

**LAW OF MONGOLIA
ON PARTNERSHIP**

November 05, 1999
Ulaanbaatar city

(Turiin medeelel #34, 1999)

**CHAPTER ONE
GENERAL PROVISIONS**

Article 1. Purpose of the law

The purpose of this law is to regulate the establishment and registration of partnership, its management and organizational and supervisory structure, its bookkeeping and reports, reorganisation and liquidation.

Article 2. Definitions of law terms

In the law the following terms shall have the below mentioned meanings:

1) "Establishment agreement" shall mean a written agreement by several persons to unite their assets and create an organizational form specified by this law, and thus to carry on specified types of production and services with a purpose of making profit;

2) "Establishment document" shall mean a decision of a competent authority, partnership agreement (prospectus) and a charter of partnership,

3) "Member" shall mean a person who contributed his property to partnership. Any individual, partnership and competent State organization may be a member.

Article 3. Forms of partnership

1. A partnership may be established in following forms:

- 1) Unlimited partnership;
- 2) Limited partnership.

Article 4. Rights to trade internationally

A partnership may participate in foreign business transactions independently.

Article 5. Obtaining Special licensing

1. If a partnership shall conduct production or services which require special licensing only on the basis of written permission from the relevant authorities in accordance with the procedures stipulated in the laws of Mongolia.

2. Special licensing granted by the relevant authority shall expire upon dissolution of the partnership to which it is granted and the registry authority shall give notice to the competent authority which granted the licensing.

Article 6.

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Article 7. Merger of partnerships

A partnership may, in accordance with the Civil Law of Mongolia, form merger in order to co-ordinate activities or to represent their interests before State and other bodies locally or by other means.

Article 8. Name of partnership

1. A partnership shall have its own name, which shall be short and written in official script and shall not be identical to the existing registered name of any other partnership.

2. Business entities established in forms specified in article 3 of this law shall not use other names except provided in this law.

Article 9. Registration of a partnership

1. Local registry office of the partnership shall register and include in the State register upon its request for registration.

2. If a legal entity which is established abroad and which is similar to a partnership specified in this law, or a branch or representative office of such an entity, conducts business within the territory of Mongolia, it must be registered in accordance with the procedures of this law and shall be subject to the laws of Mongolia.

3. A partnership shall be deemed to be incorporated from the date of its registration.

Article 10. Content of the application for registration

1. An application shall state the requirements specified in the provisions of article 32 and of paragraph 3 of article 88 of this law have been whether complied with or not.

2. The followings shall be attached to application:

1) the establishment agreement (hereinafter referred to as “the agreement”);

2) the charter, if required by law;

3) Deleted

4) the State registration certificate of the immovable property and documents from any relevant body guaranteeing the validity of the assets contributed by the members to the partnership.

Article 11. Powers of Registration authority

1. The Registration authority shall receive and examine applications for registration and shall register and issue a certificate a partnership within 7 business days, a limited liability company within 14 business days, a joint stock company within 30 business days if it finds the application in compliance with law requirements.

2. The registration authority shall have the following powers in relation to the matters of registration:

1) to check whether partnership is being formed in accordance with the procedures in the laws;

2) to remove registration from the State register if a partnership does not commence the business stated in its agreement, charter, or relevant

preliminary works within one year from the date of registration, or commences but suspends its business for more than 12 consecutive months;

3) to refuse registration on the following grounds:

(a) if it has not approved its agreement, charter in accordance with the procedures prescribed in this law;

(b) if the business of the partnership contradicts with the laws;

(c) if a founding member does not have legal capacity;

(d) if the name is identical to the name of an existing entity.

4) To publish information on the affairs of a partnership which is required by this law to be published.

3. The registration authority shall give a partnership notice of its removal from the State register under paragraph 2(2) or of a refusal under paragraph 2(3) of this article within 7 days. If a partnership disagrees with the decision, it may appeal to the Courts.

4. It shall be prohibited to require other documents for the registration of a partnership than those referred in article 10 of this law.

5. Any claim related to the activities of the registration authority shall be submitted to the Courts.

Article 12. Location and changes thereof

1. The location of a partnership shall be defined by the place where the principal administration is located.

2. A partnership shall inform within 7 days in writing the relevant registration authority of any change of its location.

3. The original registration authority shall, within 7 days from receipt of the notice referred to in paragraph 2 of this article, record the change in the State register and give written notice to the new registration authority, attaching all the relevant documents pertaining to the partnership.

4. The new registration authority shall enter such partnership in the State register if it finds the changes are made in accordance with the procedures set forth in paragraph 3 of this article.

Article 13. Reorganisation of structure and forms of partnerships

A partnership may, in accordance with the procedures stipulated in this law, be reorganised into any type or form specified in the law.

