

Registered number  
8041022

Ground Rents Income Fund plc  
Annual Report and Financial Statements  
for the year ended 30 September 2014

**Ground Rents Income Fund plc**  
**Consolidated Financial Statements**  
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## **Ground Rents Income Fund plc**

### **Company Information**

#### **Directors**

Malcolm Naish - Chairman  
Paul Craig  
Simon Wombwell

#### **Company Secretary**

William Martin Robinson

#### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

#### **Registrars**

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Kent  
BR3 4TU

#### **Principal Bankers**

Royal Bank of Scotland plc  
Southern Corporate Office  
PO Box 391  
40 Islington High Street  
London  
N1 8JX

#### **Solicitors**

Addleshaw Goddard LLP  
Milton Gate  
60 Chiswell Street  
London  
EC1Y 4AG

#### **CISE Listing Sponsor**

Appleby Securities (Channel Islands) Limited  
PO Box 207 13-14 Esplanade  
St Helier  
Jersey  
JE1 1BD

#### **Broker**

N+1 Singer Capital Markets Limited  
One Bartholomew Lane  
London  
EC2N 2AX

#### **Registered office**

111 Park Street  
London  
W1K 7JL

#### **Registered number**

8041022

## **Ground Rents Income Fund plc**

### **Chairman's Statement**

I am pleased to present the second annual report and financial statements of Ground Rents Income Fund plc ("GRIF" or the "Group") for the year ended 30 September 2014.

The market for ground rents has been very strong during the year under review, with more potential purchasers entering the market and some substantial portfolios changing hands at yields which have not been seen before. It has become increasingly difficult to find investments at prices at which the Group could achieve its target dividend yield. Consequently, the Group missed its target of being fully invested before the preference shares were converted into ordinary shares in May 2014.

Some of the contracts which have been exchanged during the year and subsequently are for the acquisition of ground rents on properties that have yet to be constructed. While this means that the investment in the asset does not produce income immediately, the Group has only paid a 10 per cent deposit. An advantage of transacting in this way is that we have been able to influence the terms of the leases to be granted when the property is completed. This has allowed the Group to link the rent reviews to the Retail Price Index and for the review cycle to be shorter than market norms, both of which are expected to enhance the long term value of the investment. Once all the conditions in these contracts have been satisfied, the remaining amounts payable on completion of these contracts amounted to £2.3m at year end.

Since the year end, GRIF has identified a number of potential investments, for which contracts have yet to be exchanged. The value of these potential acquisitions is approximately £22m, which exceeds the current cash resources of the Group. The directors are exploring various options to fund the additional cash required, including short term debt, and will only commit to these acquisitions once that finance is in place.

The Directors expect to have completed these acquisitions within the next three months, at which point all of the Group's cash resources will be fully committed to investment.

The valuation of the Group's portfolio has increased from £44m at 30 September 2013 to £67m at 30 September 2014. The increase in valuation of the assets held at 30 September 2013 was £4m, an increase of 9% during the year. The increase in valuation across the full portfolio including new additions was £4.2m and offset against this was acquisition costs of £1.6m to give a net revaluation gain on the whole portfolio of £2.6m in the year.

In the year ended 30 September 2014, the Group achieved profits attributable to ordinary shareholders of £4,687,302 (17 months ended 30 September 2013: £1,107,908) and paid dividends of 3.8 pence per share (17 months ended 30 September 2013: 2.8 pence per share), a gross yield of 3.8 per cent. The convertible preference shares paid a fixed dividend of 2 per cent per annum until conversion into ordinary shares on 24 May 2014.

**Ground Rents Income Fund plc**  
**Chairman's Statement (continued)**

The ground rents market continues to be very competitive amongst the main large scale investors, with a number of high net worth individuals and family offices entering the sector. This has had the effect of increasing prices and therefore lowering yields, especially for index linked assets during the year ended 30 September 2014. This is reflected in the improvement in the valuation of the Group's portfolio.

The Directors are mindful of the need to invest all of the Group's cash. However, if the current pipeline of transactions completes at the prices being negotiated, the Directors expect the total portfolio dividend yield to fall below the target set in May 2013.

The Directors feel 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. The NAV per share at 30 September 2014 was £1.043 (2013: £0.972).

It is customary for the Chairman to thank all of the employees for their hard work during the year, but this Group 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.



Malcolm Naish  
Chairman  
3 December 2014

## **Ground Rents Income Fund plc**

### **Strategic Report**

The Directors present their Strategic Report on the Group for the year ended 30 September 2014.

#### **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 was 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 small 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 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 approximately £48.2 million, before expenses 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. In August 2013, the exercise of warrants resulted in the issue of a further 1.184 million shares at £1.00 per share. No warrants were exercised in the year ended 30 September 2014.

The preference shares converted to ordinary shares in May 2014. Details are provided in note 11 on page 30.

#### **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.

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 2014, the portfolio of ground rents was generally valued on multiples of between 16 and 26, which equate to gross yields of between 6.25 per cent. and 3.8 per cent.

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

**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 2014, the audited total assets of the Company were £88.7 million (2013: £86.7 million), of which £67.2 million (2013: £44.0 million) was represented by investments in ground rents and £20.3 million (2013: £40.7 million) in cash.

Since 30 September 2014, the Company has invested or contracted to invest a further £5.2 million in ground rents. Acquisitions in the year ended 30 September 2014 include:

Wiltshire Leisure Village. The second, top level, income stream from this asset of 49 luxury holiday homes on a golf course and leisure club in Wiltshire near Royal Wootton Bassett was acquired for £1,050,000. The ground rent income is reviewed annually to RPI.

The Bezier building was purchased for £1,445,000 and is a landmark development of 150 apartments on Old Street roundabout in central London. The ground rent is reviewed every 25 years and is subject to fixed uplifts.

The Barnsley Portfolio is comprised of the Gateway Plaza and Gatehouse Court developments. Totalling 212 units at a price of £700,000. The sites include local authority offices, a medical centre and restaurant units. Gateway Plaza is subject to 25 year RPI reviews and Gatehouse Court has fixed uplifts.

Located in central Manchester's waterside Castlefield district, the Lumiere building is a single site of 205 apartments including a gym and underground car parking and is a short walk to the city's business and retail cores. Purchased for £650,000 the ground rent income doubles every 25 years.

Incorporating 303 houses across East Lancashire, the Chelford Homes portfolio was purchased for £645,900. The majority of the ground rent income is flat, with the remainder subject to RPI reviews every 10 years.

The Candle House building is an award-winning 20 storey circular block in the Granary Wharf development in Leeds city centre. The site is bordered by the redeveloped canal on one side and Leeds train station to the other. Totalling 160 units the ground rent income is subject to RPI-linked reviews every 20 years and was purchased for £950,581.

Part of the regeneration of Rathbone Market in the London Borough of Newham, Canning Town 1 (also known as the Vermillion Building) is the landmark property in the local area. Situated 300m from the Docklands Light Railway station, the block consists of 203 apartments with ground floor retail units. Purchased for £1,375,235 the ground rent income doubles every 25 years.

The Covent Garden portfolio is a mixed-use portfolio of sites across England totalling 175 units. The ground rent on each site doubles after 10 years and is then subject to 10 yearly RPI-linked reviews. These assets were acquired for £2,150,685.

Vita - Exeter and Bristol. Both these sites are conversions of an existing city centre office building to high-specification student studio accommodation of 156 and 202 units respectively. In addition to the self contained studios each Vita building offers shared facilities including gym, common room and laundry. The ground rent income is subject to 5 yearly RPI-linked reviews and the two sites were acquired for a total of £2,419,200.

Situated in the canal-side regeneration area of New Islington to the north of Manchester city centre, Islington Wharf houses 200 apartment units a ten minute walk from the city core and is adjacent to the most recent Metrolink tram line extension. Purchased for £930,400 the ground rent is subject to RPI-linked reviews every 20 years.

