



# The Berkeley Group Holdings plc

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14 February 2008

Dear Shareholder

**The Berkeley Group Holdings plc (the "Company")**  
**Return of Capital to Shareholders**  
**Tax Treatment of Redemption of 2008 B Shares**

We refer to the redemption of the 2008 B shares which occurred on 4<sup>th</sup> January 2008. This redemption was as envisaged in the resolution passed by Shareholders at the Annual General Meeting of the Company on 5<sup>th</sup> September 2007 which provided for the redemption to occur at an earlier date than that originally proposed in the circular issued to shareholders by The Berkeley Group plc on 24 August 2004 ("the **Circular**") on the Proposed Return of up to £12 per Existing Ordinary Share. We are writing to you now to provide you with further information in regard to the tax treatment of the redemption.

In particular, we set out below guidance for shareholders who are UK tax residents or ordinarily resident individuals ("**Individual Shareholders**") on the likely tax consequences of their redemption of 2008 B shares, which took place on 4<sup>th</sup> January 2008.

This guidance should be read in the context of the comments on taxation set out in Part 5 of the Circular, a copy of which can be found on The Berkeley Group website ([www.berkeleygroup.co.uk](http://www.berkeleygroup.co.uk)) in the Investor Relations section. In particular, the following comments and illustrations are intended as a general guide only and are based on relevant UK legislation, case law, published practice of HM Revenue and Customs ("**HMRC**") as at the date of this document, and correspondence between HMRC and our tax adviser.

The comments and illustrations below deal only with the position of an Individual Shareholder who beneficially held the 2008 B Shares as a capital investment. They do not deal with the position of certain classes of shareholders, such as dealers in securities.

If you are resident or otherwise taxable outside the United Kingdom, you should consult your own professional advisers on the possible application of taxation laws in your country of residence.

As outlined in our letters of 7<sup>th</sup> September 2005 and 31<sup>st</sup> January 2007 concerning the tax treatment of the 2004 B shares and 2006 B Shares respectively, a copy of which can be found on The Berkeley Group website at the same location as the Circular, our tax adviser has held discussions with HMRC on the tax treatment of the redemptions. HMRC agreed that the value of the shares in The Berkeley Group plc received by The Berkeley Group Holdings plc in exchange for the issue of new share capital under the Scheme of Arrangement represents new consideration. Unfortunately, HMRC did not agree with us the basis of apportionment of capital between each of the shares forming part of each Unit of The Berkeley Group Holdings plc and have stated that they will examine these matters in the normal way when shareholders' tax returns are filed. Accordingly, there is some uncertainty as to how the redemption of each of the classes of B share will be taxed.

Notwithstanding this, and based on the information that HMRC has to date provided, we are advised that the expected tax treatment of the redemption of the 2008 B shares is as set out below.

With regard to the 2010 B shares, we will provide clarification of the expected tax treatment at the relevant time.

## Capital or Income Treatment of the £2 per share redemption proceeds of the 2008 B shares

We believe that £1.60 per share of the £2 per share redemption proceeds of the 2008 B shares is likely to be treated wholly as a payment of **capital** in the hands of Individual Shareholders, with the remaining £0.40 per share falling to be treated as **income** and taxable in the hands of an Individual Shareholder in a similar manner to a dividend. The capital element of £1.60 is determined by reference to the nominal value allocated to each 2008 B Share on issue.

### Capital Gains Treatment

The redemption of the 2008 B shares on 4<sup>th</sup> January 2008 should be treated as a part disposal of your Units in The Berkeley Group Holdings plc. The amount of capital gain or loss on each Unit will be based on the difference between the amount received on redemption that should be treated as capital (£1.60) and the Capital Gains Tax ("CGT") base cost of a 2008 B share.

UK tax legislation provides a formula for establishing the base cost of a 2008 B share in such cases, which is the total base cost of the share which was originally exchanged for the Unit, multiplied by  $A/A+B$ , where A is the capital element of the redemption price (£1.60) and B is the market value of the Unit immediately following the redemption of the 2008 B Share (which was £10.54 on 4<sup>th</sup> January 2008). This means that  $1.60/(1.60+10.54)$ , or 13.18%, of the remaining base cost of the original share should be deducted from the £1.60 capital element of the redemption price to calculate the capital gain on each 2008 B share.

A **hypothetical** example, assuming, for these **illustrative** purposes only, a brought forward CGT base cost of £8 per Unit in The Berkeley Group Holdings plc ("CGT Base Cost in Unit"), is set out below. The mid quote share price of a Unit on the date of the 2008 B share redemption (4<sup>th</sup> January 2008) was £10.54 ("Market Value of Retained Shares").

*The base cost for CGT purposes of each 2008 B share ("2008 B Share CGT base cost") is calculated as follows:*

$$\begin{aligned}
 \text{2008 B Share CGT} &= \text{CGT Base Cost in Unit} \times \frac{\text{Capital element of 2008 B share redemption proceeds}}{\text{Capital element of 2008 B share redemption proceeds} + \text{Market Value of Retained Shares}} \\
 \text{Base Cost} &= \text{£8} \times \frac{\text{£1.60}}{\text{£1.60} + \text{£10.54}} \\
 &= \text{£1.05}
 \end{aligned}$$

*The capital gain is calculated as follows:*

$$\begin{aligned}
 \text{Capital gain} &= \text{Capital element of 2008 B share redemption proceeds} - \text{2008 B share CGT Base Cost} = \text{£0.55 per 2008 B share} \\
 &= \text{£1.60} - \text{£1.05} = \text{£0.55 per 2008 B share}
 \end{aligned}$$

The tax treatment of Individual Shareholders and their shareholdings may vary depending on their circumstances (for example, the availability of any reliefs, such as the annual exemption (currently £9,200)). Independent professional tax advice should be sought.

## **Income Tax Treatment**

For Individual Shareholders, the £0.40 per share that falls to be treated as income is taxed in the hands of the recipient in a similar way to a dividend and is net of a 10% tax credit; the gross amount being £0.44 per share.

Lower rate Individual Shareholders are taxed on the £0.44 per share at 10% giving a tax liability of £0.04 per share and the credit therefore takes their residual tax liability thereon to zero.

Higher rate Individual Shareholders are taxed on the £0.44 per share at 32.5%. This results in a tax liability of £0.14 per share. This is reduced by the £0.04 per share tax credit to a residual liability of £0.10 per share, or 25% of the net amount received.

Our tax adviser suggests that Individual Shareholders include this income and the associated tax credit on their tax returns in the section titled "Dividends and other qualifying distributions from UK companies".

This letter has been prepared as a general guide only and should not be relied upon as the basis for taking action.

Yours faithfully



**Anthony Foster**  
**Company Secretary**