Article 14. Liquidation

1. A partnership may be liquidated by a resolution passed at a general meeting on the following grounds:

1) Upon an expire of the term indicated in the agreement, charter of the partnership;

2) By the decision of members having the majority of voting rights;

3) By invalidation of special licensing granted to the partnership solely engaged in production or services requiring that licensing;

4) Reorganizations;

5) Other grounds stipulated in this law in relation to any particular aspect of a partnership;

6) Removal from the State register under paragraph 2(2) of article 11 of this law;

7) Any other grounds contemplated in the agreement and charter of the partnership.

2. A partnership may be liquidated by the Court on the following grounds:

- 1) Bankruptcy;
- 2) Withdrawal of all members from the partnership;
- 3) Failure to pass a resolution liquidation itself in the circumstances set out in paragraphs 1(3) and 1(6) of this article, or proceeding with its activities despite passing such a resolution;
- 4) Persistent or serious breach of the law;
- 5) Other grounds provided by the laws.

Article 15. Liquidators

1. Liquidators shall be appointed by the body that passed a decision liquidate a partnership, and shall carry out the liquidation.

2. On the appointment of the liquidators, the powers of the leadership of a partnership shall be terminated and shall be vested to the liquidators.

Article 16. Duties and liabilities of liquidators

1. The liquidators shall perform the following duties:

- 1) To inform to the public of the decision to liquidate the partnership within 3 days from its release;
- 2) To draw up the final balance sheet and reports and to present them to the general meeting;
- 3) To discharge any debts in accordance with the procedures and order of priority required by the law;
- 4) To distribute any remaining assets among the members in accordance with the procedures of the laws;
- 5) To notify to the registration authority of the completion of the dissolution process.

2. A partnership shall be deemed to be liquidated upon its removal by the registration authority from the State register. The registratio authority shall inform to the public on such matter.

3. If the liquidators cause any loss to the partnership or to its members by any wrongful act in the course of performing their duties, they shall be liable for such loss under the procedures set forth in the laws.

4. Any dispute arising between the liquidators and the partnership or its members shall be resolved by the Courts.

Article 17. Duties of debtors and creditors

1. Unless otherwise provided in this law, the debtors and creditors of a partnership which is being liquidated shall be liable to make final settlement within 3 months from the public notice of commencement of the liquidation.

2. If a debtor or creditor fails to make final settlement within the period stated in paragraph 1 of this article, it shall lose its right to satisfaction of any claims against the partnership.

Article 18. Liability for breaches of law

If a breach of this law does not give rise to criminal liability the registration authority shall impose the following penalties, taking into account the nature of the breach:

1) If a partnership carries on business without being registered, then all income earned shall be confiscated and the partnership shall be liable to a fine of 40,000 to 50,000 togrogs;

2) If the registration authority has not been notified of any alterations made to the charter or amount of share capital, then the person responsible for that default shall be liable to a fine of 40,000 to 50,000 togrogs;

3) If a partnership engages in production and services other than those specified in its agreement or charter, then all income earned may be confiscated and the partnership shall be liable to a fine of 200,000 to 250,000 togrogs;

4) Any person responsible for the breach of provisions of paragraph 2 of article 12, paragraph 7 of article 45, paragraph 5 of article 49, paragraph 1 of article 67, paragraph 1 of article 68 or paragraph 3 of article 74 shall be liable to a fine of 10,000 to 25,000 togrogs.

CHAPTER TWO

UNLIMITED PARTNERSHIP

Article 19. Unlimited partnerships

1. An unlimited partnership is a partnership whose partners are jointly and severally liable for partnership obligations with the property contributed to the partnership and with their personal property.

2. The abbreviation "BB" shall follow the name of an unlimited partnership.

Article 20. Establishment and registration of unlimited partnership

1. An unlimited partnership (hereinafter referred to as "partnership") shall be established by way of an agreement as set out in paragraph 1 of article 2 of this law.

2. The agreement must include the followings:

1) The name, and legal address of location;

2) The nature of the production and/or services and duration of activities;

3) The surname and name, address and personal number of the partner entitled to manage and act on behalf of the partnership;

4) The amount of the contribution of each member, its valuation, the methods of evaluation and terms of repayment, and the State registration number of the immovable property;

5) If the working skills are unified therefore valuation of such skills, the method of valuation and the type and duration

6) The principle to share profits and losses;

7) The date of the agreement;

8) The surname and name, address, nationality and signature of the partners;

9) Other information deemed necessary.

3. The members shall apply to the registration authority for registration within 7 days of entering into the agreement. The agreement shall be approved by a notary public.

