

Rules on conflicts of interest for directors of Lauderdale Mansions (South) Ltd

Note: 'LMS' refers to both Lauderdale Mansions (South) Ltd and Manyplans Ltd.

PRINCIPLES

- Shareholders have the right to expect the highest standards of probity from LMS Board directors.
- LMS Board directors have an obligation to act in what would reasonably be regarded as the best interests - financial or otherwise - of LMS as a whole.
- LMS Board directors will avoid any conflict of interest between the interests of LMS on the one hand and their personal, professional, and business interests on the other hand.
- This includes avoiding actual conflicts of interests as well as the perception of conflicts of interests.

Conflicts of interest can:

- Inhibit free discussion
- Result in decisions or actions that are not in the interests of LMS
- Risk the impression that LMS has acted improperly

PURPOSE

The purpose of this policy is to protect the integrity of LMS's decision-making process, to enable our shareholders to have confidence in that process, and to protect the integrity and reputation of directors and staff.

Because they are also shareholders in LMS, all directors have a personal interest in the decisions taken. Conflicts, or potential conflicts, may arise when a decision might reasonably be regarded as affecting an individual director, or his household, more than shareholders in general. (See Appendix B for full definition of personal interest).

Examples of conflicts of interest

- Where a director has a **financial interest** in a matter under discussion
- If a director has any interest in a matter under discussion that affects him or her, or a member of his or her household, more than other leaseholders, thus creating a real **danger of bias**
- If a director has any other interest which does not create a real danger of bias but which might **reasonably cause others to think it could influence his or her decision**

Where an interest has been declared

If the Board has to decide upon or discuss a matter in which a director has an interest, the Board may decide on which of the following options is appropriate by a simple majority vote - with the director(s) with the interest voting.

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- Withdraw from the room for the duration of the discussion and any decision
- Remain in the room but do not participate in the discussion or decision
- Participate in the discussion, but not be involved in the decision.

'Involvement'

1. If a director has an interest in a matter to be discussed by the Board, the Board may (by a simple majority vote and with the director(s) with the interest voting) exclude that director from the Board's discussions, and eventual vote, on the business in which that director has an interest.
2. In addition, a notice must be included in the Company's annual report and accounts each year to the following effect: "The current Board rules on conflicts of interests relating to directors are available on request from the Company Secretary."
3. A Board director subject to a conflict of interest should not be in a position to *unduly influence* other Board directors about the issue on which he/she has a conflicting interest. For example, he/she should not lobby other Board directors over the issue or, in some cases, discuss the issue at all with other Board directors.
4. A Board director subject to a conflict of interest should be treated by the Board in respect of the matter in which he/she has a conflicting interest in exactly the same way as any other shareholder would be.

Future potential conflicts of interests

Directors must not be involved as the other party in a business transaction with LMS if he/she has already taken part in decisions about that transaction as a Board director.

Directors must therefore not only declare all their current interests that might conflict with LMS' interests as a whole, but also consider potential conflicts of interests in the future. Failure to do so, would mean that such a director (or a company/firm in which they had an interest) would be barred from *ever* buying the asset or *ever* taking part in the business transaction in question as the other party.

- This rule is to prevent directors from declaring they have no interest in buying an asset, or a group of assets, when the sale of the asset(s) is discussed by the Board in principle. He/she then changes his/her mind later on when one of the assets is actually put up for sale, and applies to buy. (See Example 5, in Appendix A)

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Declaring potential conflicts of interests

The Company must have a formal process by which directors are asked to declare their interests. This is to ensure a director's personal/business interest in the outcome of certain decisions is known both to the other Board directors and to shareholders.

APPENDIX A

Examples of interests that potentially conflict

1. **A Board director decides to buy, or would like the option of buying, an asset from LMS.**

The personal interests of the director wanting to buy the asset clearly conflict with LMS' interests, since the interests of LMS as a whole will be to maximise the sale price of the asset, while the interest of the director will be to buy the asset at the lowest possible cost to him/herself.

2. **A Board director has a financial interest, or expects to have an interest, in a company that is tendering to supply a property management service to LMS.**

As in the example above. the interests of LMS clearly conflict with the personal or business interests of the Board director. This is because it would be in the interests of LMS as a whole to have the property management service supplied at the lowest possible cost for the maximum benefit. However, it would be in the interest of the Board director to supply the service at the highest possible cost and/or lowest possible price or to supply the service in such a way that minimises the cost to him/herself.

3. **LMS is claiming damages against a director over liability for subsidence to the building allegedly due to refurbishment work carried out in this director's flat.**

The director in question has a clear conflict of interest with LMS.

