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DECLARATION OF
COVENANTS AND RESTRICTIONS
of
MARSH ISLAND DEVELOPMENT COMPANY
and
PALM KEY PLANTATION
PROPERTY OWNERS' ASSOCIATION, INC.

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Hazel Holmes / for
AUDITOR JASPER COUNTY SC

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DECLARATION OF COVENANTS AND RESTRICTIONS
OF

MARSH ISLANDS DEVELOPMENT COMPANY

AND

PALM KEY PLANTATION PROPERTY OWNERS' ASSOCIATION, INC.

THIS DECLARATION is made and executed this 11 day of February, 1991, by MARSH ISLANDS DEVELOPMENT COMPANY, a South Carolina general partnership (hereinafter called the "Company"), and PALM KEY PLANTATION PROPERTY OWNERS' ASSOCIATION, INC., a South Carolina non-profit corporation (hereinafter called the "Association").

W I T N E S S E T H:

WHEREAS, the Company, as the Owner of the real property (hereinafter referred to as the "Property") described in Part One, ARTICLE II of this Declaration, desires to create thereon a planned development community known as Palm Key Plantation located in Jasper County, South Carolina with certain facilities, amenities and services for the use and benefit of all property owners within such community; and

WHEREAS, the Company desires to provide for the preservation of the values and amenities and for the maintenance of common facilities, services and properties; and to this end, the Company does hereby subject the Property described in Part One, ARTICLE II together with such additions as may hereafter be made, as provided in Part One, ARTICLE II, to the covenants, restrictions, easements, affirmative obligations, charges and liens, hereinafter set forth, hereinafter referred to as the "Covenants" or the "Declaration," all of which is hereby declared to be for the benefit of said Property and each and every owner of any and all parts thereof; and

WHEREAS, the Company deems it desirable, for the efficient preservation of the values and amenities in said community, to create an agency to which can be delegated and assigned the power and authority of maintaining and administering the common properties and services, administering and enforcing the covenants and restrictions governing the same and collecting and disbursing all assessments and charges necessary for such maintenance, administration and enforcement; and

WHEREAS, the Company has caused to be incorporated under the laws of the State of South Carolina, a non-profit corporation, Palm Key Plantation Property Owners' Association, Inc., for the purpose of exercising the functions aforesaid, which functions are hereinafter more fully set forth; and

WHEREAS, this Declaration will be referred to as the "Palm Key Plantation Covenants of 1990," and will be recorded in the Office of the Clerk of Court for Jasper County, South Carolina, and may be incorporated by reference in deeds to property issued by the Company, by reference to the Book and Page of recording in the realty records in said office.

NOW THEREFORE, the Company declares that the real property described in Part One, ARTICLE II, and such additions thereto as may hereinafter be made pursuant to Part One, ARTICLE II hereof, is and shall be held, transferred, sold, conveyed, given, donated, leased, occupied and used subject to the covenants, restrictions, conditions, easements, changes, assessments, affirmative obligations, and liens hereinafter set forth. These Covenants, the benefits of these Covenants, and the affirmative and negative burdens of these Covenants, shall touch and concern and run with the land herein referred to as the "Property." The Company reserves the right to add additional Covenants in respect to the property owned by the Company at the time of the adoption of the additional Covenants but not to property previously conveyed to others. All rights and easements reserved by the Company under these Covenants shall also be reserved to the assignees and successors in interest of the Company.

PART ONE GENERAL REFERENCES

ARTICLE I DEFINITIONS

The following words and terms when used in this Declaration or any supplemental declaration (unless the context shall clearly indicate otherwise) shall have the following meanings:

(a) "Affiliate" shall mean any corporation more than fifty (50%) percent of the voting stock of which is owned or controlled by the Company and any corporation, partnership or joint venture in which the Company has more than a fifty (50%) percent equity interest or an interest in fifty (50%) percent or more of the cash flow from such partnership, corporation or joint venture.

(b) "Approval by the Company" shall mean written approval issued by the Company, signed by its appropriate officers or Managing Agent or designated representative.

(c) "Approval by the Architectural Review Board or the Company" shall mean and refer to any approval required under these Covenants to be made by the Architectural Review Board or the Company and which shall

be sought and received or denied pursuant to the provisions of these Covenants.

(d) "Architectural Review Board" or "Review Board" shall mean and refer to that Board formed and operated in the manner described in Part Two, ARTICLE I hereof.

(e) "Association" shall mean and refer to the Palm Key Plantation Property Owners' Association, Inc., a South Carolina non-profit corporation, its successors and assigns.

(f) "By-Laws of the Association" or "By-Laws" shall mean and refer to the By-Laws of the Palm Key Plantation Property Owners' Association, Inc., the initial text of which is set forth in EXHIBIT "C" attached hereto and made a part hereof.

(g) "Club" shall mean and refer to the Palm Key Club, a private membership resort. The Club's sole purpose is to own and operate a private membership resort consisting of recreational facilities with organized activities for the use and benefit of its members and their guests, business invitees and guests of the Company. The Club will continue to be owned by Marsh Islands Development Company and Palm Key Inn, Inc. shall manage the Club. Membership in the Club is limited and governed by the Rules and Regulations of the Club. When membership in the Club is made available, all members of the Association shall have the rights of membership in the Club by virtue of a special category of Club membership provided to the Association, subject to the Rules and Regulations of the Club and the payment of the applicable Club dues. Active membership in the Club shall be limited to Members who have erected a Dwelling Unit on their Lot or are otherwise paying the Dwelling Unit rate of assessments as hereinafter provided.

(h) "Common Properties" shall mean and refer to those tracts of land with any improvements thereon which are deeded or leased to the Association and designated in said deed or lease as "Common Properties." The term "Common Properties" shall also include any personal property acquired by the Association if said property is designated a "Common Property." All Common Properties are to be devoted to and intended for the common use and enjoyment of the Owners, persons occupying dwelling places or accommodations of Owners on a guest or tenant basis, and visiting members of the general public (to the extent permitted by the Board of Directors of the Association) subject to the fee schedules and operating rules adopted by the Association; provided, however, that any lands which are leased by the Association for use as

Common Properties shall lose their character as Common Properties upon the expiration of such Lease.

(i) "Company" shall mean Marsh Islands Development Company, a South Carolina general partnership, and its successors and assigns.

(j) "Covenants" or "Declaration" shall mean and refer to the "Declaration of Covenants and Restrictions of Marsh Islands Development Company and Palm Key Plantation Property Owners' Association, Inc., including all covenants, conditions, restrictions and obligations set forth in this Declaration.

(k) "Dwelling Unit" shall mean and refer to any improved property within the Property intended for use as a single-family dwelling and dwelling units in Palm Key Plantation shall be limited to single-family detached dwellings, a two-car attached or detached garage and appropriate accessory buildings so long as they do not crowd or overburden the site.

(l) "Intended for Use" shall mean the use intended for various parcels within the Property as shown on the Master Plan of Palm Key Plantation prepared by the Company as the same may be revised from time to time by the Company, or the use to which any particular parcel of land is restricted by covenants expressly set forth or incorporated by reference in deeds by which the Company has conveyed the Property.

(m) "Master Plan" shall mean and refer to the drawing which represents the conceptual land plan for the future development of Palm Key Plantation on Knowles Island, Jasper County, South Carolina. Since the concept of the future development of the undeveloped portions of Palm Key Plantation on Knowles Island, is subject to continuing revision and change at the discretion of the Company as provided in Part One, ARTICLE II, Section 1 hereof, present and future references to the "Master Plan" shall be references to the latest revision thereof. In addition, no implied reciprocal covenants shall arise with respect to lands which have been retained by the Company for future development except that all the covenants, restrictions, obligations and conditions set forth in this Declaration shall apply to all portions of the Property retained by the Company. THIS DECLARATION DOES NOT DESIGNATE ANY PORTION OF THE PROPERTY FOR ANY PARTICULAR USE, SUCH DESIGNATION TO BE MADE BY SEPARATE SUBSEQUENT DECLARATION OR BY RECORDED PLAT WITH SUCH DESIGNATION CLEARLY AND UNEQUIVOCALLY SHOWN THEREON. THE COMPANY SHALL NOT BE BOUND BY ANY DEVELOPMENT PLAN, USE OR RESTRICTION OF USE SHOWN ON ANY MASTER PLAN, AND MAY AT ANY TIME CHANGE OR REVISE SAID MASTER PLAN.

(n) "Member" shall mean and refer to the Company and all those Owners who are Members of the Association as provided in Part Three, ARTICLE I, Section 1 hereof, including the spouse and children (under 18) permanently residing with said Owner.

(o) "Offensive or Noxious" activity or behavior shall include but not be limited to a public nuisance or nuisance per se and shall also include any behavior or activity which is inconsistent with both the reasonable pleasurable use of the Property area by substantial number of the residents and guests and their reasonable expectations of permanent habitation, vacationing, studying, meeting, working, recreating, or enjoying sports, music, food, natural surroundings, and entertainment, free of excessively noisy behavior grossly disrespecting the rights of others, flashing or excessively bright lights, racing vehicles, offensive displays of public sexuality, significantly loud radio, hi-fi, electronic music distractions, or other similar unreasonable behavior curtailing the reasonable pleasure and use of the facilities within the Property. Public musical or other entertainment, parades, concerts, festivals, tournaments, competitions or shows conducted under permit from the Company shall not constitute offensive or noxious activity or behavior unless such permit is withdrawn by the Company, or its terms and conditions violated.

(p) "Office of the Clerk of Court" or "Clerk of Court" shall mean and refer to the Office of the Clerk of Court for Jasper County, South Carolina, and the successors of that office.

(q) "Owner" shall mean and refer to the Owner as shown by the real estate records in the Office of the Clerk of Court, whether it be one or more persons, firms, associations, corporations, or other legal entities, of fee simple title to any Residential Lot or Dwelling Unit situated upon the Property, but, notwithstanding any applicable theory of a mortgage, shall not mean or refer to the mortgagee or holder of a security deed, its successors or assigns, unless and until such mortgagee or holder of a security deed has acquired title pursuant to foreclosure or a proceeding or deed in lieu of foreclosure; nor shall the term "Owner" mean or refer to any lessee or tenant of an Owner. In the event that there is recorded in the Office of the Clerk of Court, a long-term contract of sale covering any Lot or parcel of land within the Property, the Owner of such Lot or parcel of land shall be the purchaser under said contract and not the fee simple title holder. A long-term contract of sale shall be one where the purchaser is

required to make payments for the property for a period extending beyond twelve (12) months from the date of the contract, and where the purchaser does not receive title to the property until such payments are made although the purchaser is given the use of said property.

(r) "Property" and "Palm Key Plantation" shall mean and refer to the property described in Part One, ARTICLE II, Section 1 hereof, and additions thereto, as are subjected to this Declaration or any supplemental declaration under the provisions of Part One, ARTICLE II, Section 2 hereof and shall include Residential Lots and Dwelling Units.

(s) "Recorded" shall mean made a matter of public record by permanently registering same in the Office of the Clerk of Court.

(t) "Referendum" shall mean and refer to the power of all or some specific portion of the Members to vote by mailed ballots on certain actions by the Board of Directors of the Association more particularly set forth herein including, without limitation, the levy of any special assessment; and the addition or deletion of functions or services which the Association is authorized to perform. In the event fifty-one (51%) percent of the votes actually returned to the Association within the specified time shall be in favor of such action, the Referendum shall be deemed to "pass" and the action voted upon will be deemed to have been authorized by the Members; provided, however, that if a higher percentage required to "pass" shall be specifically expressed herein, that higher percentage shall control in that instance.

