

REPUBLIC OF TIMOR-LESTE

NATIONAL PARLIAMENT

**Law No. 4/2004
of 21 April 2004**

ON COMMERCIAL COMPANIES

Commercial companies can be a powerful means whereby our country may achieve economic development as has certainly been the case of a number of other countries in the region and worldwide.

The drafting of this law was dictated by the need to define a legal framework that would allow for the formation of different types of regular commercial companies intended to carry on business, with the legal security required to bring credit and normalcy to commercial transactions, without disregarding freedom of enterprise and the principles of initiative and autonomy of private enterprise.

Pursuant to the Section 92.1 and Section 95 of the Constitution of the Republic, the National Parliament enacts the following that shall have the force of law:

**Chapter I
General Part**

**Subpart I
General Provisions**

**Section 1
Types of Commercial Companies**

1. Commercial companies means, irrespective of their objects, any general partnership, limited partnership, limited liability company or joint stock company;
2. A company whose object is to operate a commercial enterprise may only be formed in accordance with one of the types listed in the foregoing subsection.

**Section 2
Personal Law**

1. A commercial company must comply with the law of the State where its actual main administrative office is situated.
2. A company having its registered office in the country may not, with the intention of exonerating itself from the enforcement of the law of Timor-Leste, avoid third-party liability by not having its main administrative office in the country.

Section 3
Companies Operating in Timor-Leste on a Permanent Basis

1. A company operating in Timor-Leste on a permanent basis, though not having its registered office or its principal administrative office in the country, shall be subject to the provisions of the law on registration.
2. The company referred to in the foregoing subsection shall appoint a representative who is a habitual resident of Timor-Leste and shall allocate capital to carry on business in the country, having its relevant decisions registered.
3. The representative in Timor-Leste shall always have powers to receive any communications, summons and notifications addressed to the company.
4. A company that fails to abide by the provisions of subsections 1 and 2 above shall, notwithstanding, be bound by any acts performed in Timor-Leste on its behalf, and both the person who has performed such acts and the company directors shall be liable therefor.
5. A court shall, at the request of the Public Prosecution Service or any other interested party, order that a company that fails to abide by the provisions of subsection 1 and 2 above cease to carry on business in the country and liquidate its assets located in Timor-Leste. A deadline not exceeding 30 days may be set for such a company to regularize its situation.

Section 4
Personality

A commercial company shall acquire legal personality upon filing of its memorandum of association, without prejudice to the provisions concerning the formation of companies by merger, demerger or transformation.

Section 5
Powers

1. The powers of a commercial company shall include the rights and obligations required or deemed convenient for the pursuit of its goals, with the exception of those barred by law or that are inseparable from an individual personality.
2. Any liberal application by a company of its powers, if considered as usual practice, depending on the prevailing circumstances and the state of the company itself at the time, shall not be viewed as being contrary to the purpose of the company;
3. A company is prohibited from providing personal or real guarantees to bonds belonging to another person, except where there is a well-founded interest of such a company expressed in writing by its board of directors.
4. The provisions of the articles of association and corporate decisions assigning the company a certain object or prohibiting it from performing certain acts shall not restrict the powers of the company, but shall impose on its corporate bodies the duty to not exceed such an object or to not perform such acts.

Section 6
Set-off

An amount that a third party owes to the company may not be set off against a credit granted by the former to any of the company members, nor may the amount the company

owes to a third party be offset against a credit granted by the latter to any of the company members.