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

### Ground Rents Acquired (continued)

The Quantum building consists of 114 apartments with underground car parking on a canal-side location in Manchester's Northern quarter. Acquired for £1,305,000 the ground rent income doubles every 10 years for the next three reviews and is unchanged thereafter.

In the Armley area of Leeds, Bexley Court is a block of 42 apartments acquired for £615,000 and generating ground rent income subject to 10 yearly RPI reviews.

Vita - Southampton is a conversion of an existing city centre office block to 202 high-specification student studios. Ground rent income is subject to 5 yearly RPI-linked reviews and the asset was acquired for £1,696,800.

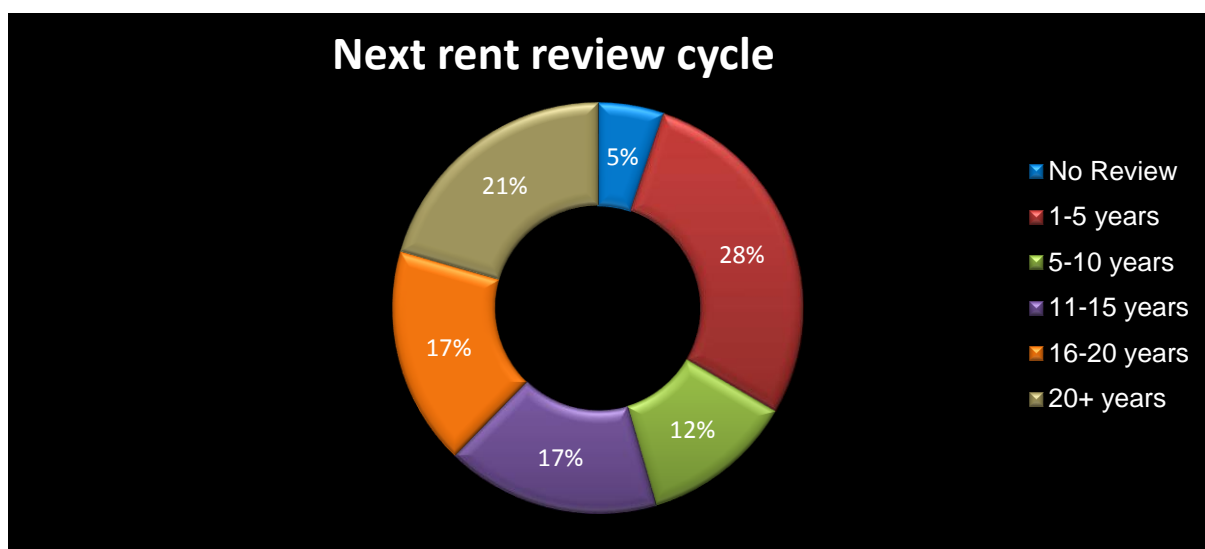
Vita - Chapel is one of three adjacent conversions by Vita on Crosshall Street in Liverpool city centre. Purchased for £571,200 the block totals 68 studio units with ground rent reviewed every 10 years and linked to RPI.

Vita - Tinlings is the second Vita conversion project on Crosshall Street, Liverpool. The 132 studios produce ground rent that is reviewed every 10 years linked to RPI and was acquired for £1,108,800.

### Portfolio characteristics

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 valuation of a ground rent investment tends to remain static, except for market movements driven by variation to yields, until the final few years before a review date.

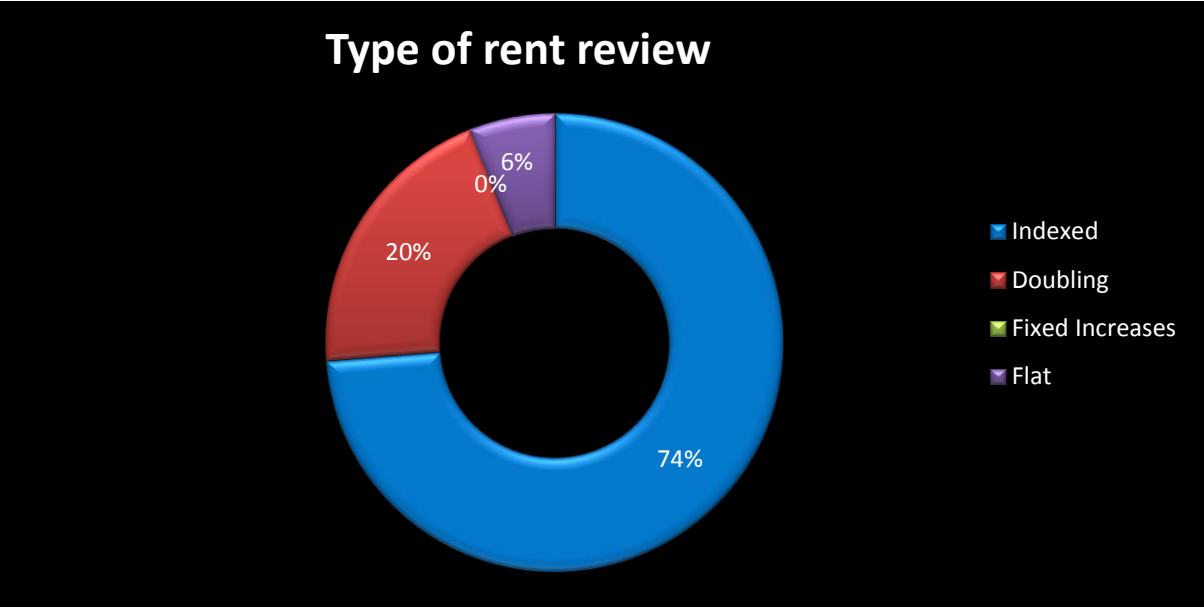
The chart below shows the period of time before the next review date for the ground rents in the portfolio at 30 September 2014:



The chart demonstrates that 28 per cent. 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.

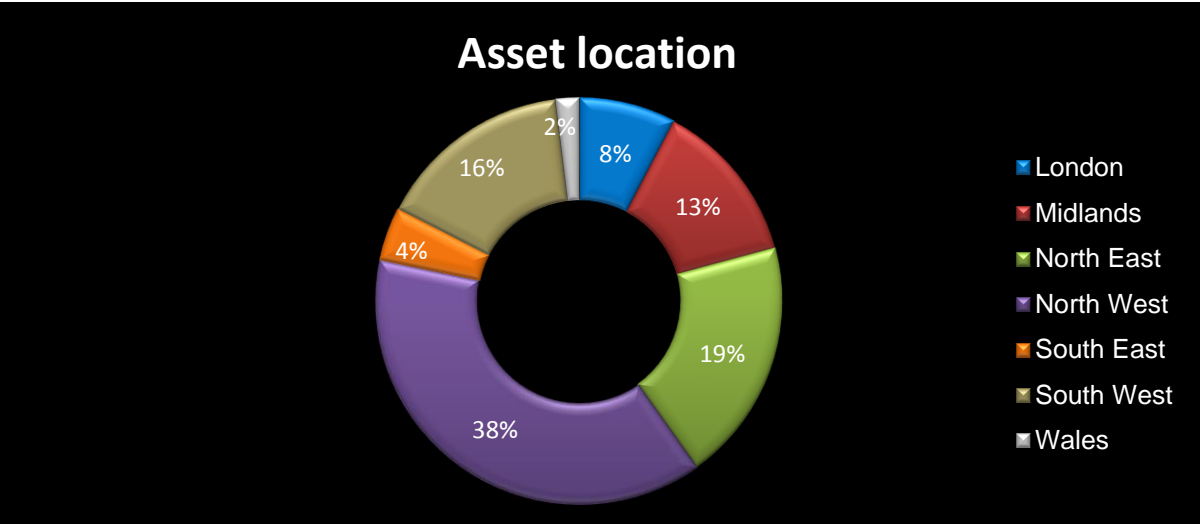


The chart below shows the type of rent review in the portfolio at 30 September 2014:



64 per cent. 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 2014 is shown in the chart below:



## **Ground Rents Income Fund plc**

### **Strategic Report (continued)**

#### **Key Performance Indicators**

While the Group is in its acquisition phase, 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.

