

**LAW OF
MONGOLIA ON
PARTNERSHIP
/Revised version/**

May 11, 1995
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.
- 3) Limited liability 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.

Deleted.

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.

5) for limited liability partnership, authorization documents for professional operation issued by authorities to the members of partnership.

Article 11. Powers of Registration authority

1. The registration authority shall register the partnership and issue certificate within 7 working days if it deemed to satisfy requirements set in this law upon acceptance and inspection of application.

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. If the registration authority removed registration with the reason stated in clause 2.2 of this article or denied the registration with the reason stated in the clause 3, it shall notify it to the partnership in writing within 7 days. The partnership who does not agree the decision may appeal to a court.

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. If a partnership changes its location, it shall notify the relevant registration authority in writing within 14 days.

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) Any member not left, not less than two members left in case of limited liability 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 registration 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. Members shall apply the registration to the registration authority within 7 days upon signing agreement.

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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CHAPTER FOUR
Limited liability partnership

Article 29. Limited liability partnership

1. A limited liability partnership can be established by two or more individuals with authorization to operate professional operation and the members shall be liable for partnership responsibilities limited to their investment share in the partnership and the defaulted party shall be fully liable for indemnification liability with its investment to the partnership and its private capital.
2. Except the operation in a limited liability partnership form set in the law, an individual who has right to run cooperative professional operation can choose an appropriate form from the other forms of legal entity.
3. Partnership operating cooperative legal professional operation shall be in a form of limited liability partnership stated in the clause 1, article 29 of the law.
4. Relations related with operating lawyer's professional operation in Mongolia by a way of establishing foreign invested entity is regulated by the regulation approved by the Government member in charge of legal issues.
5. Abbreviation of "LLP" shall follow the name of the limited liability partnership.
6. Limited liability partnership may have its symbol and logo to represent its professional operation.

Article 30. Establishment and registration of limited liability partnership

1. Limited liability partnership shall be established on the basis of an agreement set in the clause 1, article 2 of the law and the agreement shall include followings:

1/ name and location address of the partnership;

2/ operation;

3/ number of members, name and surname of members, citizenship, address and signature of the members of partnership;

4/ name, surname, address and registration number of authorized member to manage and delegate;

5/ investment amount to the partnership of each member, assessment, assessment methodology, refund conditions and state registration number for immovable property;

6/ assessment of professional skill, assessment methodology and service to provide if professional skill is integrated;

7/ methods and regulations for decision making;

8/ principles to allocate profit;

9/ regulation to define high amount and interest conflict negotiations;

10/ date of agreement execution;

11/ miscellaneous things which deemed to be necessary.

2. An amendment shall be made to the agreement in case new member enters partnership or a member leaves the partnership or a member is dismissed from the partnership and it should be registered to the legal entity registration authority.

3. If any dispute related with the investment made to the partnership and professional skills of the member of partnership and assessment of them arises, an independent expert shall conduct assessment in accordance with market standard. The independent expert shall be assigned by mutual agreement of the parties.

4. Unless otherwise stated in the agreement, profit allocation shall be estimated considering the investment share of the members to the partnership and their professional operation results in the respective year.

Article 31. Management and supervision of limited liability partnership

1. The managing body of the partnership is the meeting of all members.

2. The meeting of all members shall be deemed to be valid when the majority of the members attend the meeting and the following issues are discussed and resolved at the meeting:

- 1/ to make amendment and modification to the agreement;
 - 2/ to restructure organization form of partnership;
 - 3/ to liquidate the partnership;
 - 4/ to discuss and approve annual operation reports and financial statements of the partnership;
 - 5/ whether to approve making high amount and interest conflict negotiation and agreement or not;
 - 6/ to determine if the partnership should have executive management and determine the regulation for rights and responsibilities and salary and incentive amount of executive management if the structure has executive management;
 - 7/ to define profit allocation amount and allocation procedure for the members;
 - 8/ to allow new member or the leave of member or dismiss member from the partnership;
 - 9/ other issues to be discussed by the proposal of executive management and a member.
3. Unless otherwise stated in the law and the agreement, resolution of all members' meeting shall be released by the majority members' vote and all members shall be collectively liable for responsibility arisen in connection with the resolution.

Article 32. Rights and obligations of a member of partnership

1. A member of partnership shall faithfully implement his/her rights and obligations in consistent with the benefits and interest of the partnership.
2. A member of partnership shall consolidate and contribute his/her capital, professional knowledge and skills to the partnership to cooperatively operate professional operation and shall execute partnership member's right and obligations and professional operation in person.
3. Unless otherwise stated in the agreement, each member of the partnership shall have equal voting rights.
4. Unless otherwise stated in the agreement, any member of limited liability partnership can represent partnership.
5. A member of partnership is prohibited to be employed for other occupation and position and be a member of another partnership except teaching and belonging to research and professional non government organizations.
6. Partnership and a partnership member has responsibility to provide fair and accurate information on his/her capability to be responsible if a client requests.

Article 33. Responsibilities of limited liability partnership and its members

1. Limited liability partnership shall be liable for its responsibilities by the law and the agreement with its capital. A member of partnership shall be liable limited to his/her investment amount to the partnership.

2. The following individuals shall be individually or collectively liable with their private capital for below conditions:

1/ a member of partnership if a default action is determined by the decision of competent authority;

2/ a member who is responsible for supervising operation of defaulted member of partnership and other individuals or a member who had not implemented necessary measures when he/she was acknowledged by the default action or should have been in control of.

3. The damage to the others by a member of partnership shall be compensated by partnership capital in priority. If the partnership capital is insufficient to compensate the damage, the defaulted member shall be liable to compensate as set forth in the clause 2 of this article.

Article 34. Acceptance into and expulsion or withdrawal from partnership

1. A new member can join partnership if he/she satisfies requirements set in the law and shall be liable for partnership responsibilities in the same manner as other partners do.

2. A member of partnership can be dismissed by the vote of majority at the meeting of all members.

3. A member of partnership shall be dismissed with the following reasons:

1/ if it is proven that the member is incapable to perform his/her obligations to provide professional service by the agreement or otherwise incapable of contributing investment;

2/ if the member seriously breached his/her obligations set by the agreement;

3/ other conditions set in the agreement.

4. The reason of member dismissal from partnership shall be given prior notification to the member and the member has right to attend the discussion and resolution of the member's dismissal issue and make explanations. The resolution to dismiss the member from partnership shall be informed to the member.

5. A member who is dismissed from partnership has right to appeal to a court within 30 days upon release of the resolution.

6. A member of partnership can withdraw from partnership by notifying other members 30 days ahead.

7. A member of partnership is deemed to have lost his/her partnership member right if the member's license to operate professional operation is invalidated.

8. If a member of partnership who withdrew membership, is dismissed or lost his/her partnership member right as set in the clauses 2, 6 and 7, article 34 of the law, capital, profit and client information which should be allocated to the member shall be allocated in accordance with the clause 4, article 30 of the law and loss shall be allocated in accordance with the article 33 of the law.

9. Unless otherwise stipulated in the agreement, a member who lost partnership member right, withdrawn or dismissed from partnership shall have his or her investment contributed to the partnership returned within three months from the date of withdrawal or dismissal.

/This chapter was added by the law dated on 9 July 2013./

CHAIRMAN OF STATE IKH KHURAL

R.GONCHIGDORJ