



## COMPANY LAW

### CHAPTER ONE

#### GENERAL PROVISIONS

##### **Article 1. Purpose of the Law**

1.1. The purpose of this law is to regulate relations with respect to the establishment, registration and reorganization of a company, its management and organizational structure, supervisory structure, the rights and obligations of its shareholders, and its liquidation.

##### **Article 2. Scope of application of the law**

2.1. Unless otherwise specified in the law, all companies operating within the territory of Mongolia, irrespective of their form of ownership, the size of their property, the amount of their production, or their internal organization, shall be subject to this law.

2.2. Relations relating to establishing a company in and matters related to the specific activities of those companies in the sectors of banking, finance, insurance and securities shall be regulated by other laws, and general matters shall be regulated by this law, respectively.

2.3. The activities of companies established by means of privatization of state-owned enterprises shall be governed by this law, and relations with respect to the establishment of such companies shall be governed by the Law on State and Local Property<sup>1</sup>.

<sup>1</sup>Law on State and Local Property- published in the issue number 11 of the “State Bulletin”, 1996.

2.4. The procedure to exercise state and local property representation in companies with state and local property participation shall be governed by the Law on State and Local Property, and relations with respect to electing independent members of the Board of Directors, appointing the executive management, and with respect to the committees under the board of directors, secretary of the Board of Directors and their activities shall be governed by this law.

2.5. The activities of state and locally-owned companies established by means of reorganization of state-owned enterprises shall be governed by this law.

2.6. The owner of the state-owned company established as specified in article 2.5 of this law shall be the State Great Khural representing the state, and the local Citizens Representatives Meeting for local property-based companies, and the shareholders representing them may persons authorized by the Government and local citizens Representatives Meeting.

2.7. Relations with respect to establishing profit-seeking legal entities in forms other than companies, and their activities shall be governed by other laws.

**CHAPTER TWO**  
**LEGAL STATUS OF A COMPANY**

**Article 3. Company, its forms**

3.1. A legal entity whose capital invested by its shareholders is divided into numbers of shares, that has its own separate property, and that has as its primary purpose the making of profit shall be called a company.

3.2. Shares in a company represent ownership interests in the company, and do not represent respective ownership interests in the company's property.

3.3. The rights of shareholders are defined by this law and by the company charter; and the fundamental rights of a shareholder shall be to receive dividends, to participate in shareholder meetings, to vote on issues discussed at such meetings and, following the company's liquidation, to receive its share of the proceeds from the sale of assets of the company remaining after satisfaction of claims of creditors.

3.4. A company shall have the forms of limited liability company or public company.

3.5. A limited liability company is a company whose shareholders' capital is divided into shares, and the right to dispose of such shares is limited by the company charter.

3.6. The types of public company shall be open or closed.

3.7. An "open public company" is a company whose capital invested by the shareholders is divided into shares, which are registered at the securities trading organization and which may be freely traded by the public.

3.8. A "closed public company" is a company whose capital invested by the shareholders is divided into shares, which are registered at the securities depositing organization, and which are traded in the market in a closed extent outside of the securities trading organization.

**Article 4. Public company**

4.1. Unless otherwise specified by law, a shareholder of public company shall have the right to freely dispose of its shares without regard to the proposals of other shareholders.

4.2. If a shareholder of a public company has transferred his/her shares by means other than through the securities trading organization, such shareholder shall be obligated to register the transfer with the registrar of the securities registry of the company.

4.3. Unless otherwise provided in the company charter, a public company may issue shares and other securities through open or closed subscription.

4.4. A purchaser of additional shares issued on the basis of a closed subscription shall have the right to freely dispose of such shares.

4.5. The shareholders of a public company may enter into an agreement that mutually limits their rights to dispose of their shares.

**Article 5. Limited liability company**

5.1. The number of founders of a limited liability company shall not be more than fifty (50).

5.2. A limited liability company shall issue shares, options to acquire shares, and securities convertible into shares, only by means of closed subscription, and shall not issue securities to be offered to the public.

5.3. Unless otherwise provided in the company charter, shareholders of a limited liability company shall have the preemptive right to purchase shares, options to acquire shares, and securities convertible into shares, that are offered for sale by another shareholder at the price offered to a third party pro rata basisto the number of shares held by the shareholder pursuant to this law and the company charter.

5.4. A shareholder of a limited liability company offering to sell any of its shares to a third party shall notify the company of its offer and the company shall notify the other shareholders in writing of such offer.

5.5. The notice provided in article 5.4 of this law shall contain information concerning the number and class of shares offered for sale, the proposed sale price, the number of shares that may be acquired by the preemptive right, and the period and procedures of the sale.

5.6. A shareholder with a preemptive right to purchase shares shall notify the company in writing of its decision to exercise such right within the prescribed period.

5.7. The notice provided in article 5.6 of this law shall contain the father (mother)'s name, name and address of the shareholder, the number of shares to be purchased and the document confirming payment for such shares.

5.8. Unless otherwise provided in the company charter, a shareholder shall have the right to exercise its preemptive right to purchase shares offered for sale by another shareholder set forth in article 5.3 of this law, in whole or in part, or to transfer its right, in whole or in part, to another shareholder.

5.9. Unless otherwise provided in the company charter, if a shareholder does not exercise its preemptive right defined in article 5.3 of this law in whole within the prescribed period, the right shall be deemed to have been transferred to the company and the company shall issue its decision on whether to exercise such right within five (5) business days following the period specified in the notice set forth in article 5.4 of this law.

5.10. If the persons provided in article 5.3 and 5.9 of this law do not exercise their preemptive rights, the shareholder that is offering to sell its shares may sell its shares to a third party at a price no less than that specified in the notice provided in article 5.4 of this law.

5.11. The shareholder of a limited liability company has the right to obtain all information pertinent to the company and review financial and other documents.

**Article 6. subsidiary companies and group companies**

6.1. If 20-50 percent of the common shares issued by a company is owned by another (parent) company alone or in conjunction with its related parties, the company is deemed to be a controlled company.

6.2. A controlled company is a legal entity with independent financial statements.

6.3. If more than 51% of the common shares issued by an independent company is owned by another (parent) company alone or in conjunction with its related parties, the company is deemed to be a daughter company.

6.4. A daughter company shall have its own separate financial statements, and the parent company shall have consolidated financial statements that include the financial statements of the daughter company.

6.5. A controlled or daughter shall not be responsible for debts of its parent company and a parent company shall not be responsible for debts of its controlled or daughter companies, unless otherwise provided by an agreement between them.

6.6. If a daughter company becomes insolvent due to a decision of the parent company, the parent company shall be jointly responsible for the debt.

6.7. If it is deemed that the losses incurred by the daughter company is due to a decision of the parent company, the shareholder of the daughter company may claim at court for redress of such losses suffered by the daughter company by the parent company.

6.8. If a predominant or parent company is a controlled or daughter company of a third company, its controlled or daughter company shall be deemed to be a controlled or daughter company of the third company. This principle shall also be applicable to longer series of relationships.

6.9. A controlled or daughter company may own shares of its predominant or parent company.

6.10. Shares of a parent company owned by a daughter company set forth in article 6.9 of this law shall not have voting rights and shall not be considered as issued shares in determining a quorum of a shareholders meeting.

6.11. If shares set forth in article 6.9 of this law are transferred to a third party, all rights with respect to such shares shall be transferred to such third party

6.12. In cases other than to perform its obligations set by an agreement entered into for the purpose of coordinating its activities, the parent company shall participate in the activities of its controlled or subsidiary companies to the extent of the rights offered by the shares that it holds.

## Unofficial Translation

6.13. A group of companies [*coordinated companies.trans*] is a parent company and companies affiliated to the parent company as set forth in article 6.1, 6.3 and 6.8 of this law, a company of which the controlling shares are held by a single person or in conjunction with its related parties, or companies of which the decision of the management is possible to be determined.

6.14. Controlled or *daughter* companies of the same parent company, or companies holding controlling shares in conjunction with a single or related parties shall be called parallel companies.

6.15. A company that is part of a group of companies [*coordinated companies.trans*] shall be deemed a participating company in a group regardless of whether it is a parent company, controlled, daughter or parallel company.

### **Article. Branches and Representative Offices of a Company**

7.1. A branch of a company is a unit located in a place other than the place of business of company; and may perform the principal functions of the company, in whole or in part, and may also function as the company's representative office.

7.2. A representative office of a company is a unit located in a place other than the principal place of business of the company and shall conduct activities of legal representation such as undertake to protect the legal interests of the company and conclude transactions on behalf of the company.

7.3. A company may have branches or representative offices in Mongolia or in foreign countries.

7.4. Unless otherwise provided in the company charter, a decision to establish a branch or representative office shall be adopted by the Board of Directors (in its absence, a shareholders meeting).

7.5. A branch or representative office of a foreign legal entity in Mongolia shall be registered with the registration authority.

7.6. Unless otherwise provided in an international agreement to which Mongolia is a party, the establishment of a branch or representative office by a company in a foreign country shall be governed by the laws of such foreign country.

7.7. A branch or representative office of a company shall not be deemed to be a legal entity and shall conduct its activities in accordance with procedures adopted by the establishing company.

7.8. The assets of a branch or representative office shall be shown in the balance sheet of the company that established such branch or representative office.

7.9. A branch or representative office of a company shall conduct its activities on behalf of the company that established it.

7.10. The establishing company shall be responsible for the consequences ensuing from the activities of its branches and representative offices.

7.11. Unless otherwise specified in the company charter, the Board of Directors (in its absence, the executive management) shall appoint the management of its branches and representative offices and such executive shall act on the basis of a power of attorney from the company.

**Article 8. Activities and duration of a company**

8.1. A company may conduct any activity not prohibited by law and shall exercise rights and incur obligations necessary to conduct such activities.

8.2. A company may limit by its charter the activities that it may conduct.

8.3. The limitations set on the activities as set forth in article 8.2 of this law, shall not release of the company from its obligations to a third party conducting its activities within the law and who has dealt with the company in good faith without knowledge of such limitations.

8.4. A company shall conduct activities which require special permits on the basis of acquiring written permission from relevant authorities.

8.5. Unless otherwise provided in the company charter, a company shall be established for an indefinite duration.

**Article 9. Liabilities of a Company and its Shareholders**

9.1. The assets of a company consist of the property and property rights owned by the company and the company shall be liable to the extent of all of its assets.

9.2. A company is not liable for the obligations of its shareholders.

9.3. Shareholders shall not be liable for the obligations of the company and shall only be liable to the extent of their shares in the company.

9.4. A shareholder who, alone or in conjunction with its related party, holds more than ten percent (10%) of a company`s shares, or who otherwise has the power to control the management of the company, shall be liable to the extent of its own assets for any loss incurred by the company resulting from the faulty actions of such power.

9.5. If the property and property rights contributed to a company by a shareholder is not distinguished from the personal property and property rights of such shareholder, such shareholder shall be liable for the company`s liabilities by all property and property rights concurrently.

**Article 10. Proper name and place of business of a company**

10.1. A company shall have a proper name and for every time the proper name is used an acronym distinguishing the form of the company “XK” for public company and “XXK” for limited liability company shall follow.

10.2. A company`s proper name may not be identical to the proper name of another company or legal person, and upon registration of a company`s proper name with the registration authorities, the company shall have the exclusive right to use such name.

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10.3. A company may have its own symbol and trademark which shall be registered with the relevant registration authorities.

10.4. A company's place of business and postal address shall be determined by the place where its head office is located.

10.5. The company shall register the registration authorities of changes in the address of its principal place of business as set forth in the Law on State Registration of Legal Persons<sup>2</sup>.

<sup>2</sup> Law on the Registration of Legal Persons – published in issue number 22 of the “State Bulletin”, 2003.

### **CHAPTER THREE**

#### **ESTABLISHING A COMPANY**

##### **Article 11. Establishing a company**

11.1. A company may be established directly or by the reorganization of another legal person (merger, consolidation, division, separation, or transformation).

11.2. In the case of establishing a company created by means of privatization, the obligations of the founder shall be borne by the state and the sale and transfer of the shares shall be implemented as set forth in the Law on State and Local Property.

##### **Article 12. Founder of a company**

12.1. A founder of a company may be a citizen or legal person of Mongolia and, if provided by law, a foreign citizen or legal person, or a stateless person.

12.2. Shares issued by a company may be owned by a citizen or legal person of Mongolia, by a foreign citizen or legal person, or by a stateless person.

12.3. A company may have a single founder.

12.4. A founder of a company is not required to own shares of the company.

12.5. The State and its agencies may be a founder and a shareholder in the following cases:

12.5.1. a company that is created through privatization of a state or local -owned enterprise;

12.5.2. a state-owned company that is established by the reorganization of a state-owned enterprise;

12.5.3. a company that is deemed to be bankrupt in accordance with applicable laws, and whose shares the State has acquired in exchange for debts owed to the State by such company (In such case the State must sell such shares within a period of three (3) years);

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12.5.4. a company that is created jointly with a foreign legal person

12.5.5. other companies as permitted under the laws.

12.6. The founders of a company shall be jointly liable for expenses related to establishment and registration of the company.

12.7. A company may assume responsibility for expenses set forth in article 12.6 of this law if so resolved by the founders at the founding meeting, or by the Board of Directors of the company.

12.8. A founder who pays for expenses related to establishment of a company as set forth in article 12.6 and 12.7 of this law shall be entitled to receive reimbursement for such expenses from the other founders in proportion to the value of the shares owned or subscribed by such other founders, or to receive shares of value equal to such expenses.

12.9. A founder or shareholder of a company may be a founder or shareholder of another company.

### **Article 13. Establishing a new company**

13.1. A company shall be established by the decision of a founding meeting.

13.2. If a single person is establishing a company, such person shall issue a founding decision.

13.3. If a company is established by more than one founder, the founders may enter into a founders agreement and such agreement shall contain the procedure with respect to cooperation among the founders, the obligations of each founder, the classification, number, price, and date of purchase of each class of shares and other securities to be acquired by such founders, and any other matters deemed necessary.

13.4. The agreement set forth in article 13.3 of this law shall not be considered to be a founding document.

13.5. The following procedure shall be adhered to in establishing a new closed public company through means of an offering of shares to few persons (hereinafter "closed subscription"):

13.5.1. closed subscriptions shall be evidenced by a subscription form which shall contain the father (mother)'s name, name of the subscriber, the class, type, number and aggregate price of the shares, and the date of the subscription and the subscription shall be deemed to be valid upon signing by the subscriber or its authorized representative;

13.5.2. The aggregate value of all subscribed shares must be paid within thirty (30) business days following the closing date of the subscription period.

13.6. If, for any reason, a company is not established as of the date scheduled by the founding meeting, the founders shall return all advance payments made by each subscriber within fourteen (14) business days following such scheduled date of the founding meeting.

**Article 14. Founding Meeting of a Company**

14.1. The founding meeting of a company shall be convened by the founders.

14.2. The founders shall have equal votes at the founding meeting unless otherwise unanimously agreed by the founders.

14.3. The founders shall consider and decide the following matters at the founding meeting:

14.3.1. establishing the company;

14.3.2. company charter;

14.3.3. the number of authorized shares, the number of shares to be issued, and the price at which the founders may acquire these shares;

14.3.4. if the company has a Board of Directors, the election of its members and the salaries and bonuses to which each member will be entitled;

14.3.5. procedure for reimbursement of expenses incurred by the founders in connection with the establishment of the company;

14.3.6. the date by which all capital to be invested in the company must be paid.

14.4. Unless otherwise provided by the founders agreement, there shall be a quorum at the founding meeting if all the founders attend the meeting, and decisions made at the meeting shall be adopted by an super majority of votes of the founders attending the meeting.

14.5. The chairperson of the founding meeting shall be elected from among the founders attending the meeting.

14.6. If any founder proposes to pay for subscribed shares by non-monetary payment, the value of such non-monetary payment if deemed necessary shall be valuated by an evaluation agency or other qualified experts and shall be submitted for discussion at the founding meeting.

14.7. The value of property given as non-monetary payment for shares shall be unanimously approved by the participants in the founding meeting.

**Article 15. Registration of a company in the state registration**

15.1. The relevant documents shall be submitted for registration in the state registration within 30 days from the date of the decision to establish the company.

15.2. Relations in respect of registration of a company shall be regulated by law.

**Article 16. Company Charter**

16.1. A company charter is the basic founding document.

16.2. A company charter shall include:

16.2.1. the company`s full and abbreviated name and an acronym indicating the company`s form of organization;

16.2.2. the number, class, nominal price of the company`s authorized and issued common shares and the amount of capital invested;

16.2.3. if the company charter establishes preferred shares, the number of authorized preferred shares and rights of holders of such shares;

16.2.4. if the company has Board of Directors, the number of its members;

16.2.5. powers of the shareholders at a meeting of shareholders, and of the Board of Directors or Supervisory Board, other than that specified in this law;

16.2.6. the type of business to be conducted by the company;

16.2.7. other provisions to be reflected in the company charter as set forth in this law.