As at 30 September 2014, the Group had invested all of the net proceeds of the issue of the ordinary shares and was completing the investment of the net proceeds of the issue of the preference shares.

The Directors monitor the amount of cash awaiting investment and the level of acquisition work-in-progress to determine the likelihood of achieving the stated objective of the REIT.

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 2014, the dividend yield on the ordinary shares was 3.8% (17 months ended 30 September 2013: 2.8%) on the issue price. The Directors did not have a target dividend yield in the first two accounting periods because the Group was still in the investment phase.

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 not comply with the REIT regime in the time period set out by HMRC, the Directors would ensure that appropriate steps were taken to ensure compliance.

## **Ground Rents Income Fund plc**

### **Strategic Report (continued)**

#### **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. The Directors have engaged the investment adviser to identify and negotiate acquisitions on their behalf, subject to their approval prior to the exchange of contracts. The investment adviser has a pipeline of opportunities, which are reported to the Directors on a regular basis. The Directors expect to have completed these acquisitions within the next three months, at which point all of the Group's cash resources will be fully committed to investment.

##### *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 determine the impact that any ground rents purchased will have on the expected yield for the Group.

##### *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 valuation 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.

#### **Cash flow Risk**

##### *Availability of equity and/or debt*

The Group 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 Group 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.

The Directors monitor the cash flow projections on a regular basis, which allows them to ensure that the Group 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)**

#### **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 adviser. The panel of suitable counterparties is subject to regular review by the board and its advisers.

##### *Interest rate risk*

The Group currently has no external borrowings. The Company places excess cash of the Group on deposit in interest bearing accounts to maximise returns.

The convertible preference shares were accounted for as debt and were subject to a fixed coupon of 2.0% per annum until they are converted into ordinary shares on 24 May 2014. Since then the Company's equity has been in a single class of share, subject to a single rate of dividend based on the distributable profits of the Company.

#### **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 adviser, key individuals and relationships*

The Group's ability to achieve its investment objective is substantively dependent on the performance of the investment adviser 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 Group could have a material adverse effect on the Group'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. The Company has consulted with its advisors and adopted a method of identifying income and costs as either property or non-property and allocates profits on this basis as part of the accounting process.

##### *Insurance risk*

The Group 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 Group 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 and remain focused on achieving full investment. The Directors aim to achieve full investment, or to have committed the Group to transactions which will lead to full investment of the remaining cash within the next three months.

Recent transactional data which has been made public, and the Directors' experience of the prices which they now have to offer to secure purchases, indicate that purchase prices, measured by the multiples which are being achieved, will be at the higher end of, and will almost certainly exceed, the expected range.

This, in turn, is making it more difficult to acquire ground rents at prices which will enable the Directors to achieve the targeted dividend yield.

The Directors set an annualised target dividend yield of 4.4 per cent. per annum, in May 2013, calculated on the issue price of the ordinary and convertible preference shares and on the assumption that all of the net proceeds from the share issues have been invested in accordance with the Group's investment strategy and that the convertible preference shares issued in May 2013 have been converted into ordinary shares.

The market has continued its trend of growing capital values and therefore falling yields. The Directors are mindful of the need to invest all of the Group's cash. However, if the current pipeline of transactions completes at the prices being negotiated, the Directors expect the total portfolio dividend yield to fall below the target set in May 2013.

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 2015.

On behalf of the board:



Simon Wombwell  
Director  
3 December 2014

## **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 2014.

#### **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 (see note 11 on page 30).

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 2014 was £4,702,921 (17 months ended 30 September 2013: £1,142,447) and the profit for the year ended 30 September 2014 after taxation was £4,687,302 (17 months ended 30 September 2013: £1,107,908).

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 1.056p per share for the period to 31 December 2013
- Interim PID dividend of 1.043p per share for the period to 31 March 2014
- Interim PID dividend of 0.6p per share for the period to 24 May 2014
- Interim PID dividend of 1.102p per share to the period to 30 September 2014
- Interim Ordinary dividend of 0.067p per share for the year to 30 September 2014

This results in total dividends of 3.868p per ordinary share for the year ended 30 September 2014 (17 months ended 30 September 2013: 2.8p). These dividends amount to £2,321,982 for the year ended 30 September 2014 (17 months ended 30 September 2013: £1,364,398). The preference share interest amounted to a total of £501,150 for the year ended 30 September 2014 (17 months ended 30 September 2013: £269,850). 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 2014, the Group complied with the conditions set out in the CISE Rules for Companies.

#### **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

## **Ground Rents Income Fund plc**

**Registered number:** 8041022

### **Directors' Report**

#### **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.

#### **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 9 and 10 and in note 13 on page 31. This information is incorporated into this Directors' Report by reference and is deemed to form part of this Directors' Report.

#### **Events after the balance sheet date**

The Company continues to look for Ground Rent investment opportunities.

In the period since the balance sheet date, the Group has invested or contracted to invest in Ground Rent assets totalling £5.2 million (note 23).

#### **Future developments**

An indication of likely future developments in the Group can be found on page 11. This information is incorporated into this Directors' Report by reference and is deemed to form part of this Directors' Report.

#### **Independent Auditors**

PricewaterhouseCoopers LLP were appointed during the prior period as the first auditors of the group. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor 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 auditor is 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 auditor is aware of that information.

This report was approved by the board on 3 December 2014 and signed on its behalf by:



Simon Wombwell  
Director

## **Ground Rents Income Fund plc**

### **Statement of 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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Group for that period. In preparing these financial statements, the directors are required to:

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

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

The directors are responsible for 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.



**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 2014 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**

Ground Rents Income Fund plc's financial statements comprise:

- the consolidated statement of financial position as at 30 September 2014;
- 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 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 applicable law and IFRSs as adopted by the European Union.

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 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 Statement of Directors' Responsibilities set out on page 14, 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.

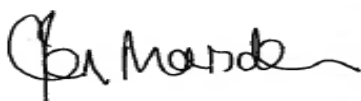
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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 and Financial Statements 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 parent company financial statements of Ground Rents Income Fund plc for the year ended 30 September 2014.



Ian Marsden (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
3 December 2014

**Ground Rents Income Fund plc**  
**Consolidated Income Statement**  
**for the year ended 30 September 2014**

	Notes	Year ended 30 September 2014 £	23 April 2012 to 30 September 2013 £
Continuing Operations			
Revenue	2	3,197,615	1,881,269
Administrative expenses		(904,419)	(1,080,066)
Profit on sale of ground rent assets		19,093	-
Net revaluation gain on investment properties		2,619,071	271,400
<b>Operating profit</b>	3	<u>4,931,360</u>	<u>1,072,603</u>
Finance income	5	272,711	339,694
Finance costs	6	(501,150)	(269,850)
<b>Profit before income tax</b>		<u>4,702,921</u>	<u>1,142,447</u>
Income tax expense	7	(15,619)	(34,539)
<b>Profit for the year / period attributable to owners of the parent</b>		<u>4,687,302</u>	<u>1,107,908</u>
<b>Earnings per share</b>			
Basic	14	7.58p	2.29p
Diluted	14	5.97p	2.24p

There is no other comprehensive income for the year / period.

The accompanying notes on pages 21 to 35 form an integral part of the consolidated financial statements.