Part II
Memorandum of Association

Subpart I

Section 7
Form and Contents of a Memorandum of Association

1. The formation of a company, except as otherwise stated in special provisions, shall not be subject to a special procedure, except as required by the nature of the assets with which members join the company.
2. Failure to comply with the form, where applicable, shall not cancel the whole business, except where such business may not, under the terms of subsection 3 below, be converted in such a way that the company retain only the use and usufruct of the assets the transfer of which determines the special form, or may not apply to all other participations, under the terms of subsection 4 below.
3. A null or nullified business may be converted into a business of a different type or contents retaining the essential requirements in terms of substance and form, where the goal pursued by the parties allows one to assume that they would have so wished, had they foreseen the invalidity of the business.
4. Partial nullity or annulment shall not determine the invalidity of a whole business, unless it is demonstrated that such a business would not have been entered into without the vitiated part.
5. A memorandum of association, when in a separate document, shall be drafted in originals in a number sufficient for the company members, the company and the Registrar of Companies.
6. The memorandum of association shall contain:
 - (a) the date of signing;
 - (b) the identity of the company members or of those intervening in the act on their behalf;
 - (c) a statement of willingness by the members to constitute a company of one of the types provided for by law.
 - (d) the amount of capital subscribed by each member;
 - (e) an annex containing the articles of association that shall regulate the operation of the company;
 - (f) an annex containing the instrument of appointment of the directors and, if any, of the single qualified auditor or auditing board members and of the company secretary.
7. Originals of prior authorization letters that may be required to carry on the business that constitutes the company's object, and of the reports referred to in Section 31, shall be attached to the copy of the memorandum of association for registration purposes.
8. The articles of association shall include:
 - (a) the type and form of company;
 - (b) its objects;
 - (c) the address of the company's registered office;

- (d) the share capital, indicating the mode of, and the deadline for, paying up such capital, exception being made to general partnerships where all members are working partners only;
 - (e) the composition of the company's board of directors and, where applicable, of the auditing board;
9. The memorandum of association shall be signed by not less than the number of partners or shareholders required by law for each type of company;
10. The memorandum of association shall be in either of the official languages of Timor-Leste.

Section 8 Objects

1. The objects shall be set out in such a way that the activities the company intends to undertake and that form part of its objects are made clear.
2. In mentioning the objects no expression shall be used that might cause a third party to believe that the company is engaged in activities it is not supposed to undertake, insofar as such activities may only be carried out by companies covered by special regimes subject to administrative authorisations.

Section 9 Registered Office

1. A company's registered office shall be based in a specific place.
2. The company's board of directors may freely relocate its registered office to the interior of the country;
3. The company's registered office shall not preclude certain stipulated businesses from being done in a private domicile.

Section 10 Forms of Local Representation

Subject to no authorization being given under the articles of association, but without prejudice to any of the provisions of the latter, a company may establish branches, agencies, representative offices or other forms of local representation on the national territory or overseas.

Section 11 Declaration of Capital

The amount of share capital shall always and only be expressed in the country's legal tender.

Section 12 Duration

1. A company shall exist for an indefinite period of time, where the duration thereof is not determined in the articles of association.

2. Except as otherwise provided, once the term of duration determined by the articles of association has lapsed, the extension thereof may only be agreed upon on the basis of unanimity.

Section 13 Special Rights

1. Special rights shall not be accorded to any partner or shareholder unless stipulated by the company's articles of association.
2. Special rights shall not be suppressed or modified without the consent of the respective holder, except as otherwise expressly stated in the articles of association.

Section 14 Para-corporate Agreements

1. A para-corporate agreement entered into between all or some of the partners or shareholders whereby the latter commit themselves, in that capacity, to a conduct that is not prohibited by law, shall have effect among the intervening parties, but no act performed by the company or its partners or shareholders shall be refuted on the basis of such an agreement.
2. The agreement referred to in the foregoing subsection may relate to voting rights, but not to the conduct of intervening parties or other persons while performing administrative or auditing functions.
3. An agreement shall be considered null and void where a member undertakes to vote by:
 - (a) always following the instructions issued by the company or any of its bodies;
 - (b) exercising his or her voting right or abstaining from exercising it in exchange for special advantages.

Subpart II Filing the Memorandum of Association

Section 15 Deadline for, and Legitimacy of, Filing a Registration Application

1. The registration of a company shall be applied for within fifteen (15) days of the date on which the memorandum of association was signed.
2. Members of the administrative body and the company secretary, if any, shall have the duty to proceed with the registration of the company.
3. Any member shall be eligible to file a registration application.
4. The Public Prosecution Service shall initiate the liquidation of any unregistered company operating for more than three (3) months.

Section 16 Proof of Paid-up Share Capital

1. Registration shall depend on the production of proof, before the registrar of companies, of the amount of paid-up share capital that may have been paid up under the terms of the memorandum of association.

