

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you should immediately consult your independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Shaftesbury PLC, please hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of existing shares in the Company please consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

Your attention is drawn to Parts 2 and 3 of this Circular which set out and describe certain implications of Shaftesbury PLC converting to a Real Estate Investment Trust for tax purposes that shareholders should consider carefully when deciding whether or not to vote in favour of the resolution to be proposed at the Extraordinary General Meeting referred to below.

Shaftesbury PLC

(incorporated and registered in England & Wales under registration number 1999238)

Proposed Amendments to Articles of Association and Notice of Extraordinary General Meeting in connection with REIT conversion

Your attention is drawn to the letter from the Chairman of Shaftesbury PLC which is set out on pages 3 to 6 of this circular and which contains the Directors' recommendation to vote in favour of the resolution to be proposed at the Extraordinary General Meeting. Your attention is also drawn to the section entitled "Action to be taken" on page 6 of this circular.

Notice of an Extraordinary General Meeting of the Company to be held at Lovells, Atlantic House, Holborn Viaduct, London EC1A 2FG at 10.00 am on 19 March 2007, is set out at the end of this circular. Shareholders will find enclosed with this circular a form of proxy for use in connection with the Extraordinary General Meeting. To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to reach the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL, by no later than 10.00 am on 17 March 2007. Completion and return of a form of proxy will not preclude shareholders from attending and voting at the Extraordinary General Meeting should they choose to do so. Further instructions relating to the form of proxy are set out in the notice of the Extraordinary General Meeting at the end of this circular.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

All references to time in this circular are to UK time

Posting of Circular	23 February 2007
Latest time and date for receipt by registrar of completed form of proxy.....	10.00 am on 17 March 2007
Extraordinary General Meeting.....	10.00 am on 19 March 2007
Anticipated date for REIT notification to HMRC	On or before 30 March 2007
Anticipated date of REIT conversion.....	1 April 2007
Anticipated date for amendments to Articles of Association becoming effective.....	1 April 2007

FORWARD-LOOKING STATEMENTS

This Circular includes statements that are forward-looking in nature. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Shaftesbury PLC to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

PART 1
**Letter from the Chairman
of Shaftesbury PLC**

*(incorporated and registered in England and Wales under
number 1999238)*

Shaftesbury PLC

Directors

John Manser, CBE, DL, FCA (Chairman)
Jonathan Lane, MA, FRICS (Chief Executive)
Brian Bickell, FCA (Finance Director)
Simon Quayle, BSc, MRICS (Property Director)
Thomas Welton, MRICS (Property Director)
John Emly, FICS (Non-executive Director)
Alastair MacDonald (Non-executive Director)
Gordon McQueen BSC, CA, FCIBS
(Non-executive Director)

Registered and Head Office

Pegasus House
37-43 Sackville Street
London W1S 3DL

23 February 2007

*To Shareholders and, for information only, to holders of options under the Share Schemes and
holders of Shaftesbury's 8.5% First Mortgage Debenture Stock 2024*

Dear Shareholder,

**Proposals to amend Shaftesbury PLC's Articles of Association in connection with conversion
to a Real Estate Investment Trust (REIT)**

I am writing to you to explain the background to proposals for Shaftesbury PLC to amend its Articles of Association in connection with its proposed conversion to a REIT. This circular explains the background to the proposed conversion, the proposed amendments to the Articles which are being submitted for approval at an Extraordinary General Meeting of the Company and why the Board thinks that they are in the best interests of shareholders as a whole. Set out at the end of this circular is a notice convening the Extraordinary General Meeting, which will be held at Lovells, Atlantic House, Holborn Viaduct, London EC1A 2FG on Monday 19 March 2007 at 10.00 am. There is also enclosed a form of proxy to enable you to vote on the resolution should you be unable to attend the meeting.

The Board is proposing to convert the Group to a REIT with effect from 1 April 2007 in order to benefit from the provisions contained in Part 4 of the Finance Act 2006 and the related regulations (the "**REIT regime**"). The conversion to a REIT is a change in the Company's tax status, achieved by notifying HMRC. Such change in tax status will have tax consequences for the Company and its shareholders but the Company will remain listed on the London Stock Exchange and its shares will continue to be traded in the usual way.

The amendments proposed to be made to the Company's Articles are required for the Company to be confident that it will not incur certain additional tax charges that can arise under the REIT regime. If these amendments are not approved by shareholders, the Board will not proceed with conversion to REIT status.

At the date of this letter, detailed guidance on the REIT regime has not yet been finalised by HMRC. The Board will review the final guidance when it becomes available and will not proceed with conversion to REIT status if the latest available guidance suggests that there are material implications that the Board considers would be adverse for the Company or would affect the consequences of conversion for shareholders in a way that is materially different to that described in this circular, or if there is material uncertainty as to whether that might be the case.

A REIT is a company, or group, that invests in UK property and enjoys a measure of exemption from corporation tax on rental income and gains on disposals of property that generate rental income if the REIT distributes 90 per cent. of its rental income to shareholders. It is a common form of property investment vehicle in countries such as USA, Australia, Canada and certain European countries and was introduced to the UK from 1 January 2007.

By converting to REIT status, the Group will no longer pay UK corporation tax on the profits and gains from their qualifying property rental businesses in the UK and elsewhere provided that they meet certain conditions. Non-qualifying profits and gains of the Group will continue to be subject to corporation tax as normal.

On entering the regime, each company (all of which are UK resident) that is a member of the Group and carries on a qualifying property rental business in the UK will be subject to an entry tax charge. This will be equal to 2 per cent. of the aggregate market value of the properties (before any reduction for borrowing) involved in that business immediately prior to entry into the REIT regime.

A REIT will be required to distribute to shareholders (by way of dividend) at least 90 per cent. of the income profits arising in each accounting period of the UK-resident members of the Group in respect of their Tax-Exempt Business. The distribution must be made on or before the filing date for the REIT's tax return for the accounting period in question. Income profits for these purposes are to be calculated, broadly, in accordance with normal tax rules.

Under the REIT regime, a tax charge may be levied on the Company if it makes a distribution to one or more Substantial Shareholders. A Substantial Shareholder is defined as a corporate shareholder which is beneficially entitled (directly or indirectly) to 10 per cent. or more of the shares or dividends in the Company, or controls (directly or indirectly) 10 per cent. or more of the voting rights of the Company. However, HMRC has stated that, provided the Company has taken reasonable steps to avoid such a distribution being paid, no such tax charge will be levied. The amendments to the Company's Articles being submitted for approval by shareholders are intended to give the Board the powers it needs to demonstrate to HMRC that such "reasonable steps" have been taken. These proposals are consistent with the draft guidance published by HMRC.

Part 2 contains a general overview of the REIT regime.

Shareholders should note that conversion of the Group to a REIT will affect their tax position. Part 3 contains a summary of the UK tax treatment of certain shareholders after conversion.

Part 4 contains a description of the proposed amendments to the Articles.

Implications of REIT status for the Group

The Board intends that the Company will elect for REIT status with effect from 1 April 2007. The Board is satisfied that, on election, the Company will comply with the conditions set out in the Finance Act 2006. The principal conditions are outlined on pages 8 to 12 of this circular.

An election to convert in respect of the Company's 50 per cent. interest in its joint venture, Longmartin Properties Limited, may be considered at a future date.

As explained above, the Group will pay a charge on conversion based on 2 per cent. of the market value of property assets involved in its qualifying property rental business immediately prior to the date it converts. The actual amount of the charge will be calculated by reference to an external valuation of the Group's portfolio to be carried out at 31 March 2007. This valuation will be reflected in the 2007 Interim Results, which are expected to be announced by the end of May 2007.

As an indication, a charge at 2 per cent. based on the market value of the Group's wholly owned investment properties (i.e. excluding the Group's 50 per cent. interest in the property assets of Longmartin Properties Limited), all of which are involved in its qualifying rental business, at 30 September 2006 equates to approximately £23.7 million, equivalent to a reduction in net assets per share of 18 pence. The Group currently intends to utilise the option of paying the conversion charge over a four year period, which increases the effective rate to 2.2 per cent. This increases the charge indicated above to £26.1 million, equivalent to 19.5 pence per share, but it will benefit the Group's cash flow as the instalment payments will approximate to the corporation tax the Group would have expected to pay over this period.

