PROJECT FERN

Document for Residential Secure Income plc Web-page

As noted in the Circular of Residential Secure Income plc (the Company), for the purposes of the taxation of chargeable gains, the issue of B Shares should constitute a tax-neutral reorganisation of the share capital of the Company in accordance with the rules for the reorganisation of share capital in section 128 of the Taxation of Chargeable Gains Act 1992 ("TCGA 1992").

In accordance with these rules, the bonus issue of B shares to a Shareholder is treated as the same asset as the original holding of Ordinary Shares by that Shareholder. The practical effect is that the acquisition cost of the Ordinary Shares is allocated across the combined new holding. No disposal is treated as being made by the Shareholder of any of the Ordinary Shares (section 126(1) and (2) TCGA 1992).

Accordingly, the Circular states:

a) the B Shares should be treated as the same asset as a Shareholder's holding of existing Ordinary Shares;

b) the B Shares should be treated as having been acquired at the same time as a Shareholder's holding of existing Ordinary Shares was acquired; and

c) a Shareholder's combined holding of Ordinary Shares and B Shares should have the same aggregate base cost as the Shareholder's holding of Ordinary Shares immediately before the issue of B Shares.

The aggregate base cost should be apportioned between B Shares and the Ordinary Shares held by a Shareholder by reference to the market values of the Ordinary Shares and the B Shares on the first day of trading of the Ordinary Shares after the issue of B Shares.

Where part of the new (combined) holding includes more than one classes of shares and one of those classes of shares is listed on a recognised stock exchange (as here with the Ordinary Shares), the rules require an apportionment of the base cost of the different classes of shares by reference to the market value *at the earliest practicable time following a quotation or publication of a price or market valuation in respect of the Ordinary Shares following an issue of B Shares.* We have included a worked example below:

WORKED EXAMPLE

Calculation of capital gains tax base cost

Investor A has a holding of 100 Ordinary Shares in the Company with a capital gains tax base cost of £0.07 per Ordinary Share (seven pence per Ordinary Share). This produces a combined capital gains base cost for the Ordinary Shares of £7.00.

The market value of the Ordinary Shares on the first trading day after the Project Fern B Share issuance (being a capital gains tax reorganisation) is £0.082 per Ordinary Share (eight pence and 0.2 pence per Ordinary Share). This market value factors in the consequences of the Project Fern B Share Issuance.

Investor A is issued 1900 B Shares in the Project Fern B Share Issuance on the basis of 19 B Shares for every one Ordinary Share held. The market value of each B Share is £0.01 (one penny).

The aggregate market value of Investor A's new (combined) holding is £27.20 (comprising a market value of £8.20 for the holding of Ordinary Shares (100 x £0.082) and £19.00 for the B Shares (1900 x £0.01)).

The capital gains base cost of the Ordinary Shares (£7.00) is spread across the combined holding of Ordinary Shares and B Shares.

- Investor A's capital gains base cost of the holding of their B Shares on any redemption (disposal) will be **£4.89**. This B Share base cost represents:

  0.69853% of the new (combined) holding (being £19.00/£27.20 x £7.00).

- Investor A's capital gains base cost of the holding of their B Shares on any redemption (disposal) will be £**2.11**. This B Share base cost represents:

  0.30147% of the new (combined) holding (being £8.20/£27.20 x £7.00).

The aggregate base cost (£7.00 for the Ordinary Shares) should be apportioned between B Shares and the Ordinary Shares held by a Shareholder by reference to the market values of the Ordinary Shares (£0.082 in aggregate for 100 Ordinary Shares) and the B Shares (£19.00 in aggregate for 1900 B Shares) on the first day of trading of the Ordinary Shares after the issue of B Shares. (See paragraph 2.4 and footnote 1 of this note).

The base cost allocated to the B Shares will reduce the aggregate base cost of the Ordinary Shares for future share disposals. For the purposes of calculating any capital gain on a future disposal of Ordinary shares, the remaining base cost of the Ordinary Shares is calculated as the base cost of the Ordinary Shares (£7.00) less the base cost of the B Shares (£4.89).

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