage of the portfolio value comprised of top ten properties

28.9%

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

43%

Chairman's Statement

I am pleased to present the unaudited interim results of the Ground Rents Income Fund plc ("GRIO" or the "Company") for the six-month period ended 31 March 2020.

Overview

The period was defined by the emergence of Covid-19 in the United Kingdom in March 2020. This has led to a sharp economic downturn and global market volatility. The immediate impact on the real estate sector has been a reduction in liquidity and transactional activity, resulting in material valuation uncertainty clauses being included in valuations across all property investment sectors. This has been removed for long dated ground rent valuations going forward.

The Board's primary concern during the pandemic has been the safety of our leaseholders, managing agents, on-site staff and members of the public, as we all endeavour to mitigate the impact of the pandemic on our lives and communities. Our asset management focus has been on income collection and implementing updated best practice property management procedures to ensure leaseholders are safe in their homes.

Whilst the commercial real estate sector has experienced significant challenges during the period, the Company's granular and secure underlying cash flows mean that income over the period and since the period end has been maintained. This enabled the Company to pay its dividend in May as planned, illustrating the defensive qualities of the portfolio and the benefits of its strategy that is less correlated to mainstream real estate sectors.

Notwithstanding these characteristics, sentiment towards the Company, as evidenced by the share price discount to net asset value ("NAV"), continues to be primarily affected by uncertainty around leasehold reform and the ongoing Competition and Markets Authority investigation.

The Company's unaudited NAV as at 31 March 2020 was £106.8 million or 110.1 pence per share ("pps"), compared with £108.0 million or 111.3 pps as at 30 September 2019. The independent portfolio valuation as at 31 March 2020 of £122.6 million included a material valuation uncertainty clause as a result of the Covid-19 pandemic and represented a decrease on a like for like basis of £0.36 million or -0.3% compared to the 30 September 2019 valuation.

Strategy

The Company's strategy is focussed on growing net income, demonstrating best-in-class residential asset management and ensuring shareholders' interests are fairly represented in leasehold and regulatory reform.

Whilst ground rent income growth was modest over the period, 43% of leases as a percentage of income are due to be reviewed over the next six years. Actual cash dividend cover was 59% over the period which was negatively impacted by the costs associated with the ongoing litigation at Beetham Tower, the freehold to which is held by the Company's wholly owned subsidiary, North West Ground Rents Limited. Dividend cover ignoring the non-recurring costs associated with Beetham Tower was 90%.

North West Ground Rents Limited is seeking to achieve an acceptable outcome at Beetham Tower that protects shareholders and considers wider stakeholders. Although some progress has been made over the period, litigation continues and the outcome remains highly uncertain. In the event that a suitable outcome cannot be reached, the Board will have to consider whether to continue to provide funding to North West Ground Rents Limited when requested to do so. Further detail can be found within the Investment Manager's Review.

The January 2020 debt refinance was a positive step with a new five-year, £25 million facility with Santander UK plc including a Revolving Credit Facility ("RCF") that provides valuable operational flexibility. The refinancing extends the debt maturity profile and reduces interest costs. The current portfolio level loan to value ratio, net of cash, is 11.4%.

The Company has a stated objective of providing shareholders and consumers with best-in-class residential asset management. Health and safety, specifically fire safety, is fundamental to delivering this objective and we are working to raise standards across our portfolio as well as the wider residential sector by working with Government and other professional investors.

During the period contrasting reports from the Law Commission ("LC") and the CMA concerning leasehold reform and regulatory change contributed to continued uncertainty regarding the sector outlook.

The LC recommendations to Government on enfranchisement in January 2020 were generally positive in promoting a more equitable, transparent system for consumers, whilst considering the interests of all stakeholders in the sector.

However, this was followed in February by the CMA investigation, which highlighted concerns including assured tenancies under the Housing Act 1998 and doubling ground rents. The Company has sought to address these risks through clear, publicly available policies relating to the fair treatment of consumers. The Company will not ordinarily seek possession using the Housing Act 1988 and the 2017 Asset Management plan offers residential leaseholders the opportunity to convert their existing review mechanism to the lesser of inflation, as measured by the Retail Prices Index ("RPI"), or doubling, while retaining their existing review cycle. We will continue to monitor the CMA's ongoing investigation and next steps closely.

The Company and the Investment Manager are committed to working with all interested parties involved in the reform process, including the Government, the LC and the CMA. Given prevailing uncertainty the Board and Investment Manager continue to investigate other complementary real estate assets which provide similar defensive, secure, counter-cyclical, index-linked income characteristics.

Dividend

Two dividends amounting, in total, to 1.98 pps have been paid in respect of the period from 1 October 2019 to 31 December 2019, and 1 January 2020 to 31 March 2020. The Manager is closely monitoring ground rent and service charge arrears which do not currently differ materially from prior years. Future dividends will be reviewed in light of income collection and any Covid-19 related impact on net income.

Responsible and Impact Investment

Responsible and Impact Investment is a priority for the Company and the Manager has a clear strategy on the implementation of ESG and Impact investing. Within the period we have moved to renewable energy in all communal areas, as we prioritise environmental credentials in the portfolio.

Board succession

The Board continues to review its composition against best practice, considering the size of the Company and the desire for orderly succession alongside the UK Corporate Governance code provisions on tenure. In order to achieve orderly succession, a new Director will be identified to take on the role of Chairman of the Company in the next six months, before replacing me when I retire in advance of the Annual General Meeting in 2021.

Outlook

Whilst the outlook for the UK real estate market in light of the Covid-19 pandemic is uncertain, the Company has a diversified portfolio of assets with defensive income characteristics and a strong balance sheet with low gearing.

The near-term outlook for the Company will be influenced by the conclusion of the ongoing reviews by Government, the LC and the CMA. The Board and Investment Manager support reform which addresses historically imbalanced practices and delivers a rational, simplified and transparent leasehold market for all consumers and differentiated and attractive returns to shareholders.