Conversion would effectively extinguish the contingent capital gains tax liability in respect of the Group's wholly owned properties, estimated at 30 September 2006 to be £135.25 million, and would permit the release in the Group's financial statements of its net deferred tax provisions at that date of approximately £169.0 million, which will be added to the Group's net assets. The Group would be exempt from any corporation tax liability on its qualifying income derived from its wholly owned properties. It is expected that virtually all of the Group's income would fall into this tax-exempt category.

The Board estimates that the requirement to distribute at least 90 per cent. of the Group's property derived tax exempt income would be likely to lead to an increase in the Company's dividends in a full year as a REIT of some 60 per cent. when compared with the total dividend for 2006 of 5.65 pence per share. The Board expects that the first Property Income Distribution or PID (each as defined on page 19) will be the final dividend in respect of the year ended 30 September 2007, expected to be paid in February 2008. Any element of this dividend which is paid out of profits or gains that arise before the Group becomes a REIT or are otherwise non-qualifying will be a Non-PID Dividend (as defined on page 19).

The Group's investment and business strategies will not be affected by election for REIT status. The Board believes that a likely consequence of the introduction of REITs will be greater liquidity in property markets. As a REIT, the competitiveness of the Group will be increased as it will have the ability to substantially shelter potential chargeable gains in corporate vehicles that are acquired in property transactions.

Exit from the REIT regime

The Company can give notice to HMRC that it wants the Group to leave the REIT regime at any time. The Board retains the right to decide to exit the REIT regime at any time in the future without shareholder consent if it considers this to be in the best interests of the Company. There is no repayment of the entry charge in these circumstances.

If the Group voluntarily leaves the REIT regime within ten years of joining and disposes of any property or other asset that was involved in its qualifying property rental business within two years of leaving, any uplift in the base cost of the property as a result of the deemed disposal on entry into the REIT regime is disregarded in calculating the gain or loss on the disposal.

It is important to note that the Company cannot guarantee continued compliance with all of the REIT conditions and that the REIT regime may cease to apply in some circumstances. HMRC may require the Group to exit the REIT regime if:

- ▶ it regards a breach of the conditions, failure to satisfy the conditions relating to the Tax-Exempt Business or an attempt by the Group to avoid tax, as sufficiently serious;
- ▶ the Company has committed a certain number of minor or inadvertent breaches in a specified period; or
- ▶ HMRC has given the Company two or more notices in relation to the avoidance of tax within a ten year period.

In addition, in the following cases, the Group will automatically lose REIT status:

- ▶ if the conditions for REIT status relating to the share capital of the Company or the prohibition on entering into loans with abnormal returns are breached;
- ▶ if the Company ceases to be resident solely in the UK for tax purposes;
- ▶ if the Company becomes an open-ended company;
- ▶ if the Company ceases to be listed, or;
- ▶ in certain circumstances ceases to fulfil the close company condition (which is described in Part 2).

Where the Group is required to leave the REIT regime within ten years of joining, HMRC has wide powers to direct how it is to be taxed, including in relation to the date on which the Group is treated as exiting the REIT regime.

Shareholders should note that the Group could lose its status as a REIT as a result of the actions of third parties, for example, in the event of a successful takeover by a company that is not a REIT, or due to a breach of the close company condition (described in Part 2) if it is unable to remedy the breach within a specified period. The Board recognises that further amendments to the Articles could be required to provide sufficient powers to enable the Company to remedy a breach of the REIT conditions, such as the close company condition, or to deal with future changes in the legislation governing REIT eligibility.

Recommendation

Your Board considers that the resolution to be proposed at the Extraordinary General Meeting is in the best interests of shareholders as a whole and unanimously recommends shareholders to vote in favour of the resolution, as the Directors intend to do in respect of their own shareholdings which amount in aggregate to 1,358,135 shares representing approximately 1.02 per cent. of the issued share capital of the Company (as at 22 February 2007, being the last business day before the date of this circular).

Action to be taken

The Extraordinary General Meeting will be held at Lovells, Atlantic House, Holborn Viaduct, London EC1A 2FG on 19 March 2007 at 10.00 am. Only holders of Ordinary Shares are entitled to attend and vote at the Extraordinary General Meeting. A form of proxy for use by holders of Ordinary Shares is enclosed. You are requested to complete the form in accordance with the instructions thereon and return it to the Company's registrars, Lloyds TSB Registrars, as soon as possible but, in any event, so that it arrives not later than 48 hours before the time appointed for the holding of the Meeting. If you complete and return the form of proxy, you may still attend and vote at the Extraordinary General Meeting if you wish.

Yours faithfully,

John Manser
Chairman, CBE, DL, FCA

PART 2

The REIT Regime

The following paragraphs are intended as a general guide only and constitute a high-level summary of the Company's understanding of current UK law and HMRC practice, each of which is subject to change, possibly with retrospective effect. This summary does not constitute advice. As at the date of this circular, HMRC's detailed guidance on the REIT regime has not yet been finalised. This guidance could change the position described below.

Overview

The REIT regime, introduced in the Finance Act 2006, is intended to encourage greater investment in the UK property market and follows similar legislation in other European countries such as The Netherlands, as well as the long-established regimes in the United States of America and Australia.

In this Part, "**Group**" means a body corporate and all of its "75 per cent. subsidiaries" and any of their 75 per cent. subsidiaries and so on, provided that the principal company in the group is beneficially entitled to more than 50 per cent. of the subsidiary's profits which are available for distribution to equity holders of the subsidiary, and more than 50 per cent. of any assets of the subsidiary available for distribution to its equity holders on a winding-up, and excluding insurance companies as defined in section 431(2) of the Income and Corporation Taxes Act ("**ICTA**") and their subsidiaries. A body corporate is a "75 per cent. subsidiary" of another if the other is the beneficial owner (directly or indirectly) of at least 75 per cent. of its ordinary share capital.

Currently, investing in property through a typical UK corporate investment vehicle (such as the Company) has the disadvantage that, in comparison to a direct investment in property assets, some categories of shareholder effectively suffer tax twice on the same income — first, indirectly, when members of the Group pay UK direct tax on their profits, and secondly, directly (but with the benefit of a tax credit) when the shareholder receives a dividend. Entities, which would not be subject to tax on income and gains, such as UK pension funds, suffer tax indirectly when investing through a corporate vehicle that is not a REIT in a manner that they may not suffer if they were to invest directly in the property assets.

As part of a REIT, UK resident Group members and non-UK resident Group members with a UK qualifying property rental business would no longer pay UK direct taxes on income and capital gains from their qualifying property rental businesses (the "**Tax-Exempt Business**") in the UK and elsewhere, provided that certain conditions are satisfied. Instead, distributions in respect of the Tax-Exempt Business will be treated for UK tax purposes as UK property income in the hands of shareholders (Part 3 contains further detail on the United Kingdom tax treatment of shareholders in a REIT). However, corporation tax will still be payable in the normal way in respect of income and gains from the Group's business (generally including any property trading business) not included in the Tax-Exempt Business (the "**Residual Business**").

In this Part, "**property rental business**" means a rental business currently taxed under Schedule A business within the meaning of section 832(1) ICTA or an overseas property business within the meaning of section 70A(4) ICTA, but, in each case, excluding certain specified types of business. A "**qualifying property rental business**" means a property rental business fulfilling the conditions in section 107 of the Finance Act 2006.

While within the REIT regime, the Tax-Exempt Business will be treated as a separate business for corporation tax purposes from the Residual Business and a loss incurred in the Tax-Exempt Business cannot be set off against profits of the Residual Business (and vice versa).

The principal company of a REIT will be required to distribute to shareholders (by way of dividend), at least 90 per cent. of the income profits arising in each accounting period of the UK-resident members of the Group in respect of their Tax-Exempt Business and of the non-UK resident members of the Group in respect of their UK qualifying property rental business. The distribution must be made on or before the filing date for the REIT's tax return for the accounting period in question. Income profits for these purposes are to be calculated, broadly, in accordance with normal tax rules. Failure to meet this requirement will result in a tax charge calculated by reference to the extent of the failure, although this charge can be avoided if an additional dividend is paid within a specified period which brings the amount of profits distributed up to the required level.

In this circular, references to a company's accounting period are to its accounting period for tax purposes. This period can in some circumstances differ from a company's accounting period for other purposes.

A dividend paid by the Company in respect of profits or gains of the Tax-Exempt Business of the UK resident members of the Group, arising at a time when the Group is a REIT, or in respect of the profits or gains of a non-UK resident member of the Group arising at a time when the Group is a REIT, insofar as they derive from their UK qualifying property rental business, is referred to in this circular as a **"Property Income Distribution"** or **"PID"**. **Any other dividend paid by the Company will be referred to as a "Non-PID Dividend"**.