16.3. Other matters do not conflict with the Civil Code<sup>3</sup> or other applicable laws may be provided in the company charter.

<sup>3</sup> Civil Code- published in issue number 7 of the “State Bulletin”, 2002.

16.4. Upon demand of a shareholder, a company must provide such shareholder with a copy of the charter, including all amendments.

**Article 17. Approval and Registration of Amendments to a Company Charter or of a New Version of a Company Charter**

17.1. Amendments to a company charter, or adoption of a new version of the charter, must be approved at a meeting of shareholders by an super majority of the shares held by shareholders eligible to vote who attend the meeting

17.2. Shareholders whose rights are breached or otherwise limited as a result of amendments to the company charter, or the adoption of a new version of the charter, and who voted against such amendment or adoption, or who did not participate in the voting with respect thereto, have a right to demand redemption of their shares by the company in accordance with the provisions of articles 54 and 55 of this law.

17.3. The following documents shall be submitted for the registration of amendments to a company charter, or a new version of the charter:

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17.3.1. An application for registration of amendments to the company charter, or a new version of the charter, signed by an authorized person of the company;

17.3.2. the decision adopted by the shareholders meeting to amend the charter, or to adopt a new version of the charter, together with the text of the amendments or new version of the charter;

17.3.3. a copy of the company charter;

17.3.4. a document confirming payment of the registration fee.

17.4. Within ten (10) business days following the adoption of a resolution to amend or adopt a new version a company charter, such amendments or new version shall be registered in the state registration in accordance with the procedures specified by law.

17.5. Within three (3) business days following the date of submission of the documents specified in article 17.3, the decision stating the basis for its acceptance or refusal to register such amendments or new version of the charter shall be issued by the registration authority.

17.6. The registration of amendments to a company charter, or a new version of the charter shall be denied if such amendments or such version of the charter fail to satisfy the requirements set forth in article 17.3 of this law.

17.7. Within three (3) business days following the denial to register as set forth in article 17.6 of this law, the registration authority shall send a written notice stating the basis for such refusal to the company`s postal address specified in the application.

17.8. If the company does not agree with the decision of the registration authority set forth in article 17.6 of this law, it may appeal to the courts.

17.9. Amendments to a company charter, or a new version of the charter shall become effective upon registration with the registration authority.

### **CHAPTER FOUR**

### **REORGANIZATION AND LIQUIDATION OF A COMPANY AND DEBT-FOR-SHARE EXCHANGES**

#### **Article 18. Reorganization of a Company**

18.1. A company may be reorganized by consolidation, merger, division, separation, or transformation pursuant to resolutions adopted at shareholder meetings in accordance with procedures established by this law.

18.2. If provided by law, a company may also be reorganized by division or separation pursuant to a court order

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18.3. Except for reorganization by merger, a company shall be deemed to be reorganized as of the date of registration of the reorganized company in the state registration.

18.4. If a company is reorganized by merger, such company shall be deemed reorganized as of the date that the state registration registers the termination of the merged company and, if there are changes in the charter of the merging (surviving) company, registration of such changes.

18.5. Within fifteen (15) business days following the date of adoption of a reorganization resolution, the reorganised company shall notify its creditors and other persons with whom it has business dealings in writing of the reorganization and such notice shall contain the following information:

18.5.1. the form of reorganization;

18.5.2. the name and business address of each reorganized company and, that of any new company created by the reorganization;

18.5.3. the date of adoption of the resolution to reorganize;

18.5.4. in the case of reorganization by division or separation, the pro-forma balance sheets of each company that is a party to the reorganization.

18.6. A public company shall notify the Financial Regulatory Committee and the securities trading organization of the decision to reorganize or within three (3) business days following adoption of such decision.

### **Article 19. Consolidation of Companies**

19.1. Consolidation of companies means termination of the legal status of two or more companies and the transfer of the rights, obligations and liabilities of such companies to a newly established company.

19.2. The Board of Directors (in its absence, the executive body) of each company participating in the consolidation shall submit to shareholder meetings of each company for consideration, a draft resolution of consolidation, an agreement containing the terms and conditions and procedures to be followed with respect to the consolidation, the charter of the new company to be formed by the consolidation, and proposed procedures for converting securities of each company into securities or other property of the new consolidated company.

19.3. The decision of consolidation and the consolidation agreement must be adopted by an overwhelming majority of the votes of shareholders eligible to vote who attend the meetings of each company.

19.4. The consolidation agreement shall specify the shares, date and place of the shareholders meeting of the new company to be held following the consolidation.

19.5. The shareholders meeting shall adopt the charter of the consolidated company and, if the consolidated company is to have a Board of Directors, its members.

## Unofficial Translation

19.6. The voting rights of the shareholders attending the shareholders meeting shall be equal to the converted voting rights defined by the agreement set forth in article 19.2 of this law.

### **Article 20. Merger of companies**

20.1. A merger of companies means termination of the activities of one company and transfer of the rights, obligations and liabilities of such company to another company.

20.2. The Board of Directors (in its absence, the executive body) of each company participating in a merger shall submit to shareholder meetings of each company for consideration, a draft resolution of merger, and an agreement of merger.

20.3. The agreement set forth in article 20.3 of this law shall contain the terms and conditions and procedures to be followed with respect to the proposed merger, and procedures for converting securities of the merged company into securities or other property of the merging (surviving) company.

20.4. The merger resolution and the merger agreement shall be adopted by an overwhelming majority of votes of shareholders eligible to vote who attend the meetings set forth in article 20.2 of this law.

20.5. If, prior to a proposed merger, the merging (surviving) company owns more than seventy-five percent (75%) of the issued and outstanding common shares of the company to be merged, and if it is deemed unnecessary to amend the charter of the merging (surviving) company, the Board of Directors (in its absence, the shareholders meeting) of the merging company may adopt a resolution of merger and determine the procedures to be followed in giving effect to the merger.

### **Article 21. Division of a company**

21.1. Division of a company means termination of the activities of a company and transfer of the rights and obligations of such company to two or more newly established companies.

21.2. Unless otherwise provided in the resolution of division, holders of common shares of a divided company shall be deemed to be holders of common shares of each newly established company in the same proportions as their holdings of common shares of the divided company.

21.3. The Board of directors (in its absence, the executive body) of a company being divided shall submit to a meeting of its shareholders pro-forma balance sheets for each new company and the company to be divided, and proposed procedures for converting the divided company's securities into securities or other property of the new companies, and the resolution and proposed procedures must be adopted by an overwhelming majority of votes of the shareholders eligible to vote who attend the meeting.

21.4. The shareholders meeting of each new company established by the division shall adopt a new charter for each respective company, and if the company has a Board of Directors, shall elect members of such Board.

21.5. The specific procedure for holding the meetings set forth in article 21.4 of this law shall be specified in the decision to reorganize through division.

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21.6. Effective as of the division of a company, its rights and obligations shall be transferred to the newly established companies as specified in the pro-forma balance sheets.

21.7. Unless otherwise provided in the division agreement, each newly established company shall be concurrently liable for obligations of the other companies established by the division.

### **Article 22. Separation of a company**

22.1. Separation of a company means transfer of part of the assets and rights of the company to a newly established company, without termination of the activities of the transferring company.

22.2. In the case of a reorganization by separation, the reorganized company shall become the holder of all the shares of the newly established company or companies.

22.3. The Board of Directors (in its absence, the executive body) of reorganized company shall adopt a decision that includes the conditions and procedures to be followed with respect to the separation, the pro-forma balance sheets for the separating company and on the newly established company.

22.4. The shareholder meetings of each newly created company set forth in article 22.1 of this law must approve the charter of each of the respective companies and, if any such company is to have a Board of Directors, its members.

22.5. A company that reorganizes by separation remains liable for all of its debts.

22.6. The pro-forma separation balance sheets may specify debts to be assumed by each of the newly established companies as set forth in article 22.1 of this law.

22.7. In the case the debt is to be assumed as set forth in article 22.6 of this law, the reorganizing company remains jointly liable with such companies for such transferred liabilities.

22.8. All or part of the securities of the company newly established through separation issued by such company to the reorganized company may be transferred based on the provisions of Chapter Seven (7) of this law to the shareholders of the reorganized company as a dividend.

### **Article 23. Transformation of a Company**

23.1. The form of a company may be changed by transforming a public into a limited liability company, and a limited liability company into a public company.

23.2. The proposal to transform the company as set forth in article 23.1 of this law shall be submitted to a meeting of its shareholders for consideration by the Board of Directors (in its absence, the executive body), and such proposal shall be adopted

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by an overwhelming majority of votes of shareholders eligible to vote who attend the meeting.

23.3. The proposal set forth in article 23.2 of this law shall specify the purpose, conditions and procedures to be followed with respect to the transformation, date/duration, the procedures to be followed with respect to conversion of old securities for new securities, and the date for the holding of a shareholders meeting.

23.4. If the authorized person set forth in article 60.1 of this law deems necessary, such person may provide for the convening of a shareholders meeting of the transformed company in accordance with the procedures provided in the law, where a new version of the company charter and the governing body of the company may be adopted and approved, which shall be reflected in the proposal to transform the company.

23.5. All of its rights and obligations shall be deemed to have been transferred to the transformed company when a company is transformed.

23.6. If a company is transformed, the name of the company and its charter shall be amended to reflect the change of the transformation.

### **Article 24. Rights of shareholders During a Reorganization**

24.1. In the case of a reorganization of a company by consolidation, merger or transformation, any holder of voting shares of such company who voted against the reorganization, or who did not participate in such voting, shall have right to demand redemption of its shares by the company in accordance with the procedures set forth in articles 53 and 54 of this law.

24.2. Shares held by shareholders who have agreed to have their share redeemed by the company may not be converted into shares to be issued pursuant to the decision to reorganize.

24.3. In the case set forth in article 24.2 of this law, such shareholders shall lose all ownership rights with respect to their shares, other than their right to demand redemption.

24.4. Shares held by holders who have not demanded redemption shall be converted as provided in the terms of the decision to reorganize.

### **Article 25. Exchange of a Company`s Debts for Shares**

25.1. A company`s securities and debts other than shares may be exchanged for shares and such exchange shall be called an exchange of debts for shares.

25.2. Unless it is otherwise specified in an agreement entered into with a creditor or other persons dealing in business, the consent of the creditor and other persons dealing business shall be obtained for any debts-for-shares exchange.

25.3. The Board of Directors (in its absence, the executive body) of a company shall prepare a proposal draft with respect to any proposed exchange of debts for shares and submit such resolution to a meeting of its shareholders for

## Unofficial Translation

consideration and such matter shall be resolved by an overwhelming majority of votes of the shareholders eligible to vote who attend the meeting.

25.4. The draft proposal to exchange debts for shares shall indicate the debt to be exchanged, the number and per share price of the shares to be issued, the terms and procedure of the exchange, and proposed amendments to the company charter.

25.5. The exercise of options to acquire shares, or the conversion of securities convertible into shares pursuant to the terms of such securities, shall not be considered to be an exchange of debts for shares.

25.6. A shareholder has the preemptive right to purchase the shares that have been issued to exchange the company debt for shares.

### **Article 26. Liquidation of a Company**

26.1. A company may be liquidated by the decision of a shareholders meeting or by a court order based on grounds set forth in the Civil Code, this Law, and other laws.

26.2. Court shall liquidate a company on the following grounds:

26.2.1. the company is bankrupt;

26.2.2. no shareholder can be located; or

26.2.3. on the basis of other grounds provided by law

26.3. The Board of Directors (in its absence, the executive body) of a company that is being liquidated by the decision of the shareholders shall submit a draft of liquidation to the company's shareholders meeting for consideration, which draft shall provide for appointment of a liquidation commission, the liquidation timeline and procedures, and the procedure for distribution of the company's property remaining after creditors' claims have been satisfied among the shareholders; and the resolution must be approved by an overwhelming majority of votes of shareholders eligible to vote who attend the meeting.

26.4. Upon appointment of the liquidation commission, the authority of the company's executive body shall terminate and such authority shall be transferred to the liquidation commission, and the liquidation commission shall represent the company in all court hearings.

26.5. The liquidation commission shall redress any losses incurred by the company or its creditors caused by the commission's negligence in the performance of its duties, in accordance with the procedures set by law.

26.6. The Financial Regulatory Committee may appeal to court to issue a decision to liquidate a public company on the grounds specified in article 26.2 of this law.

### **Article 27. Procedure for Satisfaction of Debts and Liabilities During Liquidation**

## Unofficial Translation

27.1. Debts and liabilities of the company at the time of liquidation shall be satisfied in accordance with relevant provisions of the Civil Code, this law and other laws.

27.2. The liquidation commission shall publish notice of the liquidation and the procedures and time periods for the presentation of claims of creditors and the time period in which creditors may present claims shall be no less than two (2) months and no more than six (6) months following the date of publication of the notice of liquidation.

27.3. The liquidation commission shall also give each of the company`s creditors written notice of the liquidation and the procedures and time periods for the presentation of claims.

27.4. If, at the time of the adoption of the decision to liquidate, a company has no debts or liabilities, liquidation may be effected without publishing a public notice.

27.5. In the case set forth in article 27.4 of this law, the company`s assets shall be distributed among its shareholders in accordance with the provisions of article 28 of this law.

27.6. Upon expiration of the time period during which creditors may present claims, the liquidation commission shall compile a liquidation balance sheet containing information with respect to the liquidating company`s assets and liabilities and the commission`s proposals for the satisfaction of claims of creditors, shall be approved by the company`s Board of Directors (or in its absence, the shareholders meeting).

27.7. The liquidation commission shall give creditors written notice of its proposals for the satisfaction of claims, and if any creditor does not agree with such proposals, it may appeal to a court prior to the approval of the liquidation balance sheet.

27.8. If the liquidating company`s monetary assets are not sufficient to satisfy the claims of creditors, the liquidation commission shall shell other property of the company.

27.9. If the sale of property of the company being liquidated set forth in article 27.8 of this law is deemed to constitute a conflict-of-interest transaction under Chapter Twelve (12) of this law, the sale shall be effected by public auction in accordance with procedures applicable to the Law on Court Decision Enforcement<sup>4</sup>.

<sup>4</sup> Law on Court Decision Enforcement – published in issue number 8 of the “State Bulletin”, 2002.

27.10. Claims of creditors shall be satisfied by the liquidation commission in the order of priority specified in the Civil Code and in this law and in accordance with the provisions of the liquidation balance sheet from the date of the approval of such balance sheet.

27.11. The final report on satisfaction of claims shall be issued within thirty (30) business days following the date of the notice to creditors of the liquidation

balance sheet by the liquidation commission upon satisfaction of the claims of all creditors.

27.12. No claims of creditors presented after the final liquidation balance sheet has been issued, as set forth in article 27.11 of this law, shall be accepted unless they are presented pursuant to a court order.

**Article 28. Distribution of a Liquidating Company`s Assets to its Shareholders**

28.1. Following satisfaction of the claims of creditors, the liquidation commission shall distribute the revenue from the sale of the company`s remaining assets among the shareholders in the following order of priority;

28.1.1. payments of accrued but unpaid dividends on preferred shares, the liquidation value of preferred shares, and payments with respect to preferred shares to be redeemed pursuant to articles 54 and 55 of this law; and

28.1.2. payments with respect to common shares to be redeemed pursuant to articles 53 and 54 of this law.

28.2. The revenue from the sale of the remaining property as set forth in article 28.1 of this law shall be distributed in proportion to the number of shares held by shareholders of common shares.

**Article 29. Informing of the liquidation of the company**

29.1. After distribution of all of the liquidating company`s assets, the liquidation commission shall notify the registration authority of the termination of the company and submit a copy of the final liquidation balance sheet.

29.2. A company shall be deemed to be liquidated when the registration authority removes the company`s name from the state registry and the registration authority shall publish a notice of such liquidation.

**CHAPTER FIVE**

**CHARTER CAPITAL, SHARES AND OTHER SECURITIES OF A COMPANY**

**Article 30. Charter capital and equity of a company**

30.1. The charter capital of a company is the aggregate amount of nominal price of the total preferred and common shares issued by the company and held by the shareholders, and the authorized and redeemed premium shares of the company shall not be a part of the charter capital.

30.2. The total equity of a company is the excess of the total amount of the company`s tangible and intangible assets shown on its financial balance sheet over the company`s liabilities shown on such balance sheet.

Unofficial Translation

30.3. The charter capital of a company shall not be more than the total equity of such company.

30.4. Unless otherwise provided by law, there shall be no minimum amount of charter capital contribution set in founding a company.

