

B. Macpherson
Director

THE COMPANIES ACTS
COMPANY LIMITED BY SHARES
ARTICLES of ASSOCIATION
of
REDDING-MORRISON LIMITED
No. SC 211225



TABLE A

1. The regulations contained in Table A in the schedule to the Companies (Tables A to F) Regulations 1985 ("Table A"), apart from regulations 17, 24, 26, 39, 40, 41, 50, 54, 64, 65, 73-80, 81(e), 86, 88, 91, 94-98, and 101 apply to the Company except insofar as they are inconsistent with these articles.

2. Definitions adopted for Table A apply in these articles, together with the following definitions:

"the Shareholders Agreement" shall mean the shareholders agreement entered into among Morrison Homes Limited, [Gordon Murray Macpherson, 21 Coates Crescent, Edinburgh and the Company, dated 27th September, 2000 as the same may be amended, adjusted or supplemented from time to time by any agreement which is binding on the Company and the Shareholders, and capitalised words and phrases used in the Shareholders Agreement (or any of the Joint Venture Agreements (as defined therein)) shall unless the context otherwise requires have the same meaning herein;

"the Valuation Principles" shall mean the principles set out in article 8.6.

3. A reference to a "regulation" of a particular number is to the regulation of that number in Table A.

SHARE CAPITAL

4. The authorised share capital at the date of incorporation of the Company is £2.00, divided into 1 £1.00 A Share and 1 £1.00 B Share. The A Shares and the B Shares constitute different classes of shares but, except as expressly provided in these articles, rank pari passu. The issued share capital of the Company shall always consist of A Shares and B Shares in equal proportion.

- 5.1 Any unissued shares in the capital of the Company for the time being may be issued only in such manner as to maintain the proportions specified in Article 4. After the first issue of shares made by the Directors, no share of either class shall be issued otherwise than to

members holding shares of the same class except with the written consent of the A Shareholder and the B Shareholder.

- 5.2** Subject to any contrary direction given by the Company in general meeting and to the provisions of the Act and of these articles, the directors are authorised to create, allot, deal with or dispose of the shares which are authorised but unissued from the date of incorporation of the Company to such persons and on such terms as they think fit. The authority given to the directors shall expire five years from the date of adoption of these articles but the directors may allot or dispose of shares after the expiry in pursuance of an offer or agreement made by the Company before the expiry.

- 5.3** Section 89(1) of the Act does not apply to the Company.

SEAL

- 5.4** The Company shall not adopt a common seal and accordingly the words "be sealed with the seal and shall" shall be deleted from the second sentence of regulation 6.

LIEN

- 6.** The lien conferred by regulation 8 attaches to all shares, whether fully paid or not, registered in the name of a person indebted or under liability to the Company, whether he is the sole holder of the shares or one of two or more joint holders, and to all distributions and other moneys and property attributable to them. The lien shall be for all sums presently payable to the Company by him or his estate and regulation 8 is modified accordingly.

TRANSFER OF SHARES

- 7.** No member shall transfer or dispose of any share or any interest therein, or any right attaching thereto, or renounce or assign any right to receive or subscribe for any share and no member shall create or permit to exist any lien, charge, encumbrance or trust over any share or agree (whether subject to any condition precedent or otherwise) to do any of the foregoing things otherwise than in accordance with the provisions of the Shareholders Agreement or in pursuance of his obligations under the articles or with the prior written consent of the A Shareholder and the B Shareholder, and the Directors shall not register the transfer of any Share unless such transfer or disposal is so made in accordance with such prior written agreement of the A Shareholder and the B Shareholder.

DEFAULT

8.1 If either Shareholder ("**the Defaulting Shareholder**") shall:

- 8.1.1** commit a material breach or shall commit persistent breaches of the Shareholders Agreement which are irremediable or, are irremediable or if capable of remedy, have not been so remedied within 21 Business Days of the other Shareholder ("**the Other Shareholder**") serving notice on the Defaulting Shareholder requiring such remedy; or
- 8.1.2** be the subject of an Insolvency Event; or
- 8.1.3** suffer a change in the person (or persons) who Control such Shareholder such that control of such Shareholder passed to a third party whose principal business is that of property development

then the Other Shareholder may, without prejudice to any other rights and remedies which it may have, serve a written notice on the Defaulting Shareholder ("**a Default Notice**") at any time during the 30 Business Days following an Event of Default coming to the notice of the Other Shareholder.