(u) "Residential Lot" or "Lot" shall mean and refer to any unimproved parcel of land located within the Property which is intended for use as a site for a single-family detached dwelling as shown upon any recorded final subdivision map of any part of the Property or which is declared such by other recorded documents executed by the Company. A parcel of land shall be deemed to be unimproved until the improvements being constructed thereon are sufficiently complete to be subject to assessment as improved properties. "Use or Used for Residential Purposes" shall mean to be used as one's residence or normal and customary place of abode as hereinafter more fully set forth in Part Two, ARTICLE I, Section 2, and shall not include any use for business purposes except as expressly permitted in Part Two, ARTICLE I, Section 2, hereof. All individual lots which are platted and recorded shall be deemed to be Residential Lots to be used for Residential Purposes

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unless some other use or intention is indicated on the plat or some related recorded document.

ARTICLE II
PROPERTY AND ADDITIONS THERETO

Section 1. Property. The real property (Property) which is, and shall be held, transferred, sold, conveyed, given, donated, leased and occupied subject to these Covenants is described as follows:

All that tract or parcel of land, situate, lying and being in Palm Key Plantation on Knowles Island, Jasper County, South Carolina, which is more particularly described in EXHIBIT "A" attached hereto and by specific reference made a part hereof.

The Company intends to develop the Property in accordance with its Master Plan, as subsequently modified from time to time, as a private residential community. The Company reserves the right to review and modify the Master Plan at its sole option from time to time based upon its continuing research and design program. The Master Plan shall not bind the Company, its successors and assigns, to adhere to the Master Plan in the development of the land shown thereon except as to the following restrictions.

Section 2. Additions to Property. The Company, its successors and assigns, shall have the right, without further consent of the Association, to bring within the plan and operation of this Declaration additional properties which are contiguous with the Property described in Exhibit "A". Contiguity shall not be negated because of separation by a road, trail, easement, open space, marsh, water body or similar land use. Moreover, the owners of the property described in Exhibit "B" shall have the right, without further consent of the Association, to bring all or parts of those properties within the plan and operation of the Declaration so long as their then-existing uses or improvements would not be in violation of this Declaration. The additions authorized under this and the succeeding section shall be made by filing a Supplementary Declaration of Covenants and Restrictions with respect to the additional property which shall extend the operation and effect of the covenants and restrictions of the Declaration to such additional property.

The Supplementary Declaration may contain such complementary additions and/or modifications of the covenants and restrictions contained in this Declaration as may be necessary or convenient, in the sole judgment of the Company, to reflect the different character, if any, of the added properties and as are not inconsistent with the Plan of this Declaration, but such modifications shall have no effect on the property described in Section 1, Article II above.

Section 3. Other Additions to Property. Upon approval in writing of the Association pursuant to three-fourths (3/4) of the vote of those present in person or by proxy at a duly called meeting, the Owner of any property who desires to add it to the plan of these Covenants and to subject it to the jurisdiction of the Association, may file or record a Supplementary Declaration of Covenants and Restrictions with respect to the additional property which shall extend the operation and effect of the covenants and restrictions of the Declaration to such additional property.

The Supplementary Declaration may contain such complementary additions and/or modification of the covenants and restrictions contained in this Declaration as may be necessary or convenient, in the sole judgment of the Association, to reflect the different character, if any, of the added properties and as are not inconsistent with the plan of this Declaration, but such modification shall have no effect on the Property described in Part One, ARTICLE II, Section 1 above.

Section 4. Mergers. Upon merger or consolidation of the Association with another association, as provided for in the By-laws of the Association, its property, rights and obligations may, by operation of law, be transferred to another surviving or consolidated association, or in the alternative, the property, rights and obligation of another association may, by operation of law, be added to the properties of the Association as a surviving corporation pursuant to a merger. The surviving or consolidated association may administer the Property, together with the covenants and restrictions established upon any other properties, as one plan. No merger or consolidation shall effect any revocation, change or addition to the covenants established by this Declaration within the Property, including, without limitation, the maximum limits on assessments and dues of the Association, or any other matter substantially affecting the interests of Members of the Association.

Section 5. Separate Associations. For any property subjected to this Declaration pursuant to the provisions of this Section, there may be established by the Company an additional association limited to the Owners and/or residents of such additional property in order to promote their social welfare, including their health, safety, education, culture, comfort, and convenience, to elect representatives on the Board of the Association, to receive from the Association a portion, as determined by the Board of Directors of the Association, of the annual assessments levied pursuant hereto and use such funds for its general purposes, and to make and enforce rules and regulations of supplementary covenants and restrictions, if any, applicable to such additional lands.

PART TWO
COVENANTS, RESTRICTIONS AND AFFIRMATIVE
OBLIGATIONS APPLICABLE TO
DEVELOPMENT OF PALM KEY PLANTATION

ARTICLE I
GENERAL COVENANTS

Section 1. Purposes. The primary purpose of these Covenants and the foremost consideration in the origin of same has been the creation of a residential community which is aesthetically pleasing, which is functionally convenient, which is capable of maintaining itself while retaining private control, and which provides for the ultimate ownership, operation and maintenance, through the Company or the Association, of the Common Properties. The establishment of extensive objective standards relating to design, size and location of dwellings and other structures makes it impossible to take full advantage of the individual characteristics of each parcel of property and of technological advances and environmental values. For this reason, such standards are not established hereby, but may be suggested by the Company in discussions with and in materials submitted to Owners. These standards and this Declaration are consistent with and serve to complement the Subdivision Ordinances of Jasper County, South Carolina. To implement these Covenants, the Company shall, through the Review Board as defined in Section 3 of this ARTICLE I, establish and amend from time to time objective standards and guidelines which shall be in addition to and more restrictive than said governmental standards.

Section 2. Residential Use. All Lots in the Property designated as residential areas either by reference on a plat, deed or other document or by zoning designation shall be used for residential purposes exclusively. No structure or structures shall be erected, altered, placed or permitted to remain on any residential parcel other than as provided in these Covenants and restrictions, or except as provided for in each deed of conveyance. Moreover, the deed transferring a parcel to be used for residential purposes may, in the sole discretion of the Company, among other things, expressly determine and limit the number or density of residential lots and residential units applicable to that specific residential parcel. It may also impose height restrictions and/or minimum parking requirements applicable to that specific parcel as well as other similar specific development constraints.

"Residential," referring to a mode of occupancy, is used in contradistinction to "business" or "commerce" or "mercantile" activity and, except where otherwise expressly provided, "residential" shall apply to temporary as well as permanent uses, and shall apply to vacant land as well as to buildings constructed thereon. No Lot or Dwelling Unit restricted to "residential" purposes may be used as a means of service to business establishments on adjacent Lots, including but not limited to supplementary facilities or an intentional passageway or entrance

into a business. Use for single household residential purposes shall mean and refer to use as a place of long-term dwelling or residence, and shall also include use for seasonal lodging. The restriction to use for "residential" purposes is subject to the following qualifications:

(a) Unless further restricted in the deed or other document, the use of a portion of a Dwelling Unit as an office shall be considered as a residential use if such use does not create a significant increase in customer or client traffic to and from the Dwelling Unit, if no sign, symbol, logo or nameplate identifying a business or professional office is affixed to or about the grounds or the entrance to the Dwelling Unit, if the office is only incidentally used for business or professional purposes, and if the Company, after responding to a complaint by a neighboring Property Owner, has not expressly requested that the subject Dwelling Unit not be used in whole or in part as an office.

(b) The use of a Dwelling Unit as a model or for sales or operational purposes shall be limited to those granted written temporary permission for such use by the Company in its sole discretion, and may be deemed a use for residential purposes for a maximum period of forty-eight (48) months after the building is newly constructed and is ready for occupancy, and use of said Dwelling Unit as a model or for sales or operational purposes after said forty-eight-month period shall be prohibited.

Section 3. Architectural and Design Review.

(a) Purpose: In order to preserve the natural beauty of Palm Key Plantation and its setting, to maintain a pleasant and desirable environment, to establish and preserve a harmonious design for the community, and to protect and promote the value of property, no building, fence, wall, sign, swimming pool, tennis court, roof, exterior or other structure shall be erected, placed, added to, or altered until the proposed building plans, specifications (including height, color and composition of roof, siding, or other exterior materials and finish), plot plan (showing the proposed location of such building or structure, drives and parking areas), landscape plan and construction schedule shall have been submitted and approved in writing as hereinafter provided.

(b) Objectives: Architectural and Design review shall be directed towards attaining the following objectives for Palm Key Plantation:

(1) preventing excessive or unsightly grading, indiscriminate earth moving or clearing of property,

removal of trees and vegetation which could cause disruption of natural water courses or scar natural land forms;

(2) ensuring that the location and configuration of structures are visually harmonious with the terrain and vegetation of the Residential Lots and Dwelling Units and with surrounding Residential Lots, Dwelling Units and structures and do not unnecessarily block scenic views from existing structures or tend to dominate any general development or natural landscape;

(3) ensuring that the architectural design and structures and their materials and colors are visually harmonious with Palm Key Plantation's overall appearance, history and cultural heritage, with surrounding development, with natural land forms and native vegetation, and with development plans officially approved by the Company, or any governmental or public authority, if any, for the areas in which the structures are proposed to be located;

(4) ensuring the plans for landscaping provide visually pleasing settings for structures on the same Lot and on adjoining or nearby Lots, and blend harmoniously with the natural landscape;

(5) ensuring that any development, structure, building or landscaping complies with the provisions of these Covenants;

(6) promoting building design and construction techniques that respond to energy consumption and environmental quality consideration such as heat loss, air emissions and run-off water quality.

(c) Architectural Review Board.

(1) The Company shall establish an Architectural Review Board (such board hereinafter referred to as the "Review Board") which shall consist of three (3) to five (5) members. All of the members shall be appointed by the Company until such time as the Company, in its sole discretion, transfers control of the Review Board functions to the Association. The regular term of office for each member shall be one (1) year, coinciding with the fiscal year of the Company. Any member appointed by the Company may be removed with or without cause by the Company at any time by written notice to such appointee. A successor or successors appointed to fill such vacancy shall serve the

remainder of the term of the former members. When control of the Review Board functions is transferred to the Association, members of the Review Board shall be elected by the Board of Directors of the Association and any member so elected may resign or be removed by the Board in the same manner as provided in the By-Laws of the Association for the resignation and removal of officers of the Board.

(2) The Review Board shall select its own Chairman and he, or in his absence, the Vice-Chairman, shall be the presiding officer of its meetings. All meetings shall be held at least once in each calendar month or upon call of the Chairman; all meetings shall be held at the offices of the Company in Hilton Head Island, South Carolina or at such other places as may be designated by the Chairman. A simple majority of the members shall constitute a quorum for the transaction of business, provided a minimum of two (2) members appointed by the Company shall be present in order to have a quorum prior to transfer of control of the Review Board by the Association. The affirmative vote of a majority of the members of the Review Board shall constitute the action of the Review Board on any matter before it. The Review Board shall operate in accordance with its own rules of procedure which shall be filed with the Association and maintained in the records of the Association.

(3) The Review Board is hereby authorized to retain the services of one or more consulting architects, landscape architects, urban designers, and/or attorneys, who need not be licensed to practice in the State of South Carolina, to advise and assist the Review Board in performing the design review functions herein prescribed.

(d) Transfer of Architectural Review Authority. Upon the sale of greater than seventy-five (75%) percent of the sites for the permitted Dwelling Units within the existing Property, or, if additions are made to the existing Property, then upon sale of greater than seventy-five (75%) percent of the sites for the maximum permitted Dwelling Units within the Property, as so expanded, the Company may, by filing a supplementary declaration of covenants and conditions with the Clerk of Court, transfer the above-described architectural review authority to a permanent Review Board which, subject to the covenants and conditions stated within the aforesaid supplemental declaration, shall be under the control of the Association. This Section does not obligate the Company to make such transfer at any particular time; provided, however, that such transfer

must be made no later than December 31, 2000, as to all portions of the Property shown on recorded plats where more than seventy-five (75%) percent of the sites for permitted Dwelling Units have been sold to third parties. The transfer of such rights as to all other properties shall be made on a platted area by platted area basis as the seventy-five (75%) percent test as to permitted Dwelling Unit sites referred to above has been achieved.