30.5. The charter capital of the company shall be specified in the company charter.

**Article 31. Amending the amount of charter capital of the company**

31.1. Every time the charter capital of a company is amended, the company charter shall be amended.

31.2. The charter capital of the company may be amended in the following forms based on the decision of the shareholders meeting:

31.2.1. increase or decrease the nominal price of share units;

31.2.2. increase by issuing additional shares;

31.2.3. decrease by repurchasing and revoking shares issued by itself.

31.3. If the amount of total equity is less than the charter capital, as shown on the annual balance sheet of a company, the Board of Directors (in its absence, the executive body) of the company shall be obligated to convene the shareholders meeting of the company the matters of amending the charter capital, recapitalization or liquidation of the company for consideration and resolution within ten (10) working days of the date of such annual report.

31.4. The executive body shall be obligated to inform the creditors of the company of the matters set forth in article 31.3 of the law and their resolution within 30 days of the such decision.

31.5. If the matters set forth in article 31.3 of this law are not resolved according to the relevant procedures shareholders, creditors of the company, or in the case of public company the Financial Regulatory Committee, shall have the right to appeal to court to have the decision rendered to liquidate the company through judicial means.

**Article 32. Shares of a company**

32.1. As provided in the Law on Securities Markets<sup>5</sup>, a share evidences the investment of a shareholder in a company, gives its holder the right to vote at shareholders meetings, to receive dividends and to receive a proportionate share of proceeds from the sale of the company's assets remaining following its liquidation.

<sup>5</sup> Law on Securities Markets – published in issue number 48 of the “State Bulletin”, 2002.

## Unofficial Translation

- 32.2. Shares may be of two (2) classes: common and preferred.
- 32.3. A company is obligated to issue common shares and may issue preferred shares.
- 32.4. Shares shall have a nominal (or par) value as specified in the company charter and shares of the same class shall have the same nominal value.
- 32.5. Shares may not be issued at a price lower than the nominal value.
- 32.6. Unless otherwise provided by law, each share shall be entitled to one vote.
- 32.7. Shares shall be considered as nominal [non-bearer] security and the voting rights of a share shall be indivisible.

### **Article 33. Authorized and Issued Shares of a Company**

- 33.1. The number of common and preferred shares of a company shall be specified by the company charter, which shall constitute authorized shares of the company.
- 33.2. Issued shares are those authorized shares that are issued to and held by a company`s shareholders.
- 33.3. Unless otherwise provided in a company`s charter, the number of issued shares of each class, duration, and the terms and conditions for their issuance, shall be determined by the Company`s Board of Directors (in its absence, the shareholders meeting).
- 33.4. The number of issued shares shall be set forth in the company`s balance sheet by each class.
- 33.5. The number of authorized shares of any class shall be no less than the sum of the number of issued shares of such class and then number of shares required for conversion of securities convertible into shares of such class.
- 33.6. Shares issued by a company shall remain issued until they are acquired or redeemed by the company, or converted into other securities or property.
- 33.7. Shares acquired or redeemed by a company shall be deemed to be authorized but unissued shares.
- 33.8. Unless otherwise provided in the company charter, the company may re-issue the shares set forth in article 33.7 of this law.

### **Article 34. Rights of Holders of Common Shares**

- 34.1. A holder of common shares of a company shall have the following rights:

## Unofficial Translation

34.1.1. to participate in all shareholder meetings and to vote the number of shares held by such holder on all issues proposed at such meetings;

34.1.2. to receive dividends as determined by the Board of Directors (in its absence, the shareholders meeting) after payment of dividends on the company's preferred shares;

34.1.3. to receive a share of proceeds from the sale of the company's remaining assets following liquidation of the company pursuant to article 28 of this law.

34.2. The shareholder of a public company shall have the preemptive right to purchase additional shares, and securities related to such shares, proposed to be issued by the company, as provided in article 38 of this law and in the company's charter;

34.3. Unless otherwise provided in the company charter, the shareholder of common shares in a limited liability company has the preemptive right to purchase securities related to shares issued by a company in accordance with other procedures specified in this article.

34.4. A company charter may not limit the number of common shares that may be held by any one shareholder.

34.5. A company's common shares may not be converted into preferred shares or other securities issued by the company.

34.6. The voting rights of a holder of common shares with respect to certain matters to be decided at a shareholders meeting may be limited by this law or by the company charter.

### **Article 35. Rights of Holders of Preferred Shares**

35.1. Holders of all series of preferred shares shall have the following rights:

35.1.1. the preemptive right to receive dividends with respect to preferred shares before dividends are distributed to the holders of common shares;

35.1.2. to attend shareholders meeting with voting rights with respect to certain matters specified in this law, the company charter, and the terms and conditions pursuant to which the particular series of preferred shares were issued;

35.1.3. Upon the liquidation of a company, to receive accumulated unpaid dividends and the liquidation value of such shares, from proceeds from the sale of assets of the company during the liquidation process.

35.2. A company charter or the decision to issue preferred shares shall specify:

35.2.1. the payment to be paid to the holder of preferred shares, procedure for determining the liquidation value of shares and the order of priority for payment of such value upon liquidation of the company;

35.2.2. the matters with respect to which a holder of each series of preferred shares has the right to vote at a shareholders meeting, and the number of votes attributable to each share;

## Unofficial Translation

- 35.2.3. if applicable, the terms for conversion of preferred shares into common shares;
- 35.2.4. the circumstances that will give a holder of preferred shares the right to demand redemption of such shares by the company.
- 35.3. A company shall have the right to redeem, or pay dividends with respect to its common shares only after payment in full of all accumulated unpaid dividends with respect to its preferred shares and the redemption of any such preferred shares that the company is obligated to redeem.
- 35.4. In the case set forth in article 47.3 of this law, a company shall pay dividends on preferred shares in such amount and within such time period as provided in the company charter.
- 35.5. In the case of liquidation of a company, the company shall pay to holders of its preferred shares the liquidation value and accumulated but unpaid dividends with respect to their preferred shares before making any payments to the holders of common shares.
- 35.6. Holders of preferred shares shall have the right to vote at a shareholders meeting with respect to the following matters:
- 35.6.1. adoption of amendments to, or a new version of the company charter, that limit the rights of such shareholders;
- 35.6.2. requiring conversion of preferred shares into common shares or other securities or property in the course of reorganization of the company.
- 35.7. Unless the company charter specifies a higher percentage, the matter specified in article 35.6 of this law shall be resolved by the majority of the holders of preferred shares attending the shareholders meeting with voting rights.
- 35.8. The charter of a joint stock company may provide that holders of preferred shares shall have the right to attend the shareholders meeting with rights to vote for election of members of the Board of Directors of a joint stock company in the following cases:
- 35.8.1. if the company charter provides that holders of preferred shares that are convertible to common shares may elect a representative to serve as a member of the Board of Directors;
- 35.8.2. if the dividends with respect to preferred shares has not been paid within a specified period of time.
- 35.9. A company shall resolve the matter of issuing preferred shares by the overwhelming majority of holders of common shares attending the shareholders meeting with voting rights.
- Article 36. Golden Shares**

## Unofficial Translation

36.1. In issuing the decision to privatize a state-owned enterprise, or a company in which the state holds a majority of the issued shares, where the state proposes to sell all of its interest, the Government may provide in such decision to issue golden shares that shall, for a specific period of time, have the right to veto any decision adopted by the company's shareholders, Board of Directors, or executive body, with respect to any matter provided in article 36.2 of this law, without the right to receive dividends, or any other rights.

36.2. The Government may veto the decision of the company's shareholders, Board of Directors, or executive body of a company with golden shares, that adversely affects the state's national security or social policy interests issued in respect of the following matters:

36.2.1. any change in the nature of the company's business conducted prior to privatization;

36.2.2. any reorganization or liquidation of the company;

36.2.3. any decision to enter into a major transaction;

36.2.4. any decision to establish or modify the company's prices for its products or services.

36.3. The Government must provide its grounds for its veto in its decision to veto as set forth in article 36.2 of this law

36.4. A decision by a company with respect to any matter specified in article 36.2 of this law shall become effective upon confirmation by the Government.

36.5. It is prohibited to transfer golden shares to others.

36.6. A golden share shall lose effect upon the expiration of its term provided in article 36.1 of this law, and such term may not be renewed.

### **Article 37. Securities Related to Shares**

37.1. Any rights to acquire common shares, securities convertible into shares, and options, shall be deemed to be securities related to shares and procedures for the issuance and sale of such securities shall be set forth in the company's charter.

### **Article 38. Preemptive Right to Purchase Shares**

38.1. Any holder of a company's common shares shall have a preemptive right to purchase additional common shares issued by the company in proportion to the number of the common shares held by such holder.

38.2. When a company proposes to issue additional common shares as set forth in article 62.1.3 of this law, it shall notify each common shareholder in the procedure of submitting notification of a shareholders meeting, of the number and price of the shares proposed to be issued, the number of shares that each shareholder may purchase, and the terms and procedures for purchase additional shares.

38.3. Any holder of common shares must notify of its decision to purchase additional shares that it is entitled to purchase pursuant to the exercise of its preemptive right within thirty (30) business days following the date of adoption of the decision by the shareholders meeting to issue the additional shares.

## Unofficial Translation

38.4. The price of the common shares that a shareholder is entitled to purchase as set forth in article 38.1 of this law pursuant to the exercise of its preemptive right may not be less than ninety percent (90%) of the market price of the shares.

38.5. The shareholder specified in article 38.1 of this law shall be deemed to have exercised its preemptive right to purchase the shares by its submission of the document specifying its name and address, the number of shares to be purchased, and a document evidencing payment for such shares.

38.6. A shareholder may exercise its preemptive right specified in article 38.1 of this law in whole or in part.

38.7. A shareholder of public company may transfer its preemptive right specified in article 38.1 of this law to others in whole or in part.

38.8. Shareholders of a public company may waive the preemptive rights to purchase such shares by a shareholders meeting by an overwhelming majority of votes of shareholders eligible to vote who attend the meeting.

### **Article 39. Securities Convertible into Shares**

39.1. A company may issue preferred shares and bonds that are convertible into a specified number of common shares under specific conditions.

39.2. In the case preferred shares or bonds that are convertible into common shares, the company must also issue securities convertible into shares.

39.3. The terms for issuance of securities convertible into shares shall specify the type of such securities, the number of common shares into which such securities may be converted, the conversion price, and the period of time in which such conversion may be effected.

39.4. The conversion price of securities convertible into common shares of a joint stock company may not be less than the average trading value of the specific class of shares in the past month prior to the day of the issuance.

39.5. If securities convertible into shares are issued, holders of common shares shall have a preemptive right to acquire any convertible securities in proportion to the number of common shares held by such holders in accordance with the procedures specified in article 38 of this law.

### **Article 40. Options**

40.1. If the company charter allows it, the company may issue options that evidences the right to sell or acquire its common or preferred shares at a specified price and within a specified period of time.

40.2. The terms for issuance of options shall specify the number, class, and price of the optioned shares and the period of time in which the options may be exercised.

## Unofficial Translation

40.3. The option price to acquire common shares issued by a joint stock company may not be less than the average trading value of such common shares of the specific class of shares in the past month prior to the day of the issuance.

40.4. A holder of a company's common shares shall have a preemptive right to acquire options to sell or acquire common shares in proportion to the number of common shares held by such holder in accordance with the procedure specified in article 38 of this law.

### **Article 41. Bonds**

41.1. A company may issue bonds secured by its owners' equity subject to terms to pay interest and to redeem the bond after the expiration of a state period.

41.2. Unless otherwise provided in a company charter, the Board of Directors (in its absence, the shareholders meeting) shall make the decision to issue bonds set forth in article 41.1 of this law.

41.3. The decision specified in article 41.2 of this law shall specify the number, type, maturity date, issue price, interest rate, time for interest payments, and redemption price of the bonds and other relevant terms.

41.4. A company may issue bonds that mature once in whole, on a series of specified dates in parts.

41.5. Bonds issued by a company may be guaranteed by another company.

41.6. A company may redeem its bonds prior to their maturity if so provided in the decision to issue bonds.

41.7. The decision to redeem bonds set forth in article 41.6 of this law shall be issued by the Board of Directors (in its absence, the shareholders meeting).

### **Article 42. Resolution to Issue Securities**

42.1. Unless otherwise provided in the company charter, the decision to issue authorized shares or other securities and bonds specified in the company charter shall be adopted by the Board of Directors (in its absence, the shareholders meeting) and the decision shall specify the type and number of such securities and the terms and conditions of their issuance.

42.2. A company must issue all, or part, of its authorized common shares.

42.3. A company may issue all, or part, of its authorized preferred shares, and it may choose to not issue preferred shares for a period of time.

42.4. Securities [*initially.trans*] offered to the public company, and additional shares that are issued shall be registered with the Financial Regulatory Committee pursuant to the Law on Securities Markets.

**Article 43. Determining the Price of Shares and Securities Convertible into Shares**

43.1. The price of shares and other securities shall be determined by the Board of Directors (in its absence, the shareholders meeting) pursuant to article 55 of this law, except in the following cases:

43.1.1. the conversion price of securities convertible into shares and the exercise price of options were determined at time of issuance;

43.1.2. the shares are sold by the exercise of share options;

43.1.3. the issue price of shares are specified in the founding documents at the time of founding the company;

43.1.4. it is otherwise provided in the charter of the limited liability company.

**Article 44. Payment for securities**

44.1. Unless otherwise provided in the company charter, a company`s securities may be paid for with money, securities, property, or property rights.

44.2. Payment for shares issued at the time of establishment of a company shall be made prior to the registration of the company.

44.3. Payment for additional shares to be issued shall be made in full at the time of issuance.

44.4. Unless otherwise provided in a company charter, payment for shares may be made in non-monetary form in the following cases:

44.4.1. if non-monetary payment for shares is permitted by the founding agreement in the course of establishment of company pursuant to article 13.3 of this law.

44.4.2. if non-monetary payment for additional securities is permitted by the relevant issuing authorities.

44.5. If payment for shares is made in non-monetary form during the establishment of a company, such payment shall be unanimously agreed to by the founding meeting.

44.6. In the case of the issuance of additional shares by a company, the Board of Directors (in its absence, the shareholders meeting) shall determine the value of non-monetary payment for shares.

44.7. In the case of a joint stock company, the Board of Directors shall determine the value on non-monetary payment on the basis of an evaluation by an professional valuation organization.

**Article 45. Register of Security Holders**

## Unofficial Translation

45.1. A company is obligated to maintain a register of the holders of the company's securities and, if the company issues security certificates, arrange for the safekeeping of such certificates.

45.2. A company may delegate the duties set forth in article 45.1 of this law on a contractual basis to an organization that is authorized to perform such functions.

45.3. The register of holders of the company's securities shall include the father (mother)'s name, name and address of the holder, the number and class of securities held by such holder, a record of the number of securities transferred by such holder, the father (mother)'s name and name of the transferee of any such securities, and other pertinent information.

45.4. A holder of a company's securities shall be obligated to inform the registrar of the company's securities register of its name, address of residence, and number of securities held and of any changes in such details in a timely manner.

45.5. The right of the holder of the securities shall become effective upon registration set forth in article 45.4 of this law.

45.6. The company shall not be liable for failure to notify the shareholder of information of this law, company charter and Financial Regulatory Committee due to failure of the shareholder to notify the registrar authorized to maintain the company's register of security holders or the company of the changes in the name of address of residence as required by article 45.4 of this law.

45.7. Upon demand of the registered person, the registrar of the register of the security holders shall be obligated to certify the right of such person to hold the security by way of making a copy from the register, and such copy shall not be deemed as security.

45.8. If the company is issuing securities in intangible form, it may issue documents evidencing the right of the security holder (certificates).

### **CHAPTER SIX**

#### **DIVIDENDS AND TRANSFERS OF A COMPANY'S PROPERTY**

##### **Article 46. Payment of Dividends**

46.1. Unless otherwise provided in a company charter, the Board of Directors (in its absence, the shareholders meeting) shall decide the matter of paying dividends and the decision shall include the amount of the dividend to be paid with respect to each share, the date for issuing the list of shareholders entitled to receive dividend, and the dividend payment date.

46.2. The Board of Directors shall be obligated to inform the shareholders of the decision provided in article 46.1 of this law.

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46.3. The shareholders entitled to receive dividends shall be determined as of the date of the decision to distribute dividends in the case of limited liability companies, and as of the date of the registration day specified in article 64 of this law in the case of joint stock companies, and this shall be informed to the shareholders.

46.4. The per share value of dividends with respect to shares of the same class shall be equal in amount.

46.5. The Board of Directors shall have considered and resolved the matter of distribution of dividends within fifty (50) days of the end of the financial year.

46.6. If the Board of Directors decides not to distribute dividends, it shall be obligated to report the grounds for such decision at the regular session of the shareholders meeting.

46.7. Unless otherwise provided in the company charter, dividends may be paid in cash, in property, in securities of the company, or in securities of other persons.