Article 21. Management and supervision of partnership

1. Each partner has right to manage and act on behalf of the partnership.
2. However, the agreement may provide for the assignment of those powers to one or several partners.
3. The partners entitled to manage a partnership shall make decisions by a majority vote and all partners are jointly liable for any liabilities arising from such decisions.
4. The partners entitled to manage a partnership shall make decisions over daily activities and keep single accounting records.
5. The affairs of a partnership and the activities of the partners entitled to manage and act on behalf of the partnership shall be subject to supervision by the other partners.
6. If the partners of a partnership are of the opinion that a partner entitled to manage and represent the partnership has failed to perform his or her duties, then they may discharge the latter from duties.
7. The members entitled to manage and act on behalf of the partnership shall provide information on partnership affairs to other partners on the routine.

Article 22. Relations of the partnership with its partners

1. Each partner shall contribute those of his or her assets, money or skills which have been valued as that partner's contribution, and which are required for the partnership's activities.
 2. A partner must personally participate in the activities of a partnership.
 3. A partner shall be prohibited from being a member of any other partnership or company.
 4. The amount of votes of each partner shall be indicated in the agreement and shall correspond to the amount of his or her contribution to the partnership.
 5. The following matters require the unanimous consent of the partners:
 - 1) Amendments or alterations to the agreement;
 - 2) Changes in the scope of the partnership's main activities.
- Unless otherwise provided in the agreement, other matters shall be decided by a majority of the votes.

Article 23. Acceptance into and expulsion or withdrawal from partnership

1. Any person may join a partnership and, on joining, shall be liable for partnership obligations in the same manner as other partners.
2. A partner may withdraw from a partnership on the following grounds:
 - 1) Expiry of the period stated in the agreement;
 - 2) Any other grounds set out in the agreement.
3. A partner may be expelled on the following grounds:
 - 1) If it is apparent that the partner is incapable of providing the services specified in the agreement or is otherwise incapable of making his or her contribution;
 - 2) If the partner is in serious breach of the agreement;

4. A partner must be given prior notice of the grounds of his or her expulsion from the partnership. That partner shall not vote on any resolution dealing with his or her expulsion.

5. An expelled partner may appeal to the Courts within 30 days after the passing of the resolution.

6. Unless otherwise stipulated in the agreement, a partner who has withdrawn or is expelled from a partnership shall have his or her contribution returned within 3 months from the date of the withdrawal or expulsion.

Article 24. The principle of sharing the profits and losses

Unless otherwise provided in the agreement, a partnership shall determine its profits and losses annually. Each partner's share of the profits or losses shall be in proportion to the amount of his or her contribution.

Article 25. Distribution of assets

1. Upon the liquidation of a partnership, the partners shall be entitled to the return of their contributions. However, the assets of a partnership shall not be distributed among the partners until full settlement with creditors has been made.

2. The contributions of partners shall be returned to them after the partnership debts have been fully discharged and any remaining assets shall be distributed among partners in proportion to the amount of their contributions. If the contributions in kind cannot be returned in the same physical state, then the valuation and terms of the agreement shall be applied to them.

3. If the assets of a partnership are insufficient to discharge its debts, the personal property of each partner shall be applied in proportion to the amount of his or her contribution in order to achieve full settlement with creditors, unless the agreement provides that each partner has one vote in which case the personal property of partners shall be applied equally.

Article 26. Particular aspects of liquidation

If a partner withdraws, is expelled or becomes insolvent, or if a partner is declared dead or missing and his or her heir does not join the partnership, the partnership shall be liquidated. However, if such a partnership resolves to continue its activities, the agreement must be modified and registered as modified with the registration authority.

**CHAPTER THREE
LIMITED PARTNERSHIP**

Article 27. Limited partnership

1. A limited partnership is a partnership where at least one of the partners is entirely liable for partnership obligations to the extent of his contribution and personal property while the liability of other partners is limited to the amount of their contributions.

2. The abbreviation "ZB" shall follow the name of a limited partnership.

Article 28. Particular aspects of limited partnerships

1. The agreement establishing a limited partnership must, in addition to fulfilling the requirements of paragraph 2 of article 20, state the extent of liability of each partner.

2. The powers to manage and act on behalf of a limited partnership shall be solely vested in the unlimited partner(s).

3. The provisions of paragraph 3 of article 22 of this law shall also apply to unlimited partners.

4. The limited partners may not personally participate in partnership activities.

5. A change in the composition of limited partners shall not be a ground for the liquidation of a limited partnership. If all such partners withdraw, the partnership shall be liquidated.

6. If an event referred to in paragraph 5 of this article occurs, the partnership may, on the decision of the remaining partners, be converted into an unlimited partnership and continue its business as such. In that case, the agreement must be modified and registered as modified with the registration authority.

7. A limited partner shall have the right to the return of his contribution in priority to that of the unlimited partners.

8. The rights and obligations of partners, except for the particular aspects referred to in paragraphs 1 to 7 of this article, shall be governed by the relevant articles of Chapter Two of this law.

PART THREE

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CHAIRMAN OF THE
STATE IKH KHURAL

R.GONCHIGDORJ