Robert Malcolm Naish
Chairman
3 July 2020

Investment Manager's Review

Focused on long-term shareholder value

The Company's Unaudited Net Asset Value ("NAV") as at 31 March 2020 was £106.8 million or 110.1 pence per share ("pps") compared with £108.0 million or 111.3 pps as at 30 September 2019. This reflected a decrease of 1.2 pps or 1.0%, with the underlying movement in NAV set out in the table below:

	£ million	pps
Audited NAV as at 30 September 2019	**108.0**	**111.3**
Revaluation	(0.4)	(0.3)
Net revenue	1.1	1.1
Dividends paid	(1.9)	(2.0)
Unaudited NAV as at 31 March 2020	**106.8**	**110.1**

The independent portfolio valuation as at 31 March 2020 of £122.6 million represented a very slight decrease in value of £0.3 million or -0.3% compared to 30 September 2019. The like-for-like decrease, adjusting for a small purchase as part of the VITA Group ("VITA") head-lease deal, was £0.4 million or -0.3%. As a result of the Covid-19 pandemic, the independent valuation of the portfolio at 31 March 2020 included an industry-wide statement highlighting material valuation uncertainty, which has subsequently been removed for long dated ground rent valuations.

During the period the Company paid two dividends totalling £1.9 million or 1.98 pps, reflecting dividend cover of 59%. Dividend cover excluding non-recurring costs which include the litigation at Beetham Tower was 90%.

Progress continues to be made delivering on the objectives agreed in the Strategy Review following the Investment Manager's appointment in April 2019. These include:

- Refinancing the Company's £19.5 million term loan with a new five-year, £25.0 million facility comprising a £12.5 million term loan and a £12.5 million Revolving Credit Facility ("RCF").
- Restructuring six head-leases with VITA Group ("VITA") delivering £1.0 million in additional revenues spread over three years.
- Renegotiation of key supplier agreements including with the principal property manager to generate additional net income of approximately £115,000 per annum.
- Continued engagement with Government, the Law Commission (the "LC") and other stakeholders regarding reform of the leasehold sector and building safety.
- Extensive engagement with the parties to the Beetham Tower litigation to deliver a solution in all stakeholders' interests. This included applying for, on NWGR's behalf, and subsequently being granted, planning consent for a more viable repair scheme, which now requires the approval of the Court.

Since the onset of the Covid-19 pandemic our focus has been on the safety and wellbeing of our leaseholders and managing agents, their on-site staff and other stakeholders. Unlike other mainstream real estate sectors ground rent collections have remained in line with pre-Covid-19 rates with 88.5% of rents collected as at 31 May 2020 comparing favourably with 87.9% over the equivalent period in 2019.

This enabled the Company to pay its dividend in May as planned. We will continue to monitor collection processes and performance closely, in line with industry best practice and guidance from The Association of Residential Managing Agents ("ARMA").

Market overview

The UK economy is in recession following the Covid-19 lockdown imposed by the Government on 23 March 2020. Consumer spending and investment has fallen sharply as people stay at home and businesses conserve cash. The Bank of England has cut the base rate to 0.1% and the Government has announced a number of state-guaranteed loans, grants, tax holidays and wage supplements designed to support consumers and employers.

Despite strong demand for annuity-style cash flows, residential ground rent transactional volumes have remained low since 2018 mainly due to the threat of leasehold reform. Asset pricing has reduced over the past two years, as reflected in the Company's NAV.

Clarity from the LC on enfranchisement in January 2020 saw some confidence return to the sector with a number of large-scale portfolios being privately marketed. Several participants continue to be active, with sub-institutional buyers transacting during lockdown, underpinning values and the Company's NAV.

Some institutional investors awaiting the outcome of reform have pivoted into commercial ground rents which have become increasingly popular over the past 24 months, experiencing strong demand from institutional investors seeking long-dated, inflation protected income streams.

In September 2019 the Government responded to the UK Statistics Authority ("UKSA") proposals to either cease publishing RPI or to bring RPI in line with Consumer Prices Including Housing Costs ("CPIH").

A consultation on when and how reform should be made before 2030 has begun and will close on 21 August 2020. Government and UKSA were expected to respond to the consultation before the summer recess, however this is likely to be deferred given the Covid-19 pandemic. The Investment Manager has responded to the consultation in detail and will provide an update on developments on this topic in future.

Portfolio overview

As at 31 March 2020 the portfolio comprised approximately 19,000 ground rent units across approximately 400 assets valued at £122.6 million. The portfolio produces a ground rent income of £4.85 million per annum, reflecting an average years' purchase ("YP") of 25.3 or a gross income yield of 4.0%. The median annual ground rent charge is £110 for houses and £250 for apartments, excluding student accommodation assets.

The portfolio's weighted average lease term as at 31 March 2020 was 343 years, with 93% of the ground rent income subject to upwards only increases. This is analysed in the table below:

Review type	Ground rent income (£000 p.a.)	% of ground rent total	Market value (£ million)	% of market value total
Index-linked	3,425	70.6	90.6	73.8
Doubling	759	15.6	18.5	15.1
Fixed	333	6.9	7.7	6.3
Flat (no review)	335	6.9	5.8	4.8
Total	**4,852**	**100.0**	**122.6**	**100.0**

The rent review profile is shown in the table below:

Years to next review	Ground rent income (%)
0–5	40.2
5–10	24.8
10–15	21.6
15–20	3.8
Over 20	2.7
Flat (no review)	6.9
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 (%)	% of portfolio
Apartments	73.2	250	68.5	66.3
Houses	14.6	110	10.8	10.6
'Residential' subtotal	**87.8**	**250**	**79.3**	**76.9**
Student	10.5	401	17.0	19.2
Commercial	1.7	340	3.7	3.9
Total	**100.0**	**250**	**100.0**	**100.0**

The top 10 assets represent 28.9% of the total portfolio valuation as at 31 March 2020:

Property	Current valuation (£ million)	% of portfolio
The Student Village, York	7.9	6.5
Masshouse Plaza, Birmingham (Hive and H&I)	3.8	3.1
The Gateway, Leeds	3.6	2.9
One Park West, Liverpool	3.4	2.8
Wiltshire Leisure Village, Royal Wootton Bassett	3.3	2.7
Ladywell Point, Manchester	3.3	2.7
Rathbone Market, London	3.0	2.5
First Street, Manchester	2.7	2.2
Richmond House, Southampton	2.4	2.0
Bezier Apartments, London	1.9	1.5
Total	**35.3**	**28.9**

Investment Manager's Review continued

The geographic spread of the portfolio as at 31 March 2020 is shown in the chart below:

Asset location	Portfolio ground rent income (%)	% of portfolio
North East	29.5	29.6
North West	30.3	28.4
Midlands	12.1	13.1
South West	10.4	11.5
London	10.9	10.4
South East	5.4	5.5
Wales	1.4	1.5
Total	**100.0**	**100.0**

Asset management

Doubling rent reviews

To protect residential consumers and preserve the Company's socially responsible aims, the Manager has proactively sought to modify doubling ground rents since its 2017 Asset Management Plan. This offered all residential leaseholders with a doubling rent review of any review cycle a simple deed of variation to amend that review to the lesser of doubling or RPI on the same cycle.

