

The precise effect of this provision



The same article provided that the directors will take the said shares equally between them at fair value. The plaintiff notified his intention of selling the shares but they refused to buy. The plaintiff's claim for the determination of the fair value of the shares and for an order that the directors should purchase the shares at a fair price succeeded. Vaisey said: the articles of association are simply a contract as between the shareholders inter se in respect of their rights as shareholders. Vaisey also relied on the fact that in this case a small company, somewhat akin to a partnership, had been involved.

The same theme runs through the next topic for consideration. Because shareholders are affected by the contract only in their capacity as shareholders, it is clear that outsiders (nonshareholders) cannot be affected by the contract in the articles. Strangely, however, the rights of such outsiders are often set out in the articles. This may be partly because of the special definition of outsiders in these circumstances. The practice had led to a number of cases. A good illustration of the point is *Eley v.*

Positive Government Security Life Association (1876) 1 Ex D 88. There the articles of association contained a clause in which it was stated that the plaintiff should be solicitor to the company and should transact all the legal business. The articles were signed by seven members of the company and duly registered. Later the company employed another solicitor and the plaintiff brought an action for breach of contract. This action did not succeed. The court held that the articles were a matter between the shareholders among themselves or the shareholders and the directors (as representing the company).