2. In respect of shares in cash, such a proof shall consist of a supporting document stating that these shares are deposited in a credit institution to the order of the company board of directors or of paid-up capital statements by shareholders and the respective acquittances issued by the board of directors.
3. The deposit referred to in the foregoing subsection shall only be withdrawn, by a person who binds the company, once the company has been registered.
4. Where three months have elapsed after the date of deposit and the company remains unregistered, such a deposit may be withdrawn by the person who made it.
5. With respect to share capital to be paid up in kind, such a proof shall consist of a statement signed by the company directors and certified by its secretary, if any, attesting that the company has acquired the ownership of such assets and that the latter have been delivered to the company, except as otherwise provided in Section 32.3.

Section 17

Effects of Acts Performed Prior to Registration

1. Upon registration, the company shall assume the obligation to refund registration and tax charges and emoluments pertaining to the process of formation of the company, to whoever has paid for such expenses.
2. All other expenses, including service fees, arising from the process of formation of the company, but incurred prior to the registration thereof, may be assumed by the company, by administrative act, which shall be communicated to the counterpart within thirty (30) days of registration.
3. Upon registration, the company shall assume the rights and obligations arising from acts that have been previously performed on behalf of the company, provided that the deadline referred to in subsection 2 above has not lapsed and that such acts have been performed by a person who, upon registration, is vested with binding power.
4. The assumption by the company of the rights and obligations referred to in the foregoing subsection shall exonerate any person(s) from personal liability for acts arising from such rights and obligations.

Section 18

Relations Between Partners or Shareholders Prior to Registration

1. The provisions of the articles of association and the provisions relating to the type of company in question shall, with the necessary adaptations, apply to the relations between the partners or shareholders prior to registration, exception being made to those provisions that refer to such registration.
2. Prior to registration, any transmission of shares between living natural persons and amendments to the articles of association shall always require a unanimous consent of the partners or shareholders.

Section 19

Relations with Third Parties Prior to Registration

1. Without prejudice to the provisions of section 17, where business commences prior to the registration of the company, those persons acting on behalf of the company, as well as the

partners or shareholders who have authorised the former to act in that capacity, shall be personally liable for any acts performed.

2. The liability referred to in the foregoing subsection shall be joint and several and shall not depend on the execution of the assets allotted for corporate activity.

Subpart III Invalidity, Liability, Suspension and Supervision

Section 20 Invalidity of Memorandum of Association

1. The general rules on legal transactions shall, with the modifications set forth in the subsection below, apply to the memorandum of association of the company.
2. Where a company has already been registered or has already commenced business, the effect of the declaration of nullity or annulment of the memorandum of association shall be the company going into liquidation. Any act performed in good faith by a third party shall, however, not be overturned.
3. Once a company has been registered, a statement of nullity or annulment of just a part of the memorandum of association, or just in relation to one or some of the contracting parties, shall not lead the company into liquidation, except where the memorandum of association could not be concluded without the part declared null or annulled.
4. Nullity arising out of a breach of the provisions with respect to the minimum contents of the articles of association shall be remedied by a decision of its partners or shareholders, taken under the terms provided for amendments to the articles of association, within thirty (30) days of the date on which the defect was noticed.
5. The nullity provided for in the foregoing subsection may, where partners or shareholders fail to do so, be remedied by a court, at the request of any of the parties concerned.

Section 21 Liability for the Formation of a Company

1. The company directors and secretary who, upon review of the whole process relating to the formation of the company, issue a statement that they have noted no irregularity therein, shall be jointly liable to the company for any falsehood, inaccuracy or deficiency, without prejudice to criminal liability that such fact may carry.
2. In relations between company officials, the right of redress between company officials shall exist to the extent of their respective faults and consequences arising therefrom, and officials' faults shall be assumed to be equal.
3. Those partners or shareholders who were not aware of the falsehood, inaccuracy or deficiency, and despite acting with the diligence of a meticulous and orderly manager could not learn of such fact, shall, however, not be answerable under subsection 1 above.

Section 22 Suspension of Business

1. Once the company has been registered, its partners or shareholders may decide, by unanimity, to suspend the company's business for a definite period of time.