46.8. Dividends shall be distributed from the net profits of the company after taxes are paid.

46.9. The dividends to be distributed for preferred shares may be distributed from a specially established fund.

46.10. If the company has decided to pay dividends, the dividends shall be paid out within the time period specified in such decision.

46.11. If company fails to pay the dividend within the time period specified in article 46.10 of this law, upon the demand of any shareholder, the company shall pay a fine to such shareholder and the executive body shall reimburse the company for such fine and any losses attributable to the payment of such fine.

46.12. The failure of the shareholder to receive dividends in the time period specified in article 46.10 of this law shall not constitute waiver of the right to receive dividends or grounds for the company to not distribute dividends.

46.13. The dividend of the shareholder that has not been paid shall be recorded in the accounting books and retained under the name of the shareholder, and the company shall be obligated to pay out dividends upon the first demand of the such shareholder.

46.14. A joint stock company shall issue the report on dividend distribution within fifteen (15) working days of completion of such distribution and submit it to the Financial Regulatory Committee and the securities trading organization within the time period set by the Financial Regulatory Committee.

46.15. The Board of Directors shall be obligated to present the report on dividend distribution at the next shareholders meeting.

46.16. If a shareholder sells or transfers its shares after the dividend record date, but prior to the dividend payment date, then such shareholder shall remain entitled to receive the relevant dividend with respect to such shares, unless otherwise specified in the agreement entered into between the parties.

**Article 47. Conditions With Respect to Payment of Dividends**

47.1. A company shall pay dividends with respect to its common shares in the following cases:

47.1.1. the company remains solvent after payment of the dividend;

47.1.2. after payment of the dividend, the company's owner's equity will exceed the sum of the amount of share capital specified in article 30.5 of this law, accrued but unpaid dividends with respect to preferred shares, and the liquidation value of such preferred shares;

47.1.3. the company has redeemed all securities that it is obligated to redeem.

47.2. A company may not pay dividends with respect to its redeemed shares.

47.3. A company shall pay dividends with respect to preferred shares in the following cases:

47.3.1. the company remains solvent after payment of the dividend;

47.3.2. the company has redeemed all preferred shares that it is obligated to redeem.

47.4. If, as a result of a dividend payment, a company's owner's equity is reduced by more than twenty-five percent (25%), the company shall notify its creditors in writing of the remaining amount of its owner's equity within fifteen (15) business days following the date of the dividend payment.

**Article 48. Limitations on Disposition of a Company's Property**

48.1. For the purpose of protecting the legitimate rights of creditors, a company may not dispose of any of its property or property rights at less than market value if, as a result of such disposition, the company's owner's equity would be reduced to less than amount of the share capital of the company specified in the company charter, or the company would become insolvent.

48.2. Any transaction made in violation of article 48.1 shall be invalid.

**CHAPTER SEVEN**

**REDEMPTION AND RE-PURCHASE**

**OF A COMPANY'S SECURITIES**

**Article 49. Re-purchase by a Company of its Securities**

49.1. Unless otherwise provided in the company charter, a company's Board of Directors (in its absence, the shareholders meeting) may agree with one or more of

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its shareholders to re-purchase securities of the company held by such shareholders.

49.2. A company may re-purchase any such securities, other than common shares, in full or in part; however, with respect to common shares, this may not exceed twenty-five percent (25%) of the average amount of its total number of issued common shares in that specific year.

49.3. Common shares re-purchased by a company shall be deemed to be premium shares.

49.4. The Board of Directors shall specify, in its decision to re-purchase the company's securities the number of shares to be re-purchased, the price to be paid per share, the date of payment, and the proposed disposition of the shares after they have been re-purchased.

49.5. Unless otherwise provided in the company charter, the company may pay for redeemed securities with cash, securities or other forms of property as agreed with the purchasing party.

49.6. A company may not purchase its securities that are in the process of an initial public offering.

49.7. If article 49.6 of this law has been breached the person who issued the decision to enter into such transaction shall transfer the purchased securities to the ownership of the company.

49.8. If the decision in breach of article 49.6 of this law is a joint decision, joint liability should be imposed.

49.9. Unless otherwise provided in the charter of a limited liability company, or in an agreement between shareholders of such limited liability company, a company shall repurchase its common shares at the market value for such shares determined by the Board of Directors (in its absence, the shareholders meeting) in accordance with the procedure specified in article 55 of this law.

49.10. A proposed resolution by a company to purchase more than five percent (5%) of its then issued common shares must be approved at a shareholders meeting by a majority of the votes of shareholders eligible to vote who attend the meeting, except in the following cases:

49.10.1. if a company proposes to re-purchase its common shares in proportion to the number of such shares then held by its shareholders;

49.10.2. if the preemptive rights of the shareholders are exercised as set forth in this law and the company charter;

49.10.3. if other conditions are provided in the charter of a limited liability company.

49.11. If a company proposes to purchase its issued common shares in proportion to the number of shares held by each shareholder, it shall notify all shareholders within thirty (30) days of the number of shares that the company proposes to repurchase, the purchase price per share, the procedures for payment for such shares, the date of payment for the shares, and the date on or prior to which the offer shall be accepted.

## Unofficial Translation

49.12. If the total number of common shares presented for sale by the company exceeds the number of shares that the company offered to acquire, the Board of Directors (in its absence, the shareholders meeting), may decide to acquire a larger number of shares, up to the total number offered for sale

49.13. The number of shares to purchase shall not exceed the amount specified in article 49.2 of this law, and in such case, the company shall purchase such shares in proportion to the number of shares offered for sale by each shareholder.

49.14. If the repurchase of its shares reduces the owner's equity to an amount lesser than aggregate nominal price of the total number of shares issued, or the share capital that is reflected in the current balance sheets, it shall be prohibited for the company to repurchase its common shares.

### **Article 50. Redemption by a Company of its Preferred Shares**

50.1. If a company has sufficient funds, it may offer to redeem preferred shares, which it is obligated to redeem, in full or in part, prior to the date specified for redemption, in which case, the company shall notify the holders of these securities of its offer to redeem in accordance with the procedure to inform of the shareholders meeting.

50.2. If a redemption price is not specified in the terms of the preferred shares when they were issued, such shares shall be redeemed at the market price at such time.

50.3. In the case of a mandatory redemption as of a date specified in the terms of the preferred shares when they were issued, if the company lacks sufficient funds to redeem such shares as of such date, the company may agree with the holders of such shares to postpone the redemption until sufficient funds are available.

50.4. If there is no agreement set forth in article 50.3 of this law, the company shall offer to sell to the persons specified in article 57.1 of this law.

50.5. If the repurchase of its preferred shares set forth in article 50.1 of this law reduces the company's owner's equity to an amount lesser than the share capital that is reflected in the company charter, it shall be prohibited for the company to repurchase its common shares.

### **Article 51. Consolidation and Splitting of a Company's Shares**

51.1. A company may consolidate its shares by converting two (2) or more shares of such class into one (1) new share.

51.2. It shall be prohibited to consolidate shares of rational number equal to more than one percent of the total common shares issued by the company.

51.3. A company may split its shares by converting one (1) share of such class into two (2) or more new shares.

## Unofficial Translation

51.4. Fractional shares resulting from the consolidation or splitting of shares may be redeemed by the company at the value determined by the Board of Directors (in its absence, the shareholders meeting), in accordance with the provisions of article 55.

51.5. The matter of consolidating or splitting a company's shares must be approved by a shareholders meeting by an overwhelming majority of the votes of shareholders eligible to vote who attend the meeting.

51.6. Changes in the number of authorized shares resulting from the consolidation or splitting of a company's shares shall be reflected in an amendment to the company's charter and in a notice to the registration authority.

51.7. Following the consolidation or splitting of a company's shares, the company shall be obligated to make the appropriate modifications in the share options and the terms and conditions of the securities convertible into such shares.

### **Article 52. Conditions for Redemption of Securities by a Company**

52.1. A company may re-purchase or redeem its issued securities in the following conditions

52.1.1. the company must be solvent following such purchase or redemption;

52.1.2. the company's owner's equity reflected in the latest balance sheet of the company must exceed the sum of the amount of capital invested by the shareholders, accrued but unpaid dividends on preferred shares, and the liquidation value of outstanding preferred shares.

52.2. After redemption of all common shares that the company is obligated to redeem in accordance with article 53, a company may purchase other common shares or securities relating to such shares.

52.3. If, as a result of an re-purchase or redemption of shares, a company's owner's equity is reduced by more than twenty-five percent (25%) than the amount reflected in the latest balance sheet prior to the conclusion of such transaction, the company shall notify its creditors in writing of the amount of its remaining owner's equity within fifteen (15) business days following the date of payment for such shares.

### **Article 53. Redemption of Shares by a Company at the Demand of Shareholders**

53.1. Each shareholder who voted against, or did not participate in voting of, the decision of the shareholders meeting with respect to the following matters, has the right to demand that the company redeem its shares:

## Unofficial Translation

53.1.1. reorganization of the company by consolidation, merger, division or transformation of a joint stock company into a limited liability company;

53.1.2. the company concluded a major transaction requiring approval by a shareholders meeting in accordance with Chapter 11;

53.1.3. amendments to a company charter, or adoption of a new version of the company charter which limits the rights of existing shareholders.

53.1.4. other cases as provided in the company charter.

53.2. If a shareholder, together with its affiliated persons, holds more than seventy-five percent (75%) of a company's common shares or, pursuant to the privatization of the controlling block of a company formerly owned by the state, any other holder of common shares may demand that the company redeem its shares.

53.3. The company may allow the holder(s) of the controlling block to purchase at the price determined in accordance with article 53.5 of this law.

53.4. A list of shareholders having rights of redemption as set forth in article 53.1 and 53.2 of this law, as of the date of occurrence of events or circumstances giving rise to such rights shall be compiled based on the company's registry of shareholders.

53.5. A company shall redeem shares presented pursuant to a demand of its shareholders at the market price of such shares at such time.

### **Article 54. Procedures With Respect to the Exercise of a Shareholder's Right of Redemption**

54.1. Whenever a decision gives rise to a shareholder's right of redemption in accordance with article 53 of this law, the company must give notice to its shareholders of such right and the procedures to be followed to exercise such right, in accordance with the procedure to notify shareholders of the shareholders meeting.

54.2. A shareholder who proposes to exercise its right of redemption shall deliver to the company a written statement of such demand that contains the shareholder's father (mother)'s name, name, address of residence and the number and class of the shares being presented for redemption.

54.3. A shareholder shall submit to the company a written statement of the demand set forth in article 54.2 of this law within thirty (30) business days of issuance of such decision giving rise to the right of redemption, or since the receipt of the written notice of such right of redemption.

54.4. If a shareholder, together with its affiliated persons, acquires more than seventy-five percent (75%) of a company's common shares or, pursuant to the privatization of a company's control block of such shares previously owned by the State, the Board of Directors (in its absence, the executive body) of such company must notify shareholders of their right to demand redemption of their shares within thirty (30) days following such acquisition.

## Unofficial Translation

54.5. Shareholders shall present their demands to the Board of Directors (in its absence, the executive body) in writing within thirty (30) business days following receipt of the notice set forth in article 54.4 of this law.

54.6. Within thirty (30) days following receipt of a shareholder`s demand for redemption of its shares set forth in article 54.5 of this law, the company shall redeem the shares at the price stated in the notice of the right of redemption or shall notify the shareholder of the reason that the company refuses to redeem such shares.

54.7. If a company refuses to redeem shares presented for redemption as set forth in article 54.6 of this law, or if the presenting shareholder deems the redemption price proposed by the Board of Directors of the company to be unrealistic in terms of market value, such shareholder may appeal to a court within three (3) months following the date of the company`s decision to refuse to redeem the shares.

### **Article 55. Determination of the Market Value of Property and Property Rights**

55.1. The market value of property and property rights (including the value of a company shares and securities), is the price agreed to by a seller who has full information on the price of the property or property rights, and who is not obligated to sell such property or property rights and a buyer who has full information on the price of the property or property rights and is not obligated to buy such property or property rights.

55.2. Unless otherwise provided in this law or in the company charter, the market value of property and property rights shall be determined by the company`s Board of Directors (in its absence, the shareholders meeting).

55.3. If a member of a company`s Board of Directors is a party to the transaction that requires determining the price of the property or property rights of the company, or is brokering for such party, or is receiving a percentage of the direct and indirect revenue incurred from such transaction, such market value shall be determined by the votes of a majority of members of such Board of Directors who have no conflict of interest in the transaction.

55.4. A member of the Board of Directors shall be deemed to be free of conflict-of-interest if he or she has no common interests with the participant, or brokering parties of the transaction, and will not, directly or indirectly, realize any financial benefit from the transaction in the circumstances set forth in article 55.3 of this law.

55.5. If the decision specified in article 55.3 of this law is made by a shareholders meeting, any shareholder who has a conflict-of-interest in the relevant transaction may not vote on such determination.

55.6. In determining the market value of property or property rights pursuant to article 55.2 of this law, the Board of directors (in its absence, the shareholders meeting) may seek the evaluation of an independent evaluating organization.

55.7. In the case of redemption of shares by a joint stock company pursuant to article 53 of this law, the market value of the shares shall be determined on the basis of an evaluation by an independent valuation or audit organization.

55.8. The market value of publicly traded and other securities shall be determined in consideration of the average price for the preceding six (6) months as recorded in the securities trading organization and other trading official records.

55.9. In determining the market value of the shares and securities of a company, the price that a buyer with full information concerning the share capital, owner's equity, and profits of the company offers to pay, as well as other relevant factors, shall be taken into account.

## **CHAPTER EIGHT**

### **ACQUISITION OF THE CONTROLLING BLOCK OF SHARES OF A COMPANY**

#### **Article 56. Acquisition of the Controlling Block of Shares of a Company**

56.1. A controlling block of a company's shares is deemed to be one-third (1/3) or more of the company's common shares.

56.2. Any person who, alone or in conjunction with its related party, proposes to acquire a control block of common shares of a public company must make its offer to purchase such shares in accordance with procedures provided for by this law and the Law on Securities Markets.

56.3. The shareholders meeting of the public company of which the controlling block was proposed to be purchased shall not have the right to take any action that interferes with the sale of such shares to such person unless an exclusive decision was adopted by the shareholders meeting by a majority of votes of shareholders eligible to vote who attend the meeting has been issued.

#### **Article 57. Offering shareholders to purchase company shares**

57.1. A person who, alone or in conjunction with its related party, acquires the controlling block of shares of a company must, within sixty (60) business days after the date of acquisition of such shares, make an offer to the company's other shareholders to acquire the company's shares held by them at a price no less than the weighted average market price of the company's shares during the preceding six (6) months.

57.2. If a person who has acquired the controlling block of shares of a company fails to make the offer required by article 57.1 of this law, the shares held by it and its affiliated persons shall have no voting rights until such time that the offer is made and exercised according to relevant procedures.

57.3. A notice of the offer to acquire shares of other shareholders as set forth in article 57.1 of this law shall be provided to all shareholders in the same procedure as a notice with respect to the holding of a shareholders meeting.

57.4. In the case of a joint stock company, the procedure to offer as set forth in article 57.1 of this law shall be determined by the Financial Regulatory Authority.

57.5. The notice of offer set forth in article 57.1 of this law must contain the father (mother)'s name, name and address of the person, and its affiliated persons,

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who have acquired the control block of shares, the number of shares held by each of them, the price offered for the shares, and the period during which shareholders can accept the offer.

57.6. The person that has acquired the controlling block of the shares of the company shall set the period during which shareholders can accept the offer referred to in article 57.1 no less than thirty (30) days following the date of sending the notice of the offer to the shareholders.

57.7. Article 57.1 of this law shall not apply to the acquisition of a control block of shares owned by the State resulting from a privatization thereof and the matter of the company repurchasing its shares shall be regulated by articles 53 and 54 of this law.

### **Article 58. Disclosure of Information upon Acquisition of the Controlling Block of Shares**

58.1. Any person who alone, or in conjunction with its affiliated persons, acquires or owns more than one third (1/3) of the common shares of a joint stock company shall, within ten (10) business days following the date of such acquisition, deliver a written notice to such company and to the Financial Regulatory Authority stating its father (mother)'s name, name and address, as well as the names and addresses of such affiliated persons, and the number or the company's shares held by each of them.

## **CHAPTER NINE**

### **COMPANY MANAGEMENT**

#### **Article 59. Shareholders meetings**

59.1. A shareholders meeting is the highest governing authority of a company.

59.2. If a company has only one shareholder, that shareholder shall exercise the authority of the shareholders meeting.

59.3. A shareholders meeting may be either regular or special.

59.4. The regular shareholders meeting shall be called by the Board of Directors (in its absence the executive body) and held within four (4) months following the end of each fiscal year of a company.

59.5. If a regular shareholder meeting is not called and held within the period specified in article 59.4 of this law, the authority of the Board of directors (in its absence, the executive body) provided by this law and the company charter except for the authority to call the shareholders meetings shall terminate.