**Ground Rents Income Fund plc**  
**Consolidated Statement of Financial Position**  
**as at 30 September 2014**

	Notes	2014 £	2013 £
<b>Assets</b>			
<b>Non current assets</b>			
Investment properties - ground rents	8	67,259,300	43,989,864
<b>Total non current assets</b>		<u>67,259,300</u>	<u>43,989,864</u>
<b>Current assets</b>			
Trade and other receivables	10	1,114,511	1,964,354
Cash and cash equivalents		20,363,067	40,710,485
<b>Total current assets</b>		<u>21,477,578</u>	<u>42,674,839</u>
<b>Total Assets</b>		<b>88,736,878</b>	<b>86,664,703</b>
<b>Current liabilities</b>			
Trade and other payables	12	(554,325)	(788,053)
Corporation tax liability		(24,785)	(46,505)
Convertible preference shares	11	-	(37,780,625)
<b>Total current liabilities</b>		<u>(579,110)</u>	<u>(38,615,183)</u>
<b>Net assets</b>		<u><b>88,157,768</b></u>	<u><b>48,049,520</b></u>
Financed by:			
<b>Equity</b>			
Share capital	15	42,257,142	24,713,049
Share premium account	16	39,291,796	19,092,961
Distributable reserve	17	6,608,830	4,243,510
<b>Total equity</b>		<u><b>88,157,768</b></u>	<u><b>48,049,520</b></u>

The financial statements on pages 17 to 35 were approved and authorised for issue by the board of directors on 3 December 2014 and signed on its behalf by:



Simon Wombwell

Director  
Ground Rents Income Fund plc

Company registered number 8041022

The accompanying notes on pages 21 to 35 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 2014**

		<b>Year ended 30 September 2014 £</b>	<b>23 April 2012 to 30 September 2013 £</b>
	<b>Notes</b>		
<b>Cash flows from operating activities</b>			
Cash generated from / (used in) operations	19	2,881,462	(259,575)
Taxation paid		(43,036)	(65,283)
<b>Net cash generated from / (used in) operating activities</b>		<u>2,838,426</u>	<u>(324,858)</u>
<b>Cash flow from investing activities</b>			
Interest received		287,653	301,420
Purchase of ground rent assets		(20,650,365)	(30,417,557)
Payments to acquire subsidiary undertakings	9	-	(13,300,907)
<b>Net cash absorbed by investing activities</b>		<u>(20,362,712)</u>	<u>(43,417,044)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares	19	-	86,086,635
Preference shares interest paid		(501,150)	(269,850)
Dividends paid to shareholders		(2,321,982)	(1,364,398)
<b>Net cash (used in) / generated from financing activities</b>		<u>(2,823,132)</u>	<u>84,452,387</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>	20	<u>(20,347,418)</u>	<u>40,710,485</u>
<b>Net cash and cash equivalents at 1 October / 23 April</b>		<u>40,710,485</u>	<u>-</u>
<b>Net cash and cash equivalents at 30 September</b>		<u>20,363,067</u>	<u>40,710,485</u>

The accompanying notes on pages 21 to 35 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 2014**

	Note	Share capital 15 £	Share premium account 16 £	Distributable reserve 17 £	Total equity £
At 23 April 2012		-	-	-	-
<b>Comprehensive income</b>					
Profit for the period		-	-	1,107,908	1,107,908
<b>Profit for the period and total comprehensive income</b>		-	-	1,107,908	1,107,908
<b>Transactions with owners</b>					
Issue of share capital		24,121,150	24,121,150	-	48,242,300
Exercise of warrants		591,899	591,899	-	1,183,798
Reserve transfer		-	(4,500,000)	4,500,000	-
Share issue costs		-	(1,120,088)	-	(1,120,088)
Dividends paid (note 18)		-	-	(1,364,398)	(1,364,398)
<b>At 1 October 2013</b>		<b>24,713,049</b>	<b>19,092,961</b>	<b>4,243,510</b>	<b>48,049,520</b>
<b>Comprehensive income</b>					
Profit for the year		-	-	4,687,302	4,687,302
<b>Profit for the year and total comprehensive income</b>		<b>24,713,049</b>	<b>19,092,961</b>	<b>8,930,812</b>	<b>52,736,822</b>
<b>Transactions with owners</b>					
Issue of share capital		17,544,093	20,236,531	-	37,780,624
Share issue costs		-	(37,696)	-	(37,696)
Dividends paid (note 18)		-	-	(2,321,982)	(2,321,982)
<b>At 30 September 2014</b>		<b>42,257,142</b>	<b>39,291,796</b>	<b>6,608,830</b>	<b>88,157,768</b>

The accompanying notes on pages 21 to 35 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 2014**

**1 Accounting policies**

**(a) Basis of preparation**

Ground Rents Income Funds plc is 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, IFRIC 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.

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence in the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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

**(b) New standards adopted in the year**

IFRS 13 "Fair value measurement" is effective for annual periods beginning on or after 1 January 2013. This standard applies to IFRSs that require or permit fair value measurements or disclosures and provides a single source of fair value measurement and disclosure requirements for use across IFRSs.

IFRS 7 (amendment) "Financial instruments: Disclosures" is effective for annual periods beginning on or after 1 January 2013, and amends the disclosures required where certain items have been offset.

**(c) New or amended standards and interpretations in issue but not yet effective**

The following new standards, amendments to standards and interpretations that are expected to impact the Group, which have not been applied in these financial statements, were in issue, but are not yet effective:

IFRS 9 "Financial Instruments" is effective for annual reporting periods commencing on or after 1 January 2015 subject to EU endorsement. The standard will eventually replace IAS39, but currently only details the requirement for recognition and measurement of financial assets and financial liabilities.

IFRS 10 "Consolidated financial statements" is effective for annual reporting periods beginning on or after 1 January 2014. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within consolidated financial statements. This standard provides additional guidance to assist in determining control where this is difficult to assess.

IAS 32 (amendment) "Offsetting financial assets and liabilities" is effective for annual periods beginning on or after 1 January 2014, and provides clarification on the application of offsetting rules.

The Group continues to assess the impact of adopting these new or amended standards and interpretations in future accounting periods.

**(d) Currency**

The functional and presentation currency is pounds sterling.

**(e) 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.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**1 Accounting policies (continued)**

**(f) Critical accounting estimates and judgements**

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

The valuation 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 accounts. Further information about the qualifications of the independent third-party valuer and the valuation methods can be found in note 8.

**(g) 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.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the aggregate consideration transferred, at the acquisition date. Acquisition costs incurred are charged to the income statement.

**(h) Revenue**

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

**(i) 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.

**(j) 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 balance sheet date.

**(k) 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.



**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**1 Accounting policies (continued)**

**(l) *Investment properties - Ground Rents***

Ground rents are carried in the balance sheet at their open market value. The directors have applied the fair-value model in IAS 40 - Investment Property. Properties are revalued at the balance sheet date by an external valuer, as defined by the Royal Institution of Chartered Surveyors. 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 external 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.

**(m) *Cash and cash equivalents***

Cash comprises of call deposits held with banks.

**(n) *Capital 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. The Group has no debt at the year end, so the gearing ratio is £nil. 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.

**(o) *Trade Receivables***

Trade 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.

**(p) *Trade Payables***

Trade 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.

**(q) *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.

**(r) *Ordinary Share Capital***

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

**(s) *Warrants***

Warrants were issued on a one for five basis with the issue of the Ordinary Share Capital in August 2012. Each warrant gives the holder the right to subscribe for an ordinary share for £1 on the anniversary of their issue for a period of ten years. No provision is made in these financial statements for the cost of issuing shares to warrant-holders as the subscription price approximates to the average market price of the ordinary shares over the accounting period.

**(t) *Convertible Preference Shares***

Convertible Preference Shares were classified within "non-current liabilities". Expenses of issue were netted off the outstanding balance. Interest is accrued evenly in line with the fixed coupon rate attached to the shares. The interest was recognised as an expense in the consolidated income statement.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**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.