8.2 The Default Notice may:

- 8.2.1** require the Defaulting Shareholder immediately to offer all (but not some only) of its Shares for sale to the Other Shareholder, at the Sale Price (as defined below) and the Defaulting Shareholder shall be obliged to sell its Shares to the Other Shareholder; or
- 8.2.2** require the Defaulting Shareholder immediately to purchase all (but not some only) of the Other Shareholder's Shares, at the Sale Price (as defined below) and the Defaulting Shareholder shall be obliged to purchase the Other Shareholder's Shares.

8.3. On a transfer of any Shares in accordance with this article 8:

- 8.3.1** the transferring Shareholder shall repay on demand all loans, loan capital, borrowings and indebtedness in the nature of borrowings (together with any accrued interest thereon) outstanding to the Company from that Shareholder or any other member of its Group in terms of the Joint Venture Agreements, whether or not payment or repayment of such sums has fallen due provided that the transferring Shareholder shall not be required to make such repayment where

such borrowing or indebtedness is the subject of a development loan facility agreement constituted by written agreement between such Shareholder and the Company; and

8.3.2 the transferring Shareholder shall procure the resignation of any Directors or Secretary of the Company appointed by it.

8.4 For the purposes of this article 8 **"Sale Price"** means the value of the Other Shareholder's Shares determined in accordance with article 8.5.

8.5 For the purposes of this article 8.5 the value of the relevant Shares means such value as the accountants appointed in accordance with article 8.6 (the **"Valuers"**) (acting as experts and not as arbiters) shall state in writing to be in their opinion the value of the relevant Shares based on the Valuation Principles. The determination of the Valuers shall be final and binding on all concerned. The cost of obtaining the certificate of the Valuers shall be borne by the Defaulting Shareholder. The Valuers shall be given by the Board and shall take account of all information which a prudent prospective purchaser of the entire issued share capital of the Company might reasonably require if such purchaser were proposing to purchase it on the basis of the Valuation Principles.

8.6 The Valuers shall be such firm of recognised accountants as shall be appointed by the Shareholders, or failing such appointment within seven Business Days of service of a Default Notice or a Disenfranchisement Notice (as after defined), appointed on the application of either Shareholder by the President from time to time of the Institute of Chartered Accountants in Scotland, and shall base the value of the relevant shares on the following principles:

8.6.1 the Shares shall be valued on the basis that the entirety of the Company's shares is being sold in one arm's length transaction in the open market by a willing vendor to a willing purchaser.

8.6.2 The Valuers shall establish the value of the Shares on the following bases and assumptions:

8.6.2.1 the open market value of the Site shall include the total value of work completed at the date of expiry of any Determination Notice served in respect of the Development Agreement and the total value of work begun and executed but not completed at that date and the reasonable and proper costs of services or materials or goods properly ordered and on the Site for the Development Works less the amount of the On Account Payments paid by the Company, the amount of any payment which the

Company may make or be required to make in respect of sums then owed to the Building Contractor or the Remediation Contractor or the Professional Team or the Remediation Consultant or the Selling Agents or any one or more of them to obtain continuance of the Building Contract or the Remediation Contract and or continuance of the services of the Professional Team or the Selling Agents or any one or more of them and less the Company's proper and reasonable legal and other costs incurred in such termination and obtaining such continuance; the value of the Site as set out in this Clause shall be assessed by such expert valuers as the Valuers may in their discretion consider appropriate;

8.6.2.2 any other freehold, leasehold property, plant, machinery and other assets of the Company may be valued by such expert valuers as the Valuers may in their discretion consider appropriate;

