

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended immediately to seek your own professional financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all or some of your ordinary shares of 50 pence each ("Ordinary Shares") in the capital of Primary Health Properties PLC (the "Company") prior to 19 February 2010, you should send this document, together with the accompanying Scrip Mandate Form, at once to the purchaser or transferee or the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, except as set out in this document, those documents should not be forwarded or transmitted in or into any jurisdiction in which such an act would constitute a violation of the relevant laws of such jurisdiction. If you have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected. The attention of Shareholders not resident in the United Kingdom is drawn to paragraph 11 of Appendix 2 to this document.

**Primary Health Properties PLC**

(Registered in England and Wales No: 3033634)

**Directors:**

Graeme A Elliot (Non-executive Chairman)  
Alun R Jones (Non-executive Director, Senior Independent Director and Chairman of the Audit Committee)  
Harry A Hyman (Managing Director)  
Martin Gilbert (Non-executive Director) (*alternate: W J C Hemmings*)  
James D Hambro (Non-executive Director)  
Dr Ian P Rutter OBE (Non-executive Director)  
Mark P Creedy (Non-executive Director)  
(together the "**Directors**" or the "**Board**")

2 March 2010

**Registered Office:**

Ground Floor  
Ryder Court  
14 Ryder Street  
London  
SW1Y 6QB

*To holders of ordinary shares ("Shareholders")*

Dear Shareholder,

## SCRIP DIVIDEND SCHEME

On 11 February 2010 the Company announced the payment of a second interim cash dividend for the year ended 31 December 2009 of 8.75p per Ordinary Share ("**Interim Dividend**") and that Shareholders would be offered the opportunity to take up new Ordinary Shares ("**New Shares**") instead of cash in respect of the Interim Dividend ("**Scrip Dividend Scheme**").

Accordingly, the Board is now pleased to offer Shareholders the opportunity to receive the Interim Dividend in New Shares (the "**Scrip Dividend Offer**") instead of cash (the "**Cash Dividend**").

Scrip dividends are attractive to many shareholders because they enable shareholders to increase their holding in the Company in a simple manner without incurring any dealing costs or stamp duty. At the same time, the Company will retain more cash in its business, which would otherwise be paid as a dividend.

The purpose of this circular is to provide Shareholders with details of the Scrip Dividend Offer and to explain how Shareholders may elect now and in the future to be receive New Shares rather than Cash Dividends.

### **Scrip Dividend Offer**

The Scrip Dividend Offer is made to Shareholders on the register of members at the close of business on 19 February 2010 ("**Record Date**").

The Interim Dividend is payable on 26 March 2010. Shareholders who choose to take up the Scrip Dividend Offer will increase their total holding of Ordinary Shares in the Company without incurring dealing expenses or stamp duty.

Shareholders will be entitled to receive one New Share, credited as fully paid, for approximately every 33.25 Ordinary Shares held on the Record Date. Shareholders' Scrip Dividend Offer entitlements have been determined on the basis of the Interim Dividend and the price per Ordinary Share of 290.95p (being the average of the closing middle market quotations, derived from the Daily Official List of the UK Listing Authority for an Ordinary Share on the day on which the shares are first quoted as ex-dividend and the four subsequent dealing days, (being 17 February to 23 February 2010 inclusive ("**Interim Dividend Share Price**"))).

If all Shareholders eligible to receive the Interim Dividend were to choose to receive the Cash Dividend, the total cash payment by the Company would be approximately £5,377, 513 in respect of which the applicable tax credit available to Shareholders would be approximately £537,751 (on the assumption that the recipients of such dividends are companies or persons resident in the United Kingdom). If the Scrip Dividend Offer was taken up in full, it would result in the allotment of a maximum of 1,848,260 New Shares (ignoring any reduction in respect of fractions) representing 3.01 per cent. of the Company's issued Ordinary Share capital as at the date of this document.

No fraction of a New Share will be allotted and calculations of entitlements to New Shares will always be rounded down to the nearest whole New Share. Any residual cash balance will be carried forward to be included in the calculation for the next dividend and no interest will be paid on any residual cash balances.