The treatment of a dividend paid by the principal company in the Group in the first year after it becomes a REIT should depend on whether it is paid out of profits that arose before or after the Group became a REIT. The Company will provide shareholders with a certificate setting out how much of their dividend is a PID and how much is a Non-PID Dividend.

Subject to certain exceptions, Property Income Distributions will be subject to withholding tax at the basic rate of income tax (currently 22 per cent). Further details of the United Kingdom tax treatment of certain categories of shareholder while the Group is in the REIT regime are contained in Part 3.

Qualification as a REIT

A group becomes a REIT by the principal company in the group serving notice on HMRC before the beginning of the first accounting period for which it wishes the group members to become a REIT. In order to qualify as a REIT, the principal company and the REIT Group must satisfy certain conditions set out in the Finance Act 2006. A non-exhaustive summary of the material conditions is set out below. Broadly, the principal company must satisfy the conditions set out in paragraphs (A), (B), (C) and (D) below and the Group members must satisfy the conditions set out in paragraph (E).

(A) Company conditions

The principal company must be solely resident in the UK for tax purposes, it must be closed-ended, and its ordinary shares must be listed on a recognised stock exchange, such as the London Stock Exchange. The principal company must also not (apart from in one exceptional circumstance) be a "close company" (as defined in sections 414 and 415 of ICTA as adapted by section 106(6) of the Finance Act 2006 (the **"close company condition"**)). In summary, the close company condition amounts to a requirement that not less than 35 per cent. of the principal company's ordinary shares are listed on a recognised stock exchange and beneficially held by the public and for this purpose the "public" excludes directors and certain of their associates, and shareholders who, alone or together with certain associates, control more than 5 per cent. of the principal company's share capital.

(B) Share capital restrictions

The principal company must have only one class of ordinary shares in issue and the only other shares it may issue are non-voting fixed rate preference shares.

(C) Restrictions on types of borrowing

The principal company must not be party to any loan in respect of which the lender is entitled to interest which exceeds a reasonable commercial return on the consideration lent or where the interest depends to any extent on the results of any of the principal company's business or on the value of any of its assets. In addition, the amount repayable must either not exceed the amount lent or must be reasonably comparable with the amount generally repayable (in respect of an equal amount lent) under the terms of issue of securities listed on a recognised stock exchange.

(D) Financial statements

The principal company must prepare financial statements (**"Financial Statements"**) in accordance with statutory requirements and submit these to HMRC. The Financial Statements must set out the information about the Tax-Exempt Business and the Residual Business separately. The REIT regime specifies the information to be included and the basis of preparation of these Financial Statements.

(E) *Conditions for the Tax-Exempt Business*

The Tax-Exempt Business must satisfy the conditions summarised below in respect of each accounting period during which the Group is to be treated as a REIT:

- I. the Tax-Exempt Business must throughout the accounting period involve at least three properties;
- II. throughout the accounting period no one property may represent more than 40 per cent. of the total value of all the properties involved in the Tax-Exempt Business. Assets must be valued in accordance with International Accounting Standards (“**IAS**”) and at fair value when IAS offers a choice between a cost basis and a fair value basis;
- III. treating all members of the Group as a single company, the Tax-Exempt Business must not include any property which is classified as owner-occupied in accordance with generally accepted accounting practice;
- IV. at least 90 per cent. of the amounts shown in the Financial Statements of the Group members as income profits (broadly, calculated using normal tax rules) of the UK resident members of the Group arising in respect of their Tax-Exempt Business in the accounting period, and the income profits of the non-UK resident members of the Group insofar as they arise in respect of such members’ UK qualifying property rental business in the accounting period, must (to the extent permitted by law) be distributed to shareholders of the principal company of the REIT in the form of a dividend (a PID) on or before the filing date for the principal company’s tax return for the accounting period (the “**90 per cent. distribution test**”). For the purpose of satisfying the 90 per cent. distribution test, any dividend withheld in order to comply with the 10 per cent. rule (as described in (C) below) (the “**10 per cent. rule**”) below) will be treated as having been paid;
- V. the income profits arising from the qualifying property rental business must represent at least 75 per cent. of the Group’s total profits for the accounting period (the “**75 per cent. profits test**”). Profits for this purpose means profits calculated in accordance with IAS, before deduction of tax and excluding, broadly, gains and losses on the disposal of property and gains and losses on the revaluation of properties, and certain exceptional items; and
- VI. at the beginning of the accounting period the value of the assets in the qualifying property rental business must represent at least 75 per cent. of the total value of assets held by the Group (the “**75 per cent. assets test**”). Assets must be valued in accordance with IAS and at fair value where IAS offers a choice of valuation between cost basis and fair value, and in applying this test no account is to be taken of liabilities secured against or otherwise relating to assets (whether generally or specifically).

Effect of becoming a REIT

(A) *Entry charge*

Each UK resident member of the Group that carries on a qualifying property rental business in the UK or overseas and any non-UK resident member of the Group that carries on a qualifying property rental business in the UK will be liable to pay an entry charge broadly equal to 2 per cent. of the aggregate market value of the properties and other assets involved in that business.

This can be paid at the same time as corporation tax is payable in respect of the first accounting period following entry into the REIT regime. The entry charge is payable in line with the normal dates for payment of corporation tax applicable in the period in which REIT conversion takes place, but with an option to pay in instalments over a four year period. There is no equivalent entry charge if a member of the Group buys a property following entry into the REIT regime. However, if the Group were to acquire a company that is not a REIT, a similar entry charge will apply in respect of the property owned by the acquired company. See also (L) (Acquisitions and Takeovers) below.

(B) *Tax savings*

As a REIT, the Group will not pay UK direct tax on profits and gains from the Tax-Exempt Business. Corporation tax will still apply in the normal way in respect of the Residual Business;

this can include certain trading activities, incidental letting in relation to property trades, intra-group letting of property, letting of administrative property which is temporarily surplus to requirements and certain income such as interest income and dividends from interests in other REITs. Corporation tax could also be payable on gains arising on the sale of shares were a member of the Group to be sold (as opposed to property involved in the UK qualifying property rental business). The Group will also continue to pay taxes such as VAT, stamp duty land tax, stamp duty and national insurance in the normal way.

(C) *The “10 per cent. rule”*

The principal company of a REIT may become subject to an additional tax charge if it pays a dividend to, or in respect of, a person beneficially entitled, directly or indirectly, to 10 per cent. or more of the principal company’s dividends or share capital or that controls, directly or indirectly, 10 per cent. or more of the voting rights in the principal company. Shareholders should note that this tax charge only applies where a dividend is paid to persons that are companies for the purposes of section 832(1) of ICTA 1988 or are deemed to be bodies corporate for the purposes of overseas jurisdictions with which the UK has a double taxation agreement, or for the purposes of such double tax agreements. Where a dividend is paid to a nominee, the tax charge does not apply merely because of the nominee’s legal ownership of the shares.

This tax charge will not be incurred if the principal company has taken reasonable steps to avoid paying dividends to such a person. HMRC guidance describes certain actions that might be taken to show it has taken such “reasonable steps”. One of these actions is to include restrictive provisions in the principal company’s articles of association to address this requirement. The proposed amendments to the articles of association of the Company are consistent with the provisions described in the HMRC guidance.

(D) *Dividends*

Subject as mentioned with regard to dividends paid in the first year of being a REIT in the section headed “Overview”, at the beginning of this Part 2, when the principal company of a REIT pays a dividend, that dividend will be a PID to the extent necessary to satisfy the 90 per cent. distribution test. If the dividend exceeds the amount required to satisfy that test, the REIT may determine that all or part of the balance is a Non-PID Dividend paid out of the profits of the activities of the Residual Business. Any remaining balance of the dividend (or other distribution) will generally be deemed to be a PID, first in respect of the income profits for the current year or previous years out of which a PID can be paid and, after these have been distributed in full, in respect of certain capital gains which are exempt from tax by virtue of the REIT regime. Any remaining balance will be attributed to other distributions.

If the Group ceases to be a REIT, dividends paid by the principal company may nevertheless be PIDs for a transitional period.

(E) *Financial statements*

As mentioned above, a REIT will be required to submit Financial Statements to HMRC.