(e) Review of Approval of Plans for Additions, Alterations or Changes to Structures and Landscaping: No building, wall, fence, sign, swimming pool, tennis court, roof, color and composition of roof, siding and other exterior materials and finishes, exterior light or other structure or improvement of any kind shall be commenced or erected upon any Residential Lot, nor shall any landscaping be done, nor shall any addition to any existing building or alteration or change therein be made until the proposed building plans, specifications (including height, color and composition of roof, siding or other exterior materials and finish), plot plan (showing the location of such building or structure, drives and parking area), landscape plan, and construction schedule shall have been submitted to and approved by the Review Board.

(f) Submission, Approval and Refusal of Architecture, Siting, Landscaping and Other Building Plans: Two (2) copies of all plans and related data shall be furnished the Review Board. One (1) copy shall be retained in the records of the Review Board. The other copy shall be returned to the Property Owner marked "approved" or "disapproved." The Review Board shall establish a fee from time to time sufficient to cover the expense of reviewing plans and related data at the time they are submitted for review and to compensate any consulting architects, landscape architects, urban designers or attorney's retainer in accordance with subparagraph (c)(iii) above. Approvals shall be dated and shall not be effective for construction commenced more than twenty-four (24) months after such approval unless a different expiration time is specifically stated in the approval. Disapproved plans and related data shall be accompanied by a reasonable statement of items found unacceptable. In the event approval of such plans is neither granted nor denied within thirty (30) days following receipt by Review Board of written request for approval, the provisions of this Section shall be thereby waived. Refusal of approval of plans, location or specification may be based by Review Board upon any ground which is consistent with the objectives of these Covenants, including purely aesthetic considerations, so long as such ground is not arbitrary and capricious.

(g) Approval Not a Guarantee or Representation of Proper Design or Good Workmanship: No approval of plans, location or specifications, and no publication or architectural standards bulletins shall ever be construed as representing or implying that such plans, specifications or standards will, if followed, result in a properly designed residence. Such approvals and standards shall in no event be construed as representing or guaranteeing that any residence or improvement thereto will be built in a good and workmanlike manner. Neither the Company nor the Review Board shall be responsible or liable for any defects in any plans or specifications submitted, revised or approved under these Covenants nor for any defects in construction pursuant to such plans and specifications. The Owner shall have sole responsibility for compliance with approved plans and does hereby, by acceptance of title to property subject to these Covenants, agree to hold the Review Board and the Company harmless for any failure thereof caused by the Owner's architect or builder. The Company reserves the right to prohibit the Owner's builder and/or general contractor from going to or upon the site in the event it is determined that failure to comply with approved plans is intentional or due to gross negligence under the above-mentioned circumstances. The Owner hereby agrees that the exercise of these rights shall not constitute a denial of Owner's property rights and shall not give rise to a cause of action for damages by the Owner.

Section 4. Siting. To assure that buildings and other structures will be located so that the maximum view, privacy and breeze will be available to each building or structure, and that structures will be located with regard to the topography of each property taking into consideration the location of large trees, structures previously built or approved pursuant to this ARTICLE for adjacent parcels of land, and other aesthetic and environmental considerations, the Review Board and the Company reserves unto itself, its successors and assigns, the right to control and to decide solely [so long as (a) its decisions are not arbitrary and capricious, and (b) subject to the provisions of the pertinent land use regulations of public authorities having jurisdiction] the precise site and location of any building or structures on any Property in Palm Key Plantation, including the right to prescribe setbacks as it deems appropriate.

The location shall be determined only after reasonable opportunity is afforded the Owner to recommend a specific site. Provided, however, that in the event an agreed location is stipulated in writing in the contract of purchase and approved by the Company, and such location complies with the Jasper County Subdivision Regulations, the Company shall automatically approve such location for a residence or group of residential units.

Section 5. Parking. Each Owner subject to these Covenants shall provide space off of streets or community roads for the parking of at least two (2) automobiles for each Dwelling Unit prior to the occupancy of any building or structure constructed on said Property in accordance with reasonable standards established by the Review Board.

Section 6. Completion of Construction. The exterior of all dwellings and other structures must be completed within twelve (12) months after the construction of same shall have commenced, except where such completion is impossible or would result in great hardship to the Owner or builder due to strikes, fires, national emergency or natural calamities. Houses and other dwelling structures may not be temporarily or permanently occupied until the exteriors thereof have been completed. During the continuance of construction, the Owner shall require the contractor to maintain the Residential Lot or building site in a reasonably clean and uncluttered condition. Upon completion of construction, the Owner shall cause the contractor to immediately remove all equipment, tools and construction material from the Lot. Any damage to roads, bike paths, Common Properties, or property owned by others caused by the Owner's contractor or other parties providing labor or services to the Owner shall be repaired by the Owner or by the Company at Owner's expense. Landscaping plans for all Dwelling Units and other structures must be completely implemented within ninety (90) days of occupancy or issuance of a Certificate of Occupancy by the appropriate authority, whichever date shall first occur.

Section 7. Service Yards. Each Owner shall provide a visually screened area to serve as a service yard and an area in which garbage receptacles, fuel tanks or similar storage receptacles, electric and gas meters, air-conditioning equipment, clothes lines, and other unsightly objects must be placed or stored in order to conceal them from view from the road and adjacent properties.

Plans for such visually screened area delineating the size, design, texture, appearance and location must be approved by the Review Board prior to construction. Garbage receptacles and household fuel tanks may be located outside of such screened areas only if located underground.

Section 8. Automotive Fuel Tanks. No automotive fuel tanks of any type whatsoever shall be permitted on the Residential Lots:

Section 9. Signs. No signs or ornaments shall be erected or maintained on the Property by anyone including, but not limited to, the Owner, a realtor, a contractor or subcontractor, or except with the written permission of the Review Board or except as may be required by legal proceedings. If such permission is granted the Review Board reserves the right to restrict size, color and content of such signs.

Section 10. Other Buildings and Vehicles. No mobile home, trailer, tent, barn, or other similar out-building, vehicle, or structure shall be placed on any Residential Lot at any time, either temporarily or permanently, without prior approval from the Review Board and such approval shall normally be limited to temporary use of such structures reasonably essential to economical, orderly and efficient construction during the construction process only. No home trailers or residence trailer may be permitted on any Residential Lot, and no boats, boat trailers, campers, motorcycles, motorbikes, recreational vehicles, trucks, or utility trailers may be maintained on the Property, without prior written approval of the Review Board. The term "truck" as used herein is intended to refer to those vehicles of various sizes and designs for transporting goods, moving heavy articles or hauling quantities of cargo and which are used in a trade or business in which the truck is used because of its commercial capabilities and not merely as a means of transportation, or which displays identification on the exterior of the vehicle to a commercial enterprise. This is not intended to include such dual-purpose vehicles as station wagons, jeeps, "scouts" or "wagoneer" type vehicles and sports trucks and trucks of one-half ($\frac{1}{2}$) ton or less that do not have exposed signage or logo other than discreet identification approved by the Review Board and do not have exposed equipment or supplies, or similar, attractive vehicles driven and maintained primarily as a means of transportation.

Section 11. Unsightly Conditions. It shall be the responsibility of each Owner and tenant thereof to prevent the accumulation of litter, trash, packing crates or rubbish or the development of any unclean, unsightly or unkempt condition of buildings or grounds on his property either before, during or after construction, and to prevent accumulations which shall tend to substantially decrease the beauty of the community as a whole or the specific area.

Section 12. Lights. The design and location of all exterior lighting fixtures shall be subject to the approval of the Review Board. Neither these nor any other illumination devices, including but not limited to Christmas ornaments, located anywhere on the structures or grounds of any Residential Lot or other residential structure within the Property shall be located, directed, or of such intensity to affect adversely the nighttime environment of any adjacent property.

Section 13. Animals. No animals, livestock, or poultry of any kind shall be raised, bred, kept or pastured within the residential areas of the Property, except that a reasonable number of common household pets such as dogs and cats may be kept in any one Dwelling Unit. In order to preserve the aesthetic qualities of the Common Properties, to maintain sanitary conditions on the Property, to prevent the spread of worms and infectious diseases on the Common Properties, and to maintain a proper respect for

other Owners and users of the Common Properties, each person who keeps a pet within a Dwelling Unit shall abide by the following restrictions, conditions, and affirmative obligations:

(a) No pets may be kept, bred, or maintained for any commercial purpose.

(b) The Owner of such pet or pets, shall exercise best efforts to not allow the pets to excrete upon the Property owned by others or the Company, or to excrete in any area within the Common Properties, which are regularly traversed or in which children may be expected to play.

(c) The Owner of such animals shall use a scoop or other device to clean up any defecation or solid excrement left by their pet upon the Common Properties, Open Space, bike paths or roadways.

(d) The Owner of an animal will not allow it to roam unattended on the Property, it being the responsibility of each pet Owner to either leash their animal or retain voice control while the animal is out of doors.

(e) The Owner shall muzzle any animal which barks or makes any noises which might be reasonably expected to disturb other Owners.

The breach of any of these five (5) restrictions, conditions, any obligations and duties shall be a noxious and offensive activity constituting a nuisance.

Section 14. Water. No private water wells may be drilled or maintained in the Property by any Owners other than the Company so long as the Company or its agents, or licensees, or a municipal water and sewer provider or other governmental unit, its successors and assigns, has installed a water distribution line within one hundred (100') feet of the boundary line of the Residential Lots within the Property with average daily water pressure in such line adequate for the normal household use in dwellings served by such distribution line; provided, however, that Owners may submit to the Architectural Review Board for consideration plans and specifications for use of water-source heating and cooling systems and such plans will be viewed favorably provided they meet all requirements of the South Carolina Department of Health and Environmental Control, the South Carolina Water Resources Commission and any other agencies or governmental bodies having jurisdiction in such matters provided such installation otherwise meets the usual aesthetic considerations of the architectural review process as herein provided.

Section 15. Sewage. No septic tanks may be installed in the Property so long as the Company, or its agents or licensees,

or a municipal sewer utility company or other governmental unit, its successors and assigns, operates a sewage distribution line within one hundred (100') feet of the boundary line of the Residential Lots within the Property or is willing to extend such a sewage line to such property. The Company is presently constructing the water and sewer infrastructure to serve the Property. A low pressure central sewer system shall be installed. Upon completion of the construction, the infrastructure improvements consisting of the water and sewer system shall be conveyed to the Beaufort-Jasper Water and Sewer Authority which shall own, maintain and operate these improvements. No sewage shall be emptied or discharged into any creek, marsh, lake, river or other body of water at any time.

Section 16. Repairs and Hazards. Any building or other improvement on the Property that is destroyed partially or totally by fire, storm or any other means shall be repaired or demolished within a reasonable period of time, and the land restored to an orderly and attractive condition. Absent legal impediments, force majeure or similar matters, such corrective activity should be commenced within not more than sixty (60) days and should be diligently manned and prosecuted to a completion in a timely manner thereafter.

No part or parts of any land within Palm Key Plantation shall be used by any Owner in such manner which would increase the hazard of fire on any other part or parts of Palm Key Plantation or any adjoining property.

Section 17. Offensive Activity. No noxious or offensive activity, as herein defined, shall be carried on upon any Residential Lot or Dwelling Unit or any place within Palm Key Plantation, nor shall anything be done thereon tending to cause embarrassment, discomfort, annoyance, or nuisance to the community.

Section 18. Certain Easements. The Company reserves unto itself, its heirs, successors and assigns, a perpetual, alienable and releasable easement and right on, over and under the ground of the Property to erect, maintain, and use electric, cable television, and telephone wires, cables, conduits, drainage ways, sewers, wells, pumping stations, tanks, water mains and other suitable equipment for the conveyance and use of electricity, telephone equipment, gas, sewer, water, drainage or other public conveniences or utilities on, in or over those portions of such Property as may be reasonably required for utility line purposes; provided, however, that no such utility easement shall be applicable to any portion of such Property as may (a) have been used prior to the installation of such utilities for construction of a building whose plans were approved pursuant to these Covenants by the Company; or (b) such portion of the Property as may be designated as the site for a building on a plot plan or for erection of a building which has been filed with the Review Board and which has been approved in writing by said Review Board.