To protect Shareholders against a fall in the price of an Ordinary Share between the date on which the Scrip Mandate Form accompanying this document is lodged with Capita Registrars and 16 March 2010, being the final date for receipt of the Scrip Mandate Form ("**Final Receipt Date**"), the Scrip Dividend Offer will be withdrawn if the middle market quotation of an Ordinary Share, derived from the Daily Official List of the UK Listing Authority for the Final Receipt Date, has fallen relative to the Interim Dividend Share Price by 10 per cent. or more to 261.85p or lower. In such circumstances, any Scrip Dividend Mandate will be deemed to be void and the Cash Dividend will be paid in the usual way. If the price falls after the Final Receipt Date, any Scrip Dividend Mandate will remain in force.

Application will be made for the New Shares to be admitted to the Official List of the UKLA and to trading on the London Stock Exchange. On issue, New Shares, which may be held in uncertificated form, will rank *pari passu* with the issued Ordinary Shares in the Company in respect of all rights arising on or after the date of issue.

Allotment of New Shares under the Scrip Dividend Offer is subject to the following conditions:

- the price of Ordinary Shares not falling by 10 per cent. or more on the Final Receipt Date;
- admission of the New Shares to the Official List of the UKLA and to trading on the London Stock Exchange; and
- the authority granted to Directors at the General Meeting to allot shares in lieu of any cash dividend and in connection with a scrip dividend alternative pursuant to Section 551 of the Companies Act 2006 not lapsing.

If any of these conditions are not met, the Scrip Dividend Offer will be cancelled and dividends will be paid in cash to all Shareholders.

### **Scrip Mandate**

Shareholders who wish to take up the Scrip Dividend Offer and to receive New Shares in connection with all future dividends offered that are subject to the Scrip Dividend Scheme should sign and return the enclosed Scrip Mandate Form to Capita Registrars, Corporate Actions, The Registry, 34, Beckenham Road, Beckenham, Kent BR3 4TU. A reply paid envelope is enclosed for your use. Scrip Mandate Forms must be received by Capita Registrars at least 10 days before the dividend payment date to be eligible for that dividend (i.e. 16 March 2010 in respect of the Interim Dividend). Scrip Mandate Forms received after that will be applied in time for the next dividend. Alternatively, you can apply on-line at [www.capitashareportal.com](http://www.capitashareportal.com)

**You may cancel the Scrip Mandate at any time by writing to Capita Registrars at the above address. For a cancellation to be effective for a dividend, it must be received at least 10 days before the payment date for that dividend. If it is received within the 10 days before a payment date, it will not apply to that dividend but it will apply to all subsequent dividends.**

**If you wish to receive dividends in cash in the usual way you need take no action and should disregard this document.**

**If you are in any doubt about what course of action to take or your personal tax position, you should consult an independent financial adviser. You should bear in mind that the price of the Company's shares can go down as well as up.**

Yours faithfully,

Graeme A Elliot  
Chairman

## Appendix 1

### Timetable

2010

Ordinary shares quoted ex-dividend	17 February
Record date for the Interim Dividend	19 February
Posting of Scrip Mandate Form	2 March
Latest date for receipt of Scrip Mandate Form	16 March
Interim Dividend warrants dispatched for payment and definitive share certificates and Notional Tax Voucher to Crest participants posted	25 March
Dealings expected to commence in New Shares	26 March
CREST accounts credited	26 March

## Appendix 2

### Scrip Dividend Scheme Terms and Conditions

#### 1. The Scrip Dividend Scheme

The optional Scrip Dividend Scheme enables you to receive New Shares in Primary Health Properties PLC instead of the cash dividends you normally receive. This makes it possible for you to build your shareholding in the Company without going to the market to buy New Shares. You will not incur any dealing costs, stamp duty or stamp duty reserve tax in electing to take a Scrip dividend instead of a Cash Dividend. Please refer to taxation information in Appendix 3 below.

For your protection, the Directors may (and absent mitigating circumstances intend to) declare your mandate void and pay a cash dividend instead, in respect of a relevant dividend if the middle market quotation for the Company's Ordinary Shares by the final date for receipt of Scrip Mandate Forms in respect of that relevant dividend falls by 10 per cent. or more from the Share Price.