	<b>Year ended 30 September 2014</b>	<b>23 April 2012 to 30 September 2013</b>
	<b>£</b>	<b>£</b>
By activity:		
Ground rent income accrued in the year / period	2,861,222	1,709,343
Other income falling due within the year / period	336,393	171,926
	<u>3,197,615</u>	<u>1,881,269</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 Operating profit**

	<b>Year ended 30 September 2014</b>	<b>23 April 2012 to 30 September 2013</b>
	<b>£</b>	<b>£</b>
This is stated after charging:		
Directors salaries	62,432	62,082
Auditors' remuneration - see below	64,250	60,500
Costs of acquiring subsidiary undertakings (note 9)	-	277,036
Management fees	346,011	295,944
Professional fees	171,763	100,469
Insurance	22,433	27,677
Sponsor fees	34,368	40,800
Valuation fees	73,730	30,000
Registrar fees	35,535	28,391
Listing fees	28,854	21,076
Advertising and printing costs	26,362	6,757
Other operating expenses	38,681	129,334
	<u>904,419</u>	<u>1,080,066</u>

No direct operating expenses were incurred in relation to investment property in the year. Profits on sale of ground rents were £19,093.

Services provided by the Company's auditor

	<b>Year ended 30 September 2014</b>	<b>23 April 2012 to 30 September 2013</b>
	<b>£</b>	<b>£</b>
Group		
Fees payable to the Company's auditor for the audit of parent Company and consolidated financial statements	15,000	15,000
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	49,250	40,000
- Audit-related assurance services	6,000	5,500
	<u>70,250</u>	<u>60,500</u>

Auditors remuneration of £6,000 in 2014 for work done to verify the conversion of preference shares to ordinary shares has been charged to share issue costs.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**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.

	<b>Year ended 30 September 2014 £</b>	<b>23 April 2012 to 30 September 2013 £</b>
Short term employee benefits paid as directors' remuneration	62,432	62,082
Invoiced by Brooks Macdonald Funds Limited	24,000	25,118
	<u>86,432</u>	<u>87,200</u>
Highest paid director: Emoluments	30,000	33,863
	<u>30,000</u>	<u>33,863</u>
<b>Monthly average number of employees during the year / period</b>	<b>Number</b>	<b>Number</b>
Administration	3	3

There were no post-employment benefits, other long-term benefits, termination benefits or share-based payments accrued or paid out in the year ended 30 September 2014 (2013: none).

**5 Finance income**

	<b>Year ended 30 September 2014 £</b>	<b>23 April 2012 to 30 September 2013 £</b>
Interest on bank deposits	<u>272,711</u>	<u>339,694</u>

**6 Finance costs**

	<b>Year ended 30 September 2014 £</b>	<b>23 April 2012 to 30 September 2013 £</b>
Preference share interest for the period to 30 June 2013	-	77,100
Preference share interest for the period to 30 September 2013	-	192,750
Preference share interest for the period to 31 December 2013	192,750	-
Preference share interest for the period to 31 March 2014	192,750	-
Preference share interest for the period to 24 May 2014	115,650	-
	<u>501,150</u>	<u>269,850</u>

The preference share interest was payable from the issue date on 24 May 2013 to the date of conversion to ordinary shares on 24 May 2014. The interest was payable at the rate of 2% per annum per share. The amounts were paid as a non-PID dividend.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**7 Income tax expense**

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.

<b>Analysis of charge in year / period</b>	<b>Year ended 30 September 2014</b>	<b>23 April 2012 to 30 September 2013</b>
	<b>£</b>	<b>£</b>
Current tax:		
UK corporation tax on profits of the year / period	19,453	34,539
Adjustments in respect of previous periods	(3,834)	-
	<u>15,619</u>	<u>34,539</u>

**Factors affecting tax charge for year / period**

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

	<b>Year ended 30 September 2014</b>	<b>23 April 2012 to 30 September 2013</b>
	<b>£</b>	<b>£</b>
Profit on ordinary activities before tax	<u>4,702,921</u>	<u>1,142,447</u>
Standard rate of corporation tax in the UK	22.0%	23.7%
	<b>£</b>	<b>£</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax	1,034,643	270,760
Effects of:		
Unrealised revaluation surplus not taxable	(576,196)	(64,322)
Property profit not taxable under the REIT regime	(549,247)	(235,853)
Adjustments in respect of previous periods	(3,834)	-
Preference share interest paid not deductible for corporation tax	<u>110,253</u>	<u>63,954</u>
Current tax charge for year / period	<u>15,619</u>	<u>34,539</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**

The Finance Act 2013 was substantively enacted on 2 July 2013 and included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014, and to further reduce to 20% from 1 April 2015.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**8 Investment Properties - Ground rents**

**Ground rent  
assets**

**Market value**

**£**

At 1 October 2013	43,989,864
Additions	20,650,365
Surplus on revaluation	2,619,071
At 30 September 2014	<u>67,259,300</u>

**The fair value hierarchy has the following levels:**

Level 1: Quoted prices (unadjusted) in active market for identical assets and liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

There have been no transfers between Level 2 and Level 3 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 3 between the beginning and the end of the reporting period.

	Level III investment properties at 30 September 2014 £	Level III investment properties at 30 September 2013 £
<b>Level 3</b>		
At start of year / period	43,989,864	-
Additions	20,650,365	43,718,464
Disposals at cost	-	-
Total unrealised gain recognised in Income Statement	2,619,071	271,400
Closing balance at 30 September	<u>67,259,300</u>	<u>43,989,864</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 2014**

**8 Investment Properties - Ground rents (continued)**

The Group's investment in ground rents was revalued at 30 September 2014 by Savills (UK) Limited. 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 fair value is defined as "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date".

The 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, fixed income streams. The valuation of a ground rent depends on the future rental uplift timing and nature. The most valuable ground rents 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 YP multiple and the highest yield.

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

Valuation Category - type of rent review

	<b>Indexed</b>	<b>Doubling</b>	<b>Fixed increases</b>	<b>Flat</b>
Cost (£)	37,788,175	11,993,000	7,452,666	3,299,099
Fair Value at 30 Sept 2014 (£)	42,243,500	12,613,900	9,389,900	3,012,000
Gross rent roll (£)	1,915,293	589,370	440,174	177,243
Rental Yield on purchase price	5.07%	4.91%	5.91%	5.37%
Rental Yield on fair value	4.53%	4.67%	4.69%	5.88%

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

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

	<b>+/- effect on valuation</b>			
	<b>Indexed</b>	<b>Doubling</b>	<b>Fixed increases</b>	<b>Flat</b>
Impact on fair value of 1 YP change	1,915,293	589,370	440,174	177,243

The average YP across the portfolio is 21.6 (2013: 20.4)

**9 Business Combinations**

**Acquisition of Ground Rent subsidiaries of Braemar Group PCC Limited**

On 13 August 2012, the Company acquired the ground rent subsidiaries of Braemar Group PCC Limited.

The consideration to Braemar Group PCC Limited was £1,664,909. This was based on a purchase price of £1,279,793 plus an amount to adjust the purchase price to the fair value of the net assets of the companies being acquired at completion. There was also a certain amount of inter-company debt owed by the companies to Braemar Group PCC Limited and the Company agreed to discharge this liability on completion of the Acquisition Agreement. The consideration was cash paid at the date of transfer of ownership. The acquisition terms include no contingent or deferred consideration arrangements.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**9 Business Combinations (continued)**

Details of the assets acquired and liabilities assumed, recognised at the acquisition date, are shown below:

Recognised amounts of identifiable assets acquired and liabilities assumed	2013 £
Ground rent assets	9,726,000
Other assets	33,030
Short term trade and other receivables	304,250
Short term trade and other payables	(214,640)
Loans due to the Ground Rent Cell of Braemar Group PCC Limited	(8,183,731)
	<u>1,664,909</u>

The portfolio purchased from Braemar Group PCC Limited contributed revenue of £884,991 and profit before taxation of £699,484 to the Group's results for the period ended 30 September 2013. Additionally there was a net revaluation gain on investment property of £823,919 on this portfolio in the period. The Group commenced its business with the purchase of this portfolio, so the results since purchase are the same as the full year results.