314 out of a possible 2,855 leaseholders have completed the process and a further 114 are in solicitors' hands. The Government's 2019 Public Pledge for Leaseholders extends the Asset Management Plan indefinitely and information relating to this process is available for leaseholders on our website.

VITA Headlease restructure

Between September and November 2019 the Company completed a headlease restructuring of six of the student accommodation assets. The Company entered into new long headleases with VITA, who assumed a direct relationship with 848 underlying tenants and removed the Company's day-to-day repairing and maintenance responsibilities.

The transaction generated £1.0 million in revenues, structured as £0.4 million on completion and two further payments of £0.3 million payable on the first and second anniversaries of the transaction.

Leasehold reform

We continue to engage with the Ministry of Housing, Communities and Local Government ("MHCLG"), the LC, and the Competition and Markets Authority regarding appropriate and considered reform of the residential leasehold sector.

The Investment Manager and the Board welcome the Government's aims to reform and simplify many aspects of residential leasehold legislation and we recognise the need for a system that delivers a more equitable, transparent and better service for homeowners. Any reform should however strike a 'fair balance' and ensure that sufficient compensation is paid to landlords for any resultant loss in value, to be compliant with human rights legislation.

LC – Enfranchisement

The LC published their report on enfranchisement premium valuation in January 2020. The LC was asked by Government to make the process simpler, easier, quicker and cheaper, and reduce the price payable, whilst ensuring sufficient compensation to landlords for their legitimate property interests.

The LC's findings and recommendations were arguably positive for the Company by rejecting arbitrary premium calculation methodologies that could unfairly impact value.

Competition and Markets Authority

In June 2019, the CMA launched an investigation into whether there had been breaches of consumer law in the leasehold housing market. The investigation concerned two key areas:

- Potential mis-selling: whether consumers were mis-sold leasehold homes by some housing developers in the way that information was provided to them during the sales process; and
- Potentially unfair terms: whether leaseholders are subject to unfair contract terms, in particular, with respect to administration charges and ground rents.

The Company has engaged with the CMA during the investigation and responded in detail to a formal information request in December 2019. The CMA published an update report in February 2020 with three of the CMA's six areas of concern specifically relating to ground rent, in particular:

- High initial ground rents that may increase significantly over time;
- High or escalating ground rents that mean a long-lease may become an 'assured tenancy' under the Housing Act 1988; and
- The appropriateness of RPI-linked increases to ground rent.

The CMA is continuing its investigation and has stated that it is preparing to take further action in relation to the areas identified above. The Company has been reviewing the implications of the CMA's latest findings and will continue to closely monitor the CMA's next steps. Our response to the CMA highlighted the following in response to the three points above:

- The portfolio median ground rent is £110 for houses and £250 for apartments, excluding student accommodation, which are considered to be low and generally affordable levels of ground rent. As noted above, the Company has also proactively sought to address issues relating to doubling' ground rent terms;
- The Company has a published policy in place which states that it will not ordinarily seek possession using Schedule 2 of the Housing Act 1988; and
- With regards to the appropriateness of RPI as the relevant ground rent inflator, it is a well-established index commonly used across many investment sectors. As noted above, RPI is itself the subject of a government consultation and potential reform.

Building safety reform

On 20 January 2020, the Secretary of State for Housing, Communities and Local Government, Robert Jenrick, announced new measures to improve building safety standards. The reform will include the creation of a new Building Safety Regulator within the Health and Safety Executive, clarified and consolidated advice for building owners and a consultation on extending the ban on combustible materials to buildings below 18 metres.

The Board and the Investment Manager believe institutional and professional investors have the expertise, resource and experience needed to provide the risk, governance and health and safety oversight, that is required as the housing market implements the finding of Dame Judith Hackitt's Review of Building Regulations and Fire Safety and the recommendations from the enquiry into the Grenfell Tower tragedy.

In addition to the above a new Fire Safety Bill is under consultation. The Bill is expected to result in greater clarity over responsibility for fire safety in buildings, the digitisation of a 'Golden Thread' of essential building documentation and increased enforcement powers in areas such as cladding and building facades, particularly in relation to aluminium composite material ("ACM").

Within the Company's portfolio there is one asset which has ACM cladding, which was identified as part of a detailed audit shortly after the Grenfell Tower tragedy. This asset is currently undergoing remediation by the main contractor, at no financial cost to either the leaseholders in the development or the Company, with completion expected in 2021.

During the period a formal Health and Safety policy has been approved and will be reviewed by the Board no less frequently than annually. The policy is on the Company's website and is further evidence of our commitment to delivering Best in Class residential management across the portfolio.

Property management

Health and safety compliance remains a key focus as we assess our own and suppliers' performance against industry best practice and legislation.

In January 2020 MHCLG published a new building façade advice note ("AN2020") that applies to all buildings, whilst the proposed Fire Safety Bill will likely detail how building owners and responsible persons must mitigate the fire risks from external walls. Surveys based on AN2020 are underway across the managed estate, but subsequent legislation may lead to increased costs to the Company and consumers through increased insurance premiums and service charge costs associated with enhanced risk assessments.

In March 2020, the Government announced a £1 billion Building Safety Fund ("BSF") to remove defective cladding from private sector sites above 18 metres. The Company strongly supports the Government's attempt to address the historical failure of building standards across the United Kingdom, not least as it should reduce the financial impact on consumers. However, the BSF terms need to dovetail with MHCLG's guidance on all buildings, regardless of height, and be sufficient to cover the costs of defective developments nationally.