8.6.2.3 the net assets of the Company (excluding goodwill and other intangible assets) shall be valued as on an arm's length sale between a willing vendor and a willing purchaser;

8.6.2.4 if the Company is then carrying on business as a going concern, the assumption will be made that it will continue to do so and a consequent value attributed to goodwill and other intangible assets of the Company;

8.6.2.5 provisions and adjustments shall be included for bad and doubtful debts and contingent liabilities as the Valuers may (on the same bases as those customarily applied in the previous audited accounts of the Company) consider appropriate but excluding any allowance or provision for deferred taxation;

8.6.2.6 principles and practices consistent with those customarily applied in the previous audited accounts of the Company shall be applied (unless inconsistent with any Statement of Standard Accounting Practice or applicable legislation, in which case the latter shall prevail);

8.6.2.7 the Valuers may make such further adjustments as they shall in their discretion think fit having regard to the market in which the Company operates and the future prospects of the Company; and

8.6.2.8 the value of the Shares for the purposes of this Clause shall be the Relevant Equity Percentage of the value of the entirety of the Company's shares.

8.6.3 If any difficulty shall arise in applying any of the foregoing principles, assumptions or bases then such difficulty shall be resolved in such manner as the Valuers may in their discretion think fit.

8.7. If an Insolvency Event has occurred in relation to either of the Shareholders or any holding company for the time being of either Shareholder and the Other Shareholder has for that reason served a Default Notice on the Defaulting Shareholder, then the Other Shareholder may also serve on the Defaulting Shareholder a notice (a "**Disenfranchisement Notice**") in respect of the Defaulting Shareholder's Shares ("**the Restricted Shares**") which shall automatically entitle the Other Shareholder to exercise all the rights of the Defaulting Shareholder in relation to the Restricted Shares, including, without limitation:

8.7.1 the right to attend and vote at general meetings of the Company (whether on a show of hands or on a poll) as if it were the holder of the Restricted Shares; and

8.7.2 the right to remove Directors appointed by the Defaulting Shareholder and appoint its own nominated Directors as if it were the holder of the Restricted Shares provided that the Defaulting Shareholder shall indemnify the Other Shareholder against any loss, liability or cost which it may suffer or incur as a result of any such claim by such Director for unfair or wrongful dismissal arising out of such removal.

8.8 The recipient of the Disenfranchisement Notice hereby appoints the Other Shareholder as its lawful attorney for the purpose of receiving notices of and attending and voting at all meetings of the members of the Company from the date of service of the Disenfranchisement Notice and hereby authorises:

8.8.1 the Company to send any notices in respect of the Restricted Shares to the Other Shareholder; and

8.8.2 the Other Shareholder to complete in such manner as it thinks fit and to return proxy cards, forms of appointment of a representative to attend a general meeting of the Company, consents to short notice and any other document required to be signed by it in its capacity as a member.

9. The directors may refuse to register a transfer unless it is lodged at the office or at such other place as the directors appoint and is accompanied by the certificate for the shares to which it relates and it is in favour of not more than four transferees but shall otherwise register a transfer made in accordance with article 7.

10. Regulation 25 is amended by replacing "two months" with "fourteen days".

NOTICE OF GENERAL MEETINGS

11. Regulation 37 is amended by replacing "eight weeks" with "four weeks".
- 12.1 The first sentence of regulation 38 is amended by deleting "or a resolution appointing a person as a director".
- 12.2 Notices of meetings need not be given to the directors as such and regulation 38 is modified accordingly.
13. Every notice calling a meeting of the Company shall include, with reasonable prominence, a statement that a member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not also be a member.

