

Registered number
8041022

Ground Rents Income Fund plc
Annual Report and Financial Statements
for the year ended 30 September 2016

Ground Rents Income Fund plc
Consolidated Financial Statements
Contents

	Page
Company Information	1
Chairman's Statement	2
Strategic Report	3
Directors' Report	11
Independent Auditors' Report to the members of Ground Rents Income Fund plc	14
Consolidated Income Statement	16
Consolidated Statement of Financial Position	17
Consolidated Statement of Cash Flows	18
Consolidated Statement of Changes in Equity	19
Notes to the Consolidated Financial Statements	20
Independent Auditors' Report to the members of Ground Rents Income Fund plc	37
Company Statement of Financial Position	39
Company Statement of Cash Flows	40
Company Statement of Changes in Equity	41
Notes to the Company Financial Statements	42

Ground Rents Income Fund plc
Company Information

Directors

Robert Malcolm Naish - Chairman
Paul Anthony Craig
Simon Paul Wombwell

Company Secretary

William Martin Robinson

Independent Auditors

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Chartered Accountants and Statutory Auditors
101 Barbirolli Square
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Registrars

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Broker

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Registered office

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Registered number

8041022

Ground Rents Income Fund plc Chairman's Statement

I am pleased to present the annual report and financial statements of Ground Rents Income Fund plc (GRIF) for the year ended 30 September 2016.

The Group has completed purchases with a total cost of £3.7m during the year and is now fully invested. However, the Directors continue to look for suitable acquisitions and have a pipeline of purchases committed by way of the exchange of contracts or option agreements amounting to approximately £9m which are expected to complete in the current financial year. These acquisitions will be financed from the Group's cash resources which are derived from short-term loans drawn down during the year. Further acquisitions amounting to £10m are being negotiated and the Group will utilise its extended loan facilities to finance those acquisitions, together with existing cash resources.

In the year ended 30 September 2016, the Company achieved profits attributable to ordinary shareholders of £20.2m (year ended 30 September 2015: £12.5m) and paid dividends of 3.959 pence per share (year ended 30 September 2015: 3.538 pence per share), a gross yield of 3.96%, based on the weighted average issue price of the shares.

The market for ground rent investments is buoyant and values have increased significantly over the last 24 months. The upper end of the market is dominated by only a handful of buyers who have the liquidity to purchase large (£1m plus) portfolios quickly. This results in sellers being able to approach a small group of investors without having to go to the market more widely.

We have seen pricing move up significantly with RPI reviewable rents being particularly in demand. The more traditional 25 year reviews with rents doubling have also seen a significant yield shift from around 6% in March 2012 to around 3.5% today. The valuation of the Company's portfolio has increased from £104.2m at 30 September 2015 to £125.7m at 30 September 2016. After taking account of the cost of acquisitions during the year, the increase in valuation of the assets held at 1 October 2015 was £16.9m, an increase of 16% during the year. The increase in valuation across the full portfolio including new additions was £16.9m and offset against this were acquisition costs of £314k to give a net revaluation gain on the whole portfolio of £16.6m in the year.

The Net Asset Value (NAV) per share at 30 September 2016 was 131.83p (2015: 114.28p), an increase of 15.3%. The diluted NAV per share at 30 September 2016 was 129.31p (2015: 113.09p) taking into account the potential dilutive impact of outstanding warrants.

The Directors believe the future prospects for the Group are positive. The trend of increasing market values coupled with a growing income each year, it is hoped, will have the intended effect of a growing net asset value.

It is customary for the Chairman to thank all of the employees for their hard work during the year, but this company has no employees, other than the Directors. My thanks, therefore, go to all the Group's advisers who have helped us to find suitable acquisitions, collected our income and provided all the administrative support needed to manage a company like ours.



Robert Malcolm Naish
Chairman
30 November 2016

Ground Rents Income Fund plc Strategic Report

The Directors present their Strategic Report on the Group for the year ended 30 September 2016.

Review of the business

Ground Rents Income Fund plc is a closed-ended real estate investment trust (REIT) incorporated in England and Wales on 23 April 2012, and tax resident in the United Kingdom. The Company's ordinary shares and warrants were admitted to the Official List of the Channel Islands Securities Exchange (CISE) (formerly the Channel Islands Stock Exchange (CISX)) and to trading on the SETSqx platform of the London Stock Exchange in August 2012.

The Company, together with its subsidiaries (the Group), operates a property investment and rental business. The Group invests in a diversified portfolio of ground rents.

A ground rent is the rent paid by the lessee of a property to the freeholder or a head leaseholder of the property. It represents the underlying interest in property, which is subject to a lease for a period of time usually between 99 and 999 years. Individual amounts payable as ground rents are usually nominal annual sums. Ground rents produce a secure, stable, low risk and long term income.

The Group's portfolio of ground rents includes freeholds and head leaseholds of well located residential, retail and commercial properties located in the United Kingdom. The Group generates income primarily from the collection of such ground rents. It generates additional income from sources such as commissions on insurance policies.

The Company raised gross proceeds of approximately £48.2 million at IPO, on admission to CISE and to trading on SETSqx, through a placing and offer for subscription of ordinary shares.

In May 2013, the Company raised an additional £38.5 million, before expenses, by way of a placing of convertible preference shares. These shares were converted into ordinary shares in June 2014.

In August 2013, the exercise of warrants resulted in the issue of a further 1.184 million ordinary shares at £1.00 per share. No warrants were exercised in the year ended 30 September 2014.

In January 2015, the Company raised an additional £9.0 million, before expenses, by way of a placing of ordinary shares at £1.07 per share.

In August 2015, 158,600 warrants were exercised resulting in the issue of 158,600 ordinary shares in October 2015. In September 2016, 277,700 warrants were exercised resulting in the issue of 277,700 ordinary shares, also in September 2016.

Investment strategy

The Group has acquired and intends to continue to acquire portfolios of ground rents. These interests have and will have a pre-determined long-term income stream from the lease and, ultimately, when the lease comes to an end, a reversionary value.

The Group may also exploit other investment opportunities which provide the Group with ground rent income, but may not have the right to a reversionary value such as long dated head leases. Collection of ground rents, as well as income from additional sources such as commissions on insurance premiums, is expected to provide predictable income streams.

Ground Rents Income Fund plc Strategic Report (continued)

Investment strategy (continued)

The freehold interest in a ground rent is usually valued on a multiple of the ground rent receivable; the lower the multiple the higher the yield. The multiples paid vary according to a number of factors, including the amount and timing of any contractual future increases in the ground rent, market sentiment, and the unexpired period of any leases.

At 30 September 2016, the portfolio of ground rents was generally valued on multiples of between 17 and 40, which equate to gross yields of between 5.9% and 2.5%.

Values also reflect the quality of the income and the rent review profile. Ground rents that are flat and therefore have no reviews are the least desirable and produce the highest yields. At the other end of the scale are ground rents that are subject to frequent rent reviews that provide regular uplifts in the income stream. The most attractive of those investments are currently those linked to the Retail Price Index (RPI), or those that have imminent rent reviews.

Ground rents acquired

The prime focus of the Directors since admission to CISE has been the investment of the proceeds of the share issues.

As at 30 September 2016, the total net assets of the Group were £123.1 million (2015: £106.2 million), of which £125.7 million (2015: £104.2 million) was represented by investments in ground rents.

Acquisitions in the year ended 30 September 2016 include:

Fixed uplift portfolio

A new development of 123 apartments located in Canning Town, London, producing ground rent of £37k which represents an initial yield of 3.45%.

RPI linked portfolio

A number of RPI-linked assets comprising of the following:

A new residential six storey block of 83 flats and 14 townhouses in Salford, a new residential three storey block of 66 apartments in Wakefield; two apartment blocks located in Reading, comprising 184 apartments; a mixed use long leasehold development in Warwickshire, comprising of 14 residential apartments and 2 commercial units; a mixed use freehold development in Cheshire, comprising of 8 residential apartments and 2 commercial units; the second phase of a portfolio of residential houses across 4 sites, the first phase of the portfolio having completed in the year to September 2015.

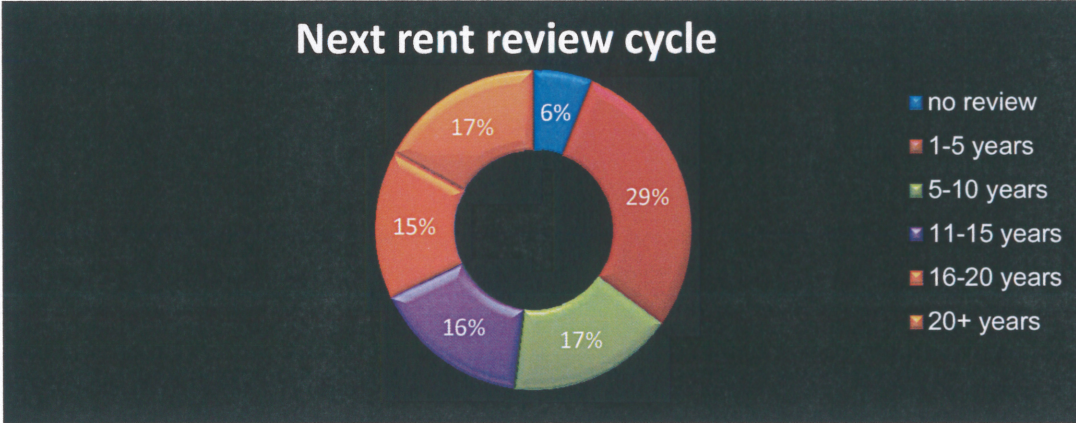
These assets are mostly linked to RPI with reviews ranging from 5 to 25 years, generating a combined ground rent of £0.68m, representing initial yields ranging from 2.85% to 3.70%.

Most ground rents are subject to pre-determined rent reviews, which are documented in each lease granted by the freeholder or head leaseholder. Increases are linked to a variety of measures: they may be indexed to factors such as RPI, they may be subject to a periodic doubling or subject to fixed sum increases. The review cycles vary between annual and 50 years, although most are 20 years or less. The principal driver of movements in the valuation of a ground rent investment tends to be variations in yields, until the final few years before a review date.