59.6. Any agreements or transactions entered into after the termination of the authority of the Board of Directors (in its absence, the executive body) shall be invalid.

59.7. If the Board of Directors (in its absence, the executive body) of a public company fails to issue a decision to call a shareholders meeting within the period specified in article 59.4 of this law, the Financial Regulatory Committee shall inform

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the public of the termination of the authority of such Board of Directors except for the authority to call shareholders meetings.

59.8. The company management and the authorized official shall be obligated to assist in ensuring the preparation of the shareholders meeting called for by the authorized person specified in article 60.1 of this law, and to provide the necessary news and information in a timely manner.

59.9. The costs related to convening the regular sessions of the shareholders shall be fully borne by the company.

59.10. The person to chair the shareholders meeting shall be specified in the decision to convene the meeting by the person who has called for it.

59.11. The matters specified in article 62.1.9 of this law shall be discussed by the regular session of the shareholders meeting.

### **Article 60. Calling of a Shareholders Meeting**

60.1. The Board of Directors (in its absence, the executive body), or persons specified in article 61.7 of this law shall call a shareholders meeting by adopting a decision to this effect.

60.2. The decision to call a shareholders meeting shall specify the following:

60.2.1. the place, date and time of the meeting;

60.2.2. agenda of the meeting;

60.2.3. in the case of a joint stock company, the date for determining shareholders who have a right to attend the meeting

60.2.4. the date and procedures to be followed for delivering notice of the meeting to the company shareholders;

60.2.5. a list of documents that will be made available to the shareholders prior to the meeting;

60.2.6. if there is to be voting by ballots, the form and content of ballots;

60.2.7. the date by which all ballots must be submitted to be effective;

60.2.8 chairperson of the meeting;

60.2.9. members of the tabulation commission.

60.3. The shareholders meeting shall be convened after no less than forty (40) days after the decision specified in article 60.1 of this law has been adopted.

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60.4. The company shall be obligated to notify the shareholders through the media of the scheduled shareholders meeting within five (5) days of the adoption of the decision specified in article 60.1 of this law.

### **Article 61. Special Shareholders Meeting**

61.1. The Board of Directors (in its absence the executive management) shall call the special shareholders meeting in the following cases:

61.1.1. If it is not possible for more than 50 percent of the Board of Directors to work;

61.1.2. If two (2) or more independent members of the Board of Directors, shareholder(s) of 10 or more percent of voting rights has issued a proposal or demand;

61.1.3. the losses incurred by the company exceeds 30 percent of the total equity at the time of the last financial report;

61.1.4. the company debt has exceeded the owner's equity two (2) years in a year, and is a negative figure;

61.1.5. the Board of Directors has issued a decision;

61.1.6. the audit committee has demanded to convene a special session of the shareholders meeting;

61.1.7. all other cases specified in the company charter.

61.2. The person specified in article 61.1.2 of this law shall have the right to make the proposal or demand to convene the special session of the shareholders meeting to the Board of Directors (in its absence the executive body).

61.3. The proposal or demand specified in article 61.2 of this law shall be issued in writing and shall contain the father (mother)'s name, names of the shareholders making such demand, the reason for calling the meeting, the agenda for the meeting, drafts of decisions to be issued from the meeting and the number calls of shares held by each shareholder.

61.4. The Board of Directors (in its absence, the executive body) shall decide whether or not to call such special shareholder meeting within ten (10) business days following the date that they receive the demand.

61.5. The Board of Directors (in its absence, the executive body) shall refuse to call such special shareholder meeting in the following cases, and it shall immediately notify the shareholders making the proposal or demand set forth in article 61.2 of this law of the reasons therefor:

61.5.1. the voting rights of the shareholders demanding the calling of the special meeting do not reach ten percent (10%) of the company's aggregate voting rights;

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61.5.2. none of the issues proposed for the agenda of the special shareholders meeting are within the authority of such meeting.

61.6. The decision of the Board of Directors (in its absence, the executive body) to refuse to call a special shareholders meeting may be appealed to a court by the shareholder making such proposal or demand made in accordance with article 61.2 of this law.

61.7. If, within the period provided in article 61.4 of this law, the Board of Directors (in its absence, the executive body) fails to make a decision, the demanding shareholders set forth in article 61.2 of this law or an independent member of the Board of Directors may call such meeting.

61.8. In the case set forth in article 61.7 of this law, if authorized by the shareholders meeting, the company shall be obligated to reimburse expenses incurred in connection with the preparation for and the holding of the meeting.

61.9. If the Board of Directors (in its absence, the executive body) decides to call the special meeting demanded by the shareholders as set forth in article 61.4 of this law, such meeting shall be called within forty-five (45) days following receipt of the demand.

61.10. In the case specified in article 61.9 of this law, the company shall be responsible for all expenses incurred in connection with the holding of the meeting.

### **Article 62. Authority of a Shareholders Meeting**

62.1. A shareholders meeting shall have exclusive authority to consider and decide the following matters

62.1.1. amendments to the company charter or the adoption of a new version of the charter;

62.1.2. reorganization of the company by consolidation, merger, division, or transformation;

62.1.3. an exchange of the company` s debts for shares, issuing additional shares, determining its numbers;

62.1.4. changing the form of the company;

62.1.5. liquidation of the company and the appointment of a liquidation committee

62.1.6. a split or consolidation of the company` s share;

62.1.7. election of members of the Board of Directors and termination of their power prior to the expiration of their terms;

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- 62.1.8. whether the shareholder is to exercise the preemptive rights of shareholders to acquire the company's shares or other securities as provided in article 38 of this law;
  - 62.1.9. consideration and approval of reports prepared by the Board of Directors with respect to the company's annual operations and financial statements;
  - 62.1.10. approval of any major transactions specified in Chapter Eleven of this law;
  - 62.1.11. approval of any conflict-of-interest transactions specified in Chapter Twelve (12) of this law;
  - 62.1.12. approval of any acquisition of its shares by the company pursuant to this law
  - 62.1.13. approving the amount of salaries and bonuses to be given to members of the Board of Directors, unless otherwise provided in the company's charter;
  - 62.1.14. report set forth in article 96.4 of this law;
  - 62.1.15. other proposals submitted to the meeting by the decision of the Board of Directors;
  - 62.1.16. other matters required to be submitted to a shareholder meeting for approval as provided in this law or in the company's charter.
- 62.2. A shareholders meeting of a limited liability company that does not have a Board of Directors shall have exclusive authority to consider and decide the following matters in addition to those specified in article 62.1 of this law:
- 62.2.1. the issuance of securities by the company;
  - 62.2.2. determining the authority of the company's executive body;
  - 62.2.3. appointment of the executive director or members of the company's executive body, determining their authority, and termination of their powers prior to the expiration of their terms;
  - 62.2.4. approving the amount of salaries and bonuses to be given to members of the executive body;
  - 62.2.5. consideration and approval of reports prepared by the executive body with respect to the company's annual operations and financial statements;
  - 62.2.6. selecting and concluding a contract with the auditor for the company;
  - 62.2.7. determining the amount of dividends and the procedures for their payment;
  - 62.2.8. approving the internal organization of the executive body;
  - 62.2.9. creation of branches and representative offices;

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62.2.10. determining the market value of property and property rights pursuant to article 55 of this law;

62.2.11. other matters required by this law or the company charter;

62.2.12. other matters proposed for consideration by the executive body or shareholders.

**Article 63. Shareholders Meeting Resolutions taking Effect**

63.1. The rights of holders of a company`s common shares to vote on matters submitted for consideration and approval at a shareholders meeting are governed by article 34 of this law and the rights of holders of preferred shares are governed by article 35 of this law.

63.2. Unless otherwise provided by law, one share shall have one vote.

63.3. A shareholder with voting rights shall be entitled to vote on any matter submitted to a vote of shareholders.

63.4. The voting eligibility and number of shares of each class with respect to each matter to be discussed at the meeting shall be determined by the tabulation commission.

63.5. To be effective, any matter submitted to a shareholders meeting for consideration, other than election of members of the Board of Directors (or in its absence, the executive body), shall be adopted by a majority of the votes of shareholders that are eligible to vote on the matter who attend the meeting, unless a larger number of votes is specified in this law or in the company charter.

63.6. In the case of election of members of the Board of Directors (or in its absence, the executive body), the candidates who receive the largest number of votes shall be elected as members, unless otherwise provided in the charter of a limited liability company.

63.7. Any matter specified in articles 62.1.1-62.1.6 of this law that is submitted to a vote of shareholders must be adopted by a simple majority of votes of shareholders eligible to vote on the matter who attend the meeting.

63.8. The company charter may require a larger number of votes than specified in article 63.7 of this law to approve matters specified articles 62.1.1-62.1.6 of this law.

63.9. The company charter may provide for special procedures to be followed when considering certain matters on the agenda of a shareholders meeting depending on the nature of matter.

63.10. The Shareholders meeting may neither consider nor resolve any matter that is not included in the agenda of the meeting.

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63.11. If deemed necessary, the company charter may specify procedures for submitting additional matters to be included in the agenda of the shareholders meeting in cases other than those specified in article 66 of this law.

### **Article 64. Right to participate in a shareholders meeting**

64.1. A list of shareholders having the right to attend a shareholders meeting shall be compiled as of a specified date determined by the Board of Directors (in its absence, the executive body) by the registrar of the company's securities register and delivered to the person who called the meeting.

64.2. In the case of joint stock company, the scheduled date for compiling the list of such shareholders shall be determined by the Board of Directors at the time of the adoption of the decision to hold the shareholders meeting and such date shall be no earlier than forty-five (45) days prior to the date of the meeting.

64.3. In the case of a limited liability company, the scheduled record date shall be the date of the shareholders meeting.

64.4. The scheduled record date shall be specified in the decision to convene the shareholders meeting and the notice of the shareholders meeting.

64.5. The list of shareholders who have the right to attend the shareholders meeting shall contain the father (mother)'s name, name and address of each shareholder, and the number and class of shares they each hold.

64.6. Upon the demand of shareholders holding at least ten percent (10%) of company's shares, the company must make the list of shareholders having the right to attend a shareholders meeting available to such shareholders.

64.7. Changes to the list of shareholders having the right to attend a shareholders meeting shall be made by the Board of Directors with the approval of the registrar of the register of securities of the company.

### **Article 65. Distributing notice of the shareholders meeting**

65.1. A person calling a shareholders meeting as provided in article 60.1 of this law shall be obligated to notify each shareholder who has a right to attend the meeting.

65.2. In the case of a limited liability company, the procedures and time for giving notice of the holding of a shareholders meeting may be specified in the company charter.

65.3. The Financial Regulatory Committee shall issue procedures for giving notice of the holding of shareholders meetings of a joint stock company.

65.4. A notice of the holding of a shareholders meeting shall contain the company's name and address, the date, time and place of the meeting, the record date for determining shareholders having the right to attend the meeting, the matters to be included in the agenda, drafts of resolutions to be considered at the meeting, the procedure for providing shareholders with information concerning such draft resolutions, and other information provided for by this law or the company charter.

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65.5. If votes are to be cast in advance ballot, the place for delivery of ballots and the date by which such ballots must be received to be effective shall be notified separately.

65.6. The following information shall be accessible by the shareholders during the time of regular sessions of the shareholder meetings:

65.6.1. the company`s annual financial statements

65.6.2. the report of the company`s auditors with respect to the financial statements;

65.6.3. a list of any conflict-of-interest transactions concluded by the company during the fiscal year and certification by the auditor as to whether each such transaction was approved in accordance with the requirements of Chapter Twelve (12) of this law;

65.6.4. information with respect to the candidates for election to the Board or Directors (or appointment to the executive body) of the company;

65.6.5. a list of the company`s affiliated persons, and the number and class of shares held by them;

65.6.6. information with respect to company related expenses incurred by, and salaries and bonuses paid or granted to members of the Board of Directors and executive body

65.6.7. in the case of a joint stock company, an annual report of business operations;

65.6.8. any other material information concerning the matters included in the agenda of the meeting.

65.7. The company shall be obligated to make the information specified in article 65.6 of this law accessible to the shareholders from the time of giving notice of the shareholders meeting.

65.8. The company shall be obligated to ensure the accessibility of the venue of the shareholders meeting for the shareholders.

### **Article 66. Submitting proposals to be Included in the Agenda of a Shareholders Meeting**

66.1. Within sixty (60) business days after the end of the fiscal year, holders of five percent (5%) or more of the company`s common shares may submit additional proposals to the agenda for the meeting and may nominate candidates for election to the Board of Directors or Tabulation Commission (if the company charter provides for such matter to be discussed by the meeting), to the Board of Directors or the executive body.

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66.2. The executive management shall submit the proposal set forth in article 66.1 of this law to the Board of Directors within three (3) working days.

66.3. The shareholder specified in article 66.1 of this law shall submit the proposal in writing and it shall include a statement of the proposal, the father (mother)'s name, name of the shareholders introducing the proposal, and the number and class of shares held by each such shareholder.

66.4. If the shareholder specified in article 66.1 of this law nominates candidates for election to the Board of Directors or appointment to the executive body, it shall include the father (mother)'s name, name (if it is a shareholder of the company, the number and class of shares held by such shareholder) of the candidate, the father (mother)'s name, name of the shareholders nominating the candidate, and the number and class of shares held by each such shareholder and may specify the grounds for such nomination.

66.5. The Board of Directors (in its absence, the executive body) shall be obligated to include the submitted proposals set forth in article 66.3 of this law into the agenda for a regular shareholders meeting within fifteen (15) business days following the receipt of such proposals, except in the following cases:

66.5.1. the proposal submitter does not comply with the requirements specified in article 66.1 of this law;

66.5.2. if all information specified in article 66.3 and 66.4 of this law have not been provided.

66.6. If the Board of Directors (in its absence, the executive body) refuses to include a proposal in the agenda of a regular shareholders meeting, or to include a proposed candidate in the list of candidates as set forth in article 66.3 and 66.4 of this law, it shall deliver a notice on the reasons for such refusal to the shareholders who submitted the proposals or nominations within three (3) business days following the date of such decision.

66.7. The decision of the Board of Directors (in its absence, the executive body) specified in article 66.6 of this law may be appealed to a court by the proposal submitting person.

66.8. The Board of Directors shall have no right to amend the proposal without the consent of the proposal submitting person(s).

66.9. No changes may be made to the agenda of a shareholders meeting after the resolution to hold such meeting has been adopted

66.10. When nominating a candidate for the Board of Directors it shall be specified which of the independent member or a regular member the person is nominated to be and if the nomination is for an independent member, it shall be proven that such candidate fulfills the requirements set by this law.

### **Article 67. Tabulation Commission of the Shareholders Meeting**

67.1. In the case of a joint stock company, the person who called for a shareholders meeting shall appoint the tabulation commission as specified in article

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60.1 of this law, and a third party may be authorized to act as the tabulation commission.

67.2. It shall be prohibited to appoint as the member of the tabulation commission any person holding official position in the company, or their affiliated persons, if any such persons have a direct interest in any matter to be considered at the meeting.

67.3. The tabulation commission shall have the following obligations:

67.3.1. determine the existence of a quorum at a shareholders meeting and advise the chairperson of the meeting in this regard

67.3.2. determine each shareholder's voting rights with respect to each matter on the agenda of the meeting

67.3.3. explain any issues arising in connection with the exercise by shareholders of their right to vote;

67.3.4. explain the voting procedures;

67.3.5. ensure compliance with the established voting procedures and voting rights;

67.3.6. account for and preserve voting ballots if voting is conducted by ballot;

67.3.7. tabulate votes and record the results of voting at the shareholders meeting;

67.3.8. compile a record of voting result and provide the meeting with a report signed by the head of the tabulation commission;

67.3.9. deliver voting ballots to the company's archives for safe keeping.

67.4. The head of the tabulation commission shall be personally responsible for the accuracy of the record

67.5. The Board of Directors may assign additional duties to the tabulation commission related to the shareholders meeting.

### **Article 68. Procedures for Participation in a Shareholders Meeting**

68.1. The right to participate in a shareholders meeting may be exercised by a shareholder either in person or through its representative, who shall act on the basis of a written power of attorney issued pursuant to the requirements of the Civil Code.

## Unofficial Translation

68.2. The representative to attend the meeting as set forth in article 68.1 of this law shall notify the Board of Directors that it is acting in this capacity prior to the meeting and the power of attorney shall only be valid for a specified meeting.

68.3. If such meeting is postponed, but the agenda remains the same, the power of attorney set forth in article 68.1 of this law shall remain valid for use at the next meeting.

68.4. Shareholders who have submitted their votes by ballot shall be deemed to be participants in the shareholders meeting.

68.5. In the case of a joint stock company, any shareholder that has transferred its shares after the record date for determining shareholders having the right to participate in a shareholders meeting may grant a power of attorney to the transferee of such shares authorizing such holder to participate in the meeting, or may agree to participate in person at the meeting and to vote in accordance with the transferee's instructions.