4. **All board directors sit on the LMS Board in an unpaid capacity in their spare time. Board Director A also runs his own business. Board Director B's full time paid job is as a senior employee for a large company that might require the services of Board Director A's company. Board Director B offers to help Board Director A secure a large contract for Board Director A's business.**

Both board directors should inform all other Board directors of the possibility that they might do business with each other outside of LMS. They should also keep the rest of the Board directors up to date in general terms about the development of the business relationship. This is because there is the risk that Board Director A's judgment on particular LMS issues might be unduly influenced by Board Director B's

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offer to do business. For instance, if Board Director B later wishes to buy an asset from LMS for his personal use, then Board Director A may also be deemed to have a conflict of interest over this matter by virtue of his business association with Board Director B. Both Board directors may also therefore need to be excluded from any decisions regarding the sale of the asset that Board Director B wishes to buy.

- 5. The Board is discussing its policy for the future sale of an asset (such as a small part of the garden). All directors take part in the discussion, at which the policy for selling the asset, and its price, is discussed and agreed. None of the directors declare that they might have an interest in buying the asset. Six months later, when the asset is finally put up for sale, one of the directors expresses an interest in buying the asset.**

None of the Board directors who took part in any of the prior discussions about the sale of the asset should be allowed to buy the asset when it is offered for because they did not declare their interest at the outset.

- 6. Planning permission has been granted to build a 3-storey health and fitness centre in the garden. The only possible site for the centre is directly in front one of the blocks, and this will mean blocking the view of the garden for the residents in this block. Four of the seven directors on the Board currently live in the block most affected by the plan.**

The four directors most directly affected by the new building should be able to take part in Board discussions on the issue because the interests of the directors and LMS as a whole do not clearly conflict. For example:

- Some leaseholders in the 'affected block' might support the proposed building, because their personal interest in using the new facilities might outweigh environmental or aesthetic considerations.*
- Residents in other blocks whose views are not blocked might also object to the health and fitness centre for aesthetic or environmental reasons, or on grounds of cost/benefit.*

Probably the best way to resolve this potential conflict would be a vote by shareholders on the issue and/or if necessary to stage Board elections for all positions on the Board.

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APPENDIX B

Personal interest

The following defines 'personal interest' in so far as it affects LMS directors.

1. A Board director of LMS must regard him/herself as having a personal interest in any matter if a decision upon it might reasonably be regarded as affecting to a greater extent than other leaseholders in LMS, the well-being or financial position of him/herself, a relative or a friend or:
 - a. Any employment or business carried on by such persons
 - b. Any person who employees or has appointed such persons; any firm in which they are a partner, or any company of which they are directors
 - c. Any corporate body in which such persons have a beneficial interest in a class of securities exceeding the nominal value of £5,000
 - d. Any body listed below in which the director holds a position of general control or management.
 - i. A body to which s/he has been appointed or nominated by LMS as its representative
 - ii. A public authority or body exercising functions of a public nature
 - iii. A company, industrial and provident society, charity or body directed to charitable purposes
 - iv. A body whose principal purposes include the influence of public opinion or policy; and
 - v. A trade union or professional association
2. In this section:
 - a. "Relative" means a spouse, partner, parent, parent-in-law, son, daughter, stepson, stepdaughter, child of a partner, brother, sister, grandparent, grandchild, uncle, aunt, nephew, niece, or the spouse or partner of any of the preceding persons; and
 - b. "Partner" in sub-paragraph 2 (a) above means a member of a couple who live together.

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EXTRACT FROM ARTICLES OF ASSOCIATION

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- (a) Any Director or any company or firm in which a Director is a member or officer or employee may enter into contracts with the Company and any Director may vote as Director or Shareholder in respect of such contract and retain for his own use profits made by him under such contract herein PROVIDED ALWAYS that:
- (i) he must disclose (specifically and at the Board meeting at which the matter is to be considered) his interest to his co-Directors before the contract is entered into;
 - (ii) this disclosure referred to in Article 16(a)(i) is subsequently recorded in the Board minutes (these minutes being open to inspection by shareholders); and
 - (iii) the disclosure referred to in Article 16(a)(i) is subsequently recorded in the annual reports and accounts of the Company.
 - (iv) If a Director has an interest in a matter to be discussed by the Board, the Board may (by a simple majority vote and with the Director(s) with the interest voting) exclude that Director from the Board's discussions, and eventual vote, on the business in which that Director has an interest. In addition, a notice must be included in the Company's annual report and accounts each year to the following effect: "The current Board rules on conflicts of interests relating to directors are available on request from the Company Secretary."
- (b) If there is a sole Director directly or indirectly interested in a proposed contract by the Company or if all Directors are directly or indirectly interested in a proposed contract by the Company, the contract must be approved by the Company in General Meeting and before the contract is entered into the Director or Directors must disclose his or their interest to the Meeting provided that this does not apply in the case of leases of the property.
- (c) A general notice to the Directors given at a meeting of the Directors by any Director to the effect that he is a member of any specified company or

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firm and is to be regarded as interested in any contract which may thereafter be made with the company or firm shall be deemed a sufficient disclosure of interest in regard to any contract so made.

- (d) Any proposal by the Directors to sell Company property with a market value of more than £5,000 (excluding lease extensions) must be specifically approved by the Members of the Company by way of a formal motion to a General Meeting. The above limit of £5,000 will be increased every five years after 1 October 2004 by 10%.