2. Partners or shareholders, and any other persons acting on behalf of the company, shall be personally, jointly and severally liable for any acts performed upon suspension of the company and for the duration of such suspension, without being subject to the execution of the assets allotted for the company's business.
3. The duration of the suspension shall not exceed three (3) years, renewable only once for an equal period, and a decision on the resumption of the company's business or extension of its suspension shall be taken by its partners or shareholders before the expiry of the ongoing suspension period, under penalty of the company being dissolved.
4. Suspension shall not preclude the need to appoint members to the company bodies and to submit, at the end of each financial year, a balance sheet for the approval of the partners or shareholders and the possibility of the latter deciding to resume the company's business at any time.

Part III

Relations Between Partners or Shareholders and the Company

Subpart I

Rights and Obligations of Partners or Shareholders as a Whole

Section 23

Right to Equal Treatment

Under identical relevant circumstances, every member shall be equally treated by the company.

Section 24

Rights of Partners or Shareholders

1. Every member shall have the right, under the terms and limitations established by law and without prejudice to any other rights specifically provided for:
 - (a) to have a share in the company profits;
 - (b) to elect the administrative and supervisory bodies, have the latter to account to him or her and take action on accountability;
 - (c) to obtain information on the company's life;
 - (d) to take part in the company's decision making process.
2. Any stipulation by which a member would receive a fixed return of his or her capital or working shall be prohibited.
3. Any stipulation by which a member would receive a special right in relation to the obtention of information on the company's life shall also be prohibited.

Section 25

Obligations of Partners or Shareholders

1. Every partner or shareholder is bound:

- (a) to contribute capital or, in those types of company where such is expressly allowed, working to the company;
 - (b) to share losses, except where otherwise provided in respect of working partners.
2. Capital shall consist of any assets subject to garnishment and working shall consist of any services.

Section 26
Participation in Profits and Losses

1. Except as otherwise provided by law or in the articles of association, partners or shareholders shall have a participation in the profits and losses of the company according to the proportion of face value of their respective capital participation;
2. Where the contract determines only each party's share in profits, their share in losses shall be assumed to be the same.
3. Any clause that deprives a member of his or her share in profits or that exempts him or her from participating in the losses undergone by the company, except as otherwise provided in respect of working partners; the nullity of the clause shall determine the application of the provision of subsection 1 above.
4. The clause by which the sharing of profits or losses shall be left to the discretion of a third party is considered null.

Section 27
Limitations on the Distribution of Profits

1. Unless otherwise provided by law, no assets shall be distributed among partners or shareholders except in the form of profits.
2. A company's profits means the value tallied in the accounts pertaining to a given financial year, in accordance with the legal rules for preparing and approving such accounts, which shall exceed the sum of the share capital and the amounts already entered or to be entered in that financial year in the form of reserves that are not permitted by law to be distributed amongst the company shareholders.
3. In the case of carried-over losses, the profits pertaining to that financial year shall not be distributed until the former have been covered and, thereafter, mandatory reserves as established by law or the articles of association have been formed or reconstituted.

Section 28
Decision on Distribution of Profits

1. No distribution of profits shall be effected prior to a decision by the partners or shareholders in this respect.
2. The decision shall distinguish between the amounts to be distributed, profits of the financial year, and voluntary reserves.
3. The administrative body shall have the duty to execute no decision on the distribution of profits, if such a decision or the execution thereof, having taken into account the time at which it is taken, would run counter to the provision of the foregoing subsection.
4. In the case of failure to execute a decision under the foregoing subsection, the administrative body shall communicate to the auditing body, if any, the underlying reasons and shall convene a general meeting to review and decide on the situation.

Section 29
Return of Wrongly Received Assets

1. Partners or shareholders shall return to the company any assets they may have received from it in breach of the provisions of the law. However, with regard to any amounts received as profits or reserves, they shall only be required to return such amounts where they were aware of the irregularity or, having taken into consideration the circumstances, had the obligation to be aware of the irregularity.
2. Corporate creditors may propose an action on the return to the company of any amounts referred to in the foregoing subsections, provided that failure to do so might significantly impact the guarantee of their credits.
3. The burden of proof as to the awareness of or the duty not to ignore the irregularity shall rest with the company or the corporate creditors.