(F) *Interest cover ratio*

A tax charge will arise if, in respect of any accounting period, the ratio of the income profits (before capital allowances) of the UK resident members of the Group plus the UK income profits of any non-UK resident member of the Group, in each case, in respect of its Tax-Exempt Business plus the financing costs incurred in respect of the Tax-Exempt Business of the Group, to the financing costs incurred in respect of the Tax-Exempt Business of the Group, excluding certain intra-group financing costs, is less than 1.25. This ratio is calculated by reference to the Financial Statements, apportioning costs relating partly to the Tax-Exempt Business and partly to the Residual Business reasonably. The amount (if any) by which the financing costs exceeds the amount of those costs which would cause that ratio to equal 1.25 is chargeable to corporation tax.

(G) *Property development and property trading by a REIT*

A property development by a member of the Group can be within the Tax-Exempt Business provided certain conditions are met. However, if the costs of the development exceed 30 per cent. of the fair value of the development property at the later of (a) the date on which the relevant company becomes a member of a REIT, and (b) the date of the acquisition of the development property, and the REIT sells the development property within three years of completion, the property will be treated as never having been within the Tax-Exempt Business. If a member of the Group disposes of a property (whether or not a development property) in the course of a trade, the property will be treated as never having been within the Tax-Exempt Business.

(H) *Certain tax avoidance arrangements*

If HMRC believes that a member of the Group has been involved in certain tax avoidance arrangements, it may cancel the tax advantage obtained and, in addition, impose a tax charge equal to the amount of the tax advantage. These rules apply to both the Residual Business and the Tax-Exempt Business.

(I) *Movement of assets in and out of Tax-Exempt Business*

In general, where an asset owned by a UK-resident member of the Group and used for the Tax-Exempt Business begins to be used for the Residual Business, there will be a tax-free step-up in the base cost of the property. Where an asset owned by a UK-resident member of the Group and used for the Residual Business begins to be used for the Tax-Exempt Business, this will generally constitute a taxable market value disposal of the asset, except for certain capital allowances purposes. Special rules apply to disposals by way of a trade and to development property.

(J) *Funds awaiting reinvestment*

Where an asset used exclusively in the Tax-Exempt Business is sold, the legislation provides for the sale proceeds to be treated as assets of the Tax-Exempt Business for the purposes of the 75 per cent. assets test for two years following the disposal, provided that they are held as cash or cash equivalents. However, any interest earned on that cash is treated as part of the Residual Business and therefore taxable.

(K) *Joint ventures*

If one or more members of the Group are beneficially entitled, in the aggregate, to at least 40 per cent. of the profits available for distribution to equity holders in a joint venture company and at least 40 per cent. of the assets of the joint venture company available to equity holders in the event of a winding-up, that joint venture company (the “**JV company**”) is carrying on a qualifying property rental business which satisfies the 75 per cent. profits test and the 75 per cent. assets test and certain other conditions are satisfied, the REIT may, by giving notice to HMRC, elect for the assets and income of the JV company to be included in the Tax-Exempt Business. In such circumstances, the income of the JV company will count towards the 90 per cent. distribution test and the 75 per cent. profits test and its assets will count towards the 75 per cent. assets test and the entry charge, in each case to the extent of the Group’s interest in the JV company.

The Regulations relating in relation to joint ventures and REITs do not expressly apply to any subsidiaries of a JV company, although it is hoped that such subsidiaries may be brought within the REIT regime. Guidance to clarify the position for joint ventures carried on through other legal forms will be provided by HMRC.

(L) *Acquisitions and Takeovers*

If a member of the Group acquires another REIT, no entry charge will be payable. However, if a company with a qualifying rental business which is not a REIT joins the Group, the entry charge will be payable by reference to the assets in the qualifying property rental business of the company.

If a REIT is taken over by another REIT, the acquired REIT does not necessarily cease to be a REIT and will, provided the conditions are met, continue to enjoy tax exemptions in respect of the profits of its Tax-Exempt Business and chargeable gains on disposal of properties in the Tax-Exempt Business. There is no entry charge as a result of the acquired REIT joining the acquiror's group and the properties of the acquired REIT are not treated as having been sold and reacquired at market value.

The position is different where a REIT is taken over by an acquiror which is not a REIT. In these circumstances, the acquired REIT is likely in most cases to fail to meet the requirements for being a REIT. If so, it will be treated as leaving the REIT regime at the end of its accounting period preceding the takeover and ceasing from the end of that accounting period to benefit from the Regime's tax exemptions. The properties in the Tax-Exempt Business are treated as having been sold and reacquired at market value for the purposes of corporation tax on chargeable gains immediately before the end of the preceding accounting period. These disposals should be tax-free as they are deemed to have been made at a time when the acquired REIT was still in the REIT regime and future chargeable gains on the relevant assets will therefore be calculated by reference to a base cost equivalent to this market value. If the acquired REIT ends its accounting period immediately prior to the takeover becoming unconditional in all respects, dividends paid as PIDs before that date should not be recharacterised retrospectively as normal dividends.

PART 3

United Kingdom Tax Treatment of Shareholders After Entry into the REIT Regime

INTRODUCTION

The following paragraphs are intended as a general guide only and are based on the Company's understanding of current UK tax law and HMRC practice, each of which is subject to change, possibly with retrospective effect. They are not advice. As at the date of this circular, HMRC's detailed guidance on the REIT regime has not yet been finalised. This guidance could change the position described below.

These paragraphs relate only to certain limited aspects of the United Kingdom taxation treatment of PIDs and Non-PID Dividends paid by the Company, and to disposals of shares in the Company, in each case after the Company becomes a REIT. They apply only to shareholders who are the absolute beneficial owners of both their shares in and dividends from the Company and hold their shares as investments and, except where otherwise indicated, they apply only to shareholders who are both resident and ordinarily resident for tax purposes solely in the United Kingdom. They do not apply to Substantial Shareholders, as defined in Part 4. Nor do they apply to certain categories of shareholders, such as dealers in securities or distributions, persons who have or are deemed to have acquired their shares by reason of their or another's employment, persons who hold their shares by virtue of an interest in any partnership, collective investment schemes, insurance companies, life assurance companies, mutual companies, or Lloyds members. They apply to charities, trustees, pension scheme administrators or persons who hold their shares in connection with a UK branch, agency or permanent establishment only where indicated at paragraph B(iv)(d) below.

Shareholders who are in any doubt about their tax position, or who are subject to tax in a jurisdiction other than the United Kingdom, should consult their own appropriate independent professional adviser without delay, particularly concerning their tax liabilities on PIDs, whether they are entitled to claim any repayment of tax, and, if so, the procedure for doing so.

A. UK TAXATION OF NON-PID DIVIDENDS

Non-PID Dividends paid by the Company will be taxed in the same way as dividends paid by the Company prior to entry into the REIT regime, whether in the hands of individual or corporate shareholders and regardless of whether the shareholder is resident for tax purposes in the UK.

B. UK TAXATION OF PIDS

i. UK taxation of shareholders who are individuals

Subject to certain exceptions, a PID will generally be treated in the hands of shareholders who are individuals as the profit of a single UK property business (as defined in section 264 of the Income Tax (Trading and Other Income) Act 2005). A PID is, together with any property income distribution from any other company to which Part 4 of the Finance Act 2006 applies, treated as a separate UK property business from any other UK property business (a "**different UK property business**") carried on by the relevant shareholder. This means that any surplus expenses from a shareholder's different UK property business cannot be off set against a PID as part of a single calculation of the profits of the shareholder's UK property business. No tax credit will be available in respect of PIDs.

Please see also paragraph B(iv) (Withholding tax), below.

ii. UK taxation of corporate shareholders

Subject to certain exceptions, a PID will generally be treated in the hands of shareholders who are within the charge to corporation tax as profit of a Schedule A business (as defined in section 15 of ICTA). A PID is, together with any property income distribution from any other company to which Part 4 of the Finance Act 2006 applies, treated as a separate Schedule A business from any other Schedule A business (a "**different Schedule A business**") carried on by the relevant shareholder. This means that any surplus expenses from a shareholder's different Schedule A business cannot be off-set against a PID as part of a single calculation of the shareholder's Schedule A profits.

Please see also paragraph B(iv) (Withholding tax) below.

iii. UK taxation of shareholders who are not resident for tax purposes in the UK

Where a shareholder who is resident for tax purposes outside the UK receives a PID, the PID will generally be chargeable to UK income tax as profit of a UK property business and this tax will generally be collected by way of a withholding.