The costs of acquisition which have been included in administrative expenses in the period ended 30 September 2013, in respect of the purchase of the Braemar Group PCC portfolio were £150,824.

**Acquisition of Louis Group Land Investments Limited**

The Company also acquired Louis Group Land Investments Limited in the period ended 30 September 2013. On 26 September 2012 the directors changed the company name to Metropolitan Ground Rents Limited. Consideration was £3,452,267 and settled in cash.

Recognised amounts of identifiable assets acquired and liabilities assumed

	£
Ground rent assets	3,475,500
Short term trade and other receivables	24,096
Short term trade and other payables	(47,329)
	<u>3,452,267</u>

Metropolitan Ground Rents Limited contributed revenue of £193,542 and profit before taxation of £184,566 to the Group's results for the period ended 30 September 2013. Additionally there was a net revaluation gain on investment property of £244,714 on this portfolio in the period. Had the company been purchased on the date that the Group commenced trading then it would have contributed income of £251,836 and incurred expenses of £69,430 and the revaluation gain would have been £328,014.

The acquisition costs incurred in respect of this acquisition were £126,212 which were included within administration expenses in the period ended 30 September 2013.

A full list of the subsidiaries of the Company at 30 September 2014 is given in note 4 of the Company financial statements on page 41.

The cashflows in relation to the acquisition of subsidiaries in 2013 are as follows:

	£
Payment for net assets of Braemar Group PCC portfolio	1,664,909
Settlement of intercompany loans owed to Braemar Group PCC	8,183,731
Payment for Louis Group Land Investments Limited	3,452,267
	<u>13,300,907</u>

The following costs of acquisition have been included within administrative expenses:

	£
Costs of acquisition of SPVs within the Braemar Group PCC Ground Rent Cell	150,824
Costs of acquisition of Louis Group Land Investments Limited	126,212
	<u>277,036</u>

The individual companies within the Group do not maintain their own bank accounts and all cash transactions are dealt with by the parent Company. Hence, there are no post acquisition cash flows to disclose.

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

<b>10 Trade and other receivables</b>	<b>30 September 2014 £</b>	<b>30 September 2013 £</b>
Trade receivables	406,933	274,566
Other receivables	529,684	1,619,670
Prepayments and accrued income	177,894	70,118
	<u>1,114,511</u>	<u>1,964,354</u>

Included in other receivables is £279,767 held in a client account at the Company's solicitors which was for deals in progress to complete after the balance sheet date (2013: £1,268,014). The fair value of trade and other receivables is equal to the book value.

The ageing analysis of trade receivables is as follows:

	<b>30 September 2014 £</b>	<b>30 September 2013 £</b>
Up to 3 months	243,349	224,990
Over 3 months	163,584	49,576
	<u>406,933</u>	<u>274,566</u>

Management consider the trade receivables to be fully collectable due to the secure nature of the asset.

<b>11 Convertible preference shares</b>	<b>30 September 2014 £</b>	<b>30 September 2013 £</b>
Convertible preference shares	-	37,780,625

The Company issued 38,550,000 Convertible Preference Shares at a price of £1 each on 24 May 2013. Issue costs of £769,375 were capitalised and deducted from the gross proceeds to arrive at the amount disclosed above. The preference shares were classified as debt in the consolidated statement of financial position because the directors considered this to be the most appropriate classification taking into account the fixed interest cost. The Convertible Preference Shares were entitled to a fixed cumulative preferential dividend at an annual rate of 2%.

The Convertible Preference Shares were converted into Ordinary Shares on 24 May 2014 at a ratio based on the net asset value of each of the respective portfolios at the time of conversion. 35,088,186 ordinary shares were issued in place of the preference shares which were then cancelled.

<b>12 Trade and other payables</b>	<b>30 September 2014 £</b>	<b>30 September 2013 £</b>
Trade payables	16,801	78,364
Other taxes and social security costs	19,462	9,320
Accruals and deferred income	518,062	700,369
	<u>554,325</u>	<u>788,053</u>

Trade payables and other taxes and social security amounts fall due within the next three months. Accruals and deferred income mainly represents monies that have been received in advance in respect of ground rent income falling due within the next year.



**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**13 Financial Instruments**

The Group's financial instruments comprise cash, convertible preference shares 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 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 2014		30 September 2013	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
2% Convertible preference shares	-	-	37,780,625	38,358,875

**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 2014		30 September 2013	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Trade receivables	406,933	406,933	274,566	274,566
Cash at bank and in hand	20,363,067	20,363,067	40,710,485	40,710,485

The fair value on the preference shares falls within level 1 of the fair value hierarchy.

**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. The Group has no debt at the year end so the gearing ratio is nil. 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.

*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 adviser. The panel of suitable counterparties is subject to regular review by the board and its advisers.

*Interest rate risk*

The Group has no external borrowings. The Company places excess cash of the Group on deposit in interest bearing accounts to maximise returns.

The convertible preference shares were accounted for as debt and were subject to a fixed coupon of 2.0% per annum until they were converted into ordinary shares, at which point the Company's equity is in a single class of share, subject to a single rate of dividend based on the distributable profits of the Company.

*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 2014**

**14 Earnings per share**

Basic Earnings per Share

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

	<b>30 September 2014</b>	30 September 2013
	<b>£</b>	<b>£</b>
Profit attributable to owners of the Company	<u>4,687,302</u>	<u>1,107,908</u>

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

Weighted average number of shares in issue in the year / period	61,861,197	48,388,352
Basic earnings per share	7.58p	2.29p

Diluted Earnings per Share

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable warrants and the preference shares issued in the prior period, weighted for the relevant periods.

	<b>30 September 2014</b>	30 September 2013
	<b>£</b>	<b>£</b>
Profit attributable to equity shareholders of the Company	4,687,302	1,107,908
Preference share interest paid	501,150	269,850
Total earnings in the year / period	<u>5,188,452</u>	<u>1,377,758</u>
	<b>2014</b>	2013
	<b>Number</b>	<b>Number</b>
Weighted average number of shares - basic	61,861,197	48,388,352
Effect of warrants	158,789	1,035,540
Effect of preference shares	24,855,769	11,983,012
Diluted total shares	<u>86,875,755</u>	<u>61,406,904</u>
Diluted earnings per share	5.97p	2.24p

**15 Share capital**

	<b>30 September 2014</b>	<b>30 September 2014</b>	30 September 2013	30 September 2013
	<b>Number</b>	<b>£</b>	<b>Number</b>	<b>£</b>
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	<u>84,514,284</u>	<u>42,257,142</u>	<u>49,426,098</u>	<u>24,713,049</u>
	<b>30 September 2014</b>	<b>30 September 2014</b>	30 September 2013	30 September 2013
	<b>Number</b>	<b>£</b>	<b>Number</b>	<b>£</b>
Shares issued during the year / period:				
Ordinary shares of £0.50 each	<u>35,088,186</u>	<u>17,544,093</u>	<u>49,426,098</u>	<u>24,713,049</u>

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. Following the conversion of preference shares to ordinary shares, the Company issued 35,088,186 shares at a price of £1 each during the financial period (see note 11 on page 30).

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 the year (2013: 1,183,798).

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

<b>16 Share premium account</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
At 1 October 2013 / 23 April 2012	19,092,961	-
Shares issued	20,236,533	24,713,048
Expenses of issue	(37,698)	(1,120,087)
Transfer to distributable reserve (note 17)	-	(4,500,000)
At 30 September	<u>39,291,796</u>	<u>19,092,961</u>

<b>17 Distributable reserve</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
At 1 October 2013 / 23 April 2012	4,243,510	-
Transfer from share premium (note 16)	-	4,500,000
Profit for the financial year	4,687,302	1,107,908
Dividends paid	(2,321,982)	(1,364,398)
At 30 September	<u>6,608,830</u>	<u>4,243,510</u>

**18 Dividends**

It is the policy of the Group to pay quarterly dividends to ordinary shareholders. Information about preference share dividends paid in the year / period is provided in note 6 on page 25.