Section 30
Mode of Paying up Capital Participations

1. Where capital participation is in cash, the paying-up thereof shall consist of delivering an amount in the official currency not less than the face value of the participation; where capital participation is in kind, it shall consist of transferring to the company assets subject to garnishment, worth not less than the face value of the participation.
2. Where capital participation is paid up by transferring to the company a credit right over a third party and the credit is not honoured by the debtor in due time, the member shall pay up, in cash, the credit, or part thereof, not received by the company within eight (8) days of expiry.
3. Where, for any reason, there is a negative balance between the value of assets at the date of the paying-up and the value derived from the reconciliation, the member shall be liable for such a difference, which shall be paid up in cash up to the face value of his or her participation.

Section 31
Verification of Value Paid up in Kind

1. Assets by which capital participations may be paid up in kind shall be subject to identification, description and assessment by means of a report to be prepared by an auditor or auditing firm, which shall be attached to the memorandum of association.
2. The report shall be prepared not more than sixty (60) days prior to the date of signing of the memorandum of association and shall contain the criteria used in the reconciliation.

Section 32
Time for Paying up Capital Participations

1. Capital participations shall be paid up in their entirety upon signing of the memorandum of association, without prejudice to the provisions of the subsections below.
2. The paying-up of participations in cash may be deferred under the terms as established for each type of company.

3. In paying up a capital participation in kind, the delivery of assets shall only be deferred where such an act is in the company's interest and at all times towards an exact date that shall be mentioned in the memorandum of association.
4. Should the deferment of the paying-up of a capital participation in kind be in excess of one year, a new report shall be prepared by the auditor or auditing company and, where its value is less than the value arrived at in the previous reconciliation, the provision of section 30.3 shall apply.
5. In the event that the company, by lawful act performed by a third party, is deprived of an asset already delivered by a member or, when deferred under the terms of subsection 3 above, the delivery thereof becomes unfeasible, the member shall pay up in cash the face value of his or her participation, within eight (8) days of the detection of any of such facts.

Section 33 **Paying up Capital Participation**

1. The company rights over the paying-up of capital participations may not be waived and are ineligible for compensation.
2. A member who fails to pay up his or her mandatory participation in time, shall be liable to pay, in addition to the capital due, the respective late payment charges, including all other damage he or she may have caused to the company as a result of failure to do so.
3. As long as failure to so persists, a member shall not be able to exercise the corporate rights corresponding to the outstanding portion, namely the right to profits.

Section 34 **Creditors' Rights Over Income**

1. A creditor of any company may:
 - (a) exercise the company's rights over unpaid-up and due capital participations;
 - (b) initiate legal proceedings on the paying-up of capital participations before they are due, provided that such is necessary to maintain a proper guarantee of his or her credits.
2. The company may rebut a creditor's request by paying his or her credit with late payment charges, where such credit is due, or, where it is not due, by adequately guaranteeing such credit or granting it the deduction that corresponds to the advance payment and accrued expenses.

Section 35 **Loss of Half of Capital**

1. An administrative body that, based on the accounts relating to a given financial year, notices that the company's net asset value is less than half of the value of the share capital, shall propose, under the provisions of the subsection below, that the company be wound up or its capital be reduced, unless its shareholders pay up, within sixty (60) days of the decision derived from such proposal, amounts of money to reconstitute the company's assets in a proportion equal to its share capital.
2. The proposal shall, even if it is not on the agenda, be tabled and voted for at the meeting reviewing the accounts or at a meeting to be convened within eight (8) days of the judicial approval under the terms established by section 88.

3. Where the members of the board of directors fail to comply with the provisions of the foregoing subsections or the decisions provided for herein have not been taken, any company member or creditor may request a court, as long as such a situation prevails, to dissolve the company, without precluding the shareholders from providing the income referred to in subsection 1 above not later than 90 days following the citation of the company, and the proceeding shall be suspended for such period.