**Ground Rents Income Fund plc
Strategic Report (continued)**

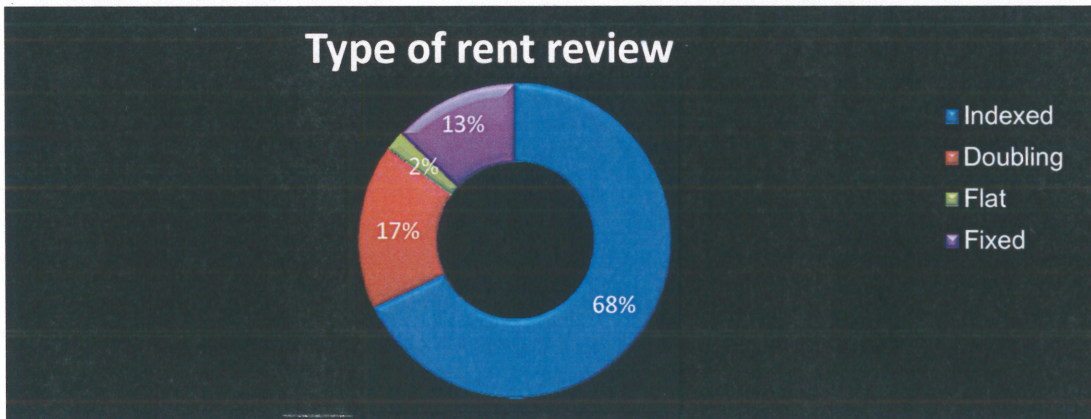
Portfolio characteristics

The chart below shows the period of time before the next review date for the ground rents in the portfolio at 30 September 2016:



The chart demonstrates that 29% of the portfolio will be subject to a rent review within the next 5 years. Typically, the impact of a forthcoming rent review is recognised in the valuation over the 3 years leading up to the review date.

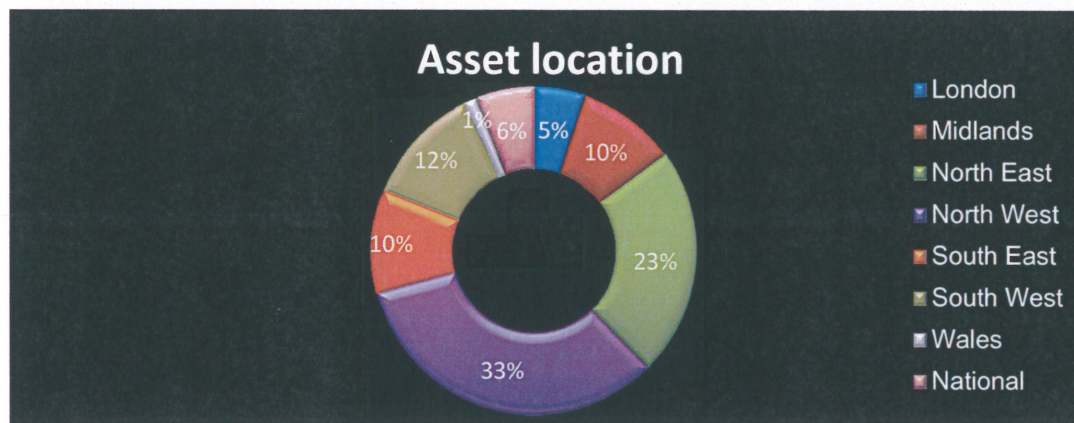
The chart below shows the type of rent review in the portfolio at 30 September 2016:



Ground Rents Income Fund plc Strategic Report (continued)

68% of the portfolio is directly linked to an inflation based index. The doubling and fixed rate increases also provide an inflation hedge for the portfolio, and it is possible that such increases could be at rates in excess of inflation depending on economic conditions over the review cycle.

The geographic spread of the portfolio at 30 September 2016 is shown in the chart below:



Key performance indicators

Many of the Key Performance Indicators are linked to the appraisal of acquisition opportunities and the amount of cash available for investment.

In order to ensure that the Group has identified investments which are appropriate for the Group and which will allow the Directors to achieve the strategic aims of the Group, the Directors consider the following factors when reviewing acquisition opportunities:

- Acquisition cost as a multiple of ground rent income, from which gross yield is imputed
- Potential for additional income streams
- Type of rent review
- Rent review cycle
- Number of years before next rent review
- Location
- Value relative to total portfolio

These factors are considered on an ad hoc basis at meetings of the Directors when acquisition opportunities are considered for approval.

Ground Rents Income Fund plc Strategic Report (continued)

Key performance indicators (continued)

As at 30 September 2016, the Group had invested all of the net proceeds of the issue of the ordinary shares and the preference shares.

In order to monitor the performance of the Group against its stated income and capital growth objectives and its tax status, the Directors consider the following KPIs:

- Dividend yield
- Portfolio valuation
- Compliance with REIT rules

These KPIs are reported on and considered at the quarterly Directors' meetings. The Directors review analysis of the portfolio valuation and composition with reference to geographical location and timing of rent reviews.

In the year ended 30 September 2016, the dividend yield on the ordinary shares was 3.96% (year ended 30 September 2015: 3.57%) on the weighted average issue price.

The Directors cannot set a target figure for the portfolio valuation as it is influenced by external factors which are not under the control of the Directors. However, the Directors prepare forecasts and consider the characteristics of each investment opportunity carefully before deciding on an appropriate offer as well as seeking independent confirmation of the value prior to purchase.

The Directors review each of the REIT criteria and monitor compliance on a quarterly basis. If there were any indicators that the Group would cease to comply with the REIT regime, the Directors would ensure that appropriate steps were taken to ensure compliance. There has been no non-compliance noted during these reviews.

Principal risks and uncertainties

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

Market risk

Sufficient acquisition opportunities

The UK market for ground rents is finite and competitive, which may result in the Directors being unable to source sufficient, suitable investment opportunities at appropriate prices to enable the Group to become fully invested when they have surplus cash to invest. The Directors have engaged the investment manager to identify and negotiate acquisitions on their behalf. Although the Group is presently fully invested, the investment adviser has a pipeline of opportunities, which are reported to the Directors on a regular basis. The merits of each opportunity are considered by the Directors, together with the availability of cash resources to complete an acquisition.

Ground Rents Income Fund plc
Strategic Report (continued)

Principal risks and uncertainties (continued)

Investment risk

The Directors are conscious that new investments must achieve the target return of the portfolio. An investment with a lower return profile would be detrimental to the performance of the portfolio as a whole. The Group models the potential returns from its pipeline of investment opportunities to ensure that any ground rents purchased will generate returns which are in line with the desired return level for the portfolio.

Investment performance

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

The valuations of ground rents can go down as well as up. Valuations are linked to multiples of the ground rent payable. The ground rents payable are subject to pre-determined, contractual review dates and amounts. The multiples vary according to market sentiment, the nature of the rent review and the time until the next rent review.

EU Referendum (Brexit)

As uncertainty continues to surround the implications to the EU Referendum result, the Directors believe GRIF offers investors protection within the current volatile economic environment, as within its ground rent portfolio the income is upwards only and the majority of which are index-linked.

Cashflow risk

Availability of equity and/or debt

The Company has a finite amount of cash available for investment in ground rents. It has forward commitments to complete transactions for which it has exchanged contracts and may in future take an option to acquire ground rents on property which has yet to be constructed. If it has insufficient cash from its existing resources to be able to meet such capital obligations as they fall due, as a result of making further acquisitions, the Company will need to seek additional equity and/or debt. Such equity and/or debt may not be available on terms which are acceptable to the Directors, in which case any deposit or option payment made could be lost.

At the date of the statement of financial position, the Group had a short term debt facility of £8m, expiring on 30 December 2016, all of which was drawn down. Since the date of the statement of financial position the Directors have extended the facility for up to a further five years and increased the debt facility to £19.5m. The Directors therefore continue to prepare the financial statements on a going concern basis.

The Directors monitor the cash flow projections on a regular basis, which allows them to ensure that the Company does not commit to acquisitions which it is unable to finance. The pipeline of acquisitions and schedule of known commitments identifies the capital requirements in good time for the Directors to consider the options available to them to finance those acquisitions before a binding commitment is made.

Ground Rents Income Fund plc
Strategic Report (continued)

Principal risks and uncertainties (continued)

Liquidity risk

Liquidity risk

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

Credit risk

Cash deposits are placed with a number of financial institutions whose financial strength has been considered by the Directors based on advice received from the investment manager. The panel of suitable counterparties is subject to regular review by the board and its advisers.

Interest rate risk

The Group has some short-term external borrowings, the interest rate for which is fixed for the term of the loan.

The Company places excess cash of the Group on deposit in interest bearing accounts to maximise returns.

Operational risks

REIT rules

The Company must remain compliant with the REIT rules in order to take advantage of the potential efficiencies in its tax affairs, including exemption from UK corporation tax on profits and gains from its UK property rental business. The Directors receive a quarterly report on the Company's compliance with the REIT rules and take independent tax advice on the conduct of its business to ensure that it remains compliant with the REIT regime.

Dependence on the investment advice, key individuals and relationships

The Company's ability to achieve its investment objective is substantively dependent on the performance of the investment manager and other key individuals in identification of suitable acquisitions and disposals and the management of such investments. Failure by these people to provide appropriate advice and support to the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

Allocation of dividend type

The Company's property profits are payable as Property Income Distributions (PIDs) and are paid gross, whereas its non-property income is paid as an ordinary dividend and is subject to the deduction of basic rate income tax. The Directors must ensure profits are correctly allocated and distributions are made to ensure the Group operates within the rules of the REIT regime.

Insurance risk

The Company has an insurable interest in the majority of the ground rents in its portfolio. If a property were to suffer an uninsured loss, due to a failure to insure a building or if a building was insured for an inadequate reinstatement value, the Company would incur costs to reinstate the property.

The Directors seek independent confirmation of reinstatement values prior to acquiring a property and ensure that the insurance cover is adequate. The reinstatement values are confirmed on a three year cycle.

Ground Rents Income Fund plc
Strategic Report (continued)

Future developments

The Directors continue to seek suitable ground rent acquisitions despite having now achieved full investment. The Directors intend to finance such acquisitions from the Group's existing cash resources. At the date of the statement of financial position, the short-term facility was in place till December 2016. Since the date of the statement of financial position the Directors have extended the facility for up to a further five years whilst increasing the overall facility to £19.5m.

The Directors intend to be highly selective in making any acquisitions. The Directors may also consider the disposal of certain assets should suitable opportunities arise for sale and reinvestment which would enhance shareholder value.