Please see also paragraph B(iv) (Withholding tax) below.

iv. Withholding tax

(a) General

Subject to certain exceptions summarised at paragraph B(iv)(d) below, the Company is required to withhold tax at source at the basic rate (currently 22 per cent.) from its PIDs. The Company will provide shareholders with a certificate setting out the gross amount of the PID, the amount of tax withheld, and the net amount of the PID.

(b) Shareholders solely resident and ordinarily resident in the UK

Where tax has been withheld at source, shareholders who are individuals may, depending on their particular circumstances, either be liable to further tax on their PID at their applicable marginal rate, or be entitled to claim repayment of some or all of the tax withheld on their PID. Shareholders who are corporates will generally be liable to pay corporation tax on their PID (see paragraph B(ii) above) and if (exceptionally) income tax is withheld at source, the tax withheld can be set against their liability to corporation tax or income tax which they are required to withhold in the accounting period in which the PID is received.

(c) Shareholders who are not resident for tax purposes in the UK

It is not possible for a shareholder to make a claim under a double taxation treaty for a PID to be paid by the Company gross or at a reduced rate. The right of a shareholder to claim repayment of any part of the tax withheld from a PID will depend on the existence and terms of any double tax convention between the UK and the country in which the shareholder is resident.

(d) Exceptions to requirement to withhold income tax

Shareholders should note that in certain circumstances the Company must not withhold income tax at source from a PID. These include where the Company reasonably believes that the person beneficially entitled to the PID is a company resident for tax purposes in the UK, or a charity or a company resident for tax purposes outside the UK with a permanent establishment in the UK which is required to bring the PID into account in computing its chargeable profits. They also include where the Company reasonably believes that the PID is paid to the scheme administrator of a registered pension scheme, the sub-scheme administrator of a certain pension sub-schemes, the account manager of an Individual Savings Account (ISA), the plan manager of a Personal Equity Plan (PEP), or the account provider for a child trust fund, in each case, provided the Company reasonably believes that the PID will be applied for the purposes of the relevant fund, scheme, account or plan.

In order to pay a PID without withholding tax, the Company will need to be satisfied that the shareholder concerned is entitled to that treatment. For that purpose the Company will require such shareholders to submit a valid claim form (copies of which may be obtained on request from the Company's registrars, Lloyds TSB Registrars). Shareholders should note that the Company may seek recovery from shareholders if the statements made in their claim form are incorrect and the Company suffers tax as a result. The Company will, in some circumstances, suffer tax if its reasonable belief as to the status of the shareholder turns out to have been mistaken.

C. UK TAXATION OF CHARGEABLE GAINS, STAMP DUTY AND STAMP DUTY RESERVE TAX IN RESPECT OF SHARES IN THE COMPANY

Subject to the paragraph headed "Introduction", above, the following comments apply to both individual and corporate shareholders, regardless of whether or not such shareholders are resident for tax purposes in the UK.

i. UK taxation of chargeable gains

The entry of the Group into the REIT regime will not cause a disposal of shares in the Company by shareholders for UK chargeable gains purpose. Chargeable gains arising on the disposal of shares in the Company following its entry into the REIT regime should be taxed in the same way as previously.

ii. UK stamp duty and UK stamp duty reserve tax (“SDRT”)

A conveyance or transfer on sale or other disposal of shares in the Company following its entry into the REIT regime will be subject to UK stamp duty or SDRT in the same way as previously.

PART 4

Description of the Proposed Amendments to the Articles of Association

As explained in the letter from the Chairman, it is proposed that the Articles should be amended in order to enable the Company to demonstrate to HMRC that it has taken reasonable steps to avoid paying a dividend (or making any other distribution) to a Substantial Shareholder. For these purposes a “**Substantial Shareholder**” is a company that:

- is beneficially entitled, directly or indirectly, to 10 per cent. or more of the Company’s dividends;
- is beneficially entitled, directly or indirectly, to 10 per cent. or more of the Company’s share capital; or
- controls, directly or indirectly, 10 per cent. or more of the voting rights of the Company.

For the purposes of the above definition, “**company**” includes any body corporate and certain entities which are deemed to be bodies corporate for the purposes of overseas jurisdictions with which the UK has a double taxation agreement or for the purposes of such double tax agreements.

If a distribution is paid to a Substantial Shareholder and the Company has not taken reasonable steps to avoid doing so, the Company would become subject to a tax charge.

The proposed amendments to the Articles involve the insertion of a new Part VI entitled “Real Estate Investment Trust” (the “**new Part**”). The text of the new Part is set out in the notice convening the Extraordinary General Meeting that is set out at the end of this Circular.

The new Part has been discussed with HMRC which has confirmed that a company that adopts provisions in this form and follows them using reasonable diligence will be regarded as having taken “reasonable steps” to avoid paying a dividend to a Substantial Shareholder for the purposes of the legislation.

The new Part:

- (A) provides the directors with powers to identify Substantial Shareholders;
- (B) prohibits the payment of dividends on shares that form part of a Substantial Shareholding, unless certain conditions are met;
- (C) allows dividends to be paid on shares that form part of a Substantial Shareholding where the shareholder has disposed of its rights to dividends on its shares; and
- (D) seeks to ensure that if a dividend is paid on shares that form part of a Substantial Shareholding and arrangements of the kind referred to in (C) are not met, the Substantial Shareholder concerned does not become beneficially entitled to that dividend.

References in this Part to a “**Substantial Shareholding**” are to the shares in respect of which a Substantial Shareholder is entitled to dividends, directly or indirectly, and/or to which a Substantial Shareholder is beneficially entitled, directly or indirectly; and/or the votes attached to which are controlled, directly or indirectly, by the Substantial Shareholder. References in this Part to dividends include other distributions.

The effect of the new Part is explained in more detail below:

(A) *Identification of Substantial Shareholders*

The share register of the Company records the legal owner and the number of shares they own in the Company but does not identify the persons who are beneficial owners of the shares or are entitled to control the voting rights attached to the shares or are beneficially entitled to dividends. While the requirements for the notification of interests in shares provided in the Financial Services Authority’s Disclosure and Transparency Rules and the Board’s rights to require disclosure of such interests (pursuant to Section 793 of the Companies Act 2006) should assist in the identification of Substantial Shareholders, those provisions are not on their own sufficient.

Accordingly, the new Part would require a Substantial Shareholder and any registered shareholder holding shares on behalf of a Substantial Shareholder to notify the Company if his shares form part of a Substantial Shareholding. Such a notice must be given within two business days. If a person is a

Substantial Shareholder at the date the new Part is adopted, that Substantial Shareholder (and any registered shareholder holding shares on its behalf) must give such a notice within two business days after the date the new Part is adopted. The new Part gives the Board the right to require any person to provide information in relation to any shares in order to determine whether the shares form part of a Substantial Shareholding. If the required information is not provided within the time specified (which would be seven days after a request is made or such other period as the Board may decide), the Board would be entitled to impose sanctions, including withholding dividends (as described in paragraph (B) below) and/or requiring the transfer of the shares to another person who is not, and does not thereby become, a Substantial Shareholder (as described in paragraph (E) below).

(B) Preventing payment of a dividend to a Substantial Shareholder

The new Part provides that a dividend will not be paid on any shares that the Board believes may form part of a Substantial Shareholding unless the Board is satisfied that the Substantial Shareholder is not beneficially entitled to the dividend.

If in these circumstances payment of a dividend is withheld, the dividend will be paid subsequently if the Board is satisfied that:

- the Substantial Shareholder concerned is not beneficially entitled to the dividends (see also (C) below);
- the shareholding is not part of a Substantial Shareholding;
- all or some of the shares and the right to the dividend have been transferred to a person who is not, and does not thereby become, a Substantial Shareholder (in which case the dividends would be paid to the transferee); or
- sufficient shares have been transferred (together with the right to the dividends) such that the shares retained are no longer part of a Substantial Shareholding (in which case the dividends would be paid on the retained shares).

For this purpose references to the “**transfer**” of a share include the disposal (by any means) of beneficial ownership of, control of voting rights in respect of and beneficial entitlement to dividends in respect of, that share.