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Dividends declared by the Company during the year:		
Dividends paid	<u>2,321,982</u>	<u>1,364,398</u>
	<u>2,321,982</u>	<u>1,364,398</u>
Analysis of dividends by type:		
Interim ordinary dividend of 0.35p per share	-	168,848
Interim PID dividend of 0.6p per share	-	289,454
Interim PID dividend of 0.7p per share	-	337,696
Interim PID dividend of 1.15p per share	-	568,400
Interim PID dividend of 1.056p per share	521,939	-
Interim PID dividend of 1.043p per share	515,514	-
Interim PID dividend of 0.6p per share	296,557	-
Interim PID dividend of 1.102p per share	931,549	-
Interim ordinary dividend of 0.067p per share	56,423	-
	<u>2,321,982</u>	<u>1,364,398</u>
Since the period end, the following dividends have been announced:		
Interim PID dividend of 1.056p per share - paid	-	521,940
Interim preference share dividend of 0.5p per share - paid	-	192,750
Interim PID dividend on 0.847p per share - announced	<u>715,836</u>	<u>-</u>

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**19 Gross cash flows**

**Reconciliation of operating profit to net cash inflow from operating activities**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Profit before income tax	4,702,921	1,142,447
Adjustments for:		
Non-cash revaluation gain	(2,619,071)	(271,400)
Net finance income	228,439	(69,844)
Operating cash flows before movements in working capital	<u>2,312,289</u>	<u>801,203</u>
Movements in working capital:		
Decrease / (increase) in trade receivables	849,843	(1,660,104)
(Decrease) / Increase in trade payables	(280,670)	599,326
Net cash generated from / (used in) operations	<u>2,881,462</u>	<u>(259,575)</u>

**Proceeds of share issue**

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

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Issue of ordinary shares on 13 August 2012	-	48,242,300
Share issue costs associated with issue of ordinary shares	-	(1,120,088)
Issue of preference shares on 24 May 2013	-	38,550,000
Share issue costs associated with issue of preference shares	-	(769,375)
Warrants issued on 13 August 2013	-	1,183,798
	<u>-</u>	<u>86,086,635</u>

**20 Analysis of changes in net cash**

	At 30 September 2013 £	Cash flows £	Non-cash changes £	At 30 September 2014 £
Cash at bank and in hand	40,710,485	(20,347,418)	-	20,363,067
Total	<u>40,710,485</u>	<u>(20,347,418)</u>	<u>-</u>	<u>20,363,067</u>

**Ground Rents Income Fund plc**  
**Notes to the Consolidated financial statements**  
**for the year ended 30 September 2014**

**21 Related party transactions**

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

Simon Wombwell is also a director of Brooks Macdonald Funds Limited (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 advisory and administration services to the Company, the fees for which are 0.55 per cent. per annum of the market capitalisation of the Company. In addition, BMF is entitled to an agency fee of 2 per cent. of the purchase price of any property acquired by the Company, where no other agency fee is payable. Where a third party agency fee is less than 2 per cent of the purchase price, BMF is entitled to an agency fee of 50 per cent. of the difference between 2 per cent of the purchase price and the third party agency fee.

Prior to 24 May 2013, these services were provided by BER, on the same terms as the current arrangements with BMF.

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

	<b>2014</b>	2013
	<b>£</b>	<b>£</b>
Commission on placement of Ordinary shares	-	355,088
Commission on placement of Preference shares	-	137,349
Advisory fee payable to Brooks Macdonald Funds Limited	346,011	84,679
Acquisition fees payable to Brooks Macdonald Funds Limited	211,515	79,423
Other amounts due to Brooks Macdonald Funds Limited	11,649	-
Directors fees payable to Brooks Macdonald Funds Limited	24,000	25,118
	<u>593,175</u>	<u>681,657</u>

£94 was due from Ground Rents Income Fund plc to Brooks Macdonald Funds Limited at the balance sheet date (2013: £64,750).

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 / period were as follows:

	<b>2014</b>	2013
	<b>£</b>	<b>£</b>
Advisory fee payable to Braemar Estates (Residential) Limited	-	145,615
Acquisition fees payable to Braemar Estates (Residential) Limited	-	248,693
Other amounts due to Braemar Estates (Residential) Limited	5,829	13,816
	<u>5,829</u>	<u>408,124</u>

No amounts were owed to or from Braemar Estates (Residential) Limited at the balance sheet date (2013: £nil).

**22 Other financial commitments**

The Company has a number of Ground Rent acquisitions in the pipeline. At 30 September 2014, the Company had £279,767 of cash held at solicitors for acquisitions which were in progress to complete after the balance sheet date (note 10) (2013: £1,268,014).

**23 Events after the balance sheet date**

The Company continues to look for ground rent investment opportunities. In the period since the balance sheet date, the Group has invested or contracted to invest in ground rent assets totalling £5.2 million.

**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 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**What we have audited**

Ground Rents Income Fund plc's financial statements comprise:

- the company balance sheet as at 30 September 2014;
- the notes to the 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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.

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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.

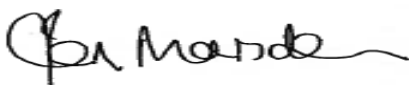
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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 and Financial Statements 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 2014.



Ian Marsden (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
3 December 2014

**Ground Rents Income Fund plc**  
**Company Balance Sheet**  
**as at 30 September 2014**

	Notes	2014 £	2013 £
<b>Fixed Assets</b>			
Investments	4	1,665,010	1,665,010
		<u>1,665,010</u>	<u>1,665,010</u>
<b>Current assets</b>			
Debtors	5	447,510	122,177
Loans to subsidiary companies	5	59,679,025	41,798,626
Cash at bank and in hand		20,363,067	40,710,485
		<u>80,489,602</u>	<u>82,631,288</u>
<b>Creditors: amounts falling due within one year</b>	6	(291,774)	(38,041,568)
<b>Net current assets</b>		<u>80,197,828</u>	<u>44,589,720</u>
<b>Total assets less current liabilities</b>		<u>81,862,838</u>	<u>46,254,730</u>
<b>Net assets</b>		<u>81,862,838</u>	<u>46,254,730</u>
<b>Capital and Reserves</b>			
Called up share capital	7	42,257,142	24,713,049
Share premium account	8	39,291,796	19,092,961
Distributable reserves	9	313,900	2,448,720
<b>Total shareholders' funds</b>		<u>81,862,838</u>	<u>46,254,730</u>

The Company financial statements on pages 38 to 43 were approved and authorised for issue by the board of directors on 3 December 2014 and signed on its behalf by:



Simon Wombwell  
Director  
Ground Rents Income Fund plc

Company registered number 8041022

The accompanying notes from pages 39 to 43 form an integral part of the Company financial statements.



**Ground Rents Income Fund plc**  
**Notes to the Company Financial Statements**  
**for the year ended 30 September 2014**

**1 Accounting policies**

(a) ***Basis of preparation***

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

(b) ***Cash flow Statement***

The Company has not presented its own cash flow statement. The Company cash flow statement is the same as the consolidated cash flow statement. The subsidiary companies do not maintain their own bank accounts and cash transactions are settled by the parent Company and accounted for via the intercompany account.

(c) ***Currency***

The functional and presentation currency is pound sterling.

(d) ***Investments in subsidiary companies***

Investments in subsidiary companies are carried at cost less any provision for impairment.

(e) ***Cash at bank and in hand***

Cash at bank and in hand represents short term deposits held with financial institutions.

(f) ***Debtors***

Debtors are recognised and measured at the invoiced amount. Doubtful debts are provided for when the collection of the full amount is no longer probable, whilst bad debts are immediately written off when identified.

(g) ***Creditors***

Creditors are classed as current liabilities if payment is due within 12 months or less.

