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**Ground Rents Income Fund plc**  
*(incorporated and registered in England and Wales under number 8041022)*

**PROPOSED CAPITAL REDUCTION  
AND  
NOTICE OF WARRANTHOLDERS MEETING**

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Your attention is drawn to the letter from the Chairman of Ground Rents Income Fund plc which is set out on pages 3 to 5 of this document which contains your Board's recommendation to vote in favour of the resolution to be proposed at the Warranholders Meeting referred to below.

This document contains a Notice of the Warranholders Meeting of the Company to be held at 10.00am on 16 November 2012 at 111 Park Street, London W1K 7JL.

Whether or not you propose to attend the Warranholders Meeting, please complete and submit a proxy form in accordance with the instructions printed on the enclosed form. The proxy form must be received by 10.00am on 14 November 2012.

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### EXPECTED TIMETABLE OF EVENTS

Latest time and date for receipt of Forms of Proxy	10.00am, 14 November 2012
Warranholders Meeting	10.00am, 16 November 2012
General Meeting	10.30am, 16 November 2012
Expected date for confirmation of the Capital Reduction by the Court *	12 December 2012
Expected Effective Date for the Capital Reduction*	13 December 2012

- \* The dates marked with an asterisk are estimated only, being subject to agreement of hearing dates with the Court. The timetable assumes that the General Meeting and/or Warranholders Meeting are not adjourned as a result of there being no quorum, or for any other reason. If there is an adjournment, all subsequent dates are likely to be later than those shown.

References to time in this document are to London time.

## LETTER FROM THE CHAIRMAN

22 October 2012

*To all the holders of the Warrants issued by Ground Rents Income Fund plc (the "Company").*

Dear Warrantholder

### **NOTICE OF WARRANTHOLDERS MEETING TO APPROVE DISTRIBUTION OF CAPITAL PROFITS AND CAPITAL RESERVES IN PAYING DIVIDENDS**

#### **1. Introduction**

I am pleased to be writing to you with details of the Warrantholders Meeting which we are holding at 10.00am on 16 November 2012 at 111 Park Street, London W1K 7JL. The formal notice of the Warrantholders Meeting is set out on page 8 of this Circular. Details relating to the General Meeting are for information only.

#### **2. Capital Reduction**

The Company's investment objective is to generate consistent and significant income returns for Shareholders. As the Company is newly incorporated and is embarking on its planned investment programme, there are no distributable reserves out of which to pay dividends and it is likely such reserves will not be generated for up to 18 months. As intended, the Company now proposes to reduce its share premium account, thereby creating a distributable reserve, giving the Company the flexibility to return dividends to Shareholders faster than otherwise would have been the case.

As at 31 August 2012, the balance on the Company's share premium account stood at £24,121,149. The balance on the share premium account is attributable to the difference between the nominal value of the Shares issued by the Company and the price at which the Shares were issued. The Board has concluded that a reduction of the Company's share premium account would allow the Company to return dividends to Shareholders faster than otherwise would have been the case.

#### *Effect of Capital Reduction*

It is proposed that the Capital Reduction will give rise to a reserve of £4,500,000 which will be credited to the profit and loss account of the Company and, subject to the Warrantholders passing the Extraordinary Resolution referred to below, will be available for distribution to Shareholders. Future distributable profits will also then be available for immediate distribution to Shareholders.

#### *Redemption of Redeemable Preference Shares*

On 22 October 2012, the Company redeemed the Redeemable Preference Shares issued on 21 May 2012 out of the proceeds of the new issue of shares made on 24 August 2012, as described in the paragraph headed "Capital Reduction" in Part 1 of the Listing Document. The Redeemable Preference Shares were issued in order to obtain a certificate of entitlement to conduct business and to borrow under section 761 of the Act. Following the redemption there is now no requirement to have reference to the Redeemable Preference Shares in the Articles. We are, therefore, asking Shareholders to approve an amendment to the Articles to remove reference to the Redeemable Preference Shares.

#### **Ground Rents Income Fund plc**

Incorporated in England and Wales Company no. 8041022. Registered Office: 111 Park Street, London W1K 7JL.  
[www.groundrentsincomefund.com](http://www.groundrentsincomefund.com)

Redemption of the Redeemable Preference Shares was taken into account in the Company's cash flow projections at the time of Admission and in relation to the Capital Reduction.

#### *Position of Creditors*

In order to obtain the approval of the Court for the Capital Reduction, the Company will be required to provide security acceptable to the Court in respect of the Company's creditors at the date that the Capital Reduction takes effect. To this end, the Company will establish a new bank account and credit to it a sufficient sum for the payment of such creditors. The bulk of these creditors comprise professional fees in relation to Admission and associated expenses and costs of acquisition of ground rents.

#### *Timetable*

The Company intends to apply to the Court for an order confirming the Capital Reduction as soon as practicable after the General Meeting (which will take place immediately after the Warranholders Meeting), assuming the Resolution is passed by the Shareholders (and the Extraordinary Resolution of the Warranholders is passed). It is expected that the Court Order confirming the Capital Reduction will be 12 December 2012, with the Capital Reduction becoming effective on 13 December 2012.