We continue to engage with the Royal Institution of Chartered Surveyors ("RICS") and MHCLG on this issue to develop policy makers' understanding and implementation strategy. We continue to strive for a Secretary of State backed industry Code of Conduct to implement health and safety requirements, whilst formally regulating residential managing agents.

The Investment Manager continues the process of regular communication to residents, management company directors and managing agents in the non-managed estate, in an attempt to drive standards in the residential management industry and provide support to our leaseholders. Since the onset of the Covid-19 pandemic we have implemented a number of amended processes within the managed estates in conjunction with our managing agents, taking into account best practice guidance from ARMA and the RICS.

We are focussed on delivering industry leading residential management and value to our consumers. We continue to market-test consumer fees against best practice and industry peers, which resulted in a reduction in ancillary income over the period. Over the coming 12 months there will be further incorporation of Environmental, Social and Governance ("ESG") factors within our asset and property management strategy.

Investment Manager's Review continued

Beetham Tower, Manchester

In February 2019, the Company announced the High Court judgement in connection with the case between the Company's wholly-owned subsidiary, North West Ground Rents Limited ("NWGR"), and the hotel leaseholder Blue Manchester Limited ("BML"), regarding the failure of the façade sealant on the Building. The Court found the building to be in disrepair and gave an order for NWGR to carry out permanent remedial works by 31 July 2020.

Since February 2019 NWGR and its team of advisors have prepared for the mobilisation of the Court directed repair. An all-parties mediation took place in November 2019 without a successful conclusion, and therefore NWGR continues to pursue Carillion's insurers and sub-contractors under collateral warranties. The tendered costs for the Court directed solution are over £8.0 million which is potentially financially unviable for NWGR and carrying out these works also risks long term disruption to the hotel and the residents.

Given this significant cost for NWGR and the residential consumers under the terms of their leases, NWGR has explored alternative options to achieve a satisfactory repair solution. NWGR believes there is a more viable alternative scheme at a materially lower cost. Following the submission of a planning application in March 2020, planning permission was secured for the alternative scheme in May. Having obtained support for the alternative scheme from the residents, an application has been made to the Court for permission to amend the timeline for the completion of remedial work, and the repair method to the more viable alternative.

The Board and Schroders believe that NWGR securing both Court and planning approval for the alternative repair solution could benefit all stakeholders by establishing a more deliverable and financially viable repair. BML is challenging the alternative scheme on the basis that it does not return the development to the originally designed state and therefore impacts its visual amenity.

NWGR incurred an additional £0.5 million during the period, increasing total costs to approximately £1.8 million in relation to the judgement and will incur further sums as part of seeking to comply with the remediation timetable and ongoing litigation. A further £0.3 million has been expensed after the period end.

Beetham Tower is held at a fair value of £nil by NWGR, reflecting the inherent uncertainty of the ongoing litigation. NWGR is reliant on the financial support of the Company to fund its working capital requirements, including all legal action and compliance with the current Court directed repair. Further financial support to NWGR will be considered having regard to the prospects of resolving the litigation and the interests of the Company's shareholders.

Responsible and positive impact investment

Responsible Investment is integral to how the Investment Manager manages its investments. Together with the Board, we believe that by understanding and managing the impact of ESG considerations we can generate better long-term returns and tangible benefits for our communities.

The Investment Manager's sustainability programme is continually evolving, reflecting progression with industry sustainability targets, available technologies and the regulatory environment.

There will be an increasing focus on sustainability in the next financial year with our investment and asset management teams incorporating sustainability and impact credentials, within the parameters of residential legislation. This is evidenced by our response to Covid-19, where a core part of protecting the long-term value of our portfolio involves working to support leaseholders, our managing agents and their on-site teams.

In relation to the environment, positive action is needed as the built environment is generally accepted to be responsible for 40% of global carbon emissions. In recognition of the role and responsibilities of the real estate industry and property owners, the Investment Manager signed the Better Buildings Partnership Climate Commitment in September 2019. This initiative supports the drive to net zero carbon emissions from buildings and the first stage of this is to set out our pathway to net zero to 2050 by the end of 2020.

Finance

In January 2020 the Company refinanced its previous £19.5 million loan with Santander UK plc with a new five-year, £25 million facility comprising a £12.5 million term loan and a £12.5 million revolving credit facility ("RCF"). This removed refinancing risk in 2021 and provided a flexible component of the loan to potentially take advantage of opportunities in the market. The table below sets out the new loan terms:

Lender	Facility	Loan drawn (£ million)	Maturity	Interest rate (%)	Loan to Value ("LTV") ratio[1] (%)	LTV ratio covenant[1] (%)	Interest cover ratio (%)[2]	ICR ratio covenant (%)	Forward looking ICR ratio (%)[3]	Forward looking ICR ratio covenant (%)
Santander	Term loan	£12.5 million	Jan 2025	2.65	24.4	50.0	475	270	460	270
	RCF	£3.0 million								

1 Loan balance divided by Santander secured portfolio bank valuation as at 31 March 2020.
2 For the quarter preceding the Interest Payment Date ("IPD"), ((rental income received – void rates, void service charge and void insurance)/interest paid).
3 For the four quarters following the IPD, ((rental income to be received – void rates, void service charge and void insurance)/interest paid).

The interest payable on the term facility is fixed at 2.68% per annum, while the RCF attracts a rate of 1.85% above 3-month LIBOR per annum subject to a cap of 1.0% on £5.5 million of the total £12.5 million. The total 'all-in' interest rate has therefore reduced from 3.37% to approximately 2.80% per annum, generating an interest rate saving of approximately £110,000 per annum (based on the existing drawn funds of £15.5 million, 3-month LIBOR as at 31 March 2020 and including the non-utilisation fee on the undrawn RCF).

Outlook

The Covid-19 pandemic is causing significant disruption to the real economy and mainstream real estate assets are currently experiencing falling income and capital values. Against this uncertain backdrop the Company is benefiting from its defensive income characteristics and total returns that are uncorrelated to the state of the underlying economy. This enabled the Company to pay its full dividend in May.

Whilst we expect real assets offering defensive income characteristics to experience continued strong demand, the prevailing headwinds from Government reform and the ongoing CMA investigation continue to impact sentiment towards the Company. On each matter we continue to actively engage with the relevant parties to ensure the Company's interests are fairly represented in leasehold and regulatory reform.