At the General Meeting held on 6 October 2009 the Shareholders authorised the Directors to offer a scrip dividend alternative instead of all or part of any dividend declared or paid in the period up to 6 October 2014.

The operation of the Scheme is subject both to renewal of that authority at the appropriate time and to the directors' subsequent decision to make that scrip dividend alternative offer in respect of dividends declared or paid. If the authority is not renewed at the appropriate time or the directors decide not to offer a scrip dividend alternative in respect of a particular dividend, the full cash dividend will be paid in the normal way together with any cash balance carried forward. The Scheme may be modified or terminated at any time by the Company without notice to participants individually although advice of any such action will normally be sent to all Shareholders. In the case of any modification, existing Scrip Dividend Mandates will remain valid under the modified scheme unless and until the Company receives a valid revocation of the Scrip Dividend Mandate. Should the Scheme be terminated, all Scrip Dividend Mandates then in force will be deemed to have been revoked as at the date of such termination and any cash balances carried forward will be paid to Shareholders/carried forward until the next dividend.

#### 2. Joining the Scheme

All Shareholders resident in the UK can join the Scheme by completing the enclosed Scrip Mandate Form (which may be amended from time to time) in accordance with the instructions thereon and sending it (in the envelope provided) to Capita Registrars, Corporate Actions, The Registry, 34, Beckenham Road, Beckenham, Kent BR3 4TU. No acknowledgement of receipt of Scrip Mandate Forms will be given. You may also apply on-line at [www.capitashareportal.com](http://www.capitashareportal.com). **Shareholders that hold their ordinary shares in CREST can only elect to receive dividends in the form of New Shares by use of the CREST Dividend Election Input Message (any Scrip Mandate Forms or other forms of instruction received from CREST holders will not be accepted and will be ignored).** For further details regarding CREST see paragraph 3 below. Scrip Mandate Forms must be received by Capita Registrars by 5 p.m. on such date that is at least 10 days before the dividend payment date to be eligible for that dividend. Forms received after that will apply to subsequent

dividends. Your Scrip Dividend Mandate will remain in force in respect of your entire holding of Ordinary Shares for all future dividends until cancelled by you in writing.

Upon execution of a Scrip Mandate Form, either personally or on behalf of the relevant Shareholder, that Shareholder is deemed (in respect of himself, his heirs, successors and assigns): (a) to agree to participate in the Scheme pursuant to these terms and conditions; and (b) to authorise the Company or its agent to send to the Shareholder, at the Shareholder's registered address, any definitive share certificate in respect of New Shares allotted.

Any Scrip Mandate Form sent to an address other than that stated above will not be accepted or considered valid. For details regarding overseas Shareholders please see paragraph 11 below.

### **3. Ordinary shares held in CREST**

Shareholders who hold their Ordinary Shares in uncertificated form in CREST (and those Ordinary Shares were in uncertificated form at the relevant record date), can only elect to receive dividends in the form of New Shares by use of the CREST Dividend Election Input Message. By doing so, such CREST Shareholders confirm their election to participate in the Scheme and their acceptance of these terms and conditions, as amended from time to time. **No other form of election will be permitted under the Scheme and will be rejected.**

CREST sponsored members, should consult their CREST sponsor, who will be able to take appropriate action on their behalf. All elections made via the CREST system must be submitted using the CREST Dividend Election Input Message in accordance with the procedures as stated in the CREST Reference Manual. The CREST Dividend Election Input Message submitted must contain the number of shares on which the election is being made. **If the relevant field is left blank or, completed with zero the election will be rejected.** If the number of elected Shares is greater than the shares held in CREST at the relevant record date, the election will be applied to the total holding held at the relevant record date. **CREST members must elect for each dividend to receive New Shares in respect of such dividend.** Elections via CREST should be received by CREST no later than 5 p.m. on such date that is at least 10 days before the dividend payment date for the relevant dividend in respect of which you wish to make an election.

Once an election is made using the CREST Dividend Election Input Message it cannot be amended. Therefore, if a CREST Shareholder wished to change their election, the previous election would have to be cancelled.