### **3. Warranholders meeting**

Under the terms of the Warrant Instrument, the Company has very limited powers to make a distribution out of capital profits or capital reserves and would not be permitted to apply the reserve arising from the Capital Reduction in paying a dividend to Shareholders. The proposals embodied in this Circular therefore require approval for the proposals from the Warranholders, which can be given by an extraordinary resolution of the Warranholders. Set out at the end of this document is a notice convening a Warranholders Meeting to be held at 10.00am on 16 November 2012 at 111 Park Street, London W1K 7JL, shortly before the General Meeting, in order to consider an Extraordinary Resolution to approve the distribution of the reserve arising from the Capital Reduction. The resolution will be passed if at least 75% of votes at the Warranholders' Meeting are cast in its favour.

### **4. General Meeting**

Following the Warranholders Meeting, a General Meeting of the Company will be held at 10.30am on 16 November 2012 at 111 Park Street, London W1K 7JL. At the General Meeting, the Resolution will be proposed to approve the Capital Reduction. The Resolution will be passed if at least 75% of votes at the General Meeting are cast in its favour. A separate circular will be issued to the Shareholders to explain the background to, and to convene, the General Meeting.

### **5. Action to be taken**

Enclosed with this Circular is a Form of Proxy for use in relation to the Warranholders Meeting. If you would like to vote on the resolution but cannot come to the Warranholders Meeting, please fill in the proxy form sent to you with this Circular and return it as soon as possible. The Company's registrars must receive it by 10.00am on 14 November 2012.

## 6. Recommendation

The Directors of the Company consider that the proposal to be considered at the Warranholders Meeting is in the best interests of the Company and its members as a whole and is most likely to promote the success of the Company for the benefit of its members as a whole. The directors unanimously recommend that you vote in favour of the proposed resolution.

Yours sincerely

A handwritten signature in black ink, appearing to read 'RM Naish', with a small mark above the 'i'.

Robert Malcolm Naish  
Chairman

## DEFINITIONS

<b>“Act”</b>	the Companies Act 2006;
<b>“Articles”</b>	the Company’s articles of association;
<b>“Admission”</b>	First Admission or Second Admission, as the context requires;
<b>“Board”</b>	the board of directors of the Company;
<b>“Capital Reduction”</b>	the reduction of the Company’s share premium account;
<b>“Circular”</b>	the circular to the Warranholders;
<b>“CISX”</b>	the Channel Islands Stock Exchange;
<b>“Company”</b>	Ground Rents Income Fund plc;
<b>“Court”</b>	the High Court of Justice in England and Wales;
<b>“Court Order”</b>	the order of the Court approving the Capital Reduction;
<b>“Effective Date”</b>	the date on which the order of the Court confirming the Capital Reduction is registered by the Registrar of Companies;
<b>“Extraordinary Resolution”</b>	an extraordinary resolution of the Warranholders to be considered at the Warranholders Meeting;
<b>“First Admission”</b>	the admission of certain shares and warrants (issued and to be issued) to listing on the Daily Official List of CISX becoming effective in accordance the CISX Listing Rules and to the SETSqx platform of the London Stock Exchange becoming effective in accordance with the London Stock Exchange rules;
<b>“Form of Proxy”</b>	the proxy appointment form attached to the Notice;
<b>“General Meeting”</b>	the general meeting of the Company to be held at 10.30am on 16 November 2012 at 111 Park Street, London W1K 7JL;
<b>“Group”</b>	the Company and its subsidiaries from time to time and for the purposes of taxation a Group is as defined in section 152 of the Corporation Taxes Act 2010;
<b>“Listing Document”</b>	the listing particulars relating to the First Admission issued by the Company dated 24 July 2012;
<b>“Notice”</b>	the notice of the Warranholders Meeting;
<b>“Redeemable Preference Shares”</b>	the redeemable preference shares of £1.00 each in the capital of the Company;
<b>“Resolution”</b>	the special resolutions set out in the notice of the General Meeting;
<b>“Second Admission”</b>	the admission of certain shares and warrants (issued and to be issued) to listing on the Daily Official List of CISX becoming

effective in accordance the CISX Listing Rules and to the SETSqx platform of the London Stock Exchange becoming effective in accordance with the London Stock Exchange rules;

<b>“Shares”</b>	the issued shares in the capital of the Company;
<b>“Shareholders”</b>	the holders of Shares;
<b>“Warrants”</b>	the issued share warrants granted pursuant to the Warrant Instrument;
<b>“Warrantholders”</b>	the holders of the Warrants;
<b>“Warrantholders Meeting”</b>	the meeting of the Warrantholders to be held at 10.00am on 16 November 2012 at 111 Park Street, London W1K 7JL; and
<b>“Warrant Instrument”</b>	the instrument executed on 24 July 2012 authorising the Board to issue the Warrants.