The dividend yield for the year ended 30 September 2016, based on the weighted average issue price of shares in issue during the year, was approximately 3.96%. Now that the Group is fully invested, the Directors expect the yield on the issue price of the Group's equity to increase to approximately 4.0% for the year ended 30 September 2017.

The market for ground rents has remained strong since the year end. Any further movements in valuation will be reflected in the next independent valuation, which will be performed by Savills as at 31 March 2017.

Alternative investment fund management (AIFM)

In light of the additional leverage secured by the Group and the intention of the Directors to utilise this to grow the Group's assets under management, it no longer qualifies as a small registered AIFM (the relevant threshold of assets under management being €100 million where leverage is used). The Group would need to be managed by a full scope AIFM under the AIFM Directive (AIFMD). Accordingly, the Directors would be required to appoint an AIFM in such circumstances, in order to comply with AIFMD.

Since the year end date, the Directors have appointed the investment manager, Brooks Macdonald Funds Limited, which is regulated by the Financial Conduct Authority (FCA), as a full scope AIFM.

On behalf of the board:



Simon Paul Wombwell
Director
30 November 2016

Ground Rents Income Fund plc
Registered number: 8041022
Directors' Report

The Directors present herewith their report, together with the audited consolidated financial statements for the Group and Company for the year ended 30 September 2016.

Group overview

The Company was admitted to listing on the CISE and admitted to trading on the SETSqx platform of the London Stock Exchange in August 2012.

In August 2012 the Company raised approximately £48.2 million through a placing and offer for subscription of Ordinary Shares with Warrants attached on a one for five basis. In May 2013 the Company raised an additional £38.5 million by way of a placing of Convertible Preference Shares.

In August 2013, the Company issued 1,183,798 ordinary shares following the exercise of warrants by warrant holders.

In May 2014 the Convertible Preference Shares were converted to Ordinary Shares.

Resolutions were passed at the annual general meeting on 20 January 2015 to issue up to a further 10% of share capital resulting in 8,451,428 shares being issued at £1.07 in the period to 31 March 2015.

Two issues of ordinary shares were made this year following the exercise of warrants by warrant holders: 158,600 in October 2015 and a further 277,700 in September 2016.

Principal activities

The Company, together with its subsidiaries (together, the Group), operates a property investment and rental business. The group generates its revenues from the collection of ground rents and ancillary income from freeholds and head leases.

Following application by the company on 14th August 2012, the Group operates as a UK REIT (Real Estate Investment Trust).

Results and dividends

The profit before taxation for the year ended 30 September 2016 was £20.2m (2015: £12.4m) and the profit for the year ended 30 September 2016 after taxation was also £20.2m (2015: £12.5m).

The stated policy of the Company is to pay quarterly interim dividends.
The dividend amounts which have been paid in the year are as follows:

- Interim PID dividend of 0.952p per share for the period to 31 December 2015
- Interim PID dividend of 0.9646p per share for the period to 31 March 2016
- Interim PID dividend of 1.0187p per share for the period to 30 June 2016
- Interim PID dividend of 1.0232p per share to the period to 30 September 2016

This results in total dividends of 3.959p per ordinary share for the year ended 30 September 2016 (2015: 3.538p). These dividends amount to £3,686,328 for the year ended 30 September 2016 (2015: £3,217,543). In accordance with the Directors' policy of paying all dividends as interim dividends, the Directors do not recommend payment of a final dividend.

Listing requirements

Throughout the accounting year ended 30 September 2016, the Group complied with the conditions set out in the CISE Rules for Companies. The Directors monitor the compliance at board meetings and take advice from the Group's CISE Listing sponsor where required.

Ground Rents Income Fund plc
Registered number: 8041022
Directors' Report

Directors' Report (continued)

Directors

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

Robert Malcolm Naish
Paul Anthony Craig
Simon Paul Wombwell

Third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors. These provisions were in force during the year and these remain in force at the date of this report.

Substantial shareholdings

At the quarterly board meetings, the Directors review the report of composition of shareholders provided by the brokers, to ensure compliance with the REIT rules (not be a close company).

Political donations

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

Financial instruments

Details of the Group's use of financial instruments, together with information on policies and exposure to risk, can be found on pages 7-9 and in note 12 of the notes to the Group consolidated financial statements. This information is incorporated into this Directors' Report by reference and is deemed to form part of this Directors' Report.

Events after the reporting period

In the period since the date of the accounts, the Group has invested or contracted to invest in Ground Rent assets totalling £8.7 million (note 22) (2015: £1.3m). The Group has also extended its short term debt facility from £8m to £19.5m for up to a further five years.

Going concern

At the date of the statement of financial position, the Group had a short term debt facility of £8m, expiring on 30 December 2016, all of which was drawn down. Since the date of the statement of financial position the Directors have extended the facility for up to a further five years and increased the debt facility to £19.5m. The Directors therefore continue to prepare the financial statements on a going concern basis.

Future developments

An indication of likely future developments in the Group can be found on page 10. This information is incorporated into this Directors' Report by reference and is deemed to form part of this Directors' Report.

Ground Rents Income Fund plc
Registered number: 8041022
Directors' Report

Directors' Report (continued)

Directors' responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the next Annual General Meeting.

Each person who was a director at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the board on 30 November 2016 and signed on its behalf by:



Simon Paul Wombwell
Director

Ground Rents Income Fund plc
Independent auditors' report
to the members of Ground Rents Income Fund plc

Report on the Group financial statements

Our opinion

In our opinion, Ground Rents Income Fund plc's group financial statements (the financial statements):

- give a true and fair view of the state of the group's affairs as at 30 September 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Consolidated Statement of Financial Position as at 30 September 2016;
- the Consolidated Income Statement for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the Consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Ground Rents Income Fund plc
Independent auditors' report
to the members of Ground Rents Income Fund plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of Ground Rents Income Fund plc for the year ended 30 September 2016.



Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
30 November 2016

Ground Rents Income Fund plc
Consolidated Income Statement
for the year ended 30 September 2016

	Note	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Continuing operations			
Revenue	2	4,759,385	4,173,523
Administrative expenses	3	(1,065,301)	(879,599)
Profit on sale of ground rent assets		158,502	73,005
Net revaluation gain on investment properties	8	16,617,598	9,186,057
Operating profit		<u>20,470,184</u>	<u>12,552,986</u>
Finance income	5	23,306	52,163
Finance costs	6	(329,372)	(167,946)
Net finance expense		<u>(306,066)</u>	<u>(115,783)</u>
Profit before income tax		<u>20,164,118</u>	<u>12,437,203</u>
Income tax credit	7	3,320	20,880
Profit for the year attributable to owners of the parent		<u>20,167,438</u>	<u>12,458,083</u>
Earnings per share			
Basic	13	21.66p	13.82p
Diluted	13	21.34p	13.70p

There is no other comprehensive income in either the current or preceding year.

The accompanying notes on pages 20 to 36 form an integral part of the consolidated financial statements.

Ground Rents Income Fund plc
Consolidated Statement of Financial Position
as at 30 September 2016

	Note	2016 £	2015 £
Assets			
Non-current assets			
Investment properties - ground rents	8	125,699,100	104,213,000
Total non-current assets		<u>125,699,100</u>	<u>104,213,000</u>
Current assets			
Trade and other receivables	9	2,291,812	3,044,602
Cash and cash equivalents		5,307,432	5,381,720
Total current assets		<u>7,599,244</u>	<u>8,426,322</u>
Total Assets		<u>133,298,344</u>	<u>112,639,322</u>
Current liabilities			
Trade and other payables	10	(2,162,976)	(1,442,267)
Financial liabilities measured at amortised cost	11	(8,000,000)	(4,957,362)
Total current liabilities		<u>(10,162,976)</u>	<u>(6,399,629)</u>
Net assets		<u>123,135,368</u>	<u>106,239,693</u>
Financed by:			
Equity			
Share capital	15	46,701,006	46,482,856
Share premium account	16	44,103,882	43,907,467
Retained earnings	17	32,330,480	15,849,370
Total equity		<u>123,135,368</u>	<u>106,239,693</u>
Net asset value per ordinary share			
Basic		131.83p	114.28p
Diluted		129.31p	113.09p

The financial statements on pages 16 to 36 were approved and authorised for issue by the board of directors on 30 November 2016 and signed on its behalf by:



Simon Paul Wombwell

Director
Ground Rents Income Fund plc

Company registered number 8041022

The accompanying notes on pages 20 to 36 form an integral part of the consolidated financial statements.

Ground Rents Income Fund plc
Consolidated Statement of Cash Flows
for the year ended 30 September 2016

	Note	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Cash flows from operating activities			
Cash generated from operations	18	5,167,583	2,302,601
Interest paid on bank loan		(200,040)	(76,118)
Taxation received / (paid)		1,719	(2,304)
Net cash generated from operating activities		<u>4,969,262</u>	<u>2,224,179</u>
Cash flow from investing activities			
Interest received		23,306	52,163
Receipts from the sale of ground rent assets		164,025	1,242
Purchase of ground rent assets		(4,872,425)	(27,768,885)
Net cash used in investing activities		<u>(4,685,094)</u>	<u>(27,715,480)</u>
Cash flows from financing activities			
Net proceeds from issuance of shares	18	414,565	8,841,385
Bank loan net proceeds		2,913,307	4,886,112
Dividends paid to shareholders	17	(3,686,328)	(3,217,543)
Net cash (used in) / generated from financing activities		<u>(358,456)</u>	<u>10,509,954</u>
Net decrease in cash and cash equivalents	19	<u>(74,288)</u>	<u>(14,981,347)</u>
Net cash and cash equivalents at 1 October		<u>5,381,720</u>	<u>20,363,067</u>
Net cash and cash equivalents at 30 September		<u>5,307,432</u>	<u>5,381,720</u>

The accompanying notes on pages 20 to 36 form an integral part of the consolidated financial statements.