### **4. Number of New Shares**

The number of New Shares that Shareholders will receive for each dividend will depend on the amount of the cash dividend, any residual cash balance brought forward from the last scrip dividend, the number of shares held and the Share Price to be used in calculating Shareholders' entitlements. The Share Price will be the average of the middle market quotations for the Company's ordinary shares on the London Stock Exchange for the five dealing days commencing on the ex-dividend date. The scrip reference share price will be posted on the Company's website [www.phpgroup.co.uk](http://www.phpgroup.co.uk). The formula used for calculating the maximum number of New Shares to be received for each dividend is set out below:

$$\begin{array}{c}
 \text{(Number of Ordinary Shares held at the dividend record date x cash} \\
 \text{dividend rate)} \\
 + \text{ Any fractional cash entitlement carried forward from last} \\
 \text{dividend*} \\
 \hline
 \text{Share Price}
 \end{array}$$

- No fractional entitlements will be available for inclusion in respect of the first dividend for which you participate in the Scheme.

Once the New Shares have been issued a statement, along with a new share certificate, showing the number of New Shares allotted, Share Price and the total cash equivalent of the New Shares for tax purposes, will be sent to Shareholders.

#### **5. Fractions and cash balances**

No fraction of a New Share will be allotted and calculations of entitlements to New Shares will always be rounded down the nearest whole New Share. Any residual cash balance will be carried forward to be included in the calculation for the next dividend. No interest will be paid on any residual cash balances.

#### **6. Future dividends**

Once a Shareholder has returned a valid Scrip Mandate Form this will apply for all successive dividends unless and until it is revoked in writing by the Shareholder. Shareholders holding their shares in CREST must elect for each dividend using a CREST Dividend Election Input Message. The Scheme is always subject to the Directors' decision to offer a scrip dividend. The Directors' may decide not to offer a scrip alternative in respect of any future dividend.

All New Shares issued under the Scheme will automatically increase Shareholders' shareholdings on which the next entitlement to a scrip dividend will be calculated. Where the cash dividend is insufficient to acquire New Shares, funds representing Shareholders' fractional cash entitlement will be accumulated for their benefit. These funds will be added to the cash amount of any subsequent dividends (in respect of which a scrip dividend alternative is offered) and applied in calculating Shareholders' entitlements under that offer.

If you withdraw from the Scheme or sell or transfer your entire holding of ordinary shares or if the Company terminates the Scheme any cash balance of less than £5 will be paid to a charity of the Company's choice.

#### **7. Listing and ranking of the New Shares**

Application will be made to the London Stock Exchange and the UKLA for admission of the New Shares to trading and to the Official List of the UKLA. The New Shares will be credited as fully paid and will rank equally in all respects with the existing ordinary shares

(including the same voting rights). If for any reason the New Shares are not admitted to listing the Company will pay the dividend in cash in the usual way as soon as practicable.

#### **8. Share certificates and dealings in the New Shares**

Subject to the New Shares being admitted to the Official List of the UKLA and to trading on the London Stock Exchange, your new share certificate will be posted to you, at your own risk, on or about the same date as dividend warrants are posted to Shareholders who are taking the dividends in cash (see our website for current dates). CREST holders will have their member accounts credited directly with the New Shares on the dividend payment date or as soon as practicable thereafter and will separately receive a statement showing the number of New Shares allotted, Share Price and the total cash equivalent of the New Shares for tax purposes. Dealings in the New Shares are expected to begin on the dividend payment date.

#### **9. Multiple and joint Shareholdings**

If a Shareholders' shares are registered in more than one holding, then unless such multiple shareholdings are consolidated before the date for final receipt of the Scrip Mandate Forms they will be treated as separate. As a result, separate Scrip Mandate Forms will need to be completed for each holding if Shareholders wish to receive New Shares under the Scheme in respect of each holding.

In respect of shareholdings held in joint names all joint Shareholders must sign the Scrip Mandate Form.

#### **10. Partial Elections**

Scrip Mandate Forms will only be accepted in relation to the whole shareholding. The Directors may, at their discretion, allow a Shareholder to take up a lesser number of shares where they are acting on behalf of more than one beneficial holder that is, through a nominee shareholding held in CREST. The CREST Dividend Election Input Message submitted to CREST must contain the number of shares for which the election is being made. Such Scrip Mandate must be renewed for each dividend. A cash dividend will be paid on any remaining shares not included in the CREST Dividend Election Input Message.