68.6. If a company's shares are jointly owned by several persons in part, the power to vote at a shareholders meeting may be exercised by any one of the owners as agreed among them or by their representative.

68.7. Documentation establishing the right to represent such persons as set forth in article 68.6 of this law must meet the requirements of the Civil Code.

### **Article 69. Quorum Required for a Shareholders Meeting, the taking of effect of the Shareholders Meeting**

69.1. There shall be a quorum at a shareholders meeting if shareholders holding more than fifty percent (50%) of the company's voting shares participate in the meeting.

69.2. The company's charter may establish quorum requirements higher than specified in article 69.1 of this law.

69.3. In the absence of a quorum as provided in article 69.1 of this law the shareholders meeting shall postponed and a date for a new shareholders meeting shall be announced, in which case no changes may be made in the agenda of the postponed meeting.

69.4. There shall be a quorum at the postponed shareholders meeting set forth in article 69.3 of this law if shareholders eligible to vote holding at least twenty percent (20%) of the company's voting shares participate in the meeting, unless a higher number of shares is required by the company charter.

69.5. If the agenda for the postponed shareholders meeting includes matters specified in article 62.1.1-62.1.6 of this law, a quorum will be deemed to be established if shareholders eligible to vote holding at least one third (1/3) of the company's voting shares participate in the meeting, unless a higher percentage is required by the company charter.

## Unofficial Translation

69.6. A company shall hold the postponed shareholders meeting set forth in article 69.3 of this law within twenty (20) business days and shareholders shall be given notice of the place, date and time of the postponed meeting at least seven (7) business days prior to the holding of postponed meeting.

69.7. In the case of a postponed shareholders meeting set forth in article 69.3 of this law is held by a joint stock company, the record date for determining shareholders having the right to participate in the meeting shall not be changed.

69.8. Ballots submitted for use at the shareholders meeting at which a quorum was not established set forth in article 69.3 of this law shall be counted in establishing the quorum.

69.9. If the postponed shareholders meeting is not held within the time period specified in article 69.6 of this law, a new shareholders meeting shall be called, at which the quorum requirements set forth in article 69.1 of this law must be met.

### **Article 70. Shareholder meeting, appealing its decision**

70.1. The shareholder who did not attend the shareholders meeting, or who voted against the decision adopted at such meeting may appeal to a court in respect of the shareholders meeting and its decision on the following grounds:

70.1.1. the shareholders meeting was not convened in accordance with the procedure set by this law, and by the relevant authority in conformity therewith, or with the company charter.

70.1.2. the date and place of the shareholders meeting was changed after the decision to convene the shareholders meeting was issued;

70.1.3. Matters not included in the agenda of the meeting were discussed.

70.2. The shareholder who did not attend the shareholders meeting, or voted against the decision adopted at such meeting has the right to submit its complaint to the Financial Regulatory Committee based on the grounds specified in article 70.1 of this law.

### **Article 71. Voting ballots**

71.1. A public company shall, and a limited liability company may, conduct voting at a shareholders meeting by the use of ballots.

71.2. Shareholders who shall vote as specified in article 71.1 of this law shall submit their ballots to the tabulation commission pursuant to procedures established in the voting ballots.

71.3. The person who called for a shareholders meeting shall adopt the content and format of the voting ballots specified in article 71.1 of this law.

71.4. Voting ballots shall contain:

71.4.1. Name of company

71.4.2. the place, date and time for holding the relevant shareholders meeting;

## Unofficial Translation

71.4.3. the father (mother)'s name, name of the shareholder and the class and number of shares held by such shareholder;

71.4.4. a statement of the issues on the agenda for the meeting and the father (mother)'s name, and names of candidates for election to the Board of Directors.

71.4.5. the voting method (ordinary or cumulative) to be used for electing members of the Board of Directors or the executive body.

71.5. If ordinary voting is to be used, provisions for the voting options "for", "against" and "abstain" with respect to each matter, if cumulative voting is to be used, the ballots shall include an explanation of the concept of cumulative voting and a blank next to the name of each candidate indicating the number of votes being cast for such candidate.

### **Article 72. Validity of Voting Ballots at a Shareholders Meeting**

72.1. A voting ballot shall be deemed to be valid in the following cases:

72.1.1. . in the case of ordinary voting, only one blank is marked with respect to each matter to be voted on;

72.1.2. in the case of election of members of the Board of Directors or members of the executive body by ordinary voting, the number of votes cast for the candidates does not exceed the number of members to be elected.

72.1.3. in the case of election by cumulative voting, the total number of votes cast by the shareholder for each candidate for the Board of Directors or the Executive body does not exceed the total number of votes such shareholder is entitled to cast, which is the number of common shares held by the shareholder multiplied by the number of the members to be elected.

72.2. With respect to voting on all matters other than elections, a shareholder may mark only one of the possible voting options.

### **Article 73. Decisions of Shareholders Adopted by External Voting**

73.1. A joint stock company may resolve a matter of the exclusive authority of the shareholders meeting by way of an external voting instead of convening a shareholders meeting and such external voting shall use voting ballots.

73.2. The regular session of the shareholders meeting may not be replaced by external voting.

73.3. A company's Board of Directors shall decide to conduct external voting and such decision shall contain:

73.3.1. a list of the matters to be submitted to shareholders for external voting;

73.3.2. the record date for determining the shareholders who have the right to participate in such external voting;

## Unofficial Translation

- 73.3.3. the date for delivering voting ballots to such shareholders;
- 73.3.4. the date by which ballots must be submitted to the company;
- 73.3.5. the content and format of the ballot;
- 73.3.6. a list of materials and information to be made available to shareholders with respect to the matters to be voted, the location of such information.
- 73.4. Shareholders having the right to participate in external voting shall be determined in accordance with article 64 of this law.
- 73.5. The voting ballot shall contain the information specified in articles 71.4.1, 71.4.3- 71.4.5 of this law and the date by which ballots must be submitted.
- 73.6. In the case of a joint stock company, voting ballots must be distributed to shareholders at least thirty (30) business days prior to the date by which ballots must be submitted to the company.
- 73.7. An external voting shall be considered valid if shareholders holding more than fifty percent (50%) of the total shares eligible to vote submit their ballots and the resolutions shall be deemed to be adopted if approved by a majority of votes of shareholders eligible to vote who submitted their ballots.
- 73.8. The tabulation commission shall count the votes cast by ballot and prepare a summary report in accordance with the provisions of article 67 of this law.
- 73.9. The tabulation commission shall submit its report to the Board of Directors, signed by the head and members of the commission, within three (3) business days following the date by which ballots must be submitted to the company.
- 73.10. The report on the result of external voting shall include:
  - 73.10.1. the date that the voting ballots were distributed to shareholders
  - 73.10.2. a list of the matters voted on by external voting;
  - 73.10.3. a list of the names of shareholders who submitted ballots and the number of voting shares held by each such shareholder;
  - 73.10.4. the total number of votes cast with respect to each issue by shareholders with voting rights;
  - 73.10.5. the results of the external voting; and
  - 73.10.6. the resolutions adopted by the external voting.
- 73.11. Based on the report of the tabulation commission of the shareholders meeting, the Board of Directors shall render a decision and shall inform the shareholders of the such decision within seven (7) business days following the date of receiving such report.

### **Article 74. Minutes of a shareholders meeting**

- 74.1. Minutes of a shareholders meeting shall be compiled within fifteen (15) business days following the meeting and shall be signed by the chairperson of the meeting who shall be responsible for the accuracy of the minutes
- 74.2. The minutes of a shareholders meeting must include:
  - 74.2.1. the date, place and time of holding the meeting;
  - 74.2.2. the father (mother)'s name and name of the chairperson of the meeting;
  - 74.2.3. the agenda of the meeting;
  - 74.2.4. the total number of voting shares held by all shareholders and the number of such shares held by shareholders attending the meeting;

## Unofficial Translation

74.2.5. in the case of voting by ballots, the content and format of the ballot;

74.2.6. the number of votes cast for and against each resolution, the number of abstentions, the full text of resolutions adopted at the meeting.

74.3. Mistakes made in compiling the minutes of a shareholders meeting shall not constitute grounds to invalidate the decisions adopted by the meeting

74.4. In the case of a limited liability company, voting results and decisions adopted at a shareholders meeting shall be announced at the meeting.

74.5. In the case of a joint stock company, voting results and resolutions adopted at a shareholders meeting or by external voting shall either be announced at the meeting or in a report to shareholders.

74.6. If the company and the shareholder(s) deem necessary, specified technical equipments may be used to make a recording for proof of the accuracy of the minutes of the shareholders meeting.

74.7. If a shareholder made a recording set forth in article 74.6 of this law, a copy of such recording shall be retained by the company.

### **Article 75. Board of Directors**

75.1. The Board of Directors is the governing body of a company between shareholders meetings

75.2. A public company shall have a Board of Directors and a limited liability company may choose to not have a Board of Directors unless otherwise provided in its charter

75.3. The number of members of the Board of Directors shall be set forth in the company charter.

75.4. The Board of Directors of a public company and of a state owned company shall have at least nine (9) members, and one third shall be independent members.

75.5. If specified in the company charter, the Board of Directors of a limited liability company may have independent members.

75.6. If the shareholders meeting of a joint stock company fails to elect the number of independent members to the Board of Directors as set forth in article 75.4 of this law, the Board of Directors of the company shall be deemed to be incapable of exercising its full authority.

75.7. In the case set forth in article 75.6 of this law, the Board of Directors of the company shall set the date for the convening of the next shareholders meeting within five business days of the date of the initial shareholders meeting and have the matter of electing members of the Board of Directors re-considered.

75.8. The member and secretary of the Board of Directors shall have attended a corporate governance training and obtained a certificate.

### **Article 76. Authority of the Board of Directors**

76.1. With the exception of matters specified in this law or in the company charter as being exclusively within the authority of the shareholders meeting, the Board of Directors shall have authority with respect to the following matters:

76.1.1. determination of the activities and policies of the company;

76.1.2. the holding of regular and special shareholders meetings;

## Unofficial Translation

- 76.1.3. determination of the agenda for shareholders meetings, the record date for determining shareholders having the right to participate in such meetings, and other matters with respect to the holding of such meetings;
- 76.1.4. the issuance of shares within the limits of the company`s authorized but unissued shares;
- 76.1.5. the issuance of securities related to common shares and other securities as specified in the company charter
- 76.1.6. determination of the market value of property and property rights in accordance with article 55 of this law;
- 76.1.7. acquisition and redemption of its shares and other securities
- 76.1.8. election and modification of the company`s executive body and determining its authority;
- 76.1.9. establishment of the terms of contracts to be concluded with members of the executive body, the amount of bonuses to be granted to such members, and their respective liabilities and obligations;
- 76.1.10. selection of the company`s auditor and establishment of the terms of the contract to be concluded with such auditor;
- 76.1.11. preparation of the company`s annual report of business operations and financial statements;
- 76.1.12. unless otherwise provided in the company`s charter, determination of the amount of dividends to be paid with respect to the company`s shares and the procedures for payment of such dividends;
- 76.1.13. approval of the rules of procedure to be followed by the company`s Board of Directors and executive body;
- 76.1.14. creation of branches and representative offices of the company;
- 76.1.15. preparation of resolutions with respect to reorganization of the company for submission to a shareholders meeting for approval and implementation of such reorganization
- 76.1.16. approval of the conclusion of a major transaction in accordance with Chapter Eleven (11) of this law.;
- 76.1.17. approval of the conclusion of a conflict-or-interest transaction in accordance with Chapter Twelve of this law; and
- 76.1.18. other matters specified in this Law and in the company`s charter.

76.2. In the case of a joint stock company, only independent members of the Board of Directors may consider and vote on the matters specified in articles 76.1.6, 76.1.10 and 76.1.17 of this law.

### **Article 77. Election, Powers and Termination of Members of the Board of Directors**

77.1. Members of the Board of Directors shall be elected by a shareholders meeting pursuant to the procedures established by this law and the company charter.

77.2. Unless otherwise provided in the company charter, the authority of members of the Board of Directors shall expire on the date of the next shareholders meeting of the next year and members of the Board of Directors may be reelected at any such meeting.

## Unofficial Translation

77.3. The shareholders at a special shareholders meeting may terminate the authority of a member of the Board of Directors before the expiration of his or her term and if the members of the Board of Directors have been elected by cumulative voting, a shareholders meeting may terminate the authority of all members of such Board. Member of the Board of Directors must be individual persons.

77.4. The votes for regular and independent members of the Board of Directors shall be counted separately. The procedure to use the cumulative voting methods shall be determined by the Financial Regulatory Committee.

77.5. Unless otherwise provided in a company`s charter, in the event of long-term incapacity or submission to be released from the post, or death of a member of the Board of Directors, the Board may appoint a person to hold this position until the election of a replacement member

77.6. The person appointed as set forth in article 77.5 of this law shall have fulfilled the requirements set for an independent member, and shall exercise the rights of the member of the Board of Directors.

### **Article 78. Chairperson of the Board of Directors**

78.1. Unless otherwise provided in the company charter, the chairperson of a company`s Board of Directors shall be elected from among the members of the Board by a majority vote of all the members.

78.2. Unless otherwise provided in a company`s charter, the chairperson of the Board of Directors shall organize the activities of the Board, convene and preside at its meetings, and supervise the preparation and retention of minutes of such meeting

78.3. In the absence of the chairperson of a company`s Board of Directors, his or her powers shall be exercised by another member of the Board appointed by the chairperson or by the Board.

### **Article 79. Independent member of the Board of Directors**

79.1. The nominating committee specified in article 81.2 of this law shall nominate a person fulfilling the following requirements for independent member of the Board of Directors:

79.1.1. does not own five percent or more of the common shares of the company, alone, or in conjunction with a relate party;

79.1.2. does not personally, or the related party does not hold an official position in the company, or in other members of the group of companies that the company is part of.

79.1.3. does not serve public office other than public service office;

79.1.4. is not related to the company business in any way.

79.2. In the case of state owned and state property dominated company, a person of high professional skills to lead the company may be nominated by a non-governmental organization with the purpose to support good corporate governance.

79.3. An independant member of the Board of Directors shall have the following additional obligations in addition to the rights and obligations of the other members:

79.3.1. monitor whether the activities, policies and decision of the Board of Directors and of the executive body negatively affects the interests of the company, whether the activities are in compliance with the laws, rules and procedures, prevent from violations or conflicts, demand from the relevant person to eliminate any violations, if such demand is not complied with, to submit such matter for consideration by the Board of Directors and consequently, to submit the demand to convene a shareholders meeting;

79.3.2. to guide the executive body in respect of maintaining the transparency and accessibility of the company`s activities, monitor and make demands in respect thereof;

## Unofficial Translation

79.3.3. to take part in the shareholders meetings in person, and to inform of any different views taken in respect of the decision rendered by the Board of Directors, respond to questions by the shareholders and to make clarifications.

79.4. The independent member of the Board of Directors of state and locally owned company, or company with the involvement of the state and local property of 50 percent or more shall have the following rights and obligations in addition to those specified in article 76.1 and 79.3 of this law:

79.4.1. to develop proposals for purchases in accordance with the Law on Purchasing Works and Services with State and Local Property<sup>6</sup>.

<sup>6</sup> Law on Purchasing Works and Services with State and Local Property – published in issue number 48 of the “State Bulletin”, 2005.

79.4.2. To monitor whether the activities of purchasing goods, works and services in respect of the agreement concluded with the executive body is efficient and in compliance with the principles of the relevant laws.

### **Article 80. Meeting of the Board of Directors**

80.1. Unless otherwise provided in the company charter, a Board of Directors meeting shall be held once monthly and, if deemed necessary, additional meetings may be held.

80.2. Decisions adopted at a meeting of the Board of Directors shall be deemed to be resolutions and shall be signed by the chairperson of the Board.

80.3. A meeting of a company's Board of Directors may be convened by the chairperson, any member of the Board, any member of the company's executive body, of any other persons specified in the company charter.

80.4. The Board of Directors shall establish and approve rules of procedure governing its activities, and the Board of Directors may issue a decision through external voting.

80.5. An overwhelming majority of members of the Board of Directors shall constitute a quorum at meetings of the Board.

80.6. Decisions of the Board of Directors must be adopted by an overwhelming majority of votes of members who participate in the meeting, unless a larger number of votes is specified in the company charter.

80.7. If, pursuant to this law or the company charter, any members of the Board of Directors are not eligible to vote on a particular matter, a decision with respect to such matter must be adopted by an overwhelming majority of the members of the Board of Directors who are eligible to vote on such matter.

80.8. If the number of elected members of the Board is reduced to less than half of the total number of members specified in the company charter, then the company shall convene a special shareholders meeting to elect new members within three (3) months.

80.9. Each member of the Board of Directors shall have one vote with respect to each matter considered at any meeting of the Board.