Whilst our focus remains on the current strategy and mitigating the reform related risks, we continue to review whether the strategy can be adapted to include alternative assets offering complementary defensive, predictable, index-linked income.

James Agar
Fund Manager
Schroder Real Estate Investment Management Limited
3 July 2020

Directors' Report

Principal risks and uncertainties

The principal risks and uncertainties with the Company's business fall into the following risk categories: political, operational, asset, valuation/ liquidity, investment policy and strategy, service provider, custody, cyber, accounting, legal and regulatory.

A detailed explanation of the risks and uncertainties in each of these categories can be found on pages 11 and 12 of the Company's published Annual Report and Consolidated Financial Statements for the year ended 30 September 2019.

These risks and uncertainties have not materially changed during the six months ended 31 March 2020. However, the Board has reviewed the risks related to the Covid-19 pandemic and considers it to be a major event with an ongoing impact on the likelihood and severity of some of the Company's principal risks. Covid-19 is expected to have a profound impact on many sectors of the economy, including large parts of the real estate sector, affecting both asset valuations and collection rates of payments due from tenants and leaseholders. The Board believes that the Company's business model is sufficiently distinguished from other parts of the real estate sector such that the risk of non-collection of rents is much lower and asset values are less likely to be as affected as other parts of the sector. However, these risks are being monitored closely.

The Board notes the Investment Manager's investment process is unaffected by the Covid-19 pandemic. The Investment Manager continues to focus on long-term fundamentals and detailed analysis of current and future investments. Covid-19 also affected the Company's service providers, who have implemented business continuity plans and are working almost entirely remotely. The Board continues to receive regular reporting on operations from the Company's major service providers and does not anticipate a fall in the level of service.

Going concern

The Board has examined significant areas of possible financial risk and has reviewed cash flow forecasts and compliance with the debt covenants, in particular the LTV covenant and interest cover ratio, as set out more fully in note 1 to the financial statements. 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.

The Board has reviewed the impact on the risks as a result of Covid-19, and where appropriate, action taken by the Company's service providers in relation to those risks, and the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge:

– The half year report and condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union; and
– The Interim Management Report includes a fair review of the important events that have occurred during the first six months of the financial year, their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year and any relevant related party transactions.

Robert Malcolm Naish
Chairman
3 July 2020

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 March 2020

	Note	**Unaudited 6 months to 31 March 2020 £**	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
Continuing operations				
Revenue	2	**3,130,679**	2,732,490	5,638,348
Administrative expenses	3	**(1,671,882)**	(1,173,027)	(2,809,134)
Profit on sale of investment properties		**879**	6,500	485,145
Net revaluation loss on investment properties	5	**(358,545)**	(2,606,600)	(4,876,845)
Operating profit/(loss)		**1,101,131**	**(1,040,637)**	**(1,562,486)**
Finance income		**9,239**	12,905	25,903
Finance expenses	4	**(353,144)**	(374,251)	(752,539)
Net finance expense		**(343,905)**	**(361,346)**	**(726,636)**
Profit/(loss) before tax		**757,226**	(1,401,983)	(2,289,122)
Taxation		**–**	–	–
Profit/(loss) after tax and total comprehensive income/(loss)		**757,226**	**(1,401,983)**	**(2,289,122)**
Earnings/(losses) per share				
Basic	8	**0.78p**	(1.45p)	(2.36p)
Diluted	8	**0.78p**	(1.45p)	(2.36p)

The accompanying notes on pages 15 to 22 form an integral part of the unaudited interim condensed consolidated financial statements.

Condensed Consolidated Interim Statement of Financial Position

As at 31 March 2020

	Note	**Unaudited 31 March 2020 £**	Unaudited 31 March 2019 £	Audited 30 September 2019 £
Assets				
Non current assets				
Investment properties	5	**122,635,000**	125,196,000	122,893,000
		122,635,000	125,196,000	122,893,000
Current assets				
Trade and other receivables		**2,558,806**	1,815,586	1,110,402
Interest rate derivative contracts	7	**21,888**	–	–
Cash and cash equivalents		**1,480,366**	5,309,077	6,136,854
		4,061,060	7,124,663	7,247,256
Total assets		**126,696,060**	**132,320,663**	**130,140,256**
Liabilities				
Non current liabilities				
Financial liabilities measured at amortised cost	6	**(14,931,625)**	(19,258,310)	(19,304,928)
		(14,931,625)	(19,258,310)	(19,304,928)
Current liabilities				
Trade and other payables		**(4,942,166)**	(3,209,727)	(2,820,454)
		(4,942,166)	(3,209,727)	(2,820,454)
Total liabilities		**(19,873,791)**	**(22,468,037)**	**(22,125,382)**
Net assets		**106,822,269**	**109,852,626**	**108,014,874**
Financed by:				
Equity				
Share capital	10	**48,503,248**	48,503,198	48,503,248
Share premium account		**–**	45,884,305	45,884,305
Other distributable reserves		**43,934,474**	–	–
Retained earnings		**13,627,321**	16,867,106	15,916,443
Profit/(loss) for the financial year		**757,226**	(1,401,983)	(2,289,122)
Total equity		**106,822,269**	109,852,626	108,014,874
Net asset value per ordinary share				
Basic	9	**110.1p**	113.2p	111.3p
Diluted	9	**109.7p**	112.7p	110.9p

The unaudited financial statements on pages 11 to 22 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Robert Malcolm Naish
Director
3 July 2020

William Edward John Holland
Director

Ground Rents Income Fund plc

Company registered number: 08041022

The accompanying notes on pages 15 to 22 form an integral part of the unaudited interim condensed consolidated financial statements.