Ground Rents Income Fund plc
Consolidated Statement of Changes in Equity
for the year ended 30 September 2016

	Share capital	Share premium account	Retained earnings	Total equity
Note	15 £	16 £	17 £	£
At 1 October 2014	42,257,142	39,291,796	6,608,830	88,157,768
Comprehensive income				
Profit for the year	-	-	12,458,083	12,458,083
Total comprehensive income	-	-	12,458,083	12,458,083
Transactions with owners				
Issue of share capital	4,225,714	4,817,314	-	9,043,028
Share issue costs	-	(201,643)	-	(201,643)
Dividends paid (note 17)	-	-	(3,217,543)	(3,217,543)
At 30 September 2015	46,482,856	43,907,467	15,849,370	106,239,693
At 1 October 2015	46,482,856	43,907,467	15,849,370	106,239,693
Comprehensive income				
Profit for the year	-	-	20,167,438	20,167,438
Total comprehensive income	-	-	20,167,438	20,167,438
Transactions with owners				
Issue of share capital	218,150	218,150	-	436,300
Share issue costs	-	(21,735)	-	(21,735)
Dividends paid (note 17)	-	-	(3,686,328)	(3,686,328)
At 30 September 2016	46,701,006	44,103,882	32,330,480	123,135,368

The accompanying notes on pages 20 to 36 form an integral part of the consolidated financial statements.

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

1 Accounting policies

(a) Basis of preparation

Ground Rents Income Fund plc is a public limited company incorporated and domiciled in the United Kingdom. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRS IC interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of ground rent properties.

At the statement of financial position date, the Group had a short-term debt facility fully drawn down of £8m, expiring on 30 December 2016. Since the date of the statement of financial position the Directors have increased the facility up to £19.5m for up to a further five years. Therefore the Directors continue to prepare the financial statements on a going concern basis.

The accounting policies, which have been applied consistently throughout the year are set out below.

(b) Adoption of new and revised standards

The following new EU-endorsed standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 October 2015, but have not had an impact on the amounts reported in the Group financial statements:

IFRS 1	'First time adoption'
IFRS 3	'Business combinations'
IFRS 13	'Fair value measurement'
IAS 40	'Investment property'
Amendment to IFRS 2	'Share-based payment'
Amendment to IFRS 8	'Operating segments'
Amendment to IFRS 13	'Fair value measurement'
Amendment to IAS 16	'Property, plant and equipment'
Amendment to IAS 38	'Intangible assets'
Amendment to IFRS 9	'Financial instruments'
Amendment to IAS 37	'Provisions, contingent liabilities and contingent assets'
Amendment to IAS 39	'Financial instruments - recognition and measurement'
Amendments to IFRS 10, 11 and 12 on transition guidance	
Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities	
Amendment to IAS 19	'Employee Benefits' - on defined benefit plans

In addition to the above, the following new EU-endorsed standards, amendments to standards and interpretations have been issued and are effective for the financial year beginning 1 October 2016, but have not been early adopted:

IFRS 9	'Financial instruments' - classification and measurement
IFRS 14	'Regulatory deferral accounts'
IFRS 15	'Revenue from contracts with customers'
IFRS 16	'Leases'
Amendment to IFRS 2	'Share based payments' - on transaction accounting clarification
Amendment to IFRS 4	'Insurance contracts' - regarding IFRS 9 'Financial instruments'
Amendment to IFRS 10 and IAS 28 regarding the sale or contribution of assets	
Amendment to IFRS 10 and IAS 28 regarding the consolidated exemption	
Amendment to IFRS 11	'Joint arrangements' - on acquisition of an interest in a joint operation
Amendment to IAS 1	'Presentation of financial statements' - on the disclosure initiative
Amendment to IAS 7	'Statement of cash flows' - on the disclosure initiative
Amendment to IAS 12	'Income taxes' - on the recognition of deferred tax assets
Amendment to IAS 16	'Property, plant and equipment' - depreciation and amortisation
Amendments to IAS 16 and IAS 41 'Agriculture' - regarding bearer plants	
Amendments to IAS 27 regarding the equity method	
Amendment to IAS 38	'Intangible assets' - depreciation and amortisation
Annual improvements 2012, 2013, 2014 and 2015	

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

1 Accounting policies (continued)

(b) **Adoption of new and revised standards (continued)**

The impact of these new standards and amendments will be assessed in detail prior to adoption; however, at this stage the Directors do not anticipate them to have a material impact on the amounts reported in the Group financial statements.

(c) **Currency**

The functional and presentation currency is pounds sterling.

(d) **Dividend distribution**

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

(e) **Critical accounting estimates and judgments**

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

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

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

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

(f) **Basis of consolidation**

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

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

(g) **Revenue**

Revenue represents the value of ground rent income due in the period together with any supplementary income earned in the period, including tenant notice fees and other income. Ground rent revenue is recognised on a straight line basis over the term receivable.

(h) **Finance income**

Finance income comprises interest receivable on bank deposits. Finance income is recognised in the income statement in the period in which it is accrued.

(i) **Taxation**

Tax on the profit for the period comprises current tax. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the statement of financial position date.

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

1 Accounting policies (continued)

(j) **Deferred tax**

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

(k) **Investment properties - ground rents**

Ground rents are carried in the statement of financial position at their open market value. The Directors have applied the fair-value model in IAS 40 - Investment Property. Properties are revalued at the statement of financial position date by an independent valuer. Expenses that are directly attributable to the acquisition of a ground rent are capitalised into the cost of investment. Gains and losses on changes in fair value of ground rent assets are recognised in the income statement. The Directors instruct the independent valuers from time to time as the need arises. Gains and losses on changes in fair value are recognised at the time of each valuation.

(l) **Cash and cash equivalents**

Cash comprises of call deposits held with banks.

(m) **Capital management**

The capital managed by the Company consists of cash held across different bank accounts in several banking institutions. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maximise the interest return on funds which have yet to be invested while ensuring there is enough free cash to meet day to day liabilities. In order to maintain or adjust the capital structure the Directors have the option to adjust the dividends paid to shareholders, return cash to shareholders, sell assets or delay purchase of individual assets. The Group monitors capital through cash and dividends which are prepared and reviewed on a quarterly basis. The Company had £5.3m of cash at the year end. The Directors intend to retain an amount for working capital at least equal to the next quarter's dividend payment. The Group has drawn down an £8m loan, which, at the date of the statement of financial position was expiring on 30 December 2016. Since this date the facility has been extended to £19.5m for up to a further five years. See note 12 - Financial Instruments for further information on the loan. Associated costs are capitalised and amortised over the duration of the loan.

(n) **Trade and other receivables**

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

(o) **Trade and other payables**

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

(p) **Deferred income**

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

(q) **Amortisation of loan arrangement fees**

Loan arrangement fees are capitalised and deducted from the amount outstanding on the loan. They are expensed to the profit and loss account over the period of the loan facility. This loan amortisation is included within finance expenses in the financial statements. The amount of the charge to the profit and loss accounts for loan arrangement fees in the year was £129,332 (2015: £71,250).

(r) **Ordinary share capital**

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

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

1 Accounting policies (continued)

(s) **Warrants**

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

2 Segmental information

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

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
By activity:		
Ground rent income accrued in the year	4,107,896	3,728,637
Other income	651,489	444,886
	<u>4,759,385</u>	<u>4,173,523</u>

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

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
This is stated after charging:		
Directors salaries	61,304	60,362
Auditors' remuneration - see below	72,400	72,100
Management fees	364,714	348,019
Professional fees	294,258	160,156
Insurance	34,264	19,594
Sponsor fees	35,734	35,075
Valuation fees	47,682	76,475
Registrar fees	34,625	25,968
Listing fees	41,462	27,126
Advertising and printing costs	13,975	15,579
Other operating expenses	64,883	39,145
	<u>1,065,301</u>	<u>879,599</u>

No direct operating expenses were incurred in relation to investment property in the year. Profits on sale of ground rents were £158,502 (2015: £73,005).

Services provided by the Company's auditors:

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Group		
Fees payable to the Company's auditors for the audit of parent Company and consolidated financial statements	20,000	20,000
Fees payable to the Company's auditors and its associates for other services:		
- The audit of the Company's subsidiaries	52,400	52,100
	<u>72,400</u>	<u>72,100</u>

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

4 Directors' emoluments

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

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

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Short term employee benefits paid as directors' remuneration Invoiced by Brooks Macdonald Funds Limited	61,304 24,000 <u>85,304</u>	60,362 24,000 <u>84,362</u>
Highest paid director: Emoluments	<u>30,000</u> <u>30,000</u>	<u>30,000</u> <u>30,000</u>

Monthly average number of employees during the year

	Number	Number
Administration	<u>3</u>	<u>3</u>

There were no post-employment benefits, other long-term benefits, termination benefits or share-based payments accrued or paid out in the year ended 30 September 2016 (2015: none).

5 Finance income

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Interest on bank deposits	<u>23,306</u>	<u>52,163</u>

6 Finance costs

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Loan interest	200,040	96,696
Amortisation of loan arrangement fees	129,332	71,250
	<u>329,372</u>	<u>167,946</u>

Loan set-up costs of £200,582 have been capitalised and deducted from the total loan amount outstanding. These costs have been amortised over 21 months to 30 September 2016.

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

7 Income tax credit

The Company applied to HMRC to join the Real Estate Investment Trust (REIT) taxation regime on 14 August 2012. The REIT regime affords the Company a number of potential efficiencies in its tax affairs including exemption from UK corporation tax on profits and gains from its UK property rental business. The Company intends to comply with the rules of the REIT regime in order to achieve these potential benefits.

Analysis of credit in year	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Current tax:		
UK corporation tax on profits of the year	-	-
Adjustments in respect of previous years	(3,320)	(20,880)
Total tax credit for year	<u>(3,320)</u>	<u>(20,880)</u>

Factors affecting tax charge for year

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

	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Profit before taxation	<u>20,164,118</u>	<u>12,437,203</u>
Standard rate of corporation tax in the UK	20.0%	20.5%
	£	£
Profit on ordinary activities multiplied by the standard rate of corporation tax	4,032,824	2,549,627
Effects of:		
Unrealised revaluation surplus not taxable	(3,323,520)	(1,883,142)
Property profit not taxable under the REIT regime	(709,304)	(666,485)
Adjustments in respect of previous years	(3,320)	(20,880)
Total tax credit for year	<u>(3,320)</u>	<u>(20,880)</u>

Deferred tax

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

Factors affecting current and future tax charges

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

As the change to 17% had not been substantively enacted at the date of the statement of financial position its effects are not included in these financial statements.

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

8 Investment properties - ground rents	Ground rent assets Total £
Market value	
At 1 October 2015	104,213,000
Additions	4,872,425
Total unrealised gain recognised in income statement	16,617,598
Disposals	(3,923)
At 30 September 2016	<u>125,699,100</u>

The fair value hierarchy has the following levels:

Level I: Quoted prices (unadjusted) in active market for identical assets and liabilities.