## Unofficial Translation

80.10. If an equal number of votes is cast by members of the Board of Directors with respect to any matter, either the company charter or the Procedure of the Board of Directors may provide that the chairperson of the Board of Directors may cast the deciding vote with respect such matter.

80.11. The minutes of a meeting of a company`s Board of Directors shall include the following:

80.11.1. the place and time of the meeting

80.11.2. the names of the members present at the meeting

80.11.3. the agenda for the meeting;

80.11.4. all matters submitted for consideration and the result of voting on any such matters; and

80.11.5. ensuing decision.

80.12. The minutes of a meeting of the Board of Directors shall be signed by the members of the Board of Directors present at such meeting and the chairperson shall be responsible for the accuracy of the minutes.

80.13. If any member of the Board of Directors refuses to sign the minutes of the Board of Directors meeting, such member shall issue a written clarification for such refusal.

80.14. The incorrect recording of the minutes of the Board of Directors meeting shall not constitute grounds to revoke the decision approved from such meeting.

### **Article 81. Committee under the Board of Directors**

81.1. If it deems necessary, the Board of Directors may establish a standing and temporary committee in charge of a particular matter.

81.2. The Board of Directors of a joint stock company shall have audit, salary, bonus and nominating committees and no less than two-thirds (2/3) of these committees shall comprise of independent members of the Board of Directors.

81.3. The committee of the Board of Directors shall have specific functions and shall have the authority to render conclusions, present such conclusion to the Board of Directors and render decisions in respect of particular matters specified in this law.

81.4. The head of the audit committee specified in article 81.2 of this law shall be an independent member of the Board of Directors and such committee shall render and present conclusions in respect of the following matters:

81.4.1. ensure the compliance of the accounting policy and record-keeping in line with the international standards, monitor the current conditions of internal monitoring and risk management, and the accuracy of the financial reports and other financial and economic information;

81.4.2. appoint the management and employees of internal monitoring, develop proposals to determine their salaries and bonus;

81.4.3. develop proposal in respect of choosing and determining the work pay of an auditing organization;

81.4.4. monitor and issue conclusion on major transactions and conflict-of-interest transactions;

81.4.5. Other matters that are specified in the company charter, or deemed necessary by the Board of Directors.

81.5. The nominating committee set forth in article 81.2 of this law shall exercise the following authority:

81.5.1. determine the requirements to be set for the candidate for member of Board of

## Unofficial Translation

Directors and for the executive body of the company, and the criteria to evaluate the skills, knowledge, education and work experience.

81.5.2. evaluate and issue conclusion on whether the candidate for the member of Board of Directors and executive body fulfill the requirements of skills, knowledge, education and experience, and the candidate for independent member fulfills the requirements set forth in article 79.1 of this law;

81.5.3. register candidates and conduct the selection process for the member of Board of Directors and nominate such candidate directly to the shareholders meeting;

81.5.4. Evaluate and issue conclusion on the activities of the members of the Board of Directors and executive body;

81.5.5. develop the terms of the agreement to be concluded with the executive body;

81.5.6. Issue conclusion on the evaluation given by the executive body on the implementation and performance of the activities of company officials other than the members of the Board of Directors;

81.5.7. To refuse to nominate a person to be member of the Board of Directors of a joint stock company who used to be a member of the Board of Directors of which the authority was terminated on the grounds specified in article 59.5 of this law for a period of three (3) years.

81.6. The committee on salary and bonuses specified in article 81.2 of this law shall issue and present a conclusion to the Board of Directors:

81.6.1. approval and monitoring of the policy in respect of the salary and bonuses of the member of Board of Directors, executive management and other company officials;

81.6.2. багтаан цалин, урамшуулал олгох санал боловсруулах; develop proposals to determine the maximum level of salary and bonus of Board of Directors, executive body and other officials and to grant such salary and bonus within the determined limits;

81.6.3. determine the incentive system of the company in respect of the performance applied in the company, evaluate its outcome.

### **Article 82. Secretary of the Board of Directors**

82.1. The secretary of the Board of Directors shall be appointed by the Board of Directors as proposed by the chairperson of the Board of Directors

82.2. The secretary of the Board of Directors shall have the following obligations:

82.2.1. to maintain the records and documentation of the Board of Directors, and notify shareholders;

82.2.2. to ensure preparation of the shareholders and Board of Directors meeting, prepare and submit the notice of such meetings, information in respect of the items of the agenda, drafts of the resolutions to be adopted and other documents;

82.2.3. Keep the minutes of the meeting of the shareholders and Board of Directors, validate the decisions adopted according to the relevant procedures, and monitor the implementation thereof;

82.2.4. Organize and ensure the coordination of the activities of the shareholders meeting, Board of Directors, Executive director and other stakeholders;

## Unofficial Translation

82.2.5. Coordinate and facilitate the internal activities of the Board of Directors.

82.3. The chairperson of the Board of Directors shall appoint the person to replace the secretary of the Board of Directors in his/her absence.

### **Article 83. Executive body**

83.1. A company's executive body shall manage the company's day-to-day activities within the scope of the authority established by the company charter and the agreement entered into with the Board of Directors (in its absence, a shareholders meeting).

83.2. Unless the company charter provides for a collegial executive body, the executive body shall be an individual.

83.3. In the case the executive body is implemented by an individual, such individual shall be the executive director.

83.4. The executive body may be a member of the company's Board of Directors, but it shall be prohibited for chairperson of the Board to exercise the authority of the executive body.

83.5. Unless otherwise provided by law or in a company charter, and with the consent of the company's Board of Directors (in its absence, the shareholders meeting), the executive director of a company, or a member of the company's collegial executive body, may concurrently hold an official position in the governing body of another company or business entity.

83.6. The executive body shall act within the scope of authority set forth in the agreement entered into with the Board of Directors (in its absence, a shareholders meeting).

83.7. The agreement specified in article 83.6 of this law shall be signed by the chairperson of the Board (in its absence, by the chairperson of the shareholders meeting) and shall establish the rights and duties of the body, the extent of its responsibilities, circumstances warranting release from any such responsibilities, and the salaries and bonuses of members of the body.

83.8. The executive body may act on behalf of the company without power of attorney, including concluding transactions, entering into agreements and otherwise representing the company within the authority granted by the Board of Directors.

83.9. A collegial executive body of a company shall establish and adhere to procedures agreed to with the Board of Directors, for its members in respect of implementing their duties and responsibilities imposed on it by the company charter and its agreement with the Board of Directors (in its absence, the shareholders meeting).

83.10. The procedures set forth in article 83.9 of this law shall include the following:

83.10.1. the respective duties and responsibilities of the chairperson and each member of the executive body and procedures for coordinating such duties and responsibilities;

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83.10.2. the procedure for appointment of the chairperson of the body; and

83.10.3. the rights, duties and responsibilities of the chairperson of the body.

83.11. Members of the collegial executive body set forth in article 83.9 of this law shall be jointly liable for actions taken on behalf of the company and accountable to the Board of Directors (in its absence, the shareholders meeting).

83.12. In concluding any transactions or agreements, or exercising representation specified in article 83.8 of this law, the chairperson of the collegial executive body shall sign all relevant documents on behalf of the company in this capacity.

83.13. The chairperson set forth in article 83.12 of this law shall be elected by the members of the executive body after consultation with the Board of Directors, and such chairperson shall act as the executive director.

84.14. The collegial executive body shall keep minutes of its meetings, including all resolutions adopted at any such meetings and the chairperson of the body shall be responsible for the accuracy of such minutes.

83.15. The power of the executive body may be terminated at any time by the Board of Directors (in its absence, a shareholder meeting).

**CHAPTER TEN**

**LIABILITIES OF GOVERNING PERSONS OF A COMPANY**

**Article 84. Governing Persons of a Company**

84.1 A person who participate directly or indirectly in the process of making official decisions of a company or concluding transactions or agreements such as members of a Board of Directors and executive management team of a company, the executive director, chief financial officer, general accountant, general specialists and secretariat of Board of Directors shall be deemed to be governing persons of the company.

84.2 A company shall contemplate the list of governing persons, taking account of its special features, in its charter.

84.3 The following persons are prohibited to work as the governing person of a company:

84.3.1 A person who works as the governing person in the state or local administrative organization, or military, police, court or prosecution organization;

84.3.2 A person who is under criminal punishment.

## Unofficial Translation

84.4 The governing person of a company has the following duties:

84.4.1 To work and execute its power within scope of his authorities specified in a law, the company's charter and regulations;

84.4.2 To follow the principle to respect the interest of company in its activities, and to completely execute its duties specified in this law and a company's charter;

84.4.3 To make decision in compliance with the interest of a company;

84.4.4 To avoid the conflict of interest when making decision and to notify about the conflict of interest in case of there is conflict of interest;

84.4.5 Must not receive any gift or remuneration when implementing its duties/function;

84.4.6 Must not disclose information included in the confidential information of a company to others, or use such information for the purpose of its personal interests.

84.5 Unless otherwise provided by a labor agreement concluded between the governing person and a company, such governing person shall be subject to the obligation specified in article 84.4.6 of this law for three (3) years following removal of its position of governing person.

84.6 A governing person of a company shall compensate, by its personal property, the damage to a company that arisen from its failure to fulfill or repeated breach of obligations specified in article 84.4 and article 84.5 of this law.

84.7 If a member of Board of Directors or executive management failed to fulfill its obligation under article 84.4 of this law, a shareholder of a company is entitled to bring a lawsuit against such governing person to compensate the damage incurred to such company.

84.8 If the damage was caused by a decision of Board of Directors, a member of Board of Directors who was dissenting against such decision or did not participate in the meeting where such decision made shall be exempted from the liabilities.

84.9 A governing persons who made decision in breach of article 84.4 of this law shall be jointly liable and damage shall be compensated in pro rata basis.

84.10 In the case of a limited liability company, a person who holds over twenty percent (20%) of the total issued shares of a company with its affiliated persons shall be subject to the liability of specified in article 84 of this law as well as governing person of a company.

**Article 85. Liability of a Company's Governing Person**

85.1 A governing person of a company shall provide the secretariat of Board of Directors with the list of its affiliated persons within ten (10) days following the appointment in such position; and a governing person of a company must inform the company about any change made in the foregoing list within 10 days following such change each time.

85.2 A governing person of a company shall compensate any damage incurred to a company or its shareholders or creditors due to the following illegal acts or omissions:

85.2.1 To use the name of a company for personal interest;

85.2.2 To deliberately provide shareholders or creditors with false information;

85.2.3 To fail to fulfill its obligation to provide information;

85.2.4 To fail to keep the documents of a company specified in article 97 of this law in accordance with applicable regulation;

85.2.5 To fail to provide a person who is authorized to receive information specified in article 98 of this law with the foregoing information or to provide the foregoing person with such information in breach of the deadline;

85.3 If a governing person is in breach of article 85.2.5 of this law, it shall compensate the damage caused to such person due to the lack of receipt of the foregoing information within the specified period.

85.4 Without regard to whether liabilities imposed upon a governing person that has caused the company damages specified in this law or other laws, liabilities specified in article 85 of this law may be imposed.

**Article 86. Rights of a shareholder to bring claim against a governing person**

86.1 A holder of one percent (1%) or more of a company's common shares may appeal to court against a governing person of the company for compensation of losses [*damages. trans*] caused to the company.

86.2 A company, or a holder of one percent (1%) or more of a company's common shares may also appeal to court against a person specified in article 84.10 for

compensation of any loss caused to a company in accordance with procedure specified in this law.

## **CHAPTER ELEVEN**

### **MAJOR TRANSACTIONS**

#### **Article 87. Major Transaction**

87.1 The following transactions shall be deemed to be major transactions:

87.1.1 a transaction or several transactions directly connected with each other (except for transaction in respect of daily ordinary course of business) in connection with the sale, purchase, disposition or pledge of a property or property rights with market value exceeds twenty five percent (25%) of the total amount of assets as shown on the most recent balance sheet of a company prior to the conclusion of such transaction;

87.1.2 the issuance, or several issuances directly connected with each other, of common shares, certificates with right to purchase common shares or securities convertible into common shares where the number of such common shares exceeds twenty five percent (25%) of the common shares issued before such transaction.

87.2 The market value of property and property rights that are the subject of a major transaction shall be determined by the Board of Directors (in its absence, a shareholders meeting) in accordance with article 55 of this law.

87.3 When determining the major transaction, the Board of Directors (in its absence, the executive management) may re-determine the amount of property in the balance sheet by adjusting such amount of property with inflation based on recommendations of the company's auditor.

87.4 The provisions in Chapter Eleven of this law shall not apply in the case of a company that has a sole owner and such owner is executing the executive management.

#### **Article 88. Conclusion of a Major Transaction**

88.1 A resolution to conclude a major transaction must be adopted unanimously by the Board of Directors (in its absence, by a shareholders meeting).

88.2 If the Board of Directors fail to unanimously adopt the resolution to conclude a major transaction, the major transaction matter shall be submitted into a

## Unofficial Translation

shareholders meeting where it must be approved by a majority votes of shareholders who attend the meeting.

88.3 Shareholders who voted against a resolution to conclude a major transaction have the right to demand the company that to redeem their shares in accordance with the procedure specified in article 53 of this law.

88.4 A company is obligated to inform the public about the major transactions and their price in their quarterly and annual reports.

### **CHAPTER TWELVE**

#### **CONFLICT OF INTEREST TRANSACTIONS**

##### **Article 89. A person with conflict of interest**

89.1 If a shareholder, who holds, alone or in conjunction with its affiliated persons, twenty percent (20%) or more of the company`s common shares, governing person of the company and its affiliated person of the company engages in the following relationship with the company where such shareholder, governing person or its affiliated person works or holds interest, such shareholder, governing person or its affiliated person shall be deemed as “conflict-of-interest person” of a company, or its subsidiary or controlled company:

89.1.1 is the other party to such transaction, or participates in such transaction as a representative or intermediary;

89.1.2 is a governing person of other legal entity, or holds, alone or in conjunction with its affiliated persons, twenty percent (20%) or more of the common shares (share percentage) of such legal entity that is participating in the transaction as other party, or a representative or intermediary;

89.1.3 is a governing person of parent company of the other participating legal entity, or holds, alone or in conjunction with its affiliated persons, twenty percent (20%) or more of the common shares (share percentage) of such parent company of a legal entity that is participating in the transaction as other party or a representative or intermediary; or

89.1.4 receives percentage from the income directly or indirectly raised from such transaction.

89.2 The following person shall be deemed to be affiliated person with the governing person of a company or holder of controlling package of company`s shares:

## Unofficial Translation

89.2.1 a spouse of the governing person or holder of controlling package of company's shares or other family members who live with them;

89.2.2 parents, children, grandchildren, nephew, brothers or sisters of the governing person or holder of controlling package of company's shares;

89.2.3 If the governing person or holder of controlling package of company's shares is receiving the percentage from income directly or indirectly raises from such transaction with a company where they hold shares or are employed, the participants parties in such transaction.

89.3 The provisions in Chapter Twelve (12) of this law shall not apply in the following circumstances:

89.3.1 If common shares of a company is held by a sole person and such person is executing the executive management;

89.3.2 If a shareholder implement its pre-emptive right to purchase shares in accordance with article 38 of this law;

89.3.3 If a company purchases shares offered by shareholders in proportion to the total number of each type of shares offered by such shareholders;

89.3.4 If a company holding seventy-five percent (75%) or more of the common shares of other company that is under organization by means of merger in accordance with article 20 of this law.

89.4 If the number of shareholders of limited liability company is no more than ten (10), the company's charter may provide other circumstances apart from circumstances specified in article 89.3 of this law.

89.5 A company is obligated to inform the public about the number of conflict of interest transaction, persons who concluded such transactions, and price of such transactions during the period of such reporting year by reflecting the foregoing information into the annual report of such company.

### **Article 90. Compensation for losses arising from conflict-of-interest transactions**

90.1 The guilty person shall compensate, by its personal property, the loss arising from the conflict of interest transaction caused to a company or its controlled or subsidiary company.

Unofficial Translation

90.2 A holder of a company's common shares or an officer authorized to represent a company may file a claim in court for compensation for a loss specified in article 90.1 of this law.

**Article 91. Requirements for a person to conclude conflict-of-interest transactions**

91.1 A person who would make the conflict of interest transaction must provide the Board of Directors (in its absence, the executive management) and the auditor with the following information:

91.1.1 information with respect to the legal entity where such conflict of interest person holds, alone or in conjunction with its affiliated persons, twenty percent (20%) or more of the common shares and its controlled or subsidiary companies;

91.1.2 information on the legal entity where such conflict of interest person or its affiliated person works as the governing person and information on other partners of group of companies [coordinated companies] where such conflict of interest person is a governing person;

91.1.3 information that such person is a conflict-of-interest person with respect to a proposed transaction by the company; and

91.1.4 information on affiliated person of a person specified in article 89.1 of this law.