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended 31 March 2020

	Note	**Unaudited 6 months to 31 March 2020 £**	Unaudited 6 months to 31 March 2019 £	Audited Year ended 30 September 2019 £
Cash flows from operating activities				
Cash generated from operations	12	**2,146,340**	2,244,532	3,830,532
Interest rate cap purchased		**(50,650)**	–	–
Interest paid on bank loan and bank charges		**(311,452)**	(327,296)	(659,304)
Net cash generated from operating activities		**1,784,238**	**1,917,236**	**3,171,228**
Cash flows from investing activities				
Interest received		**9,215**	12,905	25,903
Receipts from the sale of investment properties		**13,856**	6,500	513,221
Purchase of investment properties		**(96,580)**	(292,800)	(288,121)
Net cash (used in)/generated from investing activities		**(73,509)**	**(273,395)**	**251,003**
Cash flows from financing activities				
Net proceeds of issuance of shares		**–**	–	50
Bank loan payments		**(4,417,387)**	–	–
Dividends paid to shareholders		**(1,949,831)**	(1,901,325)	(2,851,988)
Net cash used in financing activities		**(6,367,218)**	**(1,901,325)**	**(2,851,938)**
Net (decrease)/increase in cash and cash equivalents		**(4,656,488)**	**(257,484)**	**570,293**
Opening cash and cash equivalents		**6,136,854**	**5,566,561**	**5,566,561**
Closing cash and cash equivalents		**1,480,366**	**5,309,077**	**6,136,854**

The accompanying notes on pages 15 to 22 form an integral part of the unaudited interim condensed consolidated financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the period ended 31 March 2020

	Share capital £	Share premium account £	Other distributable reserves £	Retained earnings £	Total £
At 1 October 2018	**48,503,198**	**45,884,305**	**–**	**18,768,431**	**113,155,934**
Comprehensive loss					
Loss for the period	–	–	–	(1,401,983)	(1,401,983)
Total comprehensive loss	**–**	**–**	**–**	**(1,401,983)**	**(1,401,983)**
Transactions with owners					
Dividends paid (note 11)	–	–	–	(1,901,325)	(1,901,325)
At 31 March 2019	**48,503,198**	**45,884,305**	**–**	**15,465,123**	**109,852,626**
Comprehensive loss					
Loss for the period	–	–	–	(887,139)	(887,139)
Total comprehensive loss	**–**	**–**	**–**	**(887,139)**	**(887,139)**
Transactions with owners					
Issue of share capital	50	50	–	–	100
Share issue costs	–	(50)	–	–	(50)
Dividends paid (note 11)	–	–	–	(950,663)	(950,663)
At 30 September 2019	**48,503,248**	**45,884,305**	**–**	**13,627,321**	**108,014,874**
Comprehensive income					
Profit for the period	–	–		757,226	757,226
Total comprehensive income	**–**	**–**	**–**	**757,226**	**757,226**
Transactions with owners					
Share premium account reduction (note 10)	–	(45,884,305)	45,884,305	–	–
Dividends paid (note 11)	–	–	(1,949,831)	–	(1,949,831)
At 31 March 2020	**48,503,248**	**–**	**43,934,474**	**14,384,547**	**106,822,269**

The accompanying notes on pages 15 to 22 form an integral part of the unaudited interim condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 March 2020

1. Significant accounting policies

Ground Rents Income Fund plc (the "Company") is a closed-ended investment company 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 condensed consolidated interim financial statements of the Company for the period ended 31 March 2020 comprise those of the Company and its subsidiaries (together referred to as the "Group"). These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2019 were approved by the Board of Directors on 12 December 2019 and were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union ("EU"). They do not include all the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 September 2019.

The condensed consolidated interim financial statements have been prepared on the basis of the accounting policies set out in the Group's consolidated financial statements for the year ended 30 September 2019 and in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The Group's consolidated financial statements for the year ended 30 September 2019 refer to new Standards and Interpretations, none of which had a material impact on these condensed consolidated interim financial statements.

During the half year, derivative financial assets and liabilities comprise an interest rate cap for hedging purposes (economic hedge). This has been initially recognised at cost and subsequently revalued to fair value, with the revaluation gains or losses immediately recorded in the consolidated statement of comprehensive income.

Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 31 March 2020 and have been prepared under the historical cost convention, as modified by the revaluation of investment properties and derivative financial instruments that have been measured at fair value. The accounting policies have been consistently applied to the results, assets, liabilities and cash flow of the entities included in the condensed consolidated interim financial statements and are consistent with those of the year-end financial report.

Going concern

The Directors have examined significant areas of possible financial risk including: the non-collection of rent as a result of the Covid-19 pandemic; the potential resulting falls in property valuations; and future implications of potential leasehold reform, and have prepared detailed forward-looking cash flow forecasts and third party debt covenant calculations, in particular the loan to value covenant and interest cover ratios.

In January 2020 the Group completed a refinancing activity relating to the facility held with Santander. This £12.5 million fixed rate loan now attracts a total interest rate of 2.68% per annum, compared to a previous 3.37%, resulting in an immediate cash interest saving of £86,000 per annum.

As part of the refinance, the Group also arranged a £12.5 million RCF facility with Santander. As at 31 March 2020, the undrawn capacity was £9.5 million. The RCF is an efficient and flexible source of funding with a margin of 1.85% which can be repaid and redrawn as often as required.

The Directors 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 twelve 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 condensed consolidated interim financial statements.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The most significant estimates made in preparing the condensed consolidated interim financial statements relate to the carrying value of investment properties (as disclosed in note 5), which are stated at fair value. Fair value is inherently subjective because the valuer makes assumptions which may not prove to be accurate. The Group uses external professional valuers to determine the relevant amounts.

In response to the uncertainty caused by Covid-19 the independent property valuer, Savills Advisory Services Limited ("Savills"), issued a material valuation uncertainty clause for the 31 March 2020 valuation of the investment property portfolio. On 27 May 2020, the Group received confirmation from Savills that the clause has now been removed for valuations of its investment property portfolio going forward from that date.

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2020

2. Segmental information

The Group is mainly concerned with the collection of ground rent. The Group 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 2020 £	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
By activity:			
Ground rent income accrued in the period	**2,426,124**	2,390,649	4,796,641
Other income falling due within the period	**704,555**	341,841	841,707
	3,130,679	2,732,490	5,638,348

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.

The Board is the chief operating decision maker and runs the business as one segment.