(h) ***Preference shares***

Convertible Preference Shares are classified within "Creditors: amounts falling due within one year". Expenses of issue are netted off the outstanding balance. Interest is accrued evenly in line with the fixed coupon rate attached to the shares. For further information about the terms and conversion of the preference shares, see note 11 to the consolidated financial statements.

(i) ***Share capital***

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

(j) ***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. No provision is made in these financial statements for the cost of issuing shares to warrant-holders as the subscription price approximates to the average market price of the ordinary shares over the accounting period.

(k) ***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.

**Ground Rents Income Fund plc**  
**Notes to the Company Financial Statements**  
**for the year ended 30 September 2014**

**2 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 period. Ground Rents Income Fund plc reported a loss after tax for the financial period of £737,838. Auditors' remuneration for audit of the parent Company financial statements was £15,000. 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.

**3 Dividends**

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

**4 Investments**

	<b>Investments in subsidiary undertakings £</b>
<b>Cost</b>	
At 1 October 2013	1,665,010
Additions	-
Disposals	-
At 30 September 2014	<u>1,665,010</u>

Full information about the acquisition of subsidiaries in the year and prior period is provided in note 9 of the consolidated financial statements.

**Ground Rents Income Fund plc**  
**Notes to the Company Financial Statements**  
**for the year ended 30 September 2014**

**4 Investments (continued)**

Details of the subsidiary undertakings of the Company at 30 September 2014 all of which are wholly owned and included in the financial statements are given below:

<b>Company</b>	<b>Type of Share</b>	<b>Nature of Business</b>	<b>Country of Incorporation</b>
Postbox Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
Azure House 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
Hill Ground Rents Limited	Ordinary £1	Ground Rents	UK
Metropolitan Ground Rents Limited	Ordinary £1	Ground Rents	UK
TMG003 Limited	Ordinary £1	Ground Rents	Guernsey
XQ7 Ground Rents Limited	Ordinary £1	Ground Rents	UK
Yorkshire Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
Halcyon Wharf Ground Rents Limited	Ordinary £1	Ground Rents	UK
Gateway Leeds Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
Banbury Ground Rents Limited	Ordinary £1	Ground Rents	UK
Manchester Ground Rent Company Limited	Ordinary £1	Ground Rents	UK
North West Ground Rents Limited	Ordinary £1	Ground Rents	Guernsey
Admiral Ground Rents Limited	Ordinary £1	Ground Rents	UK
Midlands Ground Rents Limited	Ordinary £1	Holding Company	Guernsey
North West Houses Ground Rents Limited	Ordinary £1	Ground Rents	UK
Clapham One Ground Rents Limited	Ordinary £1	Ground Rents	UK
Masshouse Block M Limited	Ordinary £1	Ground Rents	UK
Masshouse Block HI Limited	Ordinary £1	Ground Rents	UK
Masshouse Residential Block HI Limited	Ordinary £1	Ground Rents	UK
Nikal Humber Quay Residential Limited	Ordinary £1	Ground Rents	UK
East Anglia Ground Rents Limited	Ordinary £1	Ground Rents	UK
BH Ground Rents Limited	Ordinary £1	Ground Rents	UK
Greenhouse Ground Rents Limited	Ordinary £1	Ground Rents	UK
OPW Ground Rents Limited	Ordinary £1	Ground Rents	UK
Trinity Land and Investments Limited	Ordinary £1	Ground Rents	UK
DG Ground Rents Limited	Ordinary £1	Ground Rents	UK
GRIF Student Ground Rents Limited	Ordinary £1	Ground Rents	UK
Invest Ground Rents Limited	Ordinary £1	Ground Rents	UK
GRIF041 Limited	Ordinary £1	Ground Rents	UK
Wiltshire Ground Rents Limited	Ordinary £1	Ground Rents	UK
GRIF038 Limited	Ordinary £1	Ground Rents	UK
GRIF040 Limited	Ordinary £1	Ground Rents	UK
GRIF042 Limited	Ordinary £1	Ground Rents	UK
GRIF044 Limited	Ordinary £1	Ground Rents	UK
GRIF047 Limited	Ordinary £1	Ground Rents	UK
GRIF043 Limited	Ordinary £1	Ground Rents	UK
GRIF033 Limited	Ordinary £1	Ground Rents	UK
GRIF046 Limited	Ordinary £1	Ground Rents	UK
GRIF048 Limited	Ordinary £1	Ground Rents	UK
GRIF045 Limited	Ordinary £1	Ground Rents	UK
GRIF Cossec Limited	Ordinary £1	Corporate Director	UK

**Ground Rents Income Fund plc**  
**Notes to the Company Financial Statements**  
**for the year ended 30 September 2014**

<b>5 Debtors</b>	<b>30 September 2014 £</b>	<b>30 September 2013 £</b>
Trade debtors	66,158	378
Amounts owed by Group undertakings	59,679,025	41,798,626
Other debtors	225,219	44,003
Prepayments and accrued income	156,133	77,796
	<u>60,126,535</u>	<u>41,920,803</u>

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

<b>6 Creditors: amounts falling due within one year</b>	<b>30 September 2014 £</b>	<b>30 September 2013 £</b>
Trade creditors	15,128	64,750
Corporation tax	-	21,940
Accruals and deferred income	276,646	174,253
Non-equity preference shares	-	37,780,625
	<u>291,774</u>	<u>38,041,568</u>

The Company has not given any security over its creditors.

See note 11 of the consolidated financial statements for further information about the terms and conversion date of the non-equity preference shares.

**7 Called up ordinary share capital**

	<b>30 September 2014</b>		<b>30 September 2013</b>	
	<b>Number</b>	<b>£</b>	<b>Number</b>	<b>£</b>
Allotted, called up and fully paid:				
Ordinary shares of £0.50 each	<u>84,514,284</u>	<u>42,257,142</u>	<u>49,426,098</u>	<u>24,713,049</u>
	<b>30 September 2014</b>		<b>30 September 2013</b>	
	<b>Number</b>	<b>Amount £</b>	<b>Number</b>	<b>Amount £</b>
Shares issued during the year / period:				
Ordinary shares of £0.50 each	<u>35,088,186</u>	<u>17,544,093</u>	<u>49,426,098</u>	<u>24,713,049</u>

The Company issued 48.2 million ordinary shares at a price of 100 pence each during the prior financial period.

The preference shares converted into ordinary shares on 24 May 2014. This led to an increase of 35,088,186 in the number of ordinary shares. Further details about the conversion are provided in note 11 on page 31.

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. 1,183,798 additional ordinary shares were issued to warrant holders in August 2013. No warrants were exercised in the year ended 30 September 2014.

**Ground Rents Income Fund plc**  
**Notes to the Company Financial Statements**  
**for the year ended 30 September 2014**

<b>8 Share premium account</b>	<b>2014</b>
	<b>£</b>
At 1 October 2013	19,092,961
Shares issued	20,236,533
Expenses of issue	(37,698)
At 30 September 2014	<u>39,291,796</u>

<b>9 Distributable reserves</b>	<b>2014</b>
	<b>£</b>
At 1 October 2013	2,448,720
Loss for the financial year	(737,838)
Dividends received from subsidiary companies	925,000
Dividends paid in the year (note 18)	(2,321,982)
At 30 September 2014	<u>313,900</u>

<b>10 Reconciliation of movements in shareholders' funds</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
At 1 October / 23 April	46,254,730	-
Loss for the financial year	(737,838)	(686,882)
Dividends received from subsidiary companies	925,000	-
Dividends paid in the year (note 18)	(2,321,982)	(1,364,398)
Shares issued	37,742,928	48,306,010
At 30 September 2014	<u>81,862,838</u>	<u>46,254,730</u>

**11 Related party transactions**

The Company has taken advantage of the exemption given by FRS8 not to disclose transactions and balances with its wholly owned subsidiaries. Information about the Group's transactions with related parties is given in note 21 to the Group financial statements on page 35.