91.2 A person to conclude conflict of interest transaction is not entitled to participate in the decision making process with respect to such transaction.

91.3 A company shall keep the record of its governing persons and its affiliated persons and provide any person who interested to see such record with the foregoing record.

**Article 92. Conflict of interest transaction and procedure to conclude such transaction**

92.1 A transaction made by a person specified in article 89.1 of this law with the company where the foregoing person works or holds the controlling block of such company's shares is deemed as conflict of interest transaction. The decision to conclude conflict of interest transaction must be adopted by a majority of the votes of Board of Director's members (its absence, a shareholders meeting) who have no conflict-of-interest with respect to such transaction.

## Unofficial Translation

92.2 The market value and service price of the property, property rights or other rights which is possible to be valued by money that are subject to sale, purchase or disposition through the conflict of interest transaction shall be determined by the Board of Directors in accordance with article 55 of this law.

92.3 In the following cases, a decision by a joint stock company to conclude a conflict-of-interest transaction (or several transactions connected with each other), or to permit or demand its controlled or subsidiary companies to conclude such conflict of interest transaction, must be discussed at shareholders meeting and it must be approved by a majority of the votes of shareholders who attended such meeting and who have no conflict-of-interest;

92.3.1 if the value of transaction, property, property rights or other rights which is possible to be valued by money or the service price determined by the Board of Directors in accordance with article 55 of this law exceeds twenty five percent (25%) of the value of the company`s assets in the record as at the date of adoption of the resolution to conclude such transaction;

92.3.2 if the number of common shares, the options to purchase common shares or the securities convertible to common shares to be issued by the company pursuant to such transaction exceeds twenty five percent (25%) of the value of the common shares issued before by the company or its controlled joint stock company; or

92.3.3 if all members of the Board of Directors (for the joint stock company, all independent members of Board of Directors) are conflict-of-interest persons with respect to the transaction.

92.4 A decision by the Board of Directors of a company to submit the matter related to conclusion of conflict of interest transaction to a shareholders meeting must be approved by majority of the votes of the Board of Directors` members who have no conflict-of-interest, or in the case of a joint stock company, by a majority of the votes of independent members of the Board of Directors.

92.5 A conflict-of-interest transaction with respect to the loan to be given by the conflict of interest person, or its spouse, parents, children, brothers, sisters or affiliated persons is not required to be approved in accordance with article 92.3 of this law.

92.6. If a conflict-of-interest transaction was concluded in the ordinary course of the business of a company or its controlled company prior to the determination of a person deemed as the conflict of interest person in accordance with article 89 of this law, such transaction is not required to be approved by shareholders

## Unofficial Translation

in accordance with article 92.3 of this law until the next regular shareholders meeting is held.

92.7 If, on the date of shareholder meeting, it is not possible to determine whether a transaction concluded, in the ordinary course of business, by the company or its controlled company is a conflict-of-interest transaction or not, the shareholders meeting shall issue a decision which reflects the type of transaction, the person who concluded such transaction and the maximum value of such transaction and approves the business which would be implemented by the company or its controlled or subsidiary company with other persons; and in this case, it shall be deemed to fulfill the requirements specified in article 92.3 of this law.

92.8 The procedures with respect to conclusion of conflict of interest transaction specified in the Chapter Twelve (12) of this law shall be followed along with other procedures provided by this law or the charter of a company with respect to conclusion of other types of transactions.

### **Article 93. Consequences of breaching the procedures to conclude a conflict-of-interest transaction**

93.1 If a person specified in article 89.1 of this law breaches the requirements and procedures specified in article 91 and 92 of this law, such person shall be liable for the amount of the loss caused to the company or its controlled or subsidiary companies as the result of such breach or for the amount of income raised by such person as a result of the transaction.

93.2 A court may deem the transaction with a person specified in article 89.1 of this law to be invalid.

93.3 A governing person of a company which concluded the conflict-of-interest transaction shall be subject to the liability specified in article 85 and 90 of this law.

93.4 If a person specified in article 89.1 of this law breaches the requirements and procedures specified in articles 91 and 92 of this law or such person holds all of the shares of legal entity that concluded a transaction with the company, the company may file a appeal to court against the foregoing legal entity for compensation for the losses incurred or to invalidate the conflict of interest transaction.

93.5 A company or a holder of company's common share, without power of attorney, may appeal to court against the person specified in article 89.1 of this law or the legal entity where such person holds all of its shares for compensation for the losses incurred to the company.

93.6 In the cases except for those specified in article 93.3 of this law, if a person breaches the requirements specified in article 92 of this law and such person did not know or did not have possibility to know about such breach, the foregoing transaction shall not be deemed as invalid transaction.

### **CHAPTER THIRTEEN**

#### **THE REVIEW OF FINANCIAL AND ECONOMIC ACTIVITIES OF COMPANY**

##### **Article 94. Auditor's review in the financial or economic activities of a company**

94.1 Unless otherwise provided in the company charter, a company may appoint an audit organization, by concluding an agreement, in order to review and certify its financial statements and to audit, in full or in part, the company's financial and economic activities.

94.2 The charter of public company must provide for retaining an auditor.

94.3 The audit committee of Board of Directors (in its absence, a shareholder meeting) shall select auditor and approve the agreement that would be concluded with the auditor.

94.4 The agreement specified in article 94.3 of this law shall specify the rights and obligations of the auditor and the amount of service fee payable to the auditor.

94.5 An audit of a company's financial and economic activities would be regular or irregular.

94.6 A regular audit shall be performed to review and certify the company's annual financial statements.

94.7 A special audit may be performed at any time upon demand of the Board of Directors, its audit committee or a shareholder who possesses over ten percent (10%) of the common shares of a company.

94.8 The fee of a regular audit made by audit organization shall be paid by the company. The fee of a special audit shall be paid by a shareholder who demanded and concluded such agreement.

## Unofficial Translation

94.9 During the audit, if it is determined that the governing person of a company caused the damage [*loss.trans*], the guilty person shall be responsible for the fee of such audit.

94.10 A governing officer of the company, at the demand of the company's auditor, must provide the auditor with any documents in connection with the financial and economic activities of a company.

94.11 The fee for the days when the activity of auditor or audit organization was stopped as a result of breach of the obligation specified in article 94.10 of this law by the governing person, the Board of Directors shall make decision to cause the guilty person to pay such audit fee.

94.12 An auditor is entitled to participate in the shareholders meeting for the purpose of providing clarification.

94.13 It is prohibited to choose the following persons as the auditor of a company:

94.13.1 the affiliated person of a company, the governing person of a company, the affiliated person of such governing person, or the hired employee or governing person of a company or its affiliated company;

94.13.2 a person who holds the securities issued by the company or its affiliated person, or holds other property or property rights of the company or its affiliated persons; or

94.13.3 a person who has entered into a transaction with the company regarding the matter other than the auditing service.

94.14 If auditor was chosen in breach of article 94.13 of this law, the audit conclusion made by such auditor shall be deemed as void.

94.15 It is prohibited to set the amount of fee for the auditing service depending on the feature of conclusion made by auditing organization.

94.16 On the basis of its review of the financial and economic activities of a company, the auditor of a company shall issue the conclusion which includes the following information:

94.16.1 Information confirming whether or not the financial statement of a company is correct;

94.16.2 Information confirming whether or not the record of accounting books and issuance of financial statement is in compliance with the

## Unofficial Translation

applicable regulation and if there is a breach, to determine such breach in every occasion;

94.16.3 The list of conflict-of-interest transactions concluded by the company during the period of such audit and confirmation on whether such conflict of interest transactions concluded in accordance with the procedure specified this law;

94.16.4 In the case of a joint stock company, other information required by the Financial Regulatory Commission or the Stock Exchange; and

94.16.5 Other information determined by the charter of a company or agreement the between the company and auditor.

94.17 The audit organization is responsible for, by its property, the loss [damage] caused by the audit conclusion made by it.

### **Article 95. Accounting books and reports**

95.1 A company shall maintain financial accounting books and records, and prepare financial statements in accordance with the procedure specified by law. The financial statement shall be presented to shareholders and other authorized persons.

95.2 A joint stock company must submit the financial statements to the Financial Regulatory Committee and the securities trading organization along with the additional information required by the foregoing organizations within the settled date and inform the public.

95.3 The company charter shall specify the commencement date and termination date of the company`s fiscal year.

95.4 The executive management of a company shall be responsible for the reliability and correctness of the accounting books and financial statements of a company.

### **Article 96. Financial Statement and Annual Reports**

96.1 The financial statements of a company shall include:

96.1.1 balance sheet;

96.1.2 statement of profit and loss;

96.1.3 a statement of cash flow;

96.1.4 a statement of accumulated earnings;

96.1.5 a list of all conflict-of-interest and major transactions concluded during the period of such report, the type and value of such transactions, and the salary, award and remuneration given to the management;

96.1.6 an additional clarifications; and

96.1.7 other information determined by law or decision of authorized organization.

## Unofficial Translation

96.2 The company charter of a limited liability company may determine the additional items required to be inserted in the financial statements.

96.3 The state central administrative organization in charge of finance matters shall determine the additional clarification required with respect to tax matters and the Financial Regulatory Committee shall determine the content of the financial statements of joint stock company and the template and regulation of additional clarification.

96.4 The Board of Directors of a company shall prepare and deliver to its shareholders an annual report with respect to the structure, organization, assets, and business activities of the company. Such annual report shall include:

96.4.1 a description of the principal activities conducted during the reporting year, the results of such activities, changes in such activities, the structure and organization, and any changes from the preceding year with respect to such structure and organization;

96.4.2 the amount of award and remuneration granted to governing person of the company and expenses incurred by the company's management during such reporting period;

96.4.3 other information required by the company charter; and

96.4.4 in the case of a joint stock company, any additional information required to be inserted in the annual report of joint stock company by the Financial Regulatory Committee.

96.5 The Board of Directors shall submit the report with respect to the financial statements to the annual shareholders meeting of a company for discussion.

96.6 If provided by law, before the Board of Directors issues the foregoing report the audit organization shall review and certify the financial statement of a company.

### **Article 97. Keeping of a company's documents**

97.1 A company must keep the following documents:

97.1.1 the charter of a company, amendments to the charter, the founding resolution of a company, and the state registration certificate of a company;

97.1.2 the internal documents of a company adopted by the shareholder meeting, Board of Directors and the executive management;

97.1.3 the charter of company's branches and representative offices;

## Unofficial Translation

- 97.1.4 the minutes of shareholder meeting and its decisions;
- 97.1.5 the documents distributed during the shareholder meeting and comments given by a shareholder regarding the agenda of shareholder meeting;
- 97.1.6 financial statements and business operational reports;
- 97.1.7 procedures to issue the common shares and securities;
- 97.1.8 book-keeping and accounting records;
- 97.1.9 a list of the company`s affiliated persons and the number and class of the company`s shares held by such affiliated persons;
- 97.1.10 the minutes of meeting of Board of Directors` and executive management, the Board of Directors` decision and executive management`s resolutions;
- 97.1.11 the audit conclusion with respect to financial statement of a company;
- 97.1.12 the list of affiliated persons of a company`s governing persons;
- 97.1.13 the list of persons who, alone or in conjunction with its affiliated persons, holds over five (5%) percent of company shares, and the class and number of their shares;
- 97.1.14 other documents determined by this law or the charter of a company;
- 97.2 A company shall and keep and also provide the authorized person determined by the charter and regulations of a company and this law with the following documents, at a demand of such person:
  - 97.2.1 The documentary proof that proves property and property rights reflected in the accounting books;
  - 97.2.2 The minutes of Board of directors` meeting and executive management meeting;
  - 97.2.3 The book-keeping and accounting records;
  - 97.2.4 The reports and information submitted to state organizations authorized to inspection and regulation;
- 97.3 A company shall keep its charter and amendments to the charter at all times.
- 97.4 A company shall keep all documents specified in article 97.1 of this law except for the charter of a company for five (5) years and after conclusion of such period, it shall transfer the foregoing documents to archives.
- 97.5 The secretariat of the Board of Directors (in its absence , the relevant officer of the executive management) shall be responsible for the activities to keep the documents specified in article 97.1 of this law, to provide persons authorized with the foregoing documents or to transfer such documents to the archives.

## Unofficial Translation

97.6 A company shall keep the documents specified in article 97.1 of this law at its principal place of business or at such other place known to and reasonably accessible by the shareholders of the company.

### **Article 98. Obtaining information with regard to a company**

98.1 A joint stock company must provide a holder of securities, at the request of the foregoing person, with the company's annual financial statements and reports of business operations, the names of company's affiliated persons, the number and class of shares held by such affiliated persons and other information determined by the rules and regulations of the Financial Regulatory Commission and the securities trading organization.

98.2 The secretary of a company's Board of Directors is obligated to ensure the possibility for the shareholder of a company to be acquainted with or make copy with charge the company's book-keeping and accounting records, minutes, resolutions and decisions of the executive management meetings and other information except for information prohibited to be disclosed to the public.

98.3 A common shareholder of joint stock company, or any shareholder of a limited liability company, may request the company to provide the foregoing shareholder with the registration that includes the names and addresses of holders of common shares of the company and the number of shares held by such shareholders.

98.4 The company's executive management or an organization authorized to maintain the registry of shareholders of a company shall provide the shareholder who made the foregoing request with the registration as of the date of request within five (5) business days following the receipt of such request. The shareholder who made the request shall be responsible for all costs incurred in connection with submission of the foregoing registration.

98.5 The governing person who fails to fulfill its obligation under article 98.1, 98.2 and 98.4 of this law shall be subject to the liability specified in article 85.4 of this law.

### **Article 99. Related party and information regarding related party**

99.1 A person with the following relationship shall be deemed to be related party specified in this law:

99.1.1 a group of individuals who have possibility to determine decisions of the company's management on the basis of a specific agreement;

## Unofficial Translation

99.1.2 for a company that is included in the group of companies [coordinated companies] specified in article 6.13 of this law, other participants companies of the union and their governing persons;

99.1.3 a person or company (group of individuals) who have possibility to determine decisions of the company's management on the basis of a specific agreement;

9.1.4 a company that has the possibility to determine the decisions of a person (or a group persons);

99.1.5 a company and the governing person of such company;

99.1.6 members of a family, parents, children, grandchildren, nephew, brother, sisters and other relatives;

99.1.7 shareholders of a limited liability company;

99.1.8 a company where such person or its affiliates holds controlling package of the company's shares or works as the governing person, a participant company of the union of companies where the first company is participant and the governing person and shareholder of controlling package of such former company;

99.1.9 if such person is employer, its employees.

99.2 A person who holds, alone or in conjunction with its affiliated persons, the controlling package of company's shares must notify, in written form, the company about information on the securities under its possession within three (3) business days following the date when such person becomes the affiliate or following the date it holds five (5) or more blocks or controlling block of the company's shares in conjunction with its affiliated persons.

99.3 If the company or its shareholders incur any losses of a company as a result of the failure of the affiliated person to give timely notice as required by article 99.2 of this law, such affiliated person shall compensate the foregoing losses.

### **CHAPTER FOURTEEN**

#### **MISCELLANEOUS**

##### **Article 100. The liability for violators of legislation**

100.1 If a violator of the Company law is not subject to a criminal liability, the judge or state inspector of Financial Regulatory Commission shall impose the following administrative liabilities to a guilty person:

## Unofficial Translation

100.1.1 If a joint stock company failed to fulfill the obligation to present, report, submit and inform the statements, balance sheet, information to the public, authorized organizations or shareholders, such joint stock company is subject to the fine equal to the minimum wage multiplied by thirty (30) to forty (40) times, and a relevant governing person is subject to the fine equal to the minimum wage multiplied by ten (10) to (15) fifteen times.

100.1.2 If a person breaches articles 6.4, 32.5, 39.4, 40.3, 48.1, 49.2, 49.6, 49.14, 51.2, 63.10, 66.9, 67.2, 69.3, 73.1, 84.3, 94.2, 94.15, 97.1, 97.5, 97.6 and 98.2 of this law, a joint stock company is subject to the fine equal to the minimum wage multiplied by twenty (20) to thirty (30) times, and a relevant governing person is subject to the fine equal to the minimum wage multiplied by five (5) to ten (10) times;

100.1.3 If a legal entity fails to register in accordance with article 4.2 and 42.4 of this law, it is subject to the fine equal the minimum wage multiplied by fifteen (15) times, and a relevant governing person is subject to the fine equal the minimum wage multiplied by five (5) times.

100.1.4 If a shareholder of a joint stock company breaches article 57.1 and 99.2 of this law, such shareholder is subject to the fine equal to the minimum wage multiplied by ten (10).

100.2 The administrative liability imposed under this law shall not be the grounds to release a guilty person from the obligation to compensate the damages.

**THE SPEAKER OF STATE IKH KHURAL D. DEMBEREL**