3. Administrative expenses

	Unaudited 6 months to 31 March 2020 £	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
Directors' salaries	**66,606**	40,711	71,697
Auditors' remuneration	**73,695**	46,509	88,935
Management fees	**542,306**	146,406	562,234
Professional fees	**832,793**	780,588	1,730,289
Insurance	**11,269**	13,478	24,083
Sponsor fees	**20,704**	28,297	55,170
Valuation fees	**16,766**	28,560	95,559
Registrar fees	**36,884**	15,384	27,207
Listing fees	**19,841**	16,449	30,559
Other operating expenses	**51,018**	56,645	123,401
	1,671,882	1,173,027	2,809,134

4. Finance expenses

	Unaudited 6 months to 31 March 2020 £	Unaudited 6 months to 31 March 2019 £	Audited Year ended 30 September 2019 £
Loan interest	**274,059**	327,296	655,099
Amortisation of loan arrangement fees and bank charges	**50,323**	46,955	97,440
Net change in fair value of financial instruments	**28,762**	–	–
	353,144	374,251	752,539

Following the amendment to the loan facility during the period, additional loan arrangement and associated professional fees of £0.25 million have been capitalised and deducted from the total loan amount outstanding. These costs are being amortised over 58 months to January 2025. See note 6 for further details.

5. Investment properties

Fair value	£
At 30 September 2018 (audited)	**127,509,800**
Additions	292,800
Disposals	–
Net loss recognised in statement of comprehensive income	(2,606,600)
At 31 March 2019 (unaudited)	**125,196,000**
Additions	(4,679)
Disposals	(28,076)
Net loss recognised in statement of comprehensive income	(2,270,245)
At 30 September 2019 (audited)	**122,893,000**
Additions	100,800
Disposals	(255)
Net loss recognised in statement of comprehensive income	(358,545)
At 31 March 2020 (unaudited)	**122,635,000**

The Group's investment property was revalued at 31 March 2020 by Savills. The valuer has confirmed to the Directors that the fair value as set out in the valuation report has been primarily derived using comparable recent market transactions on an arm's length basis.

The valuer within Savills is a RICS Registered Valuer. 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 considers external factors such as interest rates and the availability of other fixed rate investments in the market.

Due to the spread of Covid-19 the Group's valuer has included the following 'Material Valuation Uncertainty' clause in its valuation report as at 31 March 2020:

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and most are now in some form of lockdown.

Market activity is being impacted in many sectors and at the valuation date we do not consider that we can rely upon previous market evidence to fully inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market we recommend that you keep the valuation of this portfolio under frequent review."

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2020

5. Investment properties continued

On 27 May 2020, the Group received confirmation from Savills that the clause has now been removed for valuations of its investment property portfolio going forward from that date.

The properties have been valued individually and not as part of a portfolio.

All investment properties are categorised as Level 3 fair values as they use significant unobservable inputs. There have not been any transfers between levels during the period.

6. Financial liabilities measured at amortised cost

	Unaudited 31 March 2020 £	Unaudited 31 March 2019 £	Audited 30 September 2019 £
Borrowings repayable over one year	**15,500,000**	19,500,000	19,500,000
Capitalised loan arrangement fees net of amortisation	**(568,375)**	(241,690)	(195,072)
	14,931,625	19,258,310	19,304,928

On 10 January 2020, the existing loan facility with Santander UK plc was amended and split into two facilities totalling £25 million.

Of the total amount drawn £12.5 million is held as a term loan and matures on 10 January 2025 and carries a fixed interest rate of 2.68% payable quarterly.

The remaining £3 million held within a coterminous £12.5 million Revolving Cash Facility ("RCF") carries an interest rate of 1.85% plus LIBOR three months per annum payable quarterly.

An additional fixed fee of 0.74% per annum is payable on amounts undrawn under the RCF.

The facility was subject to a £0.25 million arrangement fee which is being amortised over the period of the loan.

The lender has charges over investment property owned by the Group with a value of £63.6 million. A pledge of all shares in the borrowing Group company and loan obligor companies is in place.

As at 31 March 2020, 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, 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 combined amended facility has a loan-to-value ("LTV") covenant of 50% and interest cover covenant of 270%. The Group was in full compliance with the covenants throughout the period. As at 31 March 2020 the actual LTV over secured assets was 24.4% with headroom of £32.6 million and interest cover was 474.8% with headroom of £0.8 million.

7. Derivative financial instruments

The Company has an interest rate cap in place purchased for £50,650 from Banco Santander SA on 17 February 2020 in connection to the £12.5 million RCF drawn from Santander UK plc with a maturity date of 10 January 2025. The cap interest rate is 1.00% with a floating rate option being LIBOR three months. In line with IFRS 9 this derivative is reported in the financial statements at its fair value. As at 31 March 2020 the fair value of the interest cap was £21,888 reflecting a decline in the interest rate curve since the interest rate cap was purchased.

8. Basic and diluted earnings/(losses) per share

Basic earnings/(losses) per share

Earnings/(losses) used to calculate earnings/(losses) per share in the financial statements were:

	Unaudited 31 March 2020 £	Unaudited 31 March 2019 £	Audited 30 September 2019 £
Earnings/(losses) attributable to equity shareholders of the Company	**757,226**	(1,401,983)	(2,289,122)

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

Weighted average number of shares – basic	**97,006,497**	97,006,397	97,006,402
Basic earnings/(losses) per share	**0.78p**	(1.45p)	(2.36p)

Diluted earnings/(losses) per share

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

	Unaudited 31 March 2020 £	Unaudited 31 March 2019 £	Audited 30 September 2019 £
Earnings/(losses) attributable to equity shareholders of the Company	**757,226**	(1,401,983)	(2,289,122)
	Number	Number	Number
Weighted average number of shares – basic	**97,006,497**	96,006,397	97,006,402
Potential dilutive effect of warrants	**–**	–	–
Diluted total shares	**97,006,497**	97,006,397	97,006,402
Diluted earnings/(losses) per share	**0.78p**	(1.45p)	(2.36p)

9. Net asset value per ordinary share

The NAV per ordinary share represents the total NAV of the Company divided by the number of ordinary shares in issue at the period end. The diluted NAV per ordinary share is calculated after assuming the exercise of all outstanding warrants.