## NOTICE OF MEETING

Notice is hereby given that a Warranholders meeting of Ground Rents Income Fund plc (the “**Company**”) will be held at 111 Park Street, London W1K 7JL on 16 November 2012 at 10.00am.

You will be asked to consider and vote on the resolution below. The resolution will be proposed as an extraordinary resolution.

### RESOLUTION

**THAT**, notwithstanding the terms of clause 5(b)(i) of the warrant instrument dated 24 July 2012 whereby the Company has undertaken not to make any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid Ordinary Shares, the Company is authorised to make distributions (whether out of capital profits or capital reserves or otherwise) out of the reserve arising upon the proposed reduction of the Company’s share premium account and out of any other distributable profits arising from reductions of capital and/or share premium account in the Company’s subsidiaries and distributions to the Company.

By order of the Board

Jonathan Stewart Murphy  
Company Secretary  
Ground Rents Income Fund plc  
111 Park Street  
London  
W1K 7JL

22 October 2012

### NOTES TO THE NOTICE OF WARRANTHOLDERS MEETING

#### Entitlement to attend and vote

1. Only those members registered on the Company's register of members at:
  - 6.00 pm on 14 November 2012; or,
  - if this Warranholders Meeting is adjourned, at 6.00 pm on the day two days prior to the adjourned meeting,

shall be entitled to attend and vote at the Warranholders Meeting.

#### Website giving information regarding the Warranholders Meeting

2. Information regarding the Warranholders Meeting, including the information required by section 311A of the Companies Act 2006, is available from <http://www.groundrentsincomefund.com>.

#### Attending in person

3. If you wish to attend the Warranholders Meeting in person, you must bring with you your attendance card.

## **Appointment of proxies**

4. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Warranholders Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
5. A proxy does not need to be a member of the Company but must attend the Warranholders Meeting to represent you. Details of how to appoint the Chairman of the Warranholders Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Warranholders Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. In the event of a conflict between a blank proxy form and a proxy form which states the number of shares to which it applies, the specific proxy form shall be counted first, regardless of whether it was sent or received before or after the blank proxy form, and any remaining shares in respect of which you are the registered holder will be apportioned to the blank proxy form. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy the form of proxy. Please indicate the proxy holders name and the number of shares in relation to which they are authorised to act as your proxy (which in aggregate shall not exceed the number of shares held by you). Please also indicate the proxy is part of a multiple set of instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by you may result in the appointment being invalid. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's registrar, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Warranholders Meeting.

## **Appointment of proxy using hard copy proxy form**

8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- Completed, with your name printed where indicated, and signed;
- sent or delivered to Capita Registrars at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
- received by Capita Registrars no later than 10.00am on 14 November 2012.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

### **Appointment of proxies through CREST**

9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Warranholders Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (“**EUI**”) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent, Capita Registrars, ID number RA10, by 10.00am on 14<sup>th</sup> November 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

### **Appointment of proxy by joint members**

10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

### **Changing proxy instructions**

11. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Shareholder Services Department, Capita Registrars, The Registry, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### **Termination of proxy appointments**

12. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, The Registry, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by Capita Registrars no later than 10.00am on 14 November 2012.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Warranholders Meeting and voting in person. If you have appointed a proxy and attend the Warranholders Meeting in person, your proxy appointment will automatically be terminated.

### **Corporate representatives**

13. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

### **Issued shares and total voting rights**

14. As at 6.00pm on 22 October 2012, the Company's issued share warrants comprised 9,648,460 share warrants each entitling the holder thereof to subscribe for an ordinary share of £0.50 each. Each share warrant carries the right to one vote at a Warranholders meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00pm on 22 October 2012 is 9,648,460.

The website referred to in note 2 will include information on the number of shares and voting rights.

### **Questions at the Warranholders Meeting**

15. Under section 319A of the Companies Act 2006, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:
  - answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

## **Voting**

16. Voting on all resolutions will be conducted by way of a show of hands unless a poll is duly called for.

## **Documents on display**

17. The following documents will be available for inspection at the Company's registered office, 111 Park Street, London W1K 7JL from 23 October 2012 until the time of the Warranholders Meeting and at the Warranholders Meeting venue itself for at least 15 minutes prior to the Warranholders Meeting until the end of the Warranholders Meeting:

- copies of the service contracts of executive directors of the Company;
- copies of the letters of appointment of the non-executive directors of the Company;
- a copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed.

## **Communication**

18. Except as provided above, members who have general queries about the General Meeting should use the following means of communication (no other methods of communication will be accepted):

- calling the Capita Registrar's shareholder helpline on 0871 664 0300 (calls cost 10 pence per minute. From outside the UK +44 0208 639 3399. Lines are open Monday to Friday 9.00am – 5.30pm); or
- writing to Capita Registrar's at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

You may not use any electronic address provided either:

- in this notice of Warranholders meeting; or
- any related documents (including the chairman's letter and proxy form),

to communicate with the Company for any purposes other than those expressly stated.