#### **11. Overseas Shareholders**

Shareholders who are resident outside the UK may treat this document as an invitation to receive New Shares unless such an invitation could not lawfully be made to such Shareholders without compliance with any registration or other legal or regulatory requirements. It is the responsibility of any person resident outside the UK wishing to receive New Shares under the Scheme to be satisfied that such a decision can validly be made without any further obligation on the part of the Company, and to be satisfied as to full observance of the laws of the relevant territory, including obtaining any governmental, regulatory or other consents which may be required and observing any other formalities in such territories and any resale restrictions which may apply to the New Shares. Unless this condition is satisfied, such Shareholders may not participate in the Scheme or sign a Scrip Mandate Form (or where applicable make an election through CREST).

#### **12. Recent sale or purchase of ordinary shares**

If Shareholders have sold some of their ordinary shares before a record date, the Scrip Dividend Scheme will apply in respect of the remainder of such Shareholders' shares. If Shareholders have bought any additional ordinary shares after a record date, the additional

shares will not be eligible for the next dividend, but will be eligible for future dividends, without the need to complete a further Scrip Mandate Form in respect of the additional shares.

### **13. Cancellation of Scrip Mandate**

Shareholders may cancel their Scrip Mandate at anytime. Notice of cancellation must be given in writing to Capita Registrars, at least 10 days before the relevant dividend payment date. CREST Shareholders can only cancel their Mandates through the CREST system. A notice of cancellation will take effect on its receipt and processed by Capita Registrars in respect of all dividends payable after the date of receipt of such notice. If a notice of cancellation is received within 10 days of a dividend payment date, the Shareholder will receive additional shares under the Scheme for the next dividend and the cancellation will take effect for subsequent dividends. A Shareholder's Scrip Mandate will be deemed to be cancelled if such Shareholder sells or otherwise transfers their ordinary shares to another person but only with effect from the registration of the relevant transfer. If you hold your shares in certificated form and you sell or transfer your entire shareholding before the last date for the lodging of the Scrip Mandate Form for a particular dividend, you will be withdrawn from the Scrip Dividend Scheme for that and any subsequent dividend.

A Shareholder's Scrip Mandate will also terminate immediately on receipt of notice of such Shareholder's death. However, if a joint Shareholder dies, the Scrip Mandate will continue in favour of the surviving joint Shareholder(s) (unless and until cancelled by the surviving joint Shareholder(s)). Any residual amounts over £5 standing to the credit of a Shareholder will be paid to such Shareholder in cash (by cheque) on or as soon as practicable after the cancellation. Where such residual amount is under £5, such sums will be paid to a charity of the Company's choice.

Any notice sent to an address other than that stated in paragraph 2 above will not be accepted or considered valid.

### **14. Changes to or cancellation of the Scheme**

The Directors may at anytime, at their discretion and without notice to Shareholders, modify, suspend, terminate or cancel the Scheme. In the case of any modification, existing Scrip Mandates (unless otherwise specified by the Directors) will be deemed to remain valid under the modified arrangements unless and until Capita Registrars receives a cancellation in writing from such Shareholders pursuant to paragraph 13 above. If the Scheme is terminated or cancelled by the Directors, all Scrip Mandates then in force will be deemed to have been cancelled as at the date of such termination or cancellation.

The operation of the Scrip Dividend Scheme is always subject to the Directors' decision to make an offer of New Shares in respect of any particular dividend. The Directors also have the power, after such an offer is made, to revoke the offer generally at any time prior to the allotment of New Shares under the Scheme. If the Directors revoke an offer (or otherwise suspend, terminate or cancel the Scheme), Shareholders will receive their dividend in cash on or as soon as reasonably practicable after the dividend payment date.

## 15. The DRIP scheme

Upon Shareholder approval of the Scrip Dividend Scheme at the General Meeting held on 6 October 2009, the Company's Dividend Re-investment Plan was suspended indefinitely.