	Unaudited 31 March 2020 £	Unaudited 31 March 2019 £	Audited 30 September 2019 £
Net assets	**106,822,269**	109,852,626	108,014,874
	Number	Number	Number
Number of ordinary shares in issue	**97,006,497**	97,006,397	97,006,497
Outstanding warrants in issue	**4,423,876**	4,423,976	4,423,876
Diluted number of shares in issue	**101,430,373**	101,430,373	101,430,373
NAV per ordinary share – basic	**110.1p**	113.2p	111.3p
NAV per ordinary share – diluted	**109.7p**	112.7p	110.9p

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2020

10. Share capital

		Unaudited 31 March 2020	Unaudited 31 March 2019	Audited 30 September 2019
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	Number	**97,006,497**	97,006,397	97,006,497
	Amount £	**48,503,248**	48,503,198	48,503,248
Shares issued during the period:				
Ordinary shares of £0.50 each	Number	**–**	–	100
	Amount £	**–**	–	50

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 million.

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. 100 warrants were exercised and issued in September 2019. At 31 March 2020 there were 4,423,876 warrants in issue.

On 8 November 2019 a reduction of share premium of £45,884,305 was approved. Further details can be found in the year-end financial report.

11. Dividends

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

	Unaudited 6 months to 31 March 2020 £	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
Dividends declared by the Company during the period:			
Dividends paid	**1,949,831**	1,901,325	2,851,988
Analysis of dividends by type:			
Interim PID dividend of 0.98p per share	**–**	950,662	950,662
Interim PID dividend of 0.98p per share	**–**	950,663	950,663
Interim PID dividend of 0.98p per share	**–**	–	950,663
Interim PID dividend of 1.02p per share	**989,467**	–	–
Interim PID dividend of 0.99p per share	**960,364**	–	–
	1,949,831	1,901,325	2,851,988

Since the period ended 31 March 2020, the Company announced an interim PID dividend of 0.99p per share (£960,364), with an ex-dividend date of 7 May 2020. It was paid on 29 May 2020 to shareholders on the register as at 11 May 2020.

12. Cash generated from operations

	Unaudited 6 months to 31 March 2020 £	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
Reconciliation of profit before tax to cash generated from operations			
Profit/(loss) before tax	**757,226**	(1,401,983)	(2,289,122)
Adjustments for:			
Net revaluation loss on investment properties	**358,545**	2,606,600	4,876,845
Movement in fair value of derivative interest rate contracts	**28,762**	–	–
Profit on sale of investment properties	**(879)**	(6,500)	(485,145)
Net finance expenses excluding movement in fair value of derivative interest rate contacts	**315,143**	361,346	726,636
Operating cash flows before movements in working capital	**1,458,797**	1,559,463	2,829,214
Movements in working capital:			
(Increase)/decrease in trade and other receivables	**(1,448,405)**	79,685	784,869
Increase in trade and other payables	**2,135,948**	605,384	216,449
Cash generated from operations	**2,146,340**	2,244,532	3,830,532

13. Related party transactions

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

During the six months to 31 March 2019, Brooks Macdonald Funds Limited ("BMF") provided investment management and administration services to the Group as the Alternative Investment Fund Manager ("AIFM"), the fees for which were 0.55% per annum of the market capitalisation of the Group. In addition, BMF was entitled to an agency fee of 2% of the purchase price of any property acquired by the Group, 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.

Transactions between BMF and the Group during the financial period were as follows:

	Unaudited 6 months to 31 March 2020 £	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
AIFM fee payable to BMF	**–**	181,518	208,039
Other amounts payable to BMF	**–**	14,252	42,165
Directors fees payable to BMF	**–**	12,000	14,000
	–	207,770	264,204

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

Transactions between Schroders and the Company during the financial period were as follows:

	Unaudited 6 months to 31 March 2020 £	Unaudited 6 months to 31 March 2019 £	Audited year ended 30 September 2019 £
AIFM fee payable to Schroders	**542,306**	–	132,726
	542,306	–	132,726

Notes to the Condensed Consolidated Financial Statements continued

For the six months ended 31 March 2020

14. Other financial commitments and contingencies

The Group has a number of investment property acquisitions in the pipeline. At 31 March 2020, the Group had £0.2 million of cash held at solicitors for acquisitions which were in progress to complete. The transactions are expected to cost £2.5 million to complete.

Damages associated with the previously disclosed judgement against North West Ground Rents Limited ("NWGR"), a wholly owned subsidiary of the Company, are still to be determined by the High Court at a future date. In line with IAS37 – 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 in connection with a remedial solution for Beetham Tower, Manchester, from both leaseholders and third-party contractors, and any potential damages, are subject to an 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).

NWGR continues to be reliant on the financial support of the Company to finance further legal action and to comply with the judgement. 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 incur reasonable associated professional fees.

15. Events after the period end date

On 27 April 2020 an amount of £4 million was drawn down on the Santander RCF facility and is being held in a deposit account.

In June 2020, NWGR received the approval of the High Court to continue its application for an alternative remedial solution at Beetham Tower, Manchester, that can satisfy its responsibilities under the High Court judgement from January 2019. This followed the successful planning application for, and subsequent approval granted from Manchester City Council for the alternative remedial solution. Representatives of NWGR are due to attend an evidence-based Court hearing in September 2020, at which they will present NWGR's case for the alternative solution.

Glossary

Alternative performance measure ("APM")	alternative performance measure.
Annualised dividend yield	being the dividend paid during the period annualised and expressed as a percentage of the period end share price.
Articles	means the Company's Articles of Association, as amended from time to time.
Company	is Ground Rents Income Fund plc.
Directors	means the Directors of the Company as at the date of this document and 'director' means any one of them.
Earnings per share ("EPS")	is the profit after taxation divided by the weighted average number of shares in issue during the period. Diluted and Adjusted EPS are derived as set out under NAV.
FCA	is the UK Financial Conduct Authority.
Gearing	is the Group's net debt as a percentage of adjusted 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.
Market Abuse Regulation	means regulation (EU) No.596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.
Net Asset Value ("NAV")	is shareholders' funds divided by the number of shares in issue at the period end.
NAV total return	is calculated taking into account both capital returns and income returns in the form of dividends paid to shareholders.
Net rental income	is the rental income receivable in the period 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.
REIT	is Real Estate Investment Trust.
Reversionary yield	is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Corporate Information

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ISIN: GB00B715WG26
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Ticker (LSE SETSQX): GRIO
Ticker (TISE): GRI

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

Global Intermediary Identification Number (GIIN):
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Legal Entity Identifier (LEI):
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