PROCEEDINGS AT GENERAL MEETINGS

14. No business shall be transacted at a general meeting unless a quorum is present. The quorum is one A Shareholder and one B Shareholder, present in person or by proxy or by *duly authorised corporate representative*.
15. If within half an hour from the time appointed for a general meeting a quorum is not present or if during the meeting a quorum ceases to be present, the meeting shall be adjourned to the same day of the next week at the same time or as otherwise agreed by the Shareholders and each member shall be notified by the Company by telex or facsimile notice or by any other form of notice in writing of the date, time and place of the adjourned meeting and such notice shall (unless the Shareholders otherwise agree) contain a statement that failure to attend the adjourned meeting may result in the exercise of the deadlock provisions set out in article 42. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved and the provisions of article 42 shall be applied.
16. If a resolution submitted to a duly convened general meeting is not carried at that meeting, the meeting shall (on the request of any member present in person or by proxy) be adjourned for three Business Days and then reconvened. If the relevant resolution is not carried at the adjourned meeting then the provisions of article 42 shall apply mutatis mutandis in the same way as they apply to a resolution which is not carried at a duly convened meeting of the Board in terms of article 32.

17. Paragraph (b) in regulation 46 is replaced with "by any member having the right to vote at the meeting;" and paragraphs (c) and (d) are deleted.
18. On a show of hands or on a poll, the A Shareholders present in person, by proxy or by corporate representative shall together have one vote and the B Shareholders present in person, by proxy or by corporate representative shall together have one vote provided that no shares of either class shall confer any right to vote upon a resolution for the removal from office of a director appointed by holders of shares of the other class.

APPOINTMENT AND REMOVAL OF DIRECTORS

19. The A Shareholder shall have the right to remove any Director nominated by it and appoint another Director in his place for so long as it is the holder of A Shares and the B Shareholder shall have the right to remove any Director nominated by it and appoint another Director in his place for so long as it is the holder of B Shares, in each case by giving notice in writing (signed by a director or the secretary of the member lodging the notice) to the Secretary of the Company at its registered office or at a meeting of the Directors.
20. An appointment or removal of a director under article 19 is effected by a notice, given to the Company by being sent to or left at its registered office.
21. The directors are not subject to retirement by rotation. The last sentence of regulation 84 is accordingly deleted.
22. A person is not disqualified from being a director by having attained any particular age.

ALTERNATE DIRECTORS

23. A director (other than an alternate director) may appoint as his alternate any person who is approved for that purpose by the holders of a majority of the shares of the class by the holders of which he was appointed and may terminate the appointment. An alternate director shall be entitled to receive notice of all meetings of the directors whether he is present in the United Kingdom or not and the last sentence of regulation 66 accordingly does not apply. In the absence of the director appointing him, an alternate director shall (in addition to any voting rights to which he is entitled if he is also a director) be entitled to the same voting rights as his appointor and shall be treated as if he were appointed by the holders of the same class of shares as the shares held by the persons who appointed his appointor.

24. An alternate director ceases to be an alternate for his appointor when his appointor ceases to be a director.
25. Regulation 68 is amended by adding after "by notice to the Company signed by the director making or revoking the appointment" the words "and delivered to the office or tendered at a meeting of the directors".

DIRECTORS' APPOINTMENTS AND INTERESTS

26. Regulation 85 is amended by deleting "and provided that he has disclosed to the directors the nature and extent of any material interest of his".

PROCEEDINGS OF DIRECTORS

27. Subject to the provisions of these articles, the directors may regulate their proceedings as they think fit.
28. A director may, and the secretary at the request of a director shall, call a meeting of the directors.
29. The quorum for the transaction of the business of the directors is two directors, being one A Director and one B Director.
30. If within half an hour from the time appointed for a Board meeting a quorum is not present, or if during the meeting a quorum ceases to be present the meeting shall be adjourned to the same day of the next week at the same time and place (or as otherwise agreed by the Shareholders). Each Director not present at the meeting shall immediately following such adjournment be notified by either or both of the Shareholders by telex or facsimile notice or by any other form of notice in writing of the date time and place of the adjourned meeting such notice shall (unless the Shareholders otherwise agree) contain a statement that failure to attend the adjourned meeting may result in the exercise of the deadlock provisions set out in article 42. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the meeting shall be dissolved and article 42 shall apply.
31. No resolution of the Directors shall be effective unless carried by a majority of the Directors including at least one A Director and one B Director.
32. If a resolution submitted to a duly convened meeting of the Board is not carried at that meeting, then, without prejudice to the Board's ability to consider any other business put to it at such meeting, the meeting shall (on the request of any Director or his alternate at such