(C) Payment of a dividend where rights to it have been transferred

The new Part provides that dividends may be paid on shares that form part of a Substantial Shareholding if the Board is satisfied that the right to the dividend has been transferred to a person who is not, and does not thereby become, a Substantial Shareholder and the Board may be satisfied that the right to the dividend has been transferred if it receives a certificate containing appropriate confirmations and assurances from the Substantial Shareholder. Such a certificate may apply to a particular dividend or to all future dividends in respect of shares forming part of a specified Substantial Shareholding, until notice rescinding the certificate is received by the Company. A certificate that deals with future dividends will include undertakings by the person providing the certificate:

- (a) to ensure that the entitlement to future dividends will be disposed of; and
- (b) to inform the Company immediately of any circumstances which would render the certificate no longer accurate.

The Directors may require that any such certificate is copied or provided to such persons as they may determine, including HMRC.

If the Board believes a certificate given in these circumstances is or has become inaccurate, then it will be able to withhold payment of future dividends (as described in paragraph (B) above). In addition, the Board may require a Substantial Shareholder to pay to the Company the amount of any tax payable (and other costs incurred) as a result of a dividend having been paid to a Substantial Shareholder in reliance on the inaccurate certificate. The Board may (as described in paragraph (E) below) arrange for the sale of the relevant shares and retain any such amount from the proceeds. Any such amount may also be recovered out of dividends to which the Substantial Shareholder concerned may become entitled in the future.

Certificates provided in the circumstances described above will be of considerable importance to the Company in determining whether dividends can be paid. If the Company suffers loss as a result of any misrepresentation or breach of undertaking given in such a certificate, it may seek to recover damages directly from the person who has provided it.

The effect of these provisions is that there is no restriction on a person becoming or remaining a Substantial Shareholder provided that the person who does so makes appropriate arrangements to divest itself of the entitlement to dividends.

(D) Trust arrangements where rights to dividends have not been disposed of by Substantial Shareholder

The new Part provides that if a dividend is in fact paid on shares forming part of a Substantial Shareholding (which might occur, for example, if a Substantial Shareholding is split among a number of nominees and is not notified to the Company prior to a dividend payment date) the dividends so paid are to be held on trust by the recipient for any person (who is not a Substantial Shareholder) nominated by the Substantial Shareholder concerned. The person nominated as the beneficiary could be the purchaser of the shares if the Substantial Shareholder is in the process of selling down their holding so as not to cause the Company to breach the Substantial Shareholder rule. If the Substantial Shareholder does not nominate anyone within 12 years, the dividend concerned will be held on trust for the Company or any other person nominated by the Board.

If the recipient of the dividend passes it on to another without being aware that the shares in respect of which the dividend was paid were part of a Substantial Shareholding, the recipient will have no liability as a result. However, the Substantial Shareholder who receives the dividend should do so subject to the terms of the trust and as a result may not claim to be beneficially entitled to those dividends.

(E) Mandatory sale of Substantial Shareholdings

The new Part also allows the Board to require the disposal of shares forming part of a Substantial Shareholding if:

- if a Substantial Shareholder has been identified and a dividend has been announced or declared and the Board has not been satisfied that the Substantial Shareholder has transferred the right to the dividend (or otherwise is not beneficially entitled to it);
- there has been a failure to provide information requested by the Board; or
- any information provided by any person proves materially inaccurate or misleading.

If a disposal of shares required by the Board is not completed within the timeframe specified by the Board or the Company incurs a charge to tax as a result of a dividend having been paid on a Substantial Shareholding, the Board may arrange for the sale of the relevant shares.

(F) Takeovers

The new Part does not prevent a person from acquiring control of the Company through a takeover or otherwise, although as explained above, such an event may cause the Group to cease to qualify as a REIT.

(G) Other

The new Part also gives the Company power to require any shareholder who applies to be paid dividends without any tax withheld to provide such certificate as the Board may require to establish the shareholder's entitlement to that treatment.

PART 5

Definitions

The following definitions apply throughout this circular unless the context requires otherwise.

“Articles” or “Articles of Association”	the articles of association of the Company
“Board” or “Directors”	the board of directors of the Company
“close company”	a close company as defined in section 414 of the Income and Corporation Tax Act 1988 as amended by section 106(6) of the Finance Act 2006
“Company” or “Shaftesbury”	Shaftesbury PLC
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations)
“CREST Proxy Instruction”	a properly authenticated CREST message appointing and instructing a proxy to attend and vote in the place of an Ordinary Shareholder at the Extraordinary General Meeting and containing the information required to be contained therein by the CREST Manual (as defined in the CREST Regulations)
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held on 19 March 2007 at 10.00 am (or any adjournment thereof not being later than 10 days after 19 March 2007), notice of which is set out at the end of this circular
“Form of Proxy”	the form of proxy issued by the Company for use by Ordinary Shareholders in connection with the EGM
“Group”	has the meaning given to it in Part 2 of this circular
“HMRC”	HM Revenue & Customs
“IFRS”	International Financial Reporting Standards adopted or issued by the International Accounting Standards Board
“Non-PID Dividend”	any dividend other than a PID received by a shareholder of the Company
“Official List”	the official list maintained by the UKLA
“Ordinary Shares”	ordinary shares of 25p each in the capital of the Company having the rights ascribed and being subject to the restrictions set out in the Articles
“Ordinary Shareholders”	holders of Ordinary Shares
“Property Income Distribution” or “PID”	a dividend received by a shareholder of a company in respect of profits and gains of the Tax-Exempt Business of the UK resident members of the Group, earned whilst the Group is a UK-REIT, or in respect of the profits or gains of a non-UK resident member of the Group insofar as they derive from its UK qualifying rental business
“property rental business”	a Schedule A business within the meaning of section 832(1) of the Income and Corporation Taxes Act 1988 or an overseas property business within the meaning of section 70A(4) of such Act, but in each case, excluding certain specified types of business
“qualifying property rental business”	a property rental business fulfilling the conditions of section 107 of the Finance Act 2006
“Registrars”	Lloyds TSB Registrars

“REIT”	a real estate investment trust for the purposes of Part 4 of the Finance Act 2006
“REIT regime”	the provisions contained in Part 4 of the Finance Act 2006 and the related regulations
“Shaftesbury Group”	the Company and all its subsidiary undertakings from time to time as defined in the Companies Act 1985 (as amended)
“Share Schemes”	the 1987 Employee Share Scheme (now closed), the unapproved 1997 Executive Share Option Scheme (now closed), the 2001 Discretionary Share Option Scheme, the Long Term Incentive Plan and the Sharesave Scheme and the Deferred Annual Bonus Scheme
“Substantial Shareholder”	a company which is beneficially entitled (directly or indirectly) to 10% or more of the shares or dividends of a company or controls (directly or indirectly) 10% or more of the voting rights of a company for the purposes of section 114 of the Finance Act 2006
“Substantial Shareholding”	the shares in respect of which a Substantial Shareholder is entitled to dividends (directly or indirectly) and/or to which a Substantial Shareholder is beneficially entitled (directly or indirectly) and/or the votes attached to which are controlled (directly or indirectly) by the Substantial Shareholder
“Tax-Exempt Business”	the Group’s qualifying property rental businesses in the UK and elsewhere for the purposes of Part 4 of the Finance Act 2006
“UKLA” or “UK Listing Authority”	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Shaftesbury PLC will be held at Lovells, Atlantic House, Holborn Viaduct, London EC1A 2FG on 19 March 2007 at 10.00 a.m. for the purpose of considering and, if thought fit, to passing the following resolution as a special resolution:

Special Resolution

THAT, with effect from (and including) the first day of the first accounting period following the date of this resolution in respect of which the Company has given a valid notice under section 109 of the Finance Act 2006, the Articles of Association be and they are hereby amended as follows:

- (A) The following will be inserted as a new Part VI following Article 153 and all remaining Articles, Parts and the table of contents will be renumbered accordingly:

“VI Real Estate Investment Trust

154 Cardinal principle

154.1 It is a cardinal principle that, for so long as the Company is the principal company in a Real Estate Investment Trust (“REIT”) for the purposes of Part 4 of the Finance Act 2006, as such Part may be modified, supplemented or replaced from time to time, no member of the Group should be liable to pay tax under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006 (as such regulations may be modified, supplemented or replaced from time to time) on or in connection with the making of a Distribution.

154.2 This Article supports such cardinal principle by, among other things, imposing restrictions and obligations on the shareholders of the Company and, indirectly, certain other Persons who may have an interest in the Company, and shall be construed accordingly so as to give effect to such cardinal principle.