The Company further reserves unto itself, its successors, and assigns, a perpetual, alienable and releasable easement and right on, over, and under the ground to erect, maintain and use wires, cables, conduits, sewers, water mains, and other suitable equipment for the conveyance and use of electricity, C.A.T.V., security cable equipment, telephone equipment, gas, sewer, water or other private or public convenience or utilities. For these purposes, the Company reserves unto itself, its successors and assigns, a perpetual, alienable and releasable fifteen (15') foot easement on, in, over and along the front (or street) side of each lot, ten (10) feet along the rear of each Lot, and ten (10) feet along one side of each Lot (as determined by the Company) and such other areas as are shown on the applicable plats. Moreover, the Company may cut, at its own expense, drainways for surface water wherever and whenever such action may appear to the Company to be necessary in order to maintain reasonable standards of health, safety and appearance and an easement for such purpose ten (10') feet in width along each side lot line and fifteen (15') feet along each front lot line and such other areas as are shown on the applicable plats, is reserved unto the Company.

These easements and rights expressly include the right to cut any trees, bushes or shrubbery, make any gradings of the soil, or to take any other similar action reasonably necessary to provide economical and safe utility installation and to maintain reasonable standards of health, safety and appearance. Any material disturbance to the grounds of any Owner caused by such utility installation shall be repaired and said grounds returned to their prior condition by the Company or prompt and reasonable remuneration for such repair shall be made to such Owner by the Company.

In addition, the Company reserves unto itself, its successors and assigns a perpetual, alienable and releasable easement and right on and over and under the Property to dispense pesticides and take other action which in the opinion of the Company is necessary or desirable to control insects and vermin, to cut fire breaks and other activities which in the opinion of the Company are necessary or desirable to control fires on the Property, or any improvements thereon.

The Company further reserves to itself, its heirs and assigns, the right to provide walking access within the Property for the Owners. This walking access may consist of trails along the lagoon and marsh of the Property.

The Company further reserves to itself, its heirs and assigns, the right to locate wells, pumping stations, siltation basins and tanks, or spray treated effluent within the Property on any Unsubdivided Land, on any Common Properties or on any property designated for such use on the applicable plat of the property, or to locate same upon any property with the permission of the respective Owner. Such rights may be exercised by any licensee of the Company, but this reservation shall not be considered an

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obligation of the Company to provide or maintain any such utility or service.

Section 19. Antennas. No television antenna, dish, radio receiver or sender or other similar device shall be attached to or installed on the exterior portion of any dwelling or other structure or property within Palm Key Plantation, nor radio, television signals, nor any other form of electromagnetic radiation shall be permitted to originate from any Dwelling Unit or Residential Lot, which may unreasonably interfere with the reception of television or radio signals upon any other of such properties, except as follows:

(a) The provisions of this Section shall not prohibit the Company from installing equipment necessary for a master antenna system, security system, cable television and mobile radio systems or other similar systems within Palm Key Plantation; and

(b) Should cable television services be unavailable and good television reception not be otherwise available, an Owner may make written application to the Review Board for permission to install a television antenna, and such permission shall not be unreasonably withheld.

Section 20. Sound Devices. No exterior speaker, horn, whistle, bell, or other sound device which is unreasonably loud or annoying, except security devices used exclusively for security purposes, shall be located, used, or placed upon lands within Palm Key Plantation. The playing of loud music within a Dwelling Unit or other structure or from the balcony thereof shall be noxious and offensive behavior constituting a nuisance.

Section 21. Laundry. In order to preserve the aesthetic features of the architecture and landscaping, each Owner, his or her family, his or her guests, or his or her tenants, shall not hang laundry from any area within or outside a Dwelling Unit if such laundry is within the public view, nor hang laundry in full public view to dry, such as on balcony and terrace railings. This provision may, however, be temporarily waived by the Company during periods of severe energy shortages or other conditions where enforcement of this Section would create a hardship.

Section 22. Duty to Rebuild or Clear and Landscape Upon Casualty or Destruction. In order to preserve the aesthetic value and economic value of all individual properties within the Property, each Owner and the Company (with respect to improved property owned by the Company) shall have the affirmative duty to rebuild, replace, repair, or clear and landscape, within a reasonable period of time, any building structure, improvement or significant vegetation which shall be damaged or destroyed by Act of God, fire, or other casualty other than war. Variations and waivers of this provision may be made only upon the Review Board establishing that the overall purpose of these Covenants will be

best effected by allowing such a variation. Variations to this Section are to be strictly construed and the allowance of a variance by the Company shall not be deemed to be a waiver of the binding effect of this Section on all other Owners.

Section 23. Trespass. Whenever the Association or the Company is permitted by these Covenants to correct, repair, clean, preserve, clear out or do any action on any property or on the easement areas adjacent thereto, entering the property and taking such action shall not be deemed a trespass. As a matter of courtesy, every reasonable effort will be made to notify the Owner prior to performing the required work.

Section 24. Parcels. No Residential Lot shall be subdivided, or its boundary lines changed, nor shall application for same be made to Jasper County, except with the written consent of the Company. However, the Company hereby expressly reserves to itself, its successors or assigns, the right by mutual consent to replat any such Lot and to take such other steps as are reasonably necessary to make such replatted Lot suitable and fit as a building site including, but not limited to, the relocation of easements, walkways, rights-of-way, private roads, bridges, parks, recreational facilities and Lots.

The provisions of this Section shall not prohibit the combining of two (2) or more contiguous Lots into one (1) larger Lot. Following the combining of two (2) or more Lots into one (1) larger Lot, only the exterior boundary lines of the resulting larger Lot shall be considered in the interpretation of these Covenants. Consolidation of Lots, as described above, must be approved by the Company, said approval to be granted in the Company's sole discretion upon such terms and conditions as may be established for the Company from time to time, including specific provisions for the payment of assessments.

Section 25. Building Height. No structure shall be constructed which has a height exceeding two and one-half (2 ½) stories in height above the minimum height or elevation of the first inhabitable floor as mandated by the flood laws and governmental regulations applicable to the Property.

Section 26. Minimum Square Footage. No plans will be approved unless the proposed house will have the minimum required square footage of enclosed dwelling area. The minimum required square footage shall be as follows unless other minimum required square footage is specified in the Contract of Sale and expressly stipulated in the Deed from the Company or its successors or assigns: one thousand five hundred (1,500) square feet of enclosed dwelling area.

The term "enclosed dwelling area" as used in these minimum size requirements shall mean that total enclosed heated and cooled area within a dwelling. It shall not include garages, terraces, decks, open porches, screen porches, shed-type porches

or the like; provided, however, that enclosed porches such as sun porches which are heated and cooled and which have a roof line that forms an integral part of the roof line of the main dwelling, shall be included in the term "enclosed dwelling area." It shall also not include accessory buildings which may be constructed on the Lot. No more than two (2) accessory buildings may be constructed on a Lot and any such buildings will not be allowed if to do so would overcrowd the site.

Section 27. Ingress and Egress; Roadways. The Owner, in accepting title to property conveyed subject to the covenants and restrictions of this Declaration, waives all rights of uncontrolled and unlimited egress and ingress to such property (and waives such rights for any person claiming entry rights by virtue of any relationship or permission of such Owners and successors-in-title) and agrees that such ingress and egress to its property may be limited to roads built by the Company. Until such time as said roads are conveyed to the Association or to Jasper County, the Company shall retain full rights and title to all such roads and reserves the right to add additional roads or modify existing roads from time to time in such manner as it deems appropriate in accordance with its ongoing development activities.

The Company reserves the right for itself, its successors and assigns, but not the obligation, to: (a) maintain guarded gates controlling access to such roads; (b) determine in its sole discretion the types of vehicles that will be permitted access to the Property and use of such roads; (c) provided, however, that the Company reserves the right to limit access to the Property to the Company, Owners, lessees or tenants, and their guests and invitees. If the roadways and streets are conveyed to the Association as herein permitted the aforesaid rights may be assigned to the Association by the Company.

The Company agrees to construct all roads in Palm Key Plantation in accordance with roadway construction standards required by the South Carolina Department of Health and Environmental Control and the State of South Carolina. The Company reserves the right to transfer the roadways to Jasper County within two (2) years after completion of construction if the County will agree to accept and maintain same. If the Company does not elect to transfer said roads to Jasper County or if Jasper County declines to accept same, the Company shall transfer said roadways to the Association. In such event in order to provide for safe and effective regulation of traffic, the Company reserves the right to file with the Clerk of Court the appropriate Consent documents making the Uniform Act Regulating Traffic on Highways of South Carolina (Chapter V, Title 56 of the Code of Laws of South Carolina, 1976) applicable to all of the streets and roadways within Palm Key Plantation. Moreover, in such event the Company may promulgate from time to time additional parking and traffic regulations which shall supplement the above-mentioned State regulations as it relates to conduct on, over and about the streets and roadways in Palm Key Plantation. These supplemental

regulations shall initially include but shall not be limited to those set out hereinafter and the Company reserves the right to adopt additional regulations or to modify previously promulgated regulations from time to time and to make such adoption or modification effective thirty (30) days after mailing notice of same to the record Owners of all Lots, Dwelling Units, or parcels within Palm Key Plantation as of January 1 of the year in which such regulations are promulgated:

(a) No motorcycles or motorbikes may be operated on the roads and streets within Palm Key Plantation. Mopeds (or other motor-powered bicycles) with no more than one-brake horse power may be operated so long as they abide by all other traffic regulations and so long as they are not required to be registered by the State of South Carolina.

(b) The Company, or the Association after title to the streets and roadways has passed to it from the Company, if applicable, may post "no parking" signs along the streets and roadways within Palm Key Plantation where it, in its sole discretion, determines appropriate to do so. Violators of said "no parking" signs are subject to having their vehicles towed away and shall be required to pay the cost of such towing and storage before their vehicle may be recovered. The act of towing said vehicle shall not be deemed a trespass or a violation of the Owners' property rights, because the Owner shall be deemed to have consented to such action by accepting the right to use the roads and streets within Palm Key Plantation.

Section 28. Time Share or Similar Ownership Prohibited. No Residential Lot or Dwelling Unit may be sold under or utilized for or pursuant to any timesharing, time interval or similar right-to-use, lease or license programs as those terms are currently generally utilized in the real estate industry or as those or similar terms are expressed, used or defined in the Vacation Time Share Plan Act, Section 27-32-10 et seq., Code of Laws of South Carolina, 1976, as amended, or any similar successor or supplementary laws or regulations.

ARTICLE II ENVIRONMENTAL CONTROLS

Section 1. Topography and Vegetation. Topographic and vegetation characteristics of a Residential Lot shall not be altered by removal, reduction, cutting, excavation or any other means without the prior written approval of the Review Board. Written approval will be granted for the minimum amount of earth movement and vegetation reduction required in plans and specifications approved pursuant to the provisions of this Declaration.

Section 2. Tree Removal. No trees, bushes, or underbrush of any kind eight (8") inches or more in diameter at a height four (4') feet above ground level] and no flowering trees such as dogwood, magnolia, etc., regardless of size may be removed unless such removal is reasonably required for the construction of improvements. Approval for the removal of trees located within ten (10') feet of the main dwelling or accessory building or other approved structures or within ten (10') feet of the approved site for such building or structures will be granted unless such removal will substantially decrease the beauty of the affected portion of the Property. The Company or Review Board reserves the right wherever to do so would not substantially diminish the use of the lot as a building site to have specimen trees preserved and that site planning provide for their retention. A tree location plan and location map of adjacent and nearby structures may be required as a part of the submission under Part Two, ARTICLE I, Section 3 and this ARTICLE II.