## 16. Taxation

The tax consequences of electing to receive New Shares in place of a cash dividend will depend on your individual circumstances. If you are not sure how you will be affected from a tax perspective, you should consult your solicitor, accountant or other professional adviser before taking any action. UK resident trustees, corporate, pension funds and other Shareholders, including overseas Shareholders, are advised to contact their professional advisors regarding their own tax circumstances in relation to the Scheme.

## 17. Governing law

The Scheme is subject to the Company's Articles of Association and these terms and conditions, as amended from time to time, and is governed by, and its terms and conditions are to be construed in accordance with, English law. By electing to receive New Shares the Shareholder agrees to submit to the exclusive jurisdiction of the English courts in relation to the Scheme.

## Contacts

For general enquiries about the Scheme please contact Capita Registrars on 0871 664 0321. Calls cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9 a.m. to 5 p.m. Monday to Friday (except UK public holidays). Calls to the helpline from outside the UK will be charged at applicable international rates. Calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Scrip Dividend Scheme nor give any personal financial, legal or tax advice.

## Glossary

**Capita Registrars** a trading name of Capita Registrars Limited

**CREST** the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI/3755)) in respect of which Euroclear UK & Ireland Limited is the operator

**Directors** or the **Board** the directors of the Company

**London Stock Exchange** the London Stock Exchange plc

**New Shares** the new ordinary shares issued under the Scheme

**Ordinary Shares** ordinary shares of 50 pence each in the capital of the Company

**Primary Health Properties PLC** or **Company** Primary Health Properties PLC

**Scrip Dividend Scheme** or **Scheme** the Primary Health Properties PLC Scrip Dividend Scheme as comprised under and subject to the terms and conditions contained in this document as amended from time to time

**Scrip Mandate** the instructions of a Shareholder as set out in a valid Scrip Mandate Form

**Scrip Mandate Form** a Scrip Mandate in a form provided by the Company from a Shareholder to the Directors to allot New Shares under the terms of the Scheme in lieu of a cash dividend to which they may become entitled from time to time

**Share Price** the average of the closing middle market quotation derived from the Daily Official List of the UK Listing Authority for an Ordinary Share on the day on which the Ordinary Shares are first quoted as ex-dividend and the four subsequent dealing days

**Shareholder** a holder of ordinary shares in the Company

**UKLA** the United Kingdom Listing Authority

**UK or United Kingdom** means the United Kingdom of Great Britain and Northern Ireland and its dependent territories

**If you wish to receive dividends in cash in the usual way you need take no further action and should not complete or return a Scrip Mandate Form and may disregard this document.**

## Appendix 3

### Taxation

The precise tax consequences for a Shareholder electing to receive New Shares in lieu of the Cash Dividend ("Scrip Dividend") will depend on the Shareholder's individual personal circumstances. The directors have been advised that, under UK legislation, the tax consequences for United Kingdom resident Shareholders electing to receive a Scrip Dividend are as summarised below.

This summary is based on current law, is not exhaustive and does not deal with the position of any Shareholder not resident in the United Kingdom for tax purposes. Unless expressly stated, it does not anticipate the effect (if any) of any changes in taxation which may be introduced after the date of this document.

If you are in any doubt as to your position, you are strongly advised to consult your professional adviser before taking any action.

#### 1. UK resident individuals

Individuals who elect to receive a Scrip Dividend instead of the Cash Dividend will be treated as having received gross income of an amount which, when reduced by income tax at the dividend ordinary rate (currently 10 per cent.) is equal to the Cash Dividend (or the market value of the New Shares if substantially different) which they would have received if they had not elected to take up an offer of a Scrip Dividend. For example, if an individual takes a Scrip Dividend in lieu of the Cash Dividend of £90, he will be treated as receiving gross income of £100 and as having paid income tax of £10 on that grossed up amount.