155 Definitions and interpretation

155.1 For the purposes of this Article, the following words and expressions shall bear the following meanings:

“**business day**” means a day (not being a Saturday or Sunday) on which banks are normally open for business in London;

“**Distribution**” means any dividend or other distribution on or in respect of the shares of the Company and references to a Distribution being paid include a distribution not involving a cash payment being made;

“**Distribution Transfer**” means a disposal or transfer (however effected) by a Person of his rights to a Distribution from the Company such that he is not beneficially entitled (directly or indirectly) to such a Distribution and no Person who is so entitled subsequent to such disposal or transfer (whether the immediate transferee or not) is (whether as a result of the transfer or not) a Substantial Shareholder;

“**Distribution Transfer Certificate**” means a certificate in such form as the Directors may specify from time to time to the effect that the relevant Person has made a Distribution Transfer, which certificate may be required by the Directors to satisfy them that a Substantial Shareholder is not beneficially entitled (directly or indirectly) to a Distribution;

“**Excess Charge**” means, in relation to a Distribution which is paid or payable to a Person, all tax or other amounts which the Directors consider may become payable by the Company or any other member of the Group under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006 (as such regulation may be modified, supplemented or replaced from time to time) and any interest, penalties, fines or surcharge attributable to such tax as a result of such Distribution being paid to or in respect of that Person;

“**Group**” means the Company and the other companies in its group for the purposes of section 134 of the Finance Act 2006 (as such section may be modified, supplemented or replaced from time to time);

“**HMRC**” means HM Revenue & Customs;

“**interest in the Company**” includes, without limitation, an interest in a Distribution made or to be made by the Company;

“**Person**” includes a body of Persons, corporate or unincorporated, wherever domiciled;

“**Relevant Registered Shareholder**” means a shareholder who holds all or some of the shares in the Company that comprise a Substantial Shareholding (whether or not a Substantial Shareholder);

“**Reporting Obligation**” means any obligation from time to time of the Company to provide information or reports to HMRC as a result of or in connection with the Company’s status as a REIT;

“**Substantial Shareholding**” means the shares in the Company in relation to which or by virtue of which (in whole or in part) a Person is a Substantial Shareholder;

“**Substantial Shareholder**” means any person whose interest in the Company, whether legal or beneficial, direct or indirect, may cause any member of the Group to be liable to pay tax under Regulation 10 of the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006 (as such regulations may be modified, supplemented or replaced from time to time) on or in connection with the making of a Distribution to or in respect of such Person including, at the date of adoption of this Article, any holder of excessive rights as defined in the Real Estate Investment Trusts (Breach of Conditions) Regulations 2006;

155.2 Where under this Article any certificate or declaration may be or is required to be provided by any Person (including, without limitation, a Distribution Transfer Certificate), such certificate or declaration may be required by the Directors (without limitation):

- to be addressed to the Company, the Directors or such other Persons as the Directors may determine (including HMRC);
- to include such information as the Directors consider is required for the Company to comply with any Reporting Obligation;
- to contain such legally binding representations and obligations as the Directors may determine;
- to include an undertaking to notify the Company if the information in the certificate or declaration becomes incorrect, including prior to such change;
- to be copied or provided to such Persons as the Directors may determine (including HMRC); and
- to be executed in such form (including as a deed or deed poll) as the Directors may determine.

155.3 This Article shall apply notwithstanding any provisions to the contrary in any other Article (including, without limitation, Articles 143 to 153 (Dividends and Distributions)).

156 Notification of Substantial Shareholder and other status

156.1 Each shareholder and any other relevant Person shall serve notice in writing on the Company at the Registered Office on:

- (a) him becoming a Substantial Shareholder or him being a Substantial Shareholder on the date this Article comes into effect (together with the percentage of voting rights, share capital or dividends he controls or is beneficially entitled to, details of the identity of the shareholder(s) who hold(s) the relevant Substantial Shareholding and such other information, certificates or declarations as the Directors may require from time to time);

- (b) him becoming a Relevant Registered Shareholder or being a Relevant Registered Shareholder on the date this Article comes into effect (together with such details of the relevant Substantial Shareholder and such other information, certificates or declarations as the Directors may require from time to time); and
- (c) any change to the particulars contained in any such notice, including on the relevant Person ceasing to be a Substantial Shareholder or a Relevant Registered Shareholder.

Any such notice shall be delivered by the end of the second business day after the day on which the Person becomes a Substantial Shareholder or a Relevant Registered Shareholder (or the date this Article comes into effect, as the case may be) or the change in relevant particulars or within such shorter or longer period as the Directors may specify from time to time.

156.2 The Directors may at any time give notice in writing to any Person requiring him, within such period as may be specified in the notice (being seven days from the date of service of the notice or such shorter or longer period as the Directors may specify in the notice), to deliver to the Company at the Registered Office such information, certificates and declarations as the Directors may require to establish whether or not he is a Substantial Shareholder or a Relevant Registered Shareholder or to comply with any Reporting Obligation. Each such Person shall deliver such information, certificates and declarations within the period specified in such notice.

157 Distributions in respect of Substantial Shareholdings

157.1 In respect of any Distribution, the Directors may, if the Directors determine that the condition set out in Article 157.2 is satisfied in relation to any shares in the Company, withhold payment of such Distribution on or in respect of such shares. Any Distribution so withheld shall be paid as provided in Article 157.3 and until such payment the Persons who would otherwise be entitled to the Distribution shall have no right to the Distribution or its payment.

157.2 The condition referred to in Article 157.1 is that, in relation to any shares in the Company and any Distribution to be paid or made on and in respect of such shares:

- (a) the Directors believe that such shares comprise all or part of a Substantial Shareholding of a Substantial Shareholder; and
- (b) the Directors are not satisfied that such Substantial Shareholder would not be beneficially entitled to the Distribution if it was paid,

and, for the avoidance of doubt, if the shares comprise all or part of a Substantial Shareholding in respect of more than one Substantial Shareholder this condition is not satisfied unless it is satisfied in respect of all such Substantial Shareholders.

157.3 If a Distribution has been withheld on or in respect of any shares in the Company in accordance with Article 157.1, it shall be paid as follows:

- (a) if it is established to the satisfaction of the Directors that the condition in Article 157.2 is not satisfied in relation to such shares, in which case the whole amount of the Distribution withheld shall be paid; and
- (b) if the Directors are satisfied that sufficient interests in all or some of the shares concerned have been transferred to a third party so that such transferred shares no longer form part of the Substantial Shareholding, in which case the Distribution attributable to such shares shall be paid (provided the Directors are satisfied that following such transfer such shares concerned do not form part of a Substantial Shareholding); and
- (c) if the Directors are satisfied that as a result of a transfer of interests in shares referred to in (b) above the remaining shares no longer form part of a Substantial Shareholding, in which case the Distribution attributable to such shares shall be paid.

In this Article, references to the “**transfer**” of a share include the disposal (by any means) of beneficial ownership of, control of voting rights in respect of and beneficial entitlement to dividends in respect of, that share.

- 157.4 A Substantial Shareholder may satisfy the Directors that he is not beneficially entitled to a Distribution by providing a Distribution Transfer Certificate. The Directors shall be entitled to (but shall not be bound to) accept a Distribution Transfer Certificate as evidence of the matters therein stated and the Directors shall be entitled to require such other information, certifications or declarations as they think fit.
- 157.5 The Directors may withhold payment of a Distribution on or in respect of any shares in the Company if any notice given by the Directors pursuant to Article 156.2 in relation to such shares shall not have been complied with to the satisfaction of the Directors within the period specified in such notice. Any Distribution so withheld will be paid when the notice is complied with to the satisfaction of the Directors unless the Directors withhold payment pursuant to Article 157.1 and until such payment the Persons who would otherwise be entitled to the Distribution shall have no right to the Distribution or its payment.
- 157.6 If the Directors decide that payment of a Distribution should be withheld under Articles 157.1 or 157.5, they shall within five business days give notice in writing of that decision to the Relevant Registered Shareholder.
- 157.7 If any Distribution shall be paid on a Substantial Shareholding and an Excess Charge becomes payable, the Substantial Shareholder shall pay the amount of such Excess Charge and all costs and expenses incurred by the Company in connection with the recovery of such amount to the Company on demand by the Company. Without prejudice to the right of the Company to claim such amount from the Substantial Shareholder, such recovery may be made out of the proceeds of any disposal pursuant to Article 159.2 or out of any subsequent Distribution in respect of the shares to such Person or to the shareholders of all shares in relation to or by virtue of which the Directors believe that Person has an interest in the Company (whether that Person is at that time a Substantial Shareholder or not).