Section 3. Certain Controls. To implement effective and adequate erosion control and protect the beauty of the Property, the Company, its successors, assigns (including but not limited to the Association), and agents shall have the right to enter upon any property before or after a building or structure has been constructed thereon for the purpose of performing any grading or landscaping work or constructing and maintaining erosion prevention devices. Provided, however, that prior to exercising its right to enter upon the property for the purpose of performing any grading or landscaping work or constructing and maintaining erosion prevention devices, the Company or the Association, as the case may be, shall give the Owner the opportunity to take any corrective action required by giving the Owner notice indicating what type of corrective action is required and specifying in that notice that immediate corrective action must be taken by such Owner. If the Owner fails to take the corrective action specified immediately, the Company or the Association, as the case may be, may then exercise its right to enter upon the property in order to take the necessary corrective action. The cost of such corrective or erosion prevention measures when performed by the Company or the Association, their successors or assigns, on an improved property, shall be paid by the Owner thereof within thirty (30) days after receipt by Owner of an invoice from the Company or the Association setting forth the cost of such work. If the Owner fails to voluntarily remit such reimbursement in a timely manner the Company or the Association shall be entitled to enforce collection thereof in a court of competent jurisdiction and shall likewise be entitled to collect all costs and expenses of collection, including reasonable attorneys fees incurred by the Company or the Association, as applicable, and shall further be entitled to collect a late charge equal to one and one-half (1½%) percent per month of the amount of such invoice from the date of said invoice until fully paid.

To implement effective insect, reptile and woods fire control, the Company, its successors, assigns, and agents have the right to enter upon any property on which a building or structure has not been constructed and upon which no landscaping plan has been implemented. In any case which in the opinion of the Company detracts from the overall beauty, setting and safety of Palm Key Plantation, the Company, its successors, assigns, and agents shall have the aforementioned rights of entry for the purpose of mowing, removing, clearing, cutting, or pruning underbrush, weeds or other unsightly growth, removing trash, draining standing water or dispensing pesticides.

The cost of this vegetation, trash and drainage control shall be kept as low as reasonably possible and shall be paid by the respective Owner and the Company shall be entitled to exercise the enforced collection rights specified in the preceding paragraph. Such entry shall not be made until thirty (30) days after such Owner has been notified in writing of the need of such work and unless such Owner fails to perform the work within said thirty (30) day period.

The provisions of this Section 3 shall not be construed as an obligation on the part of the Company to mow, clear, cut or prune any property, to provide garbage or trash removal services, to perform any grading or landscaping work, construct or maintain erosion prevention devices or storm drainage improvements, or to provide water pollution control on any privately owned property.

Entrance upon property pursuant to the provisions of this Section 3 shall not be deemed a trespass.

The rights reserved unto the Company in this Section 3 shall not be unreasonably employed and shall be used only where necessary to effect the stated intents and purposes of this Declaration.

Section 4. Environmental Hazards. To secure the natural beauty of Palm Key Plantation, the Company, its successors or assigns may promulgate and amend from time to time rules and regulations which shall govern activities which may, in its judgment, be environmentally hazardous, such as the application of fertilizers and pesticides and other chemicals. Failure of any Owner or tenant of property on Palm Key Plantation to comply with the requirements of such rules and regulations shall constitute a breach of these Covenants.

The Company hereby reserves unto itself, its successors, assigns, and agents a perpetual, alienable and releasable easement and right on, over and under all property on Palm Key Plantation for the purpose of taking any action necessary to effect compliance with such environmental rules and regulations and covenants. The cost of such action by the Company shall be paid by the respective Owner(s) of the property upon which the work is performed.

Section 5. Further Siting Authority. To prevent excessive "run-off" or drainage resulting from any improvements to residential Lots, the Company hereby reserves to itself, its heirs and assigns, the right to establish a maximum percentage of property which may be covered by a building, patio, driveway or other structures. The Company reserves a fifteen foot (15') easement on the front (road-side) property line and ten feet (10') along the rear of each lot and ten feet (10') along one side of each lot (as determined by the Company) for the purpose of installation and maintenance of utilities and drainage. Such easements shall be non-exclusive and may be assigned to the appropriate entities responsible for drainage. Nothing herein shall be interpreted to require the Company to provide drainage services nor to maintain such easement areas. In the establishment of such maximum percentage the Company shall consider topography, percolation rate of the soil, soil types and conditions, vegetation cover and other relevant environmental factors. Neither this nor any other right reserved herein by the Company shall be construed, however, to be an obligation of the Company to take any action.

Section 6. Erosion in Open Spaces and Common Properties. The Company, its successors and assigns, shall have the right, but shall not be obligated, to protect all Common Properties from erosion, by planting trees, plants, and shrubs where and to the extent necessary or by such mechanical means as construction and maintenance of siltation basins, or other means deemed expedient or necessary by the Company. The right is likewise reserved to the Company to take steps necessary, within Open Space and Common Properties, to provide and insure, adequate drainage ways, to cut fire breaks, and to remove diseased, dead or dangerous trees and carry out other similar activities, the cost of which services is to be paid by assessments of the Owners in accordance with the provisions of Part Three of this Declaration.

Section 7. Standard of Reasonableness. The rights reserved unto the Company in this ARTICLE II shall not be unreasonably employed and shall be used only where necessary to effect the stated intents and purposes of this Declaration.

PART THREE
PALM KEY PLANTATION PROPERTY
OWNERS' ASSOCIATION, INC.

ARTICLE I
MEMBERSHIP AND VOTING RIGHTS IN THE ASSOCIATION

Section 1. Membership. Every Owner shall be a Member of the Association. The Company shall be a Member of the Association. However, in the case of multiple ownership of any Residential Lot or Dwelling Unit in Palm Key Plantation, there shall be a maximum of one (1) Member. In the event of such multiple ownership of any kind, including by a partnership or corporation, the name of the Owner designated as Member shall be submitted to the Company and/or the Association each year, not later than the 1st day of January of each year and only the designated Member shall be entitled to access to the facilities of the Association as a Member of the Association. Remaining Owners shall be entitled to access only in accordance with rules and regulations established by the Association, its successors and assigns, for guests. If no designation of a Member is made by the multiple Owners, all such Owners shall be required to pay such user fees as may be established by the Association.

Section 2. Voting Rights. The Association shall have one type of regular voting membership. Members shall be all those Owners of Residential Lots, including the Company. A Member shall be entitled to one (1) vote for each Residential Lot which he owns. If a Dwelling Unit is constructed on more than one (1) Residential Lot, the Owner shall have one (1) vote for the Residential Lot on which the Dwelling Unit is constructed and one (1) additional vote for each additional Residential Lot comprising a part of the total consolidated building site.

When any property entitling the Owner to membership as a Member of the Association is owned of record in the name of two (2) or more persons or entities, whether fiduciaries, joint tenants, tenants-in-common, tenants-in-partnership or in any other manner of joint or common ownership, or if two (2) or more persons or entities have the same fiduciary relationship respecting the same Property, then unless the instrument or order appointing them or creating the tenancy otherwise directs, and it or a copy thereof is filed with the secretary of the Association, their acts with respect to voting shall have the following effect:

(a) if only one (1) vote, in person or by proxy, his act binds all;

(b) if more than one (1) vote, in person or by proxy, the act of the majority so voting binds all;

(c) if more than one (1) vote in person or by proxy, but the vote is evenly split on any particular

matter, each fraction shall be entitled its proportionate share of the vote or votes;

(d) if the instrument or order so filed shows that any such tenancy is held in unequal interest, a majority or even split for purposes of this Paragraph shall be a majority or even split in interest;

(e) the principles of this Paragraph shall apply, insofar as possible, to execution of proxies, waivers, consents or objections and for the purpose of ascertaining the presence of a quorum.

The voting rights of any Owner may be assigned by said Owner to his lessee who has entered into a lease with a term of two (2) years or more; provided, however, that the Owner may not assign to such lessee any vote or votes not attributable to the Property actually leased by such lessee.

Section 3. Special Voting Membership. In addition to the regular voting memberships described hereinabove, there shall be allowed a Special Voting Membership for the Company under the following circumstances:

So long as the Company's total amount of assessments paid (under its classification as a regular Member), total amount of Association operating deficits funded by the Company and total amount of loans by the Company to the Association outstanding exceed, cumulatively, the total amount of assessments paid by all regular Members or until ninety (90%) percent of the Lots and Dwelling Units in the Property (as now constituted or as expanded as herein provided) have been sold, whichever shall occur last, the Company shall be allowed a Special Voting Membership by which it shall be entitled to the same number of votes as cumulatively held by all regular Members (including itself), plus one (1). This provision, without further reference herein, shall be self-operative and its applicability determined, for any purpose, by reference to the annual statement of the Association for the preceding year, or years, required by this Declaration in Part Three, ARTICLE III, Section 13.

Section 4. Composition of Board. The Association shall be governed by a Board of Directors consisting of five (5) Members, with the number in subsequent years to be determined as provided for in the By-Laws of the Association. All members of the Board other than those appointed by the Company shall be Owners within the Property.

Section 5. Cumulative Voting Permitted. Each Member shall be entitled to as many votes as equals the number of votes he is ordinarily entitled to, based on his ownership of property

as computed by the formula set out hereinabove in Section 2 hereof, multiplied by the number of Directors to be elected, and may cast all of such votes for any one (1) Director or may distribute them among the number to be voted for, or all votes must be cast in whole numbers and not fractions thereof. This right, when exercised, is termed cumulative voting.

Section 6. Member to Have Power of Referendum in Certain Instances. Where specifically provided for herein, the Members, or some specific portion thereof, shall have the power to approve or reject certain actions proposed to be taken by the Association by Referendum including, without limitation, whether the levy by the Association of any special assessment, and the addition or deletion of functions or services which the Association is authorized to perform. In the event fifty-one (51%) percent, or more, of the votes actually returned to the Association within the specified time shall be in favor of such action, the Referendum shall be deemed to "pass" and the action voted upon will be deemed to have been authorized by the Members; provided, however, that if a higher percentage vote required to "pass" shall be specifically expressed herein, that higher percentage shall control in that instance. The Board of Directors may not undertake any action requiring a Referendum without complying with the provisions therefor.

In the event of a dispute as to whether a Referendum is required, the following action may be taken:

Within thirty (30) days after the adoption by the Directors of any action which is, in the opinion of the Members, subject to a Referendum, a petition signed by not less than twenty-five (25%) percent of the total membership of the Association may be filed with the Secretary of the Association requesting that any such action be either repealed or submitted to a vote of the Members.

Regarding any issue, except those expressly provided for otherwise in this Declaration, which involves special assessments, extraordinary expenditures, or commitments by the Association that principally benefit the Company, to the exclusion of other Owners, there shall be a Referendum in which the Company shall not be permitted to cast its Special Voting Membership votes, as hereinabove described, but shall be limited to the votes allotted it under the regular Member designation.

Section 7. Quorum Required for any Action Authorized at Regular or Special Meetings of the Association. The quorum required for any action which is subject to a vote of the Members at an open meeting of the Association (as distinguished from the Referendum) shall be as follows:

The first time a meeting of the Members of the Association is called to vote on a particular action proposed to

be taken by the Association the presence at the meeting of Members or proxies entitled to cast sixty (60%) percent of the total vote of the membership shall constitute a quorum. If the required quorum is not forthcoming at any such meeting, a second meeting may be called subject to the giving of proper notice and the required quorum at such meeting shall be the presence of Members or proxies entitled to cast twenty-five (25%) percent of the total vote of the membership of the Association. In the event the required quorum is not forthcoming at the second meeting, a third meeting may be called subject to the giving of proper notice and there shall be no quorum requirement for such third meeting. Unless otherwise provided, any reference hereafter to "votes cast at a duly called meeting" shall be construed to be subject to the quorum requirements established by this ARTICLE I, Section 7, and any other requirements for such "duly called meeting" which may be established by the By-Laws of the Association. This provision shall not apply when the proposed action is the amendment of this Declaration and the quorum requirement established by Part Four, ARTICLE II, Section 2 shall govern in that instance. For the purpose of this Section 7, "proper notice" shall be deemed to be given when given each Member not less than thirty (30) days prior to the date of the meeting at which any proposed action is to be considered.

