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**THE COMPANIES ACTS 1985 & 1989**  
**Company Limited by Shares**

**MEMORANDUM OF ASSOCIATION OF  
NEW HORIZONS MUSIC LTD**

1. The name of the company is New Horizons Music Ltd.
2. The registered office of the company is in England and Wales.
3. The company's object is:
  - a. to carry on business as a general commercial company,
  - b. to pursue trading activities that are both economically and socially responsible,
  - c. to contribute to the development of a socially enterprising business culture,
  - d. to develop a social enterprise rooted in co-operative values and practices for the encouragement, development and promotion of music.
4. The liability of members is limited.
5. The company's authorised share capital is £5000 divided into 3 classes of share:
  - (a) 2 Founders Shares of nominal value 1p
  - (b) 4998 Labour Shares of nominal value 1p each,
  - (c) 4950 Investor Shares of nominal value £1 each.
6. This Memorandum and the Articles of Association may be altered only by special resolution of all shareholder classes, i.e. passed by majority of votes cast in each shareholder class separately and an overall 67% of members in favour.

We, the subscribers to this Memorandum of Association wish to be formed into a company according to this Memorandum. We agree to take the number of shares shown opposite our respective names.

<b>NAMES, SIGNATURES, ADDRESSES OF SUBSCRIBERS</b>		<b>NUMBER OF SHARES TAKEN</b>
Name: Rory Ridley-Duff	Address: 4 Rosehill Close, Penistone, Sheffield, S36 6UF.	Founders Share: 1 Labour Shares: 257 Investor Shares: 250
Name: Steve Anscombe	Address: Flat 2, 76 North Street, Emsworth, Hampshire, PO10 7PL	Founders Share: 1 Labour Shares: 106 Investor Shares: 250
Name: Caroline Ridley-Duff	Address: 4 Rosehill Close, Penistone, Sheffield, S36 6UF.	Labour Shares: 10 Investor Shares: 250
Name: Iain Carnegie	Address: 67 Holland Avenue, Belmont, Sutton, SM2 6HT.	Labour Shares: 46 Investor Shares: 250
Name: Nigel Rippon	Address: 12 Woodgate Close, Chichester, West Sussex, PO20 3TA	Labour Shares: 43
Dated: 19 September 2006		

**THE COMPANIES ACTS 1985 & 1989**  
**Company Limited by Shares**

**ARTICLES OF ASSOCIATION OF**  
**NEW HORIZONS MUSIC LTD**

1. **Selective Application of Table A.** Regulations in Table A in the Schedule to the Companies (Tables A to F) Regulations 1985 ("Table A") apply, except where they contradict anything in these Articles. Restrictions on the Company's ability to borrow, as stated in Table A Memorandum and Articles, shall not apply.
2. **Definitions.** In these Articles:-
  - "**the Act**" means the Companies Act 1985 and any amendments in force.
  - "**Cash**" includes cheques, electronic fund transfers, IOU's, promissory notes and money orders.
  - "**Member**" a holder of a Labour Share, Investor Share or Founder's Share.
  - "**Ordinary Resolution**" means a proposal accepted by a majority of votes cast irrespective of shareholder class.
  - "**Class Resolution**" mean a proposal accepted by a majority of votes cast in one shareholder class.
  - "**Special Resolution**" means a proposal accepted by a majority of votes cast in each shareholder class separately, plus at least 67% of all members in favour irrespective of shareholder class.
  - "**Reserves**" exclude the current year's profit and loss account.
  - "**Investor Share**" is a share owned by a member who invests unremunerated labour or equity capital entitling him or her to a share of the Company's assets and profits.
  - "**Labour Share**" is a share owned by a member who invests labour in the Company, entitling her or him to participate in Company governance and receive a share of profits.
  - "**Founders Share**" is a share owned by a company founder, entitling her or him to participate in Company governance.

**CAPITAL**

**3. Share Capital.**

- (a) Subject to the provisions of the Act, the company may issue additional Labour Shares and Investor Shares only. The rights and conditions attaching to shares are:
  - (i) **Founders Shares:** issued at nominal value; to be issued to the founder of the enterprise; transferable at the discretion of the founder; one vote at General Meetings; 1p fixed preference dividend; forfeited on holder's death or bankruptcy; cancelled without payment on winding up.
  - (ii) **Labour Shares:** issued at nominal value; to be issued to investors of remunerated labour in proportion to their labour contribution; non-transferable; one vote per share at General Meetings; 1p fixed preference dividend each; forfeited on holder's death or bankruptcy; cancelled upon cessation of contracts to provide labour; cancelled without payment on winding up.
  - (iii) **Investor Shares** may be held by any person; issued at a fair price; issued to investors of equity capital upon payment; issued to unremunerated labour in recognition of the financial value of their contribution.