**Individuals subject to income tax at the starting rate or basic rate only will have no further liability to tax on receipt of the New Shares.**

Individuals subject to income tax at the higher rate will be liable to tax at a rate of 32.5 per cent. (the current dividend upper rate) on the grossed up amount and will be treated as having paid income tax of 10 per cent. on the grossed up amount. For example, if a higher rate tax payer receives a dividend of £90, a tax liability will arise on £100 (that is, the total of the dividend of £90 and the tax credit of £10) charged at the rate of 32.5 per cent. and the tax due will be £32.50. The 10 per cent. tax credit of £10 can then be offset against the tax due of £32.50, leaving the higher rate tax payer with only £22.50 to pay. This is the same as the additional tax liable to be paid if the dividend was received in cash.

The Government has announced that on and after 6 April 2010 a new 42.5 per cent. rate of tax will apply where dividend income, taken as the top slice of a Shareholder's taxable income, forms part of the Shareholder's overall taxable income in excess of £150,000. After taking into account the 10 per cent. notional tax credit, this will result in an effective rate of tax of 36.11 per cent. on the net dividend. This new rate will apply equally to the Cash Dividend or a Scrip Dividend in situations where the £150,000 threshold is exceeded.

Individual Shareholders will not be entitled to claim a repayment of the 10 per cent. tax credit attached to any dividend (including cash dividends) paid.

### **Capital gains tax**

The receipt of New Shares will not give rise to an immediate charge to capital gains tax. For the purpose of computing an individual's capital gains tax liability upon a future sale of the new Ordinary Shares, the amount of the Cash Dividend (or the market value of the New Shares if substantially different) will be treated by HM Revenue & Customs as the consideration for the New Shares.

### **Stamp duty and stamp duty reserve tax**

An individual will not be liable to stamp duty or stamp duty reserve tax on the acquisition of the New Shares.

## **2. UK resident trustees**

Where a Scrip Mandate Form is lodged to receive a Scrip Dividend instead of the Cash Dividend by the trustees of a trust which is liable to income tax at the trust rate of 32.5 per cent. in respect of dividends, the same grossing up procedure as outlined above for individuals will apply. Trustees will therefore be treated as having received gross income of an amount which, when reduced by income tax at the ordinary rate (10 per cent) is equal to the cash dividend forgone, or, if substantially different, the market value of the New Shares.

The trustees of such UK resident trusts which are normally liable to pay income tax at the rate of 40 per cent. will be liable to tax at the rate of 32.5 per cent. on the grossed up income amount and will be treated as having paid income tax of 10 per cent. of the grossed up amount. The Government has announced that on and after 6 April 2010 the rate of tax applicable to trusts will increase with the effect that tax paid on dividends will be increased to 42.5 per cent., but the 10 per cent. credit will apply in the same way as outlined above.

The above rates apply to trust income above £1,000. Income falling within the initial £1,000 band will be taxed at no more than the basic rate of income tax (currently 20 per cent.).

Where New Shares are received instead of the Cash Dividend, the amount of the Cash Dividend forgone, or, if substantially different, the market value of the New Shares will be treated as the consideration given for the New Shares for capital gains tax purposes.

As for individuals above, a trustee will not be liable to stamp duty or stamp duty reserve tax on the acquisition of the New Shares.

## **3. UK resident companies**

For a UK resident corporate shareholder corporation tax will not be chargeable on a Scrip Dividend received instead of the Cash Dividend. For the purpose of corporation tax on chargeable gains, no consideration will be treated as having been given for a Scrip Dividend and the New Shares are treated as acquired when the Ordinary Shares were acquired.

## **4. Charities, Individual Savings Accounts, Pensions and other UK resident gross funds**

No repayment claim can be made in respect of the tax credit. This is the same whether a Scrip Dividend is taken instead of the Cash Dividend.

## 5. Cash element

If a UK Shareholder receives dividends in the form of cash, the Cash Dividend will be treated as a conventional dividend for UK taxation purposes.

## 6. Opening value

Where the market value of the New Shares on the first day of dealings on the London Stock Exchange plc (the "**Opening Value**") differs substantially (i.e. 15 per cent. or more above or below) from the cash equivalent of one new Ordinary Share, HM Revenue & Customs will substitute that Opening Value as the cash equivalent for the purpose of calculating any taxes due. If this occurs, Shareholders will be sent a notice of the revised valuation which they should keep with their share certificate(s). This revised value is used for both income tax and capital gains tax purposes, but basic rate tax payers would have no further income tax liabilities.