Section 8. Proxies. All Members of the Association may vote and transact business at any meeting of the Association by proxy authorized in writing; provided, however, that proxies shall not be required for any action which is subject to a Referendum, in which case the votes of all the Members polled shall be made by specially provided ballots mailed to the Association.

ARTICLE II PROPERTY RIGHTS IN THE COMMON PROPERTIES

Section 1. Members' Easement of Enjoyment in Common Properties. Subject to the provisions of these Covenants, the rules and regulations of the Association, and any fees or charges established by the Association, every Member and every tenant and guest of such Member shall have a right of easement of enjoyment in and to the Common Properties and such easement shall be appurtenant to and shall pass with the title of every Residential Lot and Dwelling Unit.

Section 2. Title to Common Properties. The Company Covenants for itself, its successors and assigns, that it shall convey to the Association, at no cost to the Association, by limited warranty deed, those parcels of land which include the roads described in Section 4 of this ARTICLE II, within two (2) years after the Company has completed improvements thereon, if such be required. Upon such conveyance, or upon completion of any improvements thereon by the Company, if such be required, such that the roads are functionally complete, the Association shall immediately become responsible for all maintenance, operation and

such additional construction of improvements as may be authorized by the Association's Board of Directors. It is the purpose of this provision to provide that the Association shall be responsible for all maintenance of Common Properties upon which all improvements required to be made by the Company have been completed, notwithstanding the fact that the Company is not obligated to convey or lease such properties to the Association until two (2) years after such improvements have been completed thereon.

Roads, natural areas and wetlands shall be conveyed in large or small parcels from time to time after the Company has completed the surveying and platting of all adjacent subdivisions for single-family detached Dwelling Units which may abut such roads, natural areas and wetlands. The Company covenants for itself, its successors and assigns, that it shall convey by deed to the Association all such properties within two (2) years of notification to all Members of the Association, in writing, of its intent to convey such properties; provided, however, that in the case of Common Properties upon which improvements are required to be made by the Company, such notification of "intent to convey" shall not be deemed to be made until such time as the improvements have been completed such that the facility is functionally complete. Such notification will not normally show metes and bounds and, in any event, the metes and bounds as shown on the recorded plat and deed to the Association shall govern. All said parcels of land may be conveyed to the Association subject to: (1) all restrictive covenants of record at the time of the conveyance, including but by no means limited to this Declaration; (2) all existing mortgages (but the Association shall not be responsible for the payments due pursuant to such mortgages); and (3) a reservation by the Company of the right to substitute or add new mortgages thereon; provided, however, that in no event shall the Association be obligated to assume the payment of principal or interest on any such mortgages. Notwithstanding anything in the foregoing to the contrary, the Company shall not be required to convey the above-referred-to parcels where such conveyance would be prohibited under agreements existing on the date hereof but, in such case, shall be allowed to postpone such conveyance, without penalty, until such time as said prohibition may be nullified.

Section 3. Extent of Members' Easement. The rights and easements of enjoyment created hereby shall be subject to the following:

(a) the right of the Association, in accordance with its By-laws, to borrow money from the Company or any other lender for the purpose of improving and/or maintaining the Common Properties, and providing services authorized herein and in aid thereof to mortgage said properties; and

(b) the right of the Association to take such steps as are reasonably necessary to protect the above-described properties against foreclosures; and

(c) the right of the Association, as provided in its Bylaws, to suspend the rights and easements of enjoyment of any Member, or any Tenant or Guest of any Member, for any period during which the payment of any assessment against property owned by such Member remains delinquent, and for any period not to exceed sixty (60) days for any infraction of its published rules and regulations, it being understood that any suspension for either non-payment of any assessment or a breach of the rules and regulations of the Association shall not constitute a waiver or discharge of the Member's obligation to pay the assessment, and provided that the Association shall not suspend the right to use the roads belonging to the Association, if applicable, subject to the rules, regulations and fees, if any, established by the Association for such use; and

(d) the right of the Association to charge reasonable admission and other fees for the use of the Common Properties, and any facilities included therein; and

(e) in the event that the Association is deeded the roadways to own and maintain, the Board of Directors of the Association shall have the power to place any reasonable restrictions upon the use of the Association's roadways, subject to a Member's right of ingress and egress, including but not limited to the types and sizes of vehicles permitted to use said roads, the maximum and minimum speeds of vehicles using said road, all other necessary traffic and parking regulations, and the maximum noise levels of vehicles using said roads. The fact that such restrictions on the use of the roads shall be more restrictive than the laws of any state or local government having jurisdiction over the Property shall not make such restrictions unreasonable. The Member's easement shall likewise be subject to the provisions of Part Two, ARTICLE I, Section 29 hereof; and

(f) the right of the Company or the Association by its Board of Directors to dedicate or transfer to any public or private utility, utility easements on any part of the Common Properties; and

(g) the right of the Association to give or sell all or any part of the Common Properties, including leasehold interests, to any public agency, authority, public service district, utility or private concern for such purposes and subject to such conditions as may be agreed to by the Members, provided that no such gift or sale or determination as to the purposes or as to the conditions thereof shall be effective unless such dedication, transfers and determinations as to purposes

and conditions shall be authorized by the affirmative vote of three-fourths (3/4) of the votes cast at a duly called meeting of the Association, subject to the quorum requirements established by Part Four, ARTICLE II, Section 2, and unless written notice of the meeting and of the proposed agreement and action thereunder is sent to every Member of the Association at least thirty (30) days prior to such meeting. A true copy of such resolution together with a certificate of the results of the vote taken thereon shall be made and acknowledged by the President or Vice President and Secretary or Assistant Secretary of the Association and such certificate shall be annexed to any instrument of dedication or transfer affecting the Common Properties prior to the recording thereof. Such certificates shall be conclusive evidence of authorization by the membership; and

(h) the rights of reversion of the Lessor of any Common Properties leased by the Association upon expiration of the lease.

Section 4. Transfers to Association. The Company covenants for itself, its successors or assigns, that, upon the sale of ninety (90%) percent of the Residential Lots or Dwelling Unit planned for Palm Key Plantation as now constituted or as hereafter enlarged by annexation as herein provided, but not later than December 31, 1999, it shall convey to the Association by limited warranty deed those properties designated on the Partnership's Master Plan or in the deeds conveying such properties as "Common Properties," including the properties listed hereinafter. Such conveyances shall be subject to all the restrictions and limitations of the various Parts and Articles of this Declaration, and any other restrictions, reservations and limitations of record. The properties consist of the community roads and rights-of-way thereof within the properties which connect all Residential Lots and Dwelling Units to the highways of Jasper County or the State of South Carolina, as such roads and rights-of-way are completed, but only to the extent that such roadways are not transferred to Jasper County's or to the State of South Carolina's control, and the easement rights over any common-use trails as designated on the Master Plan to be contained within Palm Key Plantation.

ARTICLE III COVENANTS FOR MAINTENANCE ASSESSMENTS

Section 1. Creation of the Lien and Personal Obligations of Assessments. The Company covenants, and each Owner of any Residential Lot and Dwelling Unit, whether or not it shall be so expressed in any such deed or other conveyance, shall be deemed to covenant and agree to all the terms and provisions of this Declaration and to pay to the Association: (1) annual assessments

or charges; and (2) special assessments or charges for the purposes set forth in this ARTICLE III, such assessments to be fixed, established and collected from time to time as hereinafter provided. The annual and special assessments together with such interest thereon and costs of collection therefor as hereinafter provided, shall be a charge and continuing lien on the real property and improvements thereon against which each such assessment is made. Each such assessment, together with such interest thereon and cost of collection thereof as hereinafter provided, shall also be the personal obligation of the person or entity which was the Owner of such real property at the time when the assessment first became due and payable. In the case of co-ownership of a Residential Lot or Dwelling Unit, all of such co-owners shall be jointly and severally liable for the entire amount of the assessment.

Section 2. Purpose of Assessments. The annual assessments levied by the Association shall be used exclusively for the improvement, maintenance, enhancement, enlargement and operation of the Common Properties, and to provide services which the Association is required or authorized to provide. In carrying out these duties, the Association may make payment of taxes and insurance thereon, make improvements on Common Properties, pay the cost of labor, equipment, materials, management, supervision, accounting, and Member information services, maintain offices and equipment, repay any loans made to the Association, and take such other action as is necessary to carry out its required or authorized functions.

Section 3. Application of "Minimum" and "Maximum" Assessment. The minimum annual assessment, as set forth in the schedule hereinbelow, shall be levied by the Association unless the Board of the Association, by unanimous vote, determines that the important and essential functions of the Association may be properly funded only by an assessment above the minimum but not more than the applicable maximum regular assessment, as set forth in the schedule hereinbelow. If the Board of Directors shall levy the applicable minimum assessment for any assessment year and thereafter, during such assessment year, determine that the important and essential functions of the Association cannot be funded by the minimum assessment, the Board may, by unanimous decision, levy a supplemental assessment but in no event shall the sum of the minimum and supplemental regular annual assessments for that year exceed the applicable maximum regular assessments.

For the purposes of this Section 3, the term "supplemental assessment" shall mean any assessment in excess of the amount reflected in the schedule below as the applicable "minimum regular assessment" for such type of property, up to the amount reflected as the "maximum regular assessment" for such type of property.

The annual assessment minimum and maximum amounts shall be the sums calculated in accordance with the following schedule

as may be increased in each instance by an inflation adjuster as set forth in this Part Three, ARTICLE III, Section 3(c) hereinbelow.

(a) Residential Lots

Minimum Regular
Annual Assessment

Maximum Regular
Annual Assessment

\$120.00

\$ 180.00

Property shall not be classified for purposes of these Covenants and these annual assessments as a Residential Lot, whether conveyed to the purchaser by the Company, or held by the Company in its own inventory, until the first day of the first month after all of the following have been accomplished and the Property has been conveyed:

(1) recording of a plat in the Office of the Clerk of Court for Jasper County, South Carolina, showing such Residential Lot;

(2) a contract has been let by the Company, its successor or assigns or licensee, for the installation of water, paving and sewage facilities within one hundred (100') feet of the lot line of such Residential Lot.

(b) Dwelling Units

Minimum Regular
Annual Assessment

Maximum Regular
Annual Assessment

\$240.00

\$360.00

Property shall not be classified for purposes of these Covenants and those annual assessments as a Dwelling Unit until roof and windows have been installed, and assessment and the improved property rate shall begin on the next January 1st thereafter.

(c) After January 1, 1992, the Board of Directors may increase the minimum and maximum annual assessments on a one-time basis if the Board, after analysis of the operating revenues and expenses for calendar year 1991 and an analysis of projected revenue and expenses for the next five (5) years, determines by at least a two-thirds vote that a higher minimum and maximum annual assessment shall be required to establish an economically viable base of operation for the Association. Any such increase shall be made in a proportionate manner as hereinafter provided. From and after January 1, 1993, the minimum and maximum annual assessment may be increased each year by the Board of Directors of the Association by an amount not in excess of five (5%) percent per year, or the

percentage increase between the first month and the last month on an annual assessment period in the Consumer Price Index, U.S. City Average, All Items (1967-100) (hereafter "C.P.I.") issued by the U.S. City Average, Labor Statistics in its monthly report entitled "The Consumer Price Index, U.S. City Average and Selected Areas" whichever of these two percentage figures is larger, unless three-fourths (3/4) of the votes cast at a duly called meeting of the Association, subject to the quorum requirement established by Part Three, ARTICLE II, Section 2 hereof, vote against such increase or vote to increase said annual assessment by a greater amount or to decrease the minimum and maximum annual assessment. In the event that the C.P.I. referred to above shall be discontinued, there shall be used the most similar index published by the United States Government that may be procured indicating changes in the cost of living.