(b) **Alteration of Share Capital.** The Company may increase its authorised share capital by ordinary resolution or as provided for in these Articles, but only by new Labour Shares or Investor Shares; Table A, Regulations 32(b)-(d), 33, 34 apply.

#### 4. **Transfer of Investor Shares.**

- (a) Investor Shares are freely transferable unless the holder is in debt to the company.
- (b) The 5 members who have traded the most Investor Shares over the last 5 years should be listed, together with their contact details, at the start of the register of members.
- (c) Nothing in these articles requires title to securities to be evidenced or transferred by a written instrument if the Act permits otherwise.

#### 5. **Equity Capital Stakes.**

- (a) Every individual contracted to provide labour (director, employee or self-employed contractor) will be offered the chance to buy Investor Shares at the Fair Price to the value of 15% of their initial labour contract within the first 366 days (1 year + 1 day) of continuous service;
- (b) The Company may lend money to an existing member at 3% above the bank base rate of the National Westminster Bank for the purpose of buying Investor Shares;
- (c) A contract for labour (director, employee or self-employed contractor) may specify that part of the remuneration will be made in the form of Investor Shares;
- (d) After the anniversary of a labour contract (12 months), Investor Shares offered by the Directors can be purchased at the then current Fair Price as defined in 8(b) and 8(c);
- (e) Subject to special resolution, the provisions in clauses 5 (a) to (d) can be applied to other legal entities (companies, associations, charitable trusts etc.) who act as suppliers of labour to the Company.

#### 6. **Valuation.**

- (a) Pre-emption rights (sections 89 and 90 of The Act) are excluded.
- (b) The Company is to be valued at the start of every financial year, and this is the "Reference Value". The valuation shall include, primarily, a valuation based on the future Profit stream of the Company.
- (c) A class resolution can require revaluation of the Company or any of its assets.

#### 7. **Share Issues.**

- (a) Excluding issues of Free Shares, a "Major Issue" of Investor Shares (increasing issued Investor Shares by more than 10% within 6 months) must be at a share price agreed by ordinary or special resolution.
- (b) Any other issue of Investor Shares should be at the Fair Price (see 8 (b) and 8 (c)).

#### 8. **Free Shares and Fair Price.**

- (a) The "**Capital Gain Fraction**" is 0.25, and may be changed only by special resolution.
- (b) If the Company's value at the end of an accounting period (the "**New Value**") is greater than its Reference Value, then:

the "**Workers' Gain**" is  $(\text{Capital Gain Fraction}) \times (\text{New Value} - \text{Reference Value})$ ;  
the new Fair Price is  $(\text{New Value} - \text{Workers' Gain}) \div (\text{number of Investor Shares in issue})$ ;  
the number of Free Shares is  $(\text{Workers' Gain}) \div (\text{new Fair Price})$ ;

This number of Investor Shares is to be issued credited as fully paid to those holding Labour Shares in proportion to the number of Labour Shares held at the commencement of the accounting period.

(c) If the number of Free Shares exceeds the number of available Authorised Investor Shares, the new number of Authorised Investor Shares will be calculated as below. The Directors will sign a board resolution agreeing the new Share Capital and the Company Secretary will inform Companies House of the change:

$$(\text{Free Shares}) + (\text{Issued Investor Shares}) - (\text{Authorised Investor Shares})$$

(d) Otherwise, the new Fair Price is  $(\text{New Value}) \div (\text{number of Investor Shares in issue})$ .

**9. Borrowing.** The directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present or future) and to issue debentures.