meeting) be adjourned for 3 Business Days and then reconvened. If such resolution is not carried at the adjourned meeting, it shall be referred to the respective Chairmen of each of the Shareholders for their decision within 20 Business Days of the date of the adjourned meeting ("**the Decision Period**"). If the respective Chairmen reach agreement within the Decision Period, the Shareholders shall procure that such agreement shall be implemented. If the respective Chairmen fail to agree within the Decision Period, the Shareholders shall procure that the matter which is the subject of such resolution shall not be implemented, and article 42 shall apply.

33. The A Directors and B Directors present at any meeting of the Board shall be entitled in rotation to appoint a Chairman for meetings of the Board and the first Chairman shall be appointed by the A Directors.
34. The A and B Directors may establish a management committee of the Board to which an A Director and a B Director are appointed and to which other persons may by agreement between the Shareholders be co-opted and management committee meetings shall be held as frequently as the Shareholders may agree. The provisions of the articles regulating the proceedings of Directors shall apply, mutatis mutandis, to the conduct of those meetings.
35. The members of a committee to which the directors delegate any of their powers must include at least one A Director and one B Director and Regulation 72 is amended accordingly and the quorum for the transaction of the business of any such committee shall be two, of whom one shall be an A Director and one a B Director.
36. At meetings of the directors and of committees of the directors, the A Directors present in person or represented by an alternate shall together have one vote and the B Directors present in person or represented by an alternate shall together have one vote.
37. The chairman of the board, shall not have a second or casting vote either at the meetings of the directors or meetings of the shareholders.
38. The following minimum periods of notice of meetings of directors and of committees of the directors shall be given to each of the directors or the members of the committee at his address given for that purpose, whether in the United Kingdom or elsewhere and whether he is present in the United Kingdom or not:-
 - 38.1 in normal course, not less than 5 Business Days' notice; or
 - 38.2 if the interests of the Company would be likely to be adversely affected to a material extent if the business to be transacted at such meeting of the directors or of a committee of the

directors were not dealt with as a matter of urgency, or if all of the directors agree, not less than 48 hours' notice.

- 39.** The notice of a meeting of the directors or of a committee of the directors shall include an agenda specifying in reasonable detail the matters to be discussed at the meeting. The agenda shall include any item which a director requests the secretary to include in it. No other business shall be discussed at the meeting unless all the directors present otherwise agree. At an adjourned meeting, only business which was specified in the agenda for the original meeting and remains unfinished shall be discussed.
- 40.** A director may participate in a meeting of the directors or of a committee of which he is a member by conference telephone or similar communications equipment by means of which all the persons participating in the meeting can hear each other at the same time. Participation in a meeting in this manner is treated as presence in person at the meeting.
- 41.** A director may vote at a meeting of the directors or of a committee on a resolution which *concerns or relates to a matter in which he has, directly or indirectly an interest* but he remains obliged in any event to declare his interest in accordance with section 317 of the Act.

DEADLOCK

42.1 If:

- 42.1.1** pursuant to article 15, no quorum is present at an adjourned meeting of the Shareholders in circumstances where the notice of such adjourned meeting contained a notice that failure to attend the adjourned meeting might result in the exercise of the deadlock provisions of these articles; or
- 42.1.2** pursuant to article 16, a relevant resolution is not carried at an adjourned meeting of the Shareholders; or
- 42.1.3** pursuant to article 30, no quorum is present at an adjourned meeting of the Board in circumstances where the notice of such adjourned meeting contained a notice that failure to attend the adjourned meeting might result in the exercise of the deadlock provisions of these articles; or
- 42.1.4** pursuant to article 32, the respective Chairmen of the Shareholders have failed to reach agreement within the Decision Period,

then a deadlock shall be deemed to have arisen and, if article 42.1.1 applies the Shareholder who attended such adjourned general meeting, or if article 42.1.2 or 42.1.4 applies either Shareholder, or if article 42.1.3 applies the Shareholder whose nominated Director or Directors attended such adjourned Board meeting (such relevant Shareholder being referred to in article 42 as "**the First Shareholder**") the First Shareholder shall be entitled, at its discretion, to exercise the rights conferred by this article 42 in the manner, on the terms and subject to the conditions set out in this article.