In the event the Board does not increase the minimum and maximum annual assessment in a given year, or increases it in an amount less than that which is authorized by this Section 3, Paragraph (e), the Board shall be deemed to have reserved the right and shall be authorized in subsequent years to implement that reserved portion of the authorized but unexercised authority to increase said assessment but any application of same may only be given prospective application. As an illustration, if the Board was authorized to increase the minimum and maximum by five (5%) percent in years 1993 and 1994 but chose not to impose such increases, it could increase the minimum and maximum in 1995 by the amount applicable for 1993 plus up to ten (10%) percent, for levy in 1995.

The Board of Directors of the Association may by unanimous decision, after consideration of current costs and future needs of the Association, fix the annual regular assessment for any year at an amount less than the applicable minimum regular annual assessment, but such action shall not constitute a waiver by the Association of its right to revert to the full minimum regular assessment in subsequent years. However, if the Board of Directors fixes such regular annual assessment at an amount less than the minimum and it subsequently is determined by the Board that the amount assessed will not be sufficient, the Board shall have the power to make a supplemental regular annual assessment, but in no event shall the sum of the initial and supplemental regular annual assessments in any one year exceed the applicable maximum regular assessment. Moreover, supplemental regular annual assessments of this type may not be assessed for any year prior to the year in which such supplemental annual assessments is levied.

Any increase or decrease in the fixed amount of the annual maximum or minimum regular assessment shall be made in such a manner that the proportionate increase or decrease in such maximum or minimum assessment is the same for Owners of Residential Lots and Dwelling Units, and likewise any time the actual

assessment levied by the Board of Directors of the Association is less than the minimum regular annual assessment such decrease shall be apportioned among the Owners of Residential Lots and Dwelling Units, such that the proportionate decrease received by each class of Owners of the various classes of the property may be altered only by the favorable vote of ninety (90%) percent of the votes cast at a duly called meeting of the Association, subject to the quorum requirements established by Part Three, ARTICLE I, Section 7 hereof, and by ninety (90%) percent of the votes cast at said meeting by the Members of the classes whose proportionate share is being altered.

Section 4. Special Assessments for Improvements and Additions. In addition to the annual regular minimum and maximum assessments authorized by Section 3 hereinabove, the Association may levy special assessments, for the purpose of construction or reconstruction, repair or replacement of capital improvements upon the Common Properties, including the necessary fixtures and personal property related thereto, or for additions to the Common Properties or to provide for the necessary facilities and equipment to offer the services authorized herein, and repay any loan made to the Association to enable it to perform the duties and functions authorized herein, provided that such assessment; shall have received the assent of a majority of the votes of the Members responding to a mail Referendum within thirty (30) days of mailing, with such mail Referendum to include a statement prepared by the Directors of the Association favoring such assessments stating the reasons therefor, together with a statement prepared by the Directors dissenting from such assessment; provided, however, that neither of such statements may exceed a maximum length of five (5) pages on each proposed assessment. This provision shall be interpreted to mean that the Association may make in any one year an annual assessment up to the maximum set forth in Section 3 of this ARTICLE III, plus an additional special assessment which additional special assessment may not exceed the amount set for the maximum annual assessment on any particular class or type property. The fact that the Association has made an annual assessment for an amount up to the permitted maximum shall not affect its right to make a special assessment during the year.

The proportion of each special assessment to be paid by the Owners of the various classifications of assessable property shall be equal to the sum of the total applicable regular maximum assessments of all property in that class, for the assessment year during which such special assessments are approved, expressed as a percentage of the sum of the total applicable maximum regular assessments on all property within the Property for the year during which such assessment is approved. Such special assessment in any one year may not exceed a sum equal to the amount of the maximum annual assessment for such year except for emergency and other repairs required as a result of storm, fire, natural disaster or other casualty loss.

Section 5. Reserve Fund. The Association shall establish a reserve fund from its regular annual assessments to be held in reserve in an interest drawing account or investments as a reserve for (a) major rehabilitation or major repairs or replacements of improvements, and (b) for emergency and other repairs required as a result of storm, fire, natural disaster or other casualty loss. Such fund shall not exceed ten (10%) percent of its receipts from the regular annual assessments in each year. Moreover, the total of said reserve shall not exceed in the aggregate a sum equal to one hundred (100%) percent of the annual Association budget without approval of the Members in the same manner as specified for approval of special assessments for additions and improvements.

Section 6. Change in Minimum and Maximum Amounts of Annual Assessments Upon Merger or Consolidation. The limitations of Section 3 hereof shall apply to any merger or consolidation in which the Association is authorized to participate under Part One, ARTICLE II, Section 3, hereof, and under the By-laws of the Association.

Section 7. Quorum for any Action Authorized Under This ARTICLE. The quorum required for any action authorized to be taken by the Association Members under this ARTICLE III shall be as follows:

The first time any meeting of the members of the Association is called to take action under this ARTICLE III, the presence at the meeting of Members or proxies entitled to cast sixty (60%) percent of the total vote of the Membership shall constitute a quorum. If the required quorum is not forthcoming at any such meeting, a second meeting may be called subject to the giving of proper notice and the required quorum at such subsequent meeting shall be the presence of Members or proxies entitled to cast twenty-five (25%) percent of the total vote of the membership of the Association.

Section 8. Annual Assessments Determination Date and Due Date. Unless otherwise provided herein, property shall be assessed according to its character as of January 1 of the assessment year, i.e., Residential Lot or Dwelling Unit.

Beginning with the year 1991 and thereafter, the annual assessment shall be made for the calendar year in advance and shall become due and payable within sixty (60) days after the amount of such assessment is fixed by the Board of Directors of the Association. The Board of Directors of the Association shall have the power to change the date upon which annual assessments become due and payable and also to determine the method of payment of annual assessments, i.e., lump sum, monthly installments, quarterly, etc.; provided, however, that the annual assessment shall be due and payable at least annually and provided further that the Association shall permit a Member to elect to pay the

annual assessment in equal monthly installments on terms that are not more than a total of ten (10%) percent greater than a possible discount lump sum payment.

In any instance where assessments, either in whole or in part, are based upon percentages of gross revenues as stated herein, such assessments for the coming year shall be based upon the revenues produced through December 31st of the preceding year, whether for a full year or a fraction of a year.

Section 9. Duties of the Board of Directors. The Board of Directors of the Association shall fix the amount of the assessment against each Residential Lot and Dwelling Unit, within the minimum and maximum assessment range as provided hereinabove, and shall, at that time, direct the preparation of an index of the properties and assessments applicable thereto which shall be kept in the office of the Association and which shall be open to inspection by any Owner. Written notice of assessment shall thereupon be sent to every Owner subject thereto.

The Board of Directors shall not have authority to levy a special assessment above the maximum regular assessment unless such special assessment is approved by a Referendum relating thereto as herein provided.

The Association shall upon demand at any time furnish to any Owner liable for said assessment a certificate in writing signed by an officer of the Association setting forth whether said assessment has been paid. Such certificate shall be conclusive evidence against all but the Owner of payment of any assessment therein stated to have been paid.

Section 10. Effect of Non-Payment of Assessment; Personal Obligation of Owner; Lien; Remedies of Association. If the assessment is not paid on or before the past-due date specified in Section 8 hereof, then such assessment shall become delinquent and shall, together with a late charge thereon at the rate of one and one-half (1½%) percent per month from the due date and cost of collection thereof as hereinafter provided, thereupon become a charge and continuing lien on the land and all improvements thereon, against which each such assessment is made, in the hands of the then Owner, his heirs, devisees, personal representatives and assigns. The personal obligation of the Owner at the time when the assessment first became due and payable to pay such assessment, however, shall remain his personal obligation and shall not pass as a personal obligation to his successors-in-title unless expressly assumed by them.

If the assessment is not paid within thirty (30) days after the past due date, the Association may bring an action at law against the Owner personally and there shall be added to the amount of such assessment the late charges hereinabove specified until judgment, the costs of preparing and filing the complaint in such action, and in the event a judgment is obtained, such judgment

shall include interest on the assessment at the rate of eighteen (18%) percent per annum or the maximum lawful rate on such judgments and a reasonable attorney's fee to be fixed by the court together with the costs of the action.

In addition to the rights of action set forth above, the Board of the Association may suspend the membership rights of any Member during the period when the assessment remains unpaid. Upon payment of such assessment and late charges, etc., the Owner's rights and privileges shall be automatically restored. This provision shall not empower the Board to suspend the rights to use the roads within the Property.

Section 11. Subordination of Lien to Mortgages. The lien of the assessments provided for herein shall be subordinate to the lien of any mortgage or mortgages now or hereafter placed upon the properties subject to assessment; provided, however, that such subordination shall apply only to the assessments which have become due and payable prior to a sale or transfer of such property pursuant to a decree of foreclosure, or any other proceeding or deed in lieu of foreclosure and, provided, further, that any delinquent assessments which are extinguished pursuant to the foregoing provision may be reallocated and assessed to all Members as an expense of the Association. Such sale or transfer shall not relieve such property from liability for any assessments accruing after conveyance by mortgagee to a subsequent Owner; provided, however, that the mortgagee shall not be liable for assessments until it has held title to the property for more than one (1) year.

Section 12. Exempt Property. The following property, individuals, partnerships or corporations, subject to this Declaration shall be exempted from the assessment, charge and lien created herein:

(a) the grantee in conveyances made for the purpose of granting utility easements; and

(b) all Common Properties as defined in Part One, ARTICLE I, Section 1, hereof.

Section 13. Annual Statements. The President, Treasurer, or such other officer as may have custody of the funds of the Association shall annually, within ninety (90) days after the close of the fiscal year of the Association, prepare and execute under oath a general itemized statement showing the actual assets and liabilities of the Association at the close of such fiscal year, and a statement of revenues, costs and expenses. It shall be necessary to set out in the statement the name of any creditor of the Association; provided; however, that this requirement shall be construed to apply only to creditors of more than One Thousand (\$1,000) Dollars. Such officer shall furnish to each Member of the Association and any holder of a first mortgage on any Dwelling Unit who may make request therefor in writing, a copy of such statement within thirty (30) days after receipt of

such request. Such copy may be furnished to the Member or mortgage holder either in person or by mail.

ARTICLE IV
FUNCTIONS OF ASSOCIATION

Section 1. Ownership and Maintenance of Common Properties. The Association shall be authorized to own and maintain Common Properties, equipment, furnishings, and improvements devoted to the following uses:

(a) for roads or roadways, if any, provided they are not transferred to Jasper County or the State of South Carolina's control;

(b) for providing any of the services which the Association is authorized to offer under Section 2 of this ARTICLE IV;

(c) for purposes set out in deeds or long-term leases by which Common Properties are conveyed or leased to the Association, provided that such purposes shall be approved by the Members of the Association as set out in Section 3 of this ARTICLE IV; and

(d) for water and sewage facilities and any other utilities, if not provided by a private utility or public or municipal water and sewer authority.

Section 2. Authorized Services. The Association shall be authorized but not required to provide the following services:

(a) cleanup and maintenance of all roads, roadways (to the extent that it is necessary or desirable in the judgment of the Board of Directors of the Association to supplement the service provided by the State and local government, if applicable) and clean up and maintenance of other Common Properties within the Property and also all public properties which are located within or in a reasonable proximity to the Property such that their deterioration would affect the appearance of the Property as a whole;

(b) landscaping of roads and any other Common Properties;

(c) lighting of roads throughout the Property;

(d) insect and pest control to the extent that it is necessary or desirable in the judgment of the Board of Directors of the Association to supplement the service provided by the state and local governments;

(e) the services necessary or desirable in the judgment of the Board of Directors of the Association to carry out the Association's obligations and business under the terms of this document;

(f) to take any and all actions necessary to enforce all covenants and restrictions affecting the Property and to perform any of the functions or services delegated to the Association in any covenants or restrictions applicable to the Property;

(g) to set up and operate an architectural review board in the event that the Association is designated by the Company as the agent of the Company for such purpose;

(h) to construct improvements on Common Properties for use for any of the purposes or as may be required to provide the services as authorized in this ARTICLE;

(i) to provide administrative services including but not limited to: legal, accounting and financial; and communication services informing Members of activities, notice of meetings, referendums, etc., incident to the above-listed services; and

(j) to provide such level and method of security as the Association shall from time to time determine to be desirable and feasible.