## **GOVERNANCE**

- 10.** The Directors may call general meetings and, on the requisition of members holding a tenth or more of the shares in any class, must convene an extraordinary general meeting for a date not later than 4 weeks after receipt of the requisition.
- 11.** In each financial year, a minimum of one general meeting will be held in addition to the annual general meeting (AGM).
- 12.** The general meeting can set corporate policy and approve/reject business plans.
- 13.** Corporate policy and business plans are implemented by a Chief Executive Officer appointed by the Directors.
- (a) When a Chief Executive Officer is not in post, the director with the most Labour Shares will assume the responsibilities of the Chief Executive Officer until a new Chief Executive Officer can be appointed.
- (b) When two or more directors have the same number of Labour Shares, the one with the most Investor Shares will assume the responsibilities of the Chief Executive Officer until a new Chief Executive Officer is appointed.
- (c) The Chief Executive Officer is responsible for the organisation and management of the company and the implementation of the Company's business plans.
- 14.** Every Labour and Investor shareholder can attend, speak and propose resolutions at a general meeting, can stand (subject to clauses 23 and 24) for election as a Director and can cast one vote at general meetings (except as provided for in clauses 16, 17).
- 15.** Any person can act as proxy for a member at a meeting. An instrument appointing a proxy must be written in a usual form, or a form approved by the directors.
- 16.** Decisions at general meetings are made by passing resolutions by a show of hands, unless a poll is demanded by at least 2 members. Unless required by law or by these articles, all decisions will be made by ordinary resolution, i.e. passed by a simple majority of votes cast.
- 17.** On a show of hands every member holding a share conferring a vote on the issue, who is present in person or by representative, has one vote. On a poll, every member who is present in person, by representative or by proxy has one vote for every share held conferring a vote on the issue.
- 18.** A class resolution passed by any shareholder class can amend an ordinary resolution so that it becomes a special resolution.
- 19.** An entry in the minutes is conclusive evidence that a resolution has been carried or lost.
- 20.** A written resolution signed by all members is valid as if properly passed at a general meeting.
- 21.** The proceedings of a meeting are not invalidated by the accidental omission to give notice of the meeting to, or the non-receipt of notice of the meeting by, a person entitled to receive notice.
- 22. Directors.** The Company shall have between one and five directors. Regulation 64 of Table A shall not apply to the Company. A sole director shall have authority to exercise all the powers

and authorities vested in the Directors by Table A and these Articles and Regulation 89 of Table A shall not apply to the Company.

- 23.** If the Company has fewer than 100 members, directors will be proposed by the Founders or existing directors and approved by a vote of existing directors.
- 24.** If the Company has 100 or more members, directors and a president will be elected annually as follows.
- (a) Labour Shareholders can elect a maximum of two directors (one will be subject to re-election by rotation every two-years), following Table A.
  - (b) Investor Shareholders will elect a maximum of two directors (one will be subject to re-election by rotation every two-years), following Table A.
  - (c) Holders of Founders Shares shall be company directors unless removed by the provisions set out in 24(e).
  - (d) A maximum of one director may be appointed (co-opted) by the other directors.
  - (e) A director may be removed from office at any General Meeting by a 75% majority, on a one-share-one-vote basis, on a poll of the shareholder class that elected him or her, or by ordinary resolution. The vote will be invalid if less than 50% of eligible shareholders cast their vote.
  - (f) A company president will be elected from the Directors on a poll of all shareholders (one vote per shareholder) at the Annual General Meeting. The president has a non-executive role in the running of the company, and is responsible for overseeing board meetings, maintaining the public image of the company, and facilitating good communications between directors and company members. The president has a casting vote at board and general meetings.
  - (g) In the absence of a president, or if a president is not elected, the holders of Founders Shares will fulfil this role (as set out in 24(f)).
  - (h) A director cannot be removed by other directors except at General Meeting (as set out in 24 (e)).
  - (i) The maximum number of directors shall be five.
- 25.** Directors' meetings may be held by conference call.

#### **BUSINESS EXPENSES AND FRINGE BENEFITS**

- 26.** (a) Providers of labour (directors, employees, self-employed contractors) shall be paid reasonable expenses wholly incurred in relation to furthering the business of the company.
- (b) A schedule of acceptable fringe benefits and expenses may be agreed by ordinary resolution. Any expenses paid, or fringe benefits provided, outside the scope of an agreed schedule must be itemised in the annual accounts.
- (c) Fringe benefits and expenses must be itemised and recorded in such a way that they can be inspected by any member during normal office hours.

#### **PAY, EMPLOYMENT AND SURPLUS**

- 27.** (a) Remuneration has three components: Basic Wages ("Pay"), Labour Share dividends and Investor Share dividends.
- (b) Each provider of labour is subject to one or more contracts (employment contract, contract for services or company membership) which controls the manner in which they are remunerated for their labour. These articles and the Memorandum of Association, including subsequent modifications, are part of any contract between the Company and those providing labour (directors, shareholders, employees, self-employed contractors).
- (c) Labour may be recognised solely through company membership and remunerated solely through Labour Share dividends. A formal contract of employment will be issued if, in the view of the directors, 'employee status' tests used in employment tribunals have been, or are

expected to be, satisfied (i.e. a person works regular hours, receives regular pay, has agreed holiday entitlements and is subject to regular supervision etc.).