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level III: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

There have been no transfers between Level II and Level III of the fair value hierarchy during the year.

The following table shows a reconciliation of all the movements in the fair value of investment properties categorised within Level III between the beginning and the end of the reporting year.

	Level III investment properties at 30 September 2016 £	Level III investment properties at 30 September 2015 £
Level III		
At start of year	104,213,000	67,259,300
Additions	4,872,425	27,768,885
Disposals	(3,923)	(1,242)
Total unrealised gain recognised in income statement	16,617,598	9,186,057
Closing balance at 30 September	<u>125,699,100</u>	<u>104,213,000</u>

Key assumptions within the basis of fair value are:

The value of each of the Properties has been assessed in accordance with the relevant parts of the Royal Institution of Chartered Surveyors Valuation - Professional Standards VPS 4 (1.5.1) (the Red Book), which is consistent with IFRS 13 measurement requirements. The Red Book provides two definitions of Fair Value (FV). The one appropriate for the IFRS basis of accounting is as follows:

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

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

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

8 Investment properties - ground rents (continued)

The Group's investment in ground rents was revalued at 30 September 2016 by Savills Advisory Services Limited (Savills). The valuer has confirmed to the Directors that the fair value as set out in the valuation report has been primarily derived using comparable recent market transactions on an arm's length basis.

The valuer within Savills is a RICS Registered Valuer. Most of the properties have previously been valued by Savills when they were acquired and from time to time as requested by the Directors. The valuation of ground rents takes into account external factors such as interest rates and the availability of other fixed rate investments in the market. While interest rates remain low, ground rents are an attractive investment due to their secure, pre-determined income streams. The valuation of a ground rent depends on the future rental uplift timing and nature. The most valuable ground rent assets are those which are RPI linked with reviews every 10 years or less. Other types of ground rents are doubling where the rent doubles at a fixed time interval and fixed increases where the uplifts are fixed and detailed in the lease. The least attractive ground rents are those which are flat with no future rental increases which attract the lowest Years Purchase (YP) multiple and the highest yield.

Information about fair value measurement using significant unobservable input (Level III):

Valuation Category - type of rent review

			Fixed	
30 September 2016	Indexed	Doubling	increases	Flat
Cost (£)	64,688,493	14,144,169	10,291,097	1,240,584
Fair Value at 30 Sept 2016 (£)	88,685,900	23,403,200	12,375,000	1,235,000
Gross rent roll (£)	2,842,886	718,275	539,576	69,779
Rental Yield on purchase price	4.39%	5.08%	5.24%	5.62%
Rental Yield on fair value	3.21%	3.07%	4.36%	5.65%

			Fixed	
30 September 2015	Indexed	Doubling	increases	Flat
Cost (£)	61,701,704	13,074,594	10,291,097	1,240,584
Fair Value at 30 Sept 2016 (£)	73,239,000	18,189,000	11,560,000	1,225,000
Gross rent roll (£)	2,724,242	680,550	539,826	69,779
Rental Yield on purchase price	4.42%	5.21%	5.25%	5.62%
Rental Yield on fair value	3.72%	3.74%	4.67%	5.70%

All categories of ground rent asset have been valued by independent valuers using available market comparisons.

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

		+/- effect on valuation		
	Indexed	Doubling	Fixed	Flat
			increases	
Impact on fair value of 1 YP change	2,842,886	718,275	539,576	69,779

The average YP across the portfolio is 30.1 (2015: 25.9).

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

9 Trade and other receivables	30 September 2016 £	30 September 2015 £
Trade receivables	1,340,897	1,039,211
Other receivables	931,487	1,967,337
Prepayments and accrued income	19,428	38,054
	<u>2,291,812</u>	<u>3,044,602</u>

Included in other receivables is £387,671 (2015: £947,749) held in a client account at the Company's solicitors which was for deals in progress to complete after the statement of financial position date. In addition to this there is £54,085 (2015: £551,735) of option payments that have been made and an £83,000 deposit (2015: £83,000). The fair value of trade and other receivables is equal to the book value.

The ageing analysis of trade receivables is as follows:

	30 September 2016 £	30 September 2015 £
Up to 3 months	891,800	745,120
Over 3 months	449,097	294,091
	<u>1,340,897</u>	<u>1,039,211</u>

Management consider the trade receivables to be fully collectable due to the secure nature of the asset. The Directors believe all financial assets that are neither past due nor impaired to be fully recoverable as the amounts are represented by either cash held at a secure client account at the Company's solicitors or other trading amounts which are considered fully recoverable and of good quality.

10 Trade and other payables	30 September 2016 £	30 September 2015 £
Trade payables	91,887	54,523
Other taxes and social security costs	7,681	1,601
Other payables	119,257	135,675
Accruals	263,157	220,609
Deferred income	1,680,994	1,029,859
	<u>2,162,976</u>	<u>1,442,267</u>

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

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

11 Financial liabilities measured at amortised cost	30 September 2016 £	30 September 2015 £
Bank loan repayable within one year	8,000,000	5,058,037
Capitalised loan arrangement fees net of amortisation	-	(100,675)
	<u>8,000,000</u>	<u>4,957,362</u>

The loan facility within Santander UK plc had a termination date of 30 December 2016 at the date of the statement of financial position. The rate of interest payable on the loan was set in advance at three-monthly intervals and was equal to the 3 month LIBOR rate on the first day of each charging period plus a margin of 2.5%.

Since the date of the statement of financial position, the facility has been extended to £19.5million for up to a further five years at a fixed rate of interest payable quarterly throughout the term.

The loan facility is secured over assets held in group companies, namely The Manchester Ground Rent Company Limited, Gateway (Leeds) Ground Rents Limited, GRIF028 Limited, GRIF041 Limited, GRIF044 Limited, GRIF048 Limited, Opw Ground Rents Limited, GRIF040 Limited, Wiltshire Ground Rents Limited, Masshouse Ground Rents Limited, North West Ground Rents Limited, Masshouse Residential HI Limited, Masshouse HI Limited, Yorkshire Ground Rents Limited, Post Box Ground Rents Limited, Admiral Ground Rents Limited, Clapham One Ground Rents Limited and Midlands Ground Rents Limited.

12 Financial instruments

The Group's financial instruments comprise cash and various items such as trade and other receivables and trade and other payables which arise from its operations. The Group does not have any 'held to maturity' or 'available for sale financial assets' or 'held for trading financial assets and liabilities' as defined by IAS 39.

Financial assets carried at amortised cost

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

	30 September 2016		30 September 2015	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Trade receivables	1,340,897	1,340,897	1,039,211	1,039,211
Other receivables	931,487	931,487	1,967,337	1,967,337
Cash at bank and in hand	<u>5,307,432</u>	<u>5,307,432</u>	<u>5,381,720</u>	<u>5,381,720</u>

As of 30 September 2016 no trade receivables (2015: £nil) were impaired or provided for.

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

12 Financial instruments (continued)

Financial liabilities carried at amortised cost

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

	30 September 2016		30 September 2015	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Trade payables	91,887	91,887	54,523	54,523
Other payables and accruals	390,095	390,095	356,284	356,284
Bank loan	8,000,000	8,000,000	5,058,037	5,058,037

Financial risk management

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

Capital risk management

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

The gearing ratio at 30 September 2016 was as follows:

	30 September 2016	30 September 2015
	£	£
Cash and cash equivalents	5,307,432	5,381,720
Total borrowings (note 11)	(8,000,000)	(5,058,037)
Net cash	(2,692,568)	323,683
Total equity	123,135,368	106,239,693
Total capital	120,442,800	106,563,376
Gearing ratio	6%	5%

Credit risk

Cash deposits are placed with a number of financial institutions whose financial strength has been considered by the Directors based on advice received from the investment manager. The panel of suitable counterparties is subject to regular review by the board and its advisers.

Interest rate risk

The Company places excess cash of the Group on deposit in interest bearing accounts to maximise returns.

Liquidity risk

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

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

13 Earnings per share

Basic earnings per share

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

	30 September 2016	30 September 2015
	£	£
Profit attributable to owners of the Company	<u>20,167,438</u>	<u>12,458,083</u>

Basic earnings per share have been calculated by dividing earnings by the weighted average number of ordinary shares in issue throughout the year ended 30 September.

Weighted average number of shares in issue in the year	93,118,248	90,156,309
Basic earnings per share	21.66p	13.82p

Diluted earnings per share

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

	30 September 2016	30 September 2015
	£	£
Profit attributable to equity shareholders of the Company	20,167,438	12,458,083
Total earnings in the year	<u>20,167,438</u>	<u>12,458,083</u>

	2016 Number	2015 Number
Weighted average number of shares - basic	93,118,248	90,156,309
Potential dilutive impact of warrants	1,365,831	773,566
Diluted total shares	<u>94,484,079</u>	<u>90,929,875</u>
Diluted earnings per share	21.34p	13.70p

14 Net asset value per ordinary share

The NAV calculates the net asset value per share in the financial statements. The diluted NAV per ordinary share is calculated after assuming the exercise of all outstanding warrants.

	30 September 2016	30 September 2015
	£	£
Net assets	<u>123,135,368</u>	<u>106,239,693</u>
	Number	Number
Number of ordinary shares in issue	93,402,011	92,965,711
Outstanding warrants in issue	8,028,362	8,464,662
Diluted number of shares in issue	<u>101,430,373</u>	<u>101,430,373</u>
NAV per ordinary share - basic	131.83p	114.28p
NAV per ordinary share - dilutive	129.31p	113.09p

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

15 Share capital	30 September 2016 Number	30 September 2016 £	30 September 2015 Number	30 September 2015 £
Allotted, called up and fully paid: Ordinary shares of £0.50 each	93,402,011	46,701,006	92,965,711	46,482,856
	30 September 2016 Number	30 September 2016 £	30 September 2015 Number	30 September 2015 £
Shares issued during the year Ordinary shares of £0.50 each	436,300	218,150	8,451,428	4,225,714

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.

In January 2015, the Company raised an additional £8,451,428, by way of a placing of ordinary shares at £1.07 per share.

Warrants were issued for £nil consideration on the basis of one warrant for every five subscription shares in August 2012. Warrant-holders have the right to subscribe £1 per share for the number of ordinary shares to which they are entitled on 31 August in each year following admission up to and including 31 August 2022. No additional shares were issued to warrant-holders in 2014. 158,600 warrants were exercised in August 2015 and issued in October 2015. 277,700 warrants were exercised and issued in September 2016. At 30 September 2016 there were 8,028,362 warrants in issue.