In the event the Company is unable or unwilling to perform any of the services listed above in a manner satisfactory to the Board of Directors of the Association, the Association shall be and hereby is authorized to perform such services.

Section 3. Obligation of the Association. The Association shall not be obligated to carry out or offer any of the functions and services specified by the provisions of Sections 1 and 2 of this ARTICLE IV. Except as herein expressly mandated, the functions and services to be carried out or offered by the Association at any particular time shall be determined by the Board of Directors of the Association taking into consideration the funds available to the Association and the needs of the Members of the Association. Special assessments shall be submitted for referendum as herein provided. The functions and services which the Association is authorized to carry out or to provide, may be added or reduced at any time upon the affirmative vote of fifty-one (51%) percent or more of those voting in a Referendum of Type "A" and Type "B" Members conducted by the Board of Directors under the same procedures as for a special assessment.

Section 4. Mortgage and Pledge. The Board of Directors of the Association shall have the power and authority to borrow money for use by the Association and to mortgage the property of the Association and to pledge the revenues of the Association as

security for such loans made to the Association which loans shall be used by the Association in performing its authorized functions. The Company may, but shall not be obligated to, make loans to the Association, subject to approval by the Company of the use to which such loan proceeds will be put and the method by which such loans will be repaid and subject to a maximum of loan amount approved by the Company, at interest rates acceptable to the Company. Notwithstanding anything in this Declaration to the contrary, the Association shall not be allowed to reduce the limits of the minimum regular annual assessment at any time there is outstanding any amounts due the Company as repayment of any loans made by the Company to the Association.

Section 5. Contracts. The Association, prior to the passage of control from the Company to the Members as herein provided, shall not enter into any contracts or leases, including management contracts, which would bind the Association either directly or indirectly unless there is a right of termination of any such contract or lease, without cause, which is exercisable without penalty at any time after transfer of control of the Association from the Company to the Members, upon not more than ninety (90) days' notice to the other party to the contract or lease. This provision shall not be applicable to the Beaufort-Jasper Water and Sewer Authority contract which is discussed in this ARTICLE IV, Section 6 herein.

Section 6. Beaufort-Jasper Water and Sewer Authority. The Beaufort-Jasper Water and Sewer Authority shall own, maintain and operate the water and sewer distribution, collection and treatment system on Palm Key. The water and sewer system shall serve the Property, the Palm Key Club property and the Palm Key Inn property. A council shall be formed to handle water and sewer matters with the Beaufort-Jasper Water and Sewer Authority. The members of this council shall include the President of the Association, the President of the Palm Key Inn Homeowners' Association, Inc. and a representative of Palm Key Club. This council shall have the authority to negotiate with the Beaufort-Jasper Water and Sewer Authority and to enter into contracts with the Beaufort-Jasper Water and Sewer Authority which will bind the various associations.

Section 7. Working Capital. An additional function of the Association shall be to establish at the time of activation of the Association a working capital fund which shall collect at least two (2) months' assessments for each Lot or Dwelling Unit. Each Lot or Dwelling Unit's share of the working capital fund must be collected from the purchaser of the Lot or Dwelling Unit and transferred to the Association at the time of closing of the initial sale of each Lot or Dwelling Unit from the Company or other initial grantor. The working capital funds shall be maintained in an account for the use and benefit of the Association. The purpose of this fund is to insure that the Association Board will have cash available to meet unforeseen expenditures, or to acquire additional equipment or services deemed necessary or desirable. Amounts paid

into the fund are not to be considered as advanced payment of regular assessments.

Section 8. Information. It shall be the responsibility of the Association to make available to Owners and mortgage lenders making loans to Owners, and to holders, insurers or guarantors of any first mortgage on a Dwelling Unit within the Property, current copies of the Declaration, By-Laws, other rules and regulations relating to the Property, and the books, records and financial statements of the Association. "Available" shall mean available for inspection, upon request, during normal working hours or under other reasonable circumstances.

Section 9. Lenders' Notices. An additional function of the Association shall be to provide, upon written request to the Association, identifying the name and address of the holder, insurer or guarantor and the Lot or Dwelling Unit number or address, written notice to any mortgage holder, insurer or guarantor of any of the following matters:

(a) any condemnation or casualty loss that affects either a material portion of the Property or the Lot or Dwelling Unit securing its mortgage;

(b) any sixty-day delinquency in the payment of assessments or charges owed by the Owner of any Lot or Dwelling Unit on which the lender holds the mortgage;

(c) a lapse, cancellation or material modification or any insurance policy or fidelity bond maintained by the Association;

(d) any proposed action that requires the consent of a specified percentage of mortgage holders.

Section 10. Insurance Requirements. The Association shall at all times maintain in full force and effect liability insurance and fidelity bond coverage as hereinafter specified:

(a) Liability Insurance. The Association shall maintain a comprehensive general liability insurance policy covering all common areas, public ways and any other areas comprising the Common Properties which are under its supervision. The policy shall provide coverage in such amounts as the Board shall determine appropriate and feasible for bodily injury and property damage for a single occurrence. The liability insurance should provide coverage for the following:

(i) bodily injury and property damage that results from the operation, maintenance or use of the Common Properties, and any facilities thereon; and

(ii) any legal liability that results from lawsuits related to employment contracts in which the Association is a party.

The Association's liability policy shall provide for at least ten (10) days' written notice to the Association before the insurer can cancel or substantially modify the policy.

(b) Fidelity Bonds. The Association shall have blanket fidelity bonds for anyone who either handles or is responsible for funds held or administered by the Association, whether or not that person receives compensation for their services. Any management agent retained by the Association that handles funds for the Association shall also be covered by its own fidelity bond.

Except for fidelity bonds that a management agent obtains for its personnel, all other bonds shall name the Association as an obligee and shall have their premiums paid as a common expense by the Association.

The fidelity bond shall cover the maximum funds that will be in the custody of the Association or its management agent at any time while the bond is in force. Additionally, the fidelity bond coverage must at least equal the sum of three (3) months' assessments of Lots and Dwelling Units in the Property, plus the Association's reserve funds.

The bonds must include a provision that calls for ten (10) days' written notice to the Association before the bond can be cancelled or substantially modified for any reason. This same notice must also be given to each servicer that services a FNMA-owned mortgage in the Property provided the Association has been given notice from such servicer and a request for such notification.

(c) Other. The Association shall obtain and maintain such other insurance, if any, as is needed to prudently safeguard any real and personal property owned by the Association from time to time.

Section 11. Palm Key Club Membership. When the offering of memberships in the Palm Key Club commences, the Association shall become a member under a special membership category which makes membership rights in the Club available to all Members of the Association. To be eligible for active membership in the Club a Member of the Association must be the owner of a Dwelling Unit on which he is paying the Dwelling Unit rate of assessments as provided herein or must have voluntarily paid the higher Dwelling Unit assessment rate on his Residential Lot. The increased rate of assessments automatically includes a component for Club member use dues. This special category of Club membership shall be subject to the Rules and Regulations of the Club as they may be

promulgated from time to time. As it relates to the owners of the property described in Exhibit "B" who may elect to become subject to this Declaration as provided in Part One, ARTICLE II, Section 2, their right to access to this special club membership category shall be conditioned upon the payment of an initiation fee in the amount and upon the terms established by the Club from time to time for admission of members of the general public.

PART FOUR
GENERAL PROVISIONS

ARTICLE I
DURATION

The covenants and restrictions of this Declaration shall run with and bind the land, and shall inure to the benefit of and be enforceable by the Association, the Company or the Owner of any land subject to this Declaration, their respective legal representatives, heirs, successors, and assigns, for a period of twenty-five (25) years from the date this Declaration is recorded. Upon the expiration of said twenty-five-year (25) period this Declaration shall be automatically renewed and extended for successive ten-year (10) periods. The number of ten-year (10) renewal periods hereunder shall be unlimited with this Declaration being automatically renewed and extended upon the expiration of each ten-year (10) renewal period for an additional ten-year period; provided, however, that there shall be no renewal or extension of this Declaration if during the last year of the initial twenty-five-year (25) period, or during the last year of any subsequent ten-year (10) renewal, period three-fourths (3/4) of the votes cast at a duly held meeting of the Association vote in favor of terminating this Declaration at the end of its then current term. It shall be required that written notice of any meeting at which such a proposal to terminate this Declaration is to be considered, setting forth the fact that such a proposal will be considered, shall be given each Member at least thirty (30) days in advance of said meeting. In the event that the Association votes to terminate this Declaration, the President and Secretary of the Association shall execute a certificate which shall set forth the resolution of termination adopted by the Association, the date of the meeting of the Association at which such resolution was adopted, the date that notice of such meeting was given, the total number of votes of Members of the Association, the total number of votes required to constitute a quorum at a meeting of the Association, the number of votes necessary to adopt a resolution terminating the Declaration, the total number of votes cast in favor of such resolution, and the total number of votes cast against such resolution. Said certificate shall be recorded in the Office of the Register of Mesne Conveyances for Jasper County, South Carolina, and may be relied upon for the correctness of the facts contained therein as they relate to the termination of this Declaration.

ARTICLE II
AMENDMENTS

Section 1. Procedure for Corrective Amendments. The Company specifically reserves to itself, its successors and assigns, the right to amend this Declaration, or any portion thereof, on its own motion for a period of five (5) years from the date of the execution of this Declaration to correct typographical

errors and to eliminate scrivener's errors or omissions, so long as the voting power of existing Members is not diluted thereby, nor the amount of assessments of such existing Members raised or changed in any manner which would adversely affect such Members.

Section 2. Procedure for Other Amendments. The procedure for further amendment of this Declaration shall be as follows: All proposed amendments shall be submitted to a vote of the Members at a duly called meeting of the Association and any such proposed amendment shall be deemed approved if three-fourths (3/4) of the votes cast at such meeting vote in favor of such proposed amendment. Notice shall be given each Member at least thirty (30) days prior to the date of the meeting at which such proposed amendment is to be considered. If any proposed amendment to this Declaration is approved by the Members as set forth above, the President and Secretary of the Association shall execute an Addendum to this Declaration which shall set forth the amendment, the effective date of the amendment (which in no event shall be less than sixty (60) days after the date of the meeting of the Association at which such amendment was adopted), the date of the meeting of the Association at which such amendment was adopted, the date that notice of such meeting was given, the total number of votes necessary to adopt the amendment, and the total number of votes cast for and against the amendment. Such Addendum shall be recorded in the Office of the Register of Mesne Conveyances for Jasper County, South Carolina.

Section 3. Quorum Required for Amendment by Members. The quorum required for any action authorized to be taken by the Association under this ARTICLE II shall be as follows: the first time any meeting of the Members of the Association is called to take action under this ARTICLE II, the presence at the meeting of the Members or proxies entitled to cast sixty (60%) percent of the total vote of the Membership shall constitute a quorum. If the required quorum is not forthcoming at any such meeting, a second meeting may be called subject to the giving of proper notice and the required quorum at such subsequent meeting shall be the presence of Members or proxies entitled to cast fifty (50%) percent of the total vote of the Association.

Section 4. Limited Right of Amendment by Company. The Company reserves in each instance the right to add additional restrictive covenants to Part Two hereof in respect to lands conveyed in the future in Palm Key Plantation, or to limit therein the application of Part Two of these Covenants, provided that no limitations shall be made applicable to a portion of the Lots in a platted subdivision, with any limitations to this Declaration of Covenants to be applicable only as to subdivisions in which no parcels or Lots have been previously conveyed subject to this prior Declaration of Covenants.