42.2 The First Shareholder may, by notice in writing ("**a Deadlock Notice**") served on the other Shareholder ("**the Second Shareholder**") within ten Business Days of the date of the adjourned meeting referred to in article 42.1.1, 42.1.2 or 42.1.3 or within ten Business Days of the expiry of the Decision Period, as the case may be, require the matter to which the deadlock relates to be referred to an expert ("**the Expert**") for final determination.

42.3 The Expert shall be such person as shall be appointed in writing by the Shareholders or, failing such appointment within 10 Business Days of the service of the Deadlock Notice, appointed on the application of either Shareholder as follows:

42.3.1 disputes or differences in relation to accounts or other financial matters, by the President for the time being of the Institute of Chartered Accountants of Scotland;

42.3.2 disputes or differences in relation to the Development or the sale and marketing of the units by the President for the time being of the Royal Institution of Chartered Surveyors; and

42.3.3 disputes or differences in relation to the meaning or construction of this Agreement or any of the Contracts by the President for the time being of the Law Society of Scotland.

The Expert shall act as an expert and not as an arbiter and his written determination shall (in the absence of a clerical or manifest error appearing within fourteen days of its delivery to the Shareholders) be final and binding on the Shareholders.

42.4 The Shareholders and the Company shall supply the Expert with any information which he may request in connection with his determination.

42.5 The Expert shall give due weight to any written representations put forward by either Shareholder received by him within such time limit as he may determine but the Expert need not give any reasons for his decision.

- 42.6** The Expert shall determine what course of action in all circumstances it would be appropriate for the Company to take in its best interests. In reaching his determination the Expert shall, so far as possible, balance the interests of each Shareholder fairly but he shall not put the interests of either Shareholder before those of the Company.
- 42.7** In giving his decision, the Expert shall be entitled to specify any matters which he considers, in his absolute discretion, should be implemented or otherwise transacted in order to give commercial efficacy to his determination.
- 42.8** Forthwith upon receiving the Expert's determination the Shareholders and the Directors shall exercise their powers in relation to the Company to procure that the Company complies with the Expert's determination and with any directions contained therein.
- 42.9** The fees and expenses of the Expert shall be paid by the Shareholders in equal shares unless the Expert determines that the conduct of either Shareholder is such that it should bear all or a greater portion of such fees or expenses.

MINUTES

- 43.** Regulation 100 is amended by replacing paragraphs (a) and (b) with "of proceedings of general meetings and meetings of the directors".

ACCOUNTS

- 44.** Regulation 109 is amended by replacing "No member shall (as such) have any right of inspecting any accounting records" with "A member shall be entitled, on giving reasonable notice, to inspect during business hours any accounting records".

NOTICES

- 45.** A notice required by these articles to be given by the Company may be given by any visible form on paper, including telex or facsimile. A notice given by immediate transmission is deemed to have been given at the time that it is transmitted to the person to whom it is addressed. Regulations 111 and 113 are amended accordingly.
- 46.** A member whose registered address is not within the United Kingdom may give to the Company an address either within the United Kingdom or elsewhere at which notice may be given to him and he shall be entitled to have notices given to him at that address. Regulation 112 is amended accordingly.

INDEMNITY

47. Regulation 118 is amended:

47.1 by adding after "shall be indemnified out of the assets of the Company" the words "against losses and liabilities which he incurs, otherwise than as a result of his own negligence or default, in connection with the performance of his duties as such and"; and

47.2 by adding after "in which judgement is given in his favour" the words "or where the proceedings are withdrawn or settled on terms which do not include a finding or admission of a material breach of duty by him".