- (d) At the start of each accounting period, if the company has any employees, an amount equal to (Basic Wages × Current Inflation Rate) will be set aside for increases in Basic Wages. Increases in the remuneration of employees and self-employed contractors are at the discretion of the CEO (unless overridden by the procedure set out in clause 43). If the budget for increases in remuneration is not distributed within an accounting period, any unused part **must** be distributed as Labour Share dividends.
- (e) An increase in the budget set in 25(d) can only be passed by special resolution.
- (f) Directors' pay and conditions follow the same principles as other company members and employees.
- 28.** (a) "Total Revenue" means sales plus earnings from services provided plus any other income, but excludes proceeds of new issues of securities or loans obtained.
- (b) "Profit" is equal to Total Revenue less cost of materials and services less depreciation less rents less interest.
- 29.** "Associated Costs" means the costs directly associated with a given amount of Pay, including employee's and employer's contributions for National Insurance, superannuation, healthcare plan, childcare, staff club and any other benefits deducted from pay, together with sickness, maternity, paternity or other statutory pay, and Pay-As-You-Earn income tax.
- 30.** "**Surplus**" is equal to Profit, less Pay including their Associated Costs, less corporation tax.
- 31.** Capital Expenditure, Extraordinary and Research and Development Costs in excess of £5,000 must either
- (a) be deducted from Surplus in exchange for new Investor Shares credited as fully-paid, *or*
- (b) be paid for from Reserves,
- or as determined by special resolution or the auditor. Any member may require the auditor to determine if an item comes under these categories.
- 32.** "**Labour Share**". The Labour Share of surplus, distributed in dividends, is calculated by multiplying [Surplus] (if greater than zero) for the relevant period by the [Labour Share Fraction]. If [Surplus] is less than or equal to zero, no Labour Share dividends are paid.
- 33.** "**Labour Share Fraction**".
- The Labour Share Fraction is 0.5 and may be changed only by special resolution. If the Labour Share Fraction is decreased, Investor Shares credited as fully paid at the fair price must be given to holders of Labour Shares in proportion to the loss of their projected dividends.
- No Labour Shareholder may receive a dividend of more than [Surplus] x [Labour Share Fraction].
- 34.** "**Labour Share Dividends**".
- At the end of an accounting period, the Labour Share is distributed as follows to each Labour Shareholder:
- [Labour Share] × (Member's Labour Shareholding / All Issued Labour Shares).
- 35.** **Labour Share Advances.**
- At the discretion of the directors, members and employees may be advanced a proportion of their projected Labour Share dividends on a regular basis in addition to monthly Pay. Advances must be listed in the Annual Accounts.
- 36.** Providers of labour (directors, employees, self-employed contractors) may, subject to mutual consent, be part-paid with new Investor Shares, credited as fully paid.

## **CORPORATION TAX AND INVESTOR DIVIDENDS**

**37. Investor Share Dividends** are paid after Labour Share dividends.

(a) The “**Investor Share Fraction**” is 0.5 and may be changed only by special resolution.

(b) The total dividend paid in any accounting period is the lowest of the following:

(i) that which may be paid by law;

(ii) [Investor Share Fraction] × [Surplus]; *and*

(iii) the balance of the profit and loss account, if greater than zero;

otherwise it is zero. The dividend is divided equally between all Investor Shares, and must be paid within 2 calendar months of the end of the accounting period. Interest at the company’s bank overdraft rate is to accumulate on unpaid dividends after this time.

**38. Shares instead of Dividends.** The directors can offer all Investor Shareholders the choice of receiving additional Investor Shares credited as fully paid, instead of some or all of the dividend. The directors must specify a procedure fair to all Investor Shareholders for exercising this choice.

**39.** No sum may be transferred from the profit and loss account to Reserves unless it represents new Investor Shares credited as fully-paid, or is approved by special resolution, or is required by law.

## **GENERAL**

**40.** Audited accounts are to be prepared annually using historical cost accounting conventions. Any member or person authorised in writing by a member may inspect the accounting records during normal working hours.

**41. Auditors and Independent Experts.** These must be chosen by ordinary resolution, or by the President of the Institute of Chartered Accountants, or by the Board of Trade.

**42. Labour Contract Revaluations.** In the event of a dispute, the escalation procedure to be followed is:

(a) Valuation by a recruitment agency or recruitment consultant agreeable to all parties;

(b) Appeal (with resolution) subject to a vote at general meeting;

(c) Advisory, Conciliation and Arbitration Service (ACAS).

**43. Relationship Disputes.** In the event of a dispute between two or more members, the escalation procedure to be followed is:

(a) Mediation by the President, or a Director, or a management consultant agreeable to all parties;

(b) Appeal (with resolution) subject to a vote at general meeting;

(c) Advisory, Conciliation and Arbitration Service (ACAS).

**44.** A member’s employment, supplier contract or company membership may be terminated only after an ordinary resolution proposing the termination of the contract has been passed in general meeting with over 50% of eligible members participating in the vote. A resolution to terminate an employment or supplier contract, or company membership, cannot be modified by class resolution to become a special resolution (clause 18 does not apply).

**45.** The Company may pay for directors’ and officers’ indemnity insurance against liabilities related to Company business, excluding negligence and/or fraud.