158 Distribution Trust

- 158.1 If a Distribution is paid on or in respect of a Substantial Shareholding (except where the Distribution is paid in circumstances where the Substantial Shareholder is not beneficially entitled to the Distribution), the Distribution and any income arising from it shall be held by the payee or other recipient to whom the Distribution is transferred by the payee on trust absolutely for the Persons nominated by the relevant Substantial Shareholder under Article 158.2 in such proportions as the relevant Substantial Shareholder shall in the nomination direct or, subject to and in default of such nomination being validly made within 12 years after the date the Distribution is made, for the Company or such Person as may be nominated by the Directors from time to time.
- 158.2 The relevant Substantial Shareholder of shares of the Company in respect of which a Distribution is paid shall be entitled to nominate in writing any two or more Persons (not being Substantial Shareholders) to be the beneficiaries of the trust on which the Distribution is held under Article 158.1 and the Substantial Shareholder may in any such nomination state the proportions in which the Distribution is to be held on trust for the nominated Persons, failing which the Distribution shall be held on trust for the nominated Persons in equal proportions. No Person may be nominated under this Article who is or would, on becoming a beneficiary in accordance with the nomination, become a Substantial Shareholder. If the Substantial Shareholder making the nomination is not by virtue of Article 158.1 the trustee of the trust, the nomination shall not take effect until it is delivered to the Person who is the trustee.
- 158.3 Any income arising from a Distribution which is held on trust under Article 158.1 shall until the earlier of (i) the making of a valid nomination under Article 158.2 and (ii) the expiry of the period of 12 years from the date when the Distribution is paid be accumulated as an accretion to the Distribution. Income shall be treated as arising when payable, so that no apportionment shall take place.

158.4 No Person who by virtue of Article 158.1 holds a Distribution on trust shall be under any obligation to invest the Distribution or to deposit it in an interest-bearing account.

158.5 No Person who by virtue of Article 158.1 holds a Distribution on trust shall be liable for any breach of trust unless due to his own wilful fraud or wrongdoing or, in the case of an incorporated Person, the fraud or wilful wrongdoing of its directors, officers or employees.

159 Obligation to dispose

159.1 If at any time, the Directors believe that:

- (a) in respect of any Distribution declared or announced, the condition set out in Article 157.1 is satisfied in respect of any shares in the Company in relation to that Distribution;
- (b) a notice given by the Directors pursuant to Article 156.2 in relation to any shares in the Company has not been complied with to the satisfaction of the Directors within the period specified in such notice; or
- (c) any information, certificate or declaration provided by a Person in relation to any shares in the Company for the purposes of the preceding provisions of this Part VI was materially inaccurate or misleading,

the Directors may give notice in writing (a “**Disposal Notice**”) to any Persons they believe are Relevant Registered Shareholders in respect of the relevant shares requiring such Relevant Registered Shareholders within 21 days of the date of service of the notice (or such longer or shorter time as the Directors consider to be appropriate in the circumstances) to dispose of such number of shares the Directors may in such notice specify or to take such other steps as will cause the condition set out in Article 157.1 no longer to be satisfied. The Directors may, if they think fit, withdraw a Disposal Notice.

159.2 If:

- (a) the requirements of a Disposal Notice are not complied with to the satisfaction of the Directors within the period specified in the relevant notice and the relevant Disposal Notice is not withdrawn; or
- (b) a Distribution is paid on a Substantial Shareholding and an Excess Charge becomes payable;

the Directors may arrange for the Company to sell all or some of the shares to which the Disposal Notice relates or, as the case may be, that form part of the Substantial Shareholding concerned. For this purpose, the Directors may make such arrangements as they deem appropriate. In particular, without limitation, they may authorise any officer or employee of the Company to execute any transfer or other document on behalf of the holder or holders of the relevant share and, in the case of a share in uncertificated form, may make such arrangements as they think fit on behalf of the relevant holder or holders to transfer title to the relevant share through a relevant system.

159.3 Any sale pursuant to Article 159.2 above shall be at the price which the Directors consider is the best price reasonably obtainable and the Directors shall not be liable to the holder or holders of the relevant share for any alleged deficiency in the amount of the sale proceeds or any other matter relating to the sale.

159.4 The net proceeds of the sale of any share under Article 159.2 (less any amount to be retained pursuant to Article 157.7 and the expenses of sale) shall be paid over by the Company to the former holder or holders of the relevant share upon surrender of any certificate or other evidence of title relating to it, without interest. The receipt of the Company shall be a good discharge for the purchase money.

159.5 The title of any transferee of shares shall not be affected by an irregularity or invalidity of any actions purportedly taken pursuant to this Article.

160 General

- 160.1 The Directors shall be entitled to presume without enquiry, unless any Director has reason to believe otherwise, that a Person is not a Substantial Shareholder or a Relevant Registered Shareholder.
- 160.2 The Directors shall not be required to give any reasons for any decision or determination (including any decision or determination not to take action in respect of a particular Person) pursuant to this Part VI and any such determination or decision shall be final and binding on all Persons unless and until it is revoked or changed by the Directors. Any disposal or transfer made or other thing done by or on behalf of the Board or any Director pursuant to this Part VI shall be binding on all Persons and shall not be open to challenge on any ground whatsoever.
- 160.3 Without limiting their liability to the Company, the Directors shall be under no liability to any other Person, and the Company shall be under no liability to any shareholder or any other Person, for identifying or failing to identify any Person as a Substantial Shareholder or a Relevant Registered Shareholder.
- 160.4 The Directors shall not be obliged to serve any notice required under this Part VI upon any Person if they do not know either his identity or his address. The absence of service of such a notice in such circumstances or any accidental error in or failure to give any notice to any Person upon whom notice is required to be served under this Part VI shall not prevent the implementation of or invalidate any procedure under this Part VI.
- 160.5 The provisions of Articles 173 to 179 shall apply to the service upon any Person of any notice required by this Article. Any notice required by this Part VI to be served upon a Person who is not a shareholder or upon a Person who is a shareholder but whose address is not within the United Kingdom and who has failed to supply to the company an address within the United Kingdom pursuant to Article 174, shall be deemed validly served if such notice is sent through the post in a pre-paid cover addressed to that Person or shareholder at the address if any, at which the Directors believe him to be resident or carrying on business or, in the case of a holder of depository receipts or similar securities, to the address, if any, in the register of holders of the relevant securities. Service shall, in such a case be deemed to be effected on the day of posting and it shall be sufficient proof of service if that notice was properly addressed, stamped and posted.
- 160.6 Any notice required or permitted to be given pursuant to this Part VI may relate to more than one share and shall specify the share or shares to which it relates.
- 160.7 The Directors may require from time to time any Person who is or claims to be a Person to whom a Distribution may be paid without deduction of tax under Regulation 7 of the Real Estate Investment Trusts (Assessment, Collection and Recovery of Tax) Regulations 2006 to provide such certificates or declarations as they may require from time to time.”;
- (B) **Article 9.9:** The words “articles 166 and 167” be deleted and replaced with the words “articles 173 and 174”;
- (C) **Article 19:** The words “article 166” be deleted and replaced with the words “article 173”;
- (D) **Article 147:** The words “article 156” be deleted and replaced with the words “article 163”;
- (E) **Article 182.2 (previously numbered article 175.2):** The words “article 175.1” be deleted and replaced with the words “article 182.1”; and
- (F) **Article 182.3 (previously numbered article 175.3):** The words “article 175.2” be deleted and replaced with the words “article 182.2”.

By order of the Board
Penny Thomas
Secretary
23 February 2007

Registered office:
Pegasus House
37-43 Sackville Street
London
W1S 3DL

Notes:

1. A shareholder entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
2. To be effective, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is executed (or a notarially certified copy of such power or authority) must be completed and deposited with the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL, at least 48 hours before the time appointed for holding the meeting (or, in the event of an adjournment, the time which is 48 hours before the adjourned meeting). A form of proxy is enclosed with this notice. Completion and return of the form of proxy does not preclude a member from attending and voting in person.
3. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast) Shareholders must be entered on the register of shareholders of the Company by 6 p.m. on 17 March 2007 (or, in the event of any adjournment, 6 p.m. on the date which is two days before the time of the adjourned meeting). Changes to entries on the register of shareholders after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Extraordinary General Meeting to be held on 19 March 2007 and any adjournment(s) thereof by using the procedures described in the CREST manual. 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.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in this notice of meeting. 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. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo 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.
7. 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.