16 Share premium account	2016 £	2015 £
At 1 October	43,907,467	39,291,796
Shares issued	218,150	4,817,314
Expenses of issue	(21,735)	(201,643)
At 30 September	44,103,882	43,907,467

17 Retained earnings	2016 £	2015 £
At 1 October	15,849,370	6,608,830
Profit for the financial year	20,167,438	12,458,083
Dividends paid	(3,686,328)	(3,217,543)
At 30 September	32,330,480	15,849,370

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

18 Dividends

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

	2016	2015
	£	£
Dividends declared by the Company during the year:		
Dividends paid	3,686,328	3,217,543
	<u>3,686,328</u>	<u>3,217,543</u>
Analysis of dividends by type:		
Interim PID dividend of 0.847p per share	-	715,836
Interim PID dividend of 0.874p per share	-	812,520
Interim PID dividend of 0.934p per share	-	868,300
Interim PID dividend of 0.883p per share	-	820,887
Interim PID dividend of 0.952p per share	886,543	-
Interim PID dividend of 0.9646p per share	898,277	-
Interim PID dividend of 1.0187p per share	948,659	-
Interim PID dividend of 1.0232p per share	952,849	-
	<u>3,686,328</u>	<u>3,217,543</u>

Since the year end, the following dividends have been announced:

Interim PID dividend of 0.952p per share - announced	-	886,543
Interim PID dividend of 1.024p per share - announced	956,437	-

19 Cash generated from operations

Reconciliation of operating profit to net cash inflow from operating activities

	2016	2015
	£	£
Profit before income tax	20,164,118	12,437,203
Adjustments for:		
Non-cash revaluation gain	(16,617,598)	(9,186,057)
Profit on sale of fixed assets	(158,502)	-
Net finance expense	306,066	115,783
Operating cash flows before movements in working capital	<u>3,694,084</u>	<u>3,366,929</u>
Movements in working capital:		
Decrease / (increase) in trade and other receivables	752,790	(1,930,091)
Increase in trade and other payables	720,709	865,763
Net cash generated from operations	<u>5,167,583</u>	<u>2,302,601</u>

Proceeds of share issue

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

	2016	2015
	£	£
Issue of ordinary shares on 8 January 2015	-	9,043,028
Warrants issued on 28 October 2015	158,600	-
Warrants issued on 23 September 2016	277,700	-
Share issue costs associated with issue of ordinary shares	(21,735)	(201,643)
	<u>414,565</u>	<u>8,841,385</u>

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

20 Analysis of changes in net cash

	At 30 September 2015 £	Cash flows £	Non-cash changes £	At 30 September 2016 £
Cash at bank and in hand	5,381,720	(74,288)	-	5,307,432
Total	<u>5,381,720</u>	<u>(74,288)</u>	<u>-</u>	<u>5,307,432</u>

21 Related party transactions

Transactions between the Company and its subsidiaries which are related parties, are eliminated on consolidation. The Company's individual financial statements include the amounts attributable to subsidiaries. All amounts due to or from subsidiary companies are interest free and repayable on demand. These amounts are disclosed in aggregate in the relevant Company financial statements and in detail in the following table:

Company	Amounts owed by related parties		Amounts owed to related parties	
	2016 £	2015 £	2016 £	2015 £
Admiral Ground Rents Ltd	2,077,926	1,835,104	-	-
Azure House Ground Rents Limited	80,112	85,570	-	-
Banbury Ground Rents Limited	91,707	100,757	-	-
BH Ground Rents Limited	1,326,562	1,165,270	-	-
Clapham One Ground Rents Limited	2,845,729	3,003,154	-	-
D G Ground Rents Ltd	1,609,830	1,689,873	-	-
East Anglia Ground Rents Limited	524,407	426,084	-	-
Ebony House Ground Rents Limited	189,542	141,151	-	-
Enclave Court Ground Rents Limited	92,721	100,029	-	-
Gateway (Leeds) Ground Rents Limited	2,551,788	2,435,528	-	-
Greenhouse Ground Rents Ltd	489,557	533,468	-	-
GRIF Student Ground Rents Limited	935,078	806,703	-	-
GRIF033 Limited	595,529	643,134	-	-
GRIF038 Limited	104,835	104,836	-	-
GRIF039 Limited	756,349	673,734	-	-
GRIF040 Limited	7,944,200	5,087,967	-	-
GRIF041 Limited	2,753,065	2,888,738	-	-
GRIF042 Limited	570,909	617,941	-	-
GRIF043 Limited	911,236	956,750	-	-
GRIF044 Limited	1,536,695	1,418,407	-	-
GRIF045 Limited	572,529	610,949	-	-
GRIF046 Limited	2,349,339	2,173,987	-	-
GRIF047 Limited	132,625	140,588	-	-
GRIF048 Limited	1,905,413	9,923,140	-	-
GRIF051 Limited	20,059,510	20,172,938	-	-
GRIF052 Limited	1,819,591	1,867,154	-	-

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

21 Related party transactions (continued)

Company	Amounts owed by related parties		Amounts owed to related parties	
	2016	2015	2016	2015
	£	£	£	£
Halcyon Wharf Ground Rents Limited	252,583	267,918	-	-
Hill Ground Rents Limited	5,127,263	4,895,353	-	-
Invest Ground Rents Limited	210,776	221,239	-	-
Masshouse Block HI Limited	1,856,851	1,788,524	-	-
Masshouse Block M Ltd	1,003,642	1,097,511	-	-
Masshouse Residential Block HI Limited	-	19,681	29,812	-
Metropolitan Ground Rents	2,649,699	2,847,055	-	-
Midlands Ground Rents Limited	790,060	788,550	-	-
Nikal Humber Quay Residential Limited	-	-	57,210	41,658
North West Ground Rents Limited	985,241	842,549	-	-
Northwest Houses Ground Rents Limited	997,722	1,077,605	-	-
OPW Ground Rents Limited	2,762,444	2,918,258	-	-
Postbox Ground Rents Limited	1,352,488	1,403,197	-	-
The Manchester Ground Rent Company Limited	4,085,687	3,913,469	-	-
TMG003 Limited	42,254	188,219	-	-
Trinity Land & Investments No.2 Limited	2,415,283	2,554,136	-	-
Wiltshire Ground Rents Limited	2,506,108	2,351,396	-	-
XQ7 Ground Rents Limited	654,862	456,512	-	-
Yorkshire Ground Rents Limited	1,129,950	1,045,688	-	-

Simon Wombwell is also a director of Brooks Macdonald Funds Limited (BMF) and of Brooks Macdonald Group plc, the parent company of BMF and Braemar Estates (Residential) Limited (BER), both of which companies provided services to Ground Rents Income Fund plc during the financial year.

BMF provides investment management and administration services to the Company, the fees for which are 0.55% per annum of the market capitalisation of the Company. In addition, BMF is entitled to an agency fee of 2% of the purchase price of any property acquired by the Company, where no other agency fee is payable, and 20% of any notice fee income. Where a third party agency fee is less than 2% of the purchase price, BMF is 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 year were as follows:

	2016	2015
	£	£
Advisory fee paid to Brooks Macdonald Funds Limited	429,281	348,019
Acquisition fees paid to Brooks Macdonald Funds Limited	81,057	485,454
Other amounts paid to Brooks Macdonald Funds Limited	109,543	12,375
Directors fees paid to Brooks Macdonald Funds Limited	24,000	24,000
	<u>643,881</u>	<u>869,848</u>

£59,300 was due from Ground Rents Income Fund plc to Brooks Macdonald Funds Limited at the statement of financial position date (2015: £nil).

Ground Rents Income Fund plc
Notes to the Consolidated Financial Statements
for the year ended 30 September 2016

21 Related party transactions (continued)

Braemar Estates (Residential) Limited is also a related party by virtue of being under common control with Brooks Macdonald Funds Limited. Transactions between Braemar Estates (Residential) Limited and Ground Rents Income Fund plc during the financial year were as follows:

	2016	2015
	£	£
Other amounts paid to Braemar Estates (Residential) Limited	18,825	22,530
	<u>18,825</u>	<u>22,530</u>

£12,000 was due from Ground Rents Income Fund plc to Braemar Estates (Residential) Limited at the statement of financial position date (2015: £4,403).

22 Other financial commitments

The Group has a number of ground rent asset acquisitions in the pipeline. At 30 September 2016, the Group had £387,671 of cash held at solicitors for acquisitions which were in progress to complete after the statement of financial position date (note 9) (2015: £947,749). The ground rent deals are expected to cost £2,496,961 to complete.

23 Events after the statement of financial position date

On 23 June 2016 a referendum was held and the outcome of the vote determined that the United Kingdom would leave the European Union. At the time of the signing of the statutory accounts the details of how and when the United Kingdom will leave the European Union, and its effect on the financial markets, are unclear and as such it is not possible to estimate the impact of this event. However, the Company continues to look for Ground Rent investment opportunities and invest accordingly.

In the period since the date of the statement of financial position, the Group has invested or contracted to invest in ground rent assets totalling £8.7m.

The Group has extended the short term debt facility to £19.5million for a period of up to five years.

Ground Rents Income Fund plc
Independent auditors' report
to the members of Ground Rents Income Fund plc

Report on the company financial statements

Our opinion

In our opinion, Ground Rents Income Fund plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 30 September 2016; and
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes In Equity for the year then ended;
- the notes to the company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Ground Rents Income Fund plc
Independent auditors' report
to the members of Ground Rents Income Fund plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

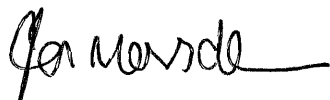
We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Ground Rents Income Fund plc for the year ended 30 September 2016.



Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
30 November 2016

Ground Rents Income Fund plc
Company Statement of Financial Position
as at 30 September 2016

	Note	2016 £	2015 £	2014 £
Assets				
Non-current assets				
Investments	5	1,665,010	1,665,010	1,665,010
		<u>1,665,010</u>	<u>1,665,010</u>	<u>1,665,010</u>
Current assets				
Trade and other receivables	6	84,191,013	88,573,363	60,126,535
Cash and cash equivalents		5,307,432	5,381,720	20,363,067
Total current assets		<u>89,498,445</u>	<u>93,955,083</u>	<u>80,489,602</u>
Total assets		<u>91,163,455</u>	<u>95,620,093</u>	<u>82,154,612</u>
Current liabilities				
Trade and other payables	7	(276,755)	(238,047)	(291,774)
Financial liabilities measured at amortised cost		-	(4,957,362)	-
Total current liabilities		<u>(276,755)</u>	<u>(5,195,409)</u>	<u>(291,774)</u>
Net assets		<u>90,886,700</u>	<u>90,424,684</u>	<u>81,862,838</u>
Financed by:				
Equity				
Share capital	10	46,701,006	46,482,856	42,257,142
Share premium account	10	44,103,882	43,907,467	39,291,796
Distributable reserves	11	81,812	34,361	313,900
Total equity		<u>90,886,700</u>	<u>90,424,684</u>	<u>81,862,838</u>

The Company financial statements on pages 39 to 50 were approved and authorised for issue by the board of directors on 30 November 2016 and signed on its behalf by:



Simon Paul Wombwell
 Director
 Ground Rents Income Fund plc

Company registered number 8041022

The accompanying notes from pages 42 to 50 form an integral part of the Company financial statements.

Ground Rents Income Fund plc
Company Statement of Cash Flows
for the year ended 30 September 2016

	Note	Year ended 30 September 2016 £	Year ended 30 September 2015 £
Cash flows from operating activities			
Cash generated from / (used in) operations	13	8,324,185	(25,464,514)
Interest paid on bank loan		(108,476)	(76,118)
Taxation paid		-	(2,832)
Net cash generated from operating activities		<u>8,215,709</u>	<u>(25,543,464)</u>
Cash flow from investing activities			
Interest received		23,306	52,163
Net cash used in investing activities		<u>23,306</u>	<u>52,163</u>
Cash flows from financing activities			
Proceeds from issuance of shares	13	414,565	8,841,385
Bank loan net (payments) / proceeds		(5,041,540)	4,886,112
Dividends paid to shareholders		(3,686,328)	(3,217,543)
Net cash generated (used in) / from financing activities		<u>(8,313,303)</u>	<u>10,509,954</u>
Net decrease in cash and cash equivalents	14	<u>(74,288)</u>	<u>(14,981,347)</u>
Net cash and cash equivalents at 1 October		5,381,720	20,363,067
Net cash and cash equivalents at 30 September		<u>5,307,432</u>	<u>5,381,720</u>

The accompanying notes on pages 42 to 50 form an integral part of the consolidated financial statements.

Ground Rents Income Fund plc
Company Statement of Changes in Equity
for the year ended 30 September 2016

	Share capital 10 £	Share premium account 10 £	Retained earnings 11 £	Total equity £
Note				
At 1 October 2014	42,257,142	39,291,796	313,900	81,862,838
Comprehensive income				
Profit for the year	-	-	2,938,004	2,938,004
Total comprehensive income	-	-	2,938,004	2,938,004
Transactions with owners				
Issue of share capital	4,225,714	4,817,314	-	9,043,028
Share issue costs	-	(201,643)	-	(201,643)
Dividends paid	-	-	(3,217,543)	(3,217,543)
At 30 September 2015	46,482,856	43,907,467	34,361	90,424,684
At 1 October 2015	46,482,856	43,907,467	34,361	90,424,684
Comprehensive income				
Profit for the year	-	-	3,733,779	3,733,779
Total comprehensive income	-	-	3,733,779	3,733,779
Transactions with owners				
Issue of share capital	218,150	218,150	-	436,300
Share issue costs	-	(21,735)	-	(21,735)
Dividends paid	-	-	(3,686,328)	(3,686,328)
At 30 September 2016	46,701,006	44,103,882	81,812	90,886,700

The accompanying notes on pages 42 to 50 form an integral part of the consolidated financial statements.

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

1 General information

The company is domiciled in England and Wales. The address of its registered office is 72 Welbeck Street, London, United Kingdom, W1G 0AY.

The Company's principal activity during the year was to operate a property rental and investment business.

2 Accounting policies

(a) **Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable UK Law that applies to companies reporting under IFRS, and IFRS IC interpretations.

For all periods up to and including the year ended 30 September 2015, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Policies (UK GAAP). For the period beginning on 1 October 2015, the Company elected to adopt International Financial Reporting Standards (IFRSs). The change has been retrospectively applied from 1 October 2014, the transition date to IFRS (see note 23 Transition to IFRS).

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies of the Company which have been applied consistently throughout the year are set out below:

(b) **Adoption of new and revised standards**

The following new EU-endorsed standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 October 2015, but have not had an impact on the amounts reported in the Group financial statements:

IFRS 1	'First time adoption'
IFRS 3	'Business combinations'
IFRS 13	'Fair value measurement'
IAS 40	'Investment property'
Amendment to IFRS 2	'Share-based payment'
Amendment to IFRS 8	'Operating segments'
Amendment to IFRS 13	'Fair value measurement'
Amendment to IAS 16	'Property, plant and equipment'
Amendment to IAS 38	'Intangible assets'
Amendment to IFRS 9	'Financial instruments'
Amendment to IAS 37	'Provisions, contingent liabilities and contingent assets'
Amendment to IAS 39	'Financial instruments - recognition and measurement'
Amendments to IFRS 10, 11 and 12 on transition guidance	
Amendments to IFRS 10, IFRS 12 and IAS 27 for investment entities	
Amendment to IAS 19	'Employee Benefits' - on defined benefit plans

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

2 Accounting policies (continued)

In addition to the above, the following new EU-endorsed standards, amendments to standards and interpretations have been issued and are effective for the financial year beginning 1 October 2016, but have not been early adopted:

IFRS 9	'Financial instruments' - classification and measurement
IFRS 14	'Regulatory deferral accounts'
IFRS 15	'Revenue from contracts with customers'
IFRS 16	'Leases'
Amendment to IFRS 2	'Share based payments' - on transaction accounting clarification
Amendment to IFRS 4	'Insurance contracts' - regarding of IFRS 9 'Financial instruments'
Amendment to IFRS 10 and IAS 28	regarding the sale or contribution of assets
Amendment to IFRS 10 and IAS 28	regarding the consolidated exemption
Amendment to IFRS 11	'Joint arrangements' - on acquisition of an interest in a joint operation
Amendment to IAS 1	'Presentation of financial statements' - on the disclosure initiative
Amendment to IAS 7	'Statement of cash flows' - on the disclosure initiative
Amendment to IAS 12	'Income taxes' - on the recognition of deferred tax assets
Amendment to IAS 16	'Property, plant and equipment' - depreciation and amortisation
Amendments to IAS 16 and IAS 41	'Agriculture' regarding bearer plants
Amendments to IAS 27	regarding the equity method
Amendment to IAS 38	'Intangible assets' - depreciation and amortisation
Annual improvements 2012, 2013, 2014 and 2015	

The impact of these new standards and amendments will be assessed in detail prior to adoption; however, at this stage the Directors do not anticipate them to have a material impact on the amounts reported in the Group financial statements.

(c) **Critical accounting estimates and judgments**

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

(d) **Going concern**

The directors have prepared the financial statements on the going concern basis. Cashflow forecasts are prepared and reviewed at the quarterly board meetings. At the statement of financial position date, the Group had a short term debt facility of £8m, expiring on 30 December 2016, fully drawn down. Since the date of the statement of financial position the Directors have extended the facility for up to a further five years and increase the facility to £19.5m. For these reasons the directors continue to prepare the financial statements on a going concern basis.

(e) **Currency**

The functional and presentation currency is pound sterling.

(f) **Investments in subsidiary companies**

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

(g) **Cash and cash equivalents**

Cash comprises of call deposits held with banks.

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

2 Accounting policies (continued)

(h) **Trade and other receivables**

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

(i) **Capital management**

The capital managed by the Company consists of cash held across different bank accounts in several banking institutions. The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maximise the interest return on funds which have yet to be invested while ensuring there is enough free cash to meet day to day liabilities. In order to maintain or adjust the capital structure the Directors have the option to adjust the dividends paid to shareholders, return cash to shareholders, sell assets or delay purchase of individual assets. The Group monitors capital through cash and dividends which are prepared and reviewed on a quarterly basis. The Group had £5.3m of cash at the year end. The Directors intend to retain an amount for working capital at least equal to the next quarter's dividend payment. The Group has drawn down an £8m loan, which, at the date of the statement of financial position was expiring on 30 December 2016. Since this date the facility has been extended to £19.5m for up to a further five years. See note 12 in the consolidated financial statements for further information on the loan. Associated costs are capitalised and amortised over the duration of the loan.

(j) **Trade and other payables**

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

(k) **Ordinary share capital**

Ordinary share capital is classed as equity. Incremental costs of issue are deducted from the share premium account.

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

(l) **Dividend distribution**

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

3 Results for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the financial year. Ground Rents Income Fund plc reported a profit after tax for the financial year of £3,733,779 (2015: £2,938,004). Auditors' remuneration for audit of the parent Company financial statements was £20,000 (2015: £20,000). The average monthly number of employees during the year was three (being the directors). Directors' emoluments are set out in note 4 of the Group financial statements.

4 Dividends

Details of the Company's dividends paid and proposed, are set out in note 17 of the Group financial statements.

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

5 Investments

**Investments in
subsidiary
undertakings
£**

Cost

At 1 October 2015 and 30 September 2016

1,665,010

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

Details of the subsidiary undertakings of the Company at 30 September 2016 all of which are wholly owned and included in the financial statements are given below:

Company	Type of Share	Nature of Business	Country of Incorporation
Admiral Ground Rents Limited	Ordinary £1	Ground Rents	UK
Azure House Ground Rents Limited	Ordinary £1	Ground Rents	UK
Banbury Ground Rents Limited	Ordinary £1	Ground Rents	UK
BH Ground Rents Limited	Ordinary £1	Ground Rents	UK
Clapham One Ground Rents Limited	Ordinary £1	Ground Rents	UK
DG Ground Rents Limited	Ordinary £1	Ground Rents	UK
East Anglia Ground Rents Limited	Ordinary £1	Ground Rents	UK
Ebony House Ground Rents Limited	Ordinary £1	Ground Rents	UK
Enclave Court Ground Rents Limited	Ordinary £1	Ground Rents	UK
Gateway (Leeds) Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
Greenhouse Ground Rents Limited	Ordinary £1	Ground Rents	UK
GRIF Student Ground Rents Limited	Ordinary £1	Ground Rents	UK
GRIF027 Limited	Ordinary £1	Ground Rents	UK
GRIF028 Limited	Ordinary £1	Ground Rents	UK
GRIF033 Limited	Ordinary £1	Ground Rents	UK
GRIF034 Limited	Ordinary £1	Ground Rents	UK
GRIF036 Limited	Ordinary £1	Ground Rents	UK
GRIF037 Limited	Ordinary £1	Ground Rents	UK
GRIF038 Limited	Ordinary £1	Ground Rents	UK
GRIF039 Limited	Ordinary £1	Ground Rents	UK
GRIF040 Limited	Ordinary £1	Ground Rents	UK
GRIF041 Limited	Ordinary £1	Ground Rents	UK
GRIF042 Limited	Ordinary £1	Ground Rents	UK
GRIF043 Limited	Ordinary £1	Ground Rents	UK
GRIF044 Limited	Ordinary £1	Ground Rents	UK
GRIF045 Limited	Ordinary £1	Ground Rents	UK
GRIF046 Limited	Ordinary £1	Ground Rents	UK
GRIF047 Limited	Ordinary £1	Ground Rents	UK
GRIF048 Limited	Ordinary £1	Ground Rents	UK
GRIF049 Limited	Ordinary £1	Ground Rents	UK
GRIF051 Limited	Ordinary £1	Ground Rents	UK
GRIF052 Limited	Ordinary £1	Ground Rents	UK
GRIF053 Limited	Ordinary £1	Ground Rents	UK
GRIF Cosec Limited	Ordinary £1	Corporate Director	UK
Halcyon Wharf Ground Rents Limited	Ordinary £1	Ground Rents	UK
Hill Ground Rents Limited	Ordinary £1	Ground Rents	UK
Invest Ground Rents Limited	Ordinary £1	Ground Rents	UK
Masshouse Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
Masshouse Block HI Limited	Ordinary £1	Ground Rents	UK
Masshouse Residential Block HI Limited	Ordinary £1	Ground Rents	UK
Metropolitan Ground Rents Limited	Ordinary £1	Ground Rents	UK

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

5 Investments (continued)

Company	Type of Share	Nature of Business	Country of Incorporation
Midlands Ground Rents Limited	Ordinary £1	Holding Company	Guernsey
Nikal Humber Quay Residential Limited	Ordinary £1	Ground Rents	UK
North West Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
North West Houses Ground Rents Limited	Ordinary £1	Ground Rents	UK
OPW Ground Rents Limited	Ordinary £1	Ground Rents	UK
Postbox Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
The Manchester Ground Rent Company Limited	Ordinary £1	Ground Rents	UK
TMG003 Limited	Ordinary £1	Ground Rents	Guernsey
Trinity Land and Investments No.2 Limited	Ordinary £1	Ground Rents	UK
Wiltshire Ground Rents Limited	Ordinary £1	Ground Rents	UK
XQ7 Ground Rents Limited	Ordinary £1	Ground Rents	UK
Yorkshire Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey

6 Trade and other receivables

	30 September 2016 £	30 September 2015 £	30 September 2014 £
Trade receivables	27,237	33,101	66,158
Other receivables	317,111	163,564	225,219
Amounts owed by subsidiary undertakings	83,828,735	88,339,434	59,679,025
Prepayments and accrued income	17,930	37,264	156,133
	<u>84,191,013</u>	<u>88,573,363</u>	<u>60,126,535</u>

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

The ageing analysis of trade receivables is as follows:

	30 September 2016 £	30 September 2015 £	30 September 2014 £
Up to 3 months	-	-	37,802
Over 3 months	27,237	33,101	28,356
	<u>27,237</u>	<u>33,101</u>	<u>66,158</u>

7 Trade and other payables

	30 September 2016 £	30 September 2015 £	30 September 2014 £
Bank loans and overdraft	-	4,957,362	-
Trade payables	91,887	53,745	15,128
Accruals and deferred income	184,868	184,302	276,646
	<u>276,755</u>	<u>5,195,409</u>	<u>291,774</u>

See note 11 of the consolidated financial statements for information about the terms and security on the bank loan.

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

8 Financial liabilities measured at amortised cost

	30 September 2016	30 September 2015
	£	£
Bank loan repayable within one year	-	5,058,037
Capitalised loan arrangement fees net of amortisation	-	(100,675)
	<u>-</u>	<u>4,957,362</u>

The loan facility within Santander UK plc was transferred during the year to another Group company. The rate of interest that was payable on the loan before and after transfer was set in advance at three-monthly intervals and was equal to the 3 month LIBOR rate on the first day of each charging period plus a margin of 2.5%.

Since the date of the statement of financial position, the facility has been extended to £19.5million for up to a further five years at a fixed rate of interest payable quarterly throughout the term of the loan.

The loan facility is secured over assets held in group companies, namely The Manchester Ground Rent Company Limited, Gateway (Leeds) Ground Rents Limited, GRIF028 Limited, GRIF041 Limited, GRIF044 Limited, GRIF048 Limited, Opw Ground Rents Limited, GRIF040 Limited, Wiltshire Ground Rents Limited, Masshouse Ground Rents Limited, North West Ground Rents Limited, Masshouse Residential HI Limited, Masshouse HI Limited, Yorkshire Ground Rents Limited, Post Box Ground Rents Limited, Admiral Ground Rents Limited, Clapham One Ground Rents Limited and Midlands Ground Rents Limited.

9 Financial instruments

The Company's financial instruments comprise cash and various items such as trade and other receivables and trade and other payables which arise from its operations. The Company does not have any 'held to maturity' or 'available for sale financial assets' or 'held for trading financial assets and liabilities' as defined by IAS 39.

Financial assets carried at amortised cost

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

	30 September 2016		30 September 2015	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Trade receivables	27,237	27,237	33,101	33,101
Other receivables	317,111	317,111	163,564	163,564
Cash at bank and in hand	<u>5,307,432</u>	<u>5,307,432</u>	<u>5,381,720</u>	<u>5,381,720</u>

As of 30 September 2016 no trade receivables (2015: £nil) were impaired or provided for.

Financial liabilities carried at amortised cost

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

	30 September 2016		30 September 2015	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Trade payables	91,887	91,887	53,745	53,745
Bank loan	<u>-</u>	<u>-</u>	<u>4,957,362</u>	<u>4,957,362</u>

Financial risk management

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

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

10 Called up ordinary share capital

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

	Number of shares	Share capital £	Share premium account £
At 1 October 2013	49,426,097	24,713,049	19,092,961
Shares issued	35,088,186	17,544,093	20,236,531
Expenses of issue	-	-	(37,696)
At 30 September 2014	<u>84,514,283</u>	<u>42,257,142</u>	<u>39,291,796</u>
Shares issued	8,451,428	4,225,714	4,817,314
Expenses of issue	-	-	(201,643)
At 30 September 2015	<u>92,965,711</u>	<u>46,482,856</u>	<u>43,907,467</u>
Shares issued	436,300	218,150	218,150
Expenses of issue	-	-	(21,735)
At 30 September 2016	<u>93,402,011</u>	<u>46,701,006</u>	<u>44,103,882</u>

The total number of ordinary shares, issued and fully paid at 30 September 2016, was 93,402,011 (2015: 92,765,711, 2014: 84,514,283) with a par value of £0.50p per share. Details of the shares issued are given in notes 14 and 15 of the consolidated financial statements.

11 Retained earnings

	2016 £
At 1 October 2015	34,361
Profit for the financial year	3,733,779
Dividends paid in the year (note 18 - consolidated financial statements)	(3,686,328)
At 30 September 2016	<u>81,812</u>

12 Reconciliation of movements in total equity

	2016 £	2015 £
At 1 October	90,424,684	81,862,838
Profit for the financial year	3,733,779	2,938,004
Dividends paid in the year (note 18 - consolidated financial statements)	(3,686,328)	(3,217,543)
Shares issued	414,565	8,841,385
At 30 September	<u>90,886,700</u>	<u>90,424,684</u>

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

13 Cash generated from operations

Reconciliation of operating profit to net cash inflow from operating activities

	2016	2015
	£	£
Profit before income tax	3,733,779	2,938,004
Adjustments for:		
Net finance expense	169,348	98,037
Operating cash flows before movements in working capital	<u>3,903,127</u>	<u>3,036,041</u>
Movements in working capital:		
(Increase) / decrease in trade and other receivables	(128,349)	213,581
Decrease / (increase) in amounts owed by group undertakings	4,510,699	(28,660,409)
Increase / (decrease) in trade and other payables	38,708	(53,727)
Net cash generated from operations	<u>8,324,185</u>	<u>(25,464,514)</u>

Proceeds of share issue

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

	2016	2015
	£	£
Issue of ordinary shares on 8 January 2015	-	9,043,028
Warrants issued on 28 October 2015	158,600	-
Warrants issued on 23 September 2016	277,700	-
Share issue costs associated with issue of ordinary shares	(21,735)	(201,643)
	<u>414,565</u>	<u>8,841,385</u>

14 Analysis of changes in net cash

	At 30 September	Cash flows	Non-cash	At 30 September
	2015	£	changes	2016
	£	£	£	£
Cash at bank and in hand	5,381,720	(74,288)	-	5,307,432
Total	<u>5,381,720</u>	<u>(74,288)</u>	<u>-</u>	<u>5,307,432</u>

15 Related party transactions

The Company's balances with fellow group companies at 30 September 2016 are set out in note 21 to the consolidated financial statements. All transactions with fellow group companies are carried out at arm's length and all outstanding balances are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts in respect of any of the amounts due from fellow group companies.

Ground Rents Income Fund plc
Notes to the Company Financial Statements
for the year ended 30 September 2016

16 Transition to IFRS

This is the first year that the Company has presented its financial statements under IFRS issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 30 September 2015 and the date of transition to IFRS was therefore 1 October 2015.

Reconciliation of equity	2016	2015
	£	£
Equity reported under previous UK GAAP	90,886,700	90,424,684
Adjustments to equity on transition to IFRS	-	-
Equity reported under IFRS	<u>90,886,700</u>	<u>90,424,684</u>

Reconciliation of profit for the year ended 30 September 2016	2016
	£
Total profit for the financial year under previous UK GAAP	3,733,779
Adjustments to profit or loss on transition to IFRS	-
Total profit for the financial year under IFRS	<u>3,733,779</u>