Subpart II Other Rights and Obligations

Section 36 Usufruct or Pledge on Corporate Shares

1. The formation of usufruct or pledge on corporate shares shall be subject to the required form and the limitations established for the transmission of such shares.
2. Except as otherwise expressly indicated by the parties, the rights inherent in corporate shares subject to pledge shall rest with the holder of the shares, but the company's liquidation balance shall be given to the pledging creditor and imputed to guaranteed debt interest and capital, with its excess being returned to the holder of the shares.
3. A usufructuary of corporate shares shall be entitled to:
 - (a) distributed profits corresponding to the duration of the usufruct;
 - (b) vote at general meetings, except in the case of decisions that amount to amending the articles of association or winding up the company;
 - (c) benefit from values that, upon liquidation of the company or upon diminution in the value of the quota, are apportioned to the share capital covered by the usufruct.
4. In taking a decision that amounts to amending its articles of association or merging, demerging, transforming or winding up the company, the vote shall rest with both the usufructuary and the holder of the shares.
5. The usufruct of corporate shares shall be governed by the provisions of the Civil Code, in all that is not provided for in this Law.

Section 37 Acquisition and Disposal of Assets by Shareholders

1. With the exception of the assets intended to be used as consumer goods and required for the smooth running of the company, the acquisition or disposal of corporate assets to shareholders, with shares in excess of 1% of the share capital, shall only be effected by onerous title, once such an acquisition or disposal has been previously approved by a decision of the shareholders in which the shareholder from or to whom the assets are to be purchased or sold shall not take part.
2. The decision of the members shall always be preceded by a verification of the value of the assets under the terms of section 31, and recorded before such an acquisition or disposal has been effected.
3. Contracts for the acquisition or disposal of assets to the shareholders referred to in subsection 1 above shall, under penalty of nullity, be in writing in any form, unless a specific form is required as a result of the nature of the assets.

Section 38

Right to Information

1. Without prejudice to the provisions on each type of company, every partner or shareholder is entitled to:
 - (a) consult the records of minutes of general meetings;
 - (b) consult the register of encumbrances, charges and guarantees;
 - (c) consult the register of shares
 - (d) consult attendance books, if any;
 - (e) consult all other documents that, in accordance with the law or the articles of association, must be made available to the partners or shareholders before the holding of a general meeting;
 - (f) request the directors and, if any, the single auditor or the members of the auditing board or the company secretary any information concerning the agenda for the general meeting prior to voting, provided that such information is reasonably necessary to an enlightened exercise of his or her right to vote;
 - (g) request the board of directors in writing to provide him or her with written information on the management of the company, namely on any specific corporate operation;
 - (h) request a copy of decisions or entries into the books referred to in paragraphs (a) to (d).
2. The right set forth in paragraph (g) of the foregoing subsection may be restricted by the articles of association and, insofar as it relates to limited liability shareholders, be subject to the ownership of a certain percentage of share capital, which shall, under no circumstance, exceed 5%.
3. A member who uses, to the detriment of the company, information thus obtained shall be answerable for the damage caused to the latter.
4. In the event that a request for information is declined, the member may, on a substantiated basis, request a court to order that such information be furnished. After consultation with the company, the judge shall, with no further evidence, render a decision within ten (10) days. Should the request be granted, the directors responsible for the refusal shall compensate the member for the damage caused and refund to him or her any expenses reasonably incurred.
5. A member to whom is furnished false, inaccurate or manifestly misleading information may ask a court to judicially examine the company under the terms of section 40.

Section 39

1. **Notifications Served to Partners or Shareholders by the Company** Every act performed by the company, of which the partners or shareholders must be personally informed, shall be communicated to the latter by registered courier addressed to the domiciles of the partners or shareholders as indicated in the company's registers.
2. Where such notification by registered courier to all partners or shareholders is not feasible, notices shall be advertised under the terms of section 302.2.

Section 40
Judicial Examination of the Company

1. Where a member has well-founded suspicions concerning serious irregularities in the company's life, he or she may, by indicating the facts on which his or her suspicions are based and the irregularities, ask a court to examine the company to confirm such suspicions.
2. The court may, having heard the board of directors, order that such an examination be carried out, appointing an auditor for that purpose.
3. The auditor shall be designated by the competent entity.
4. The court may, if deemed convenient, condition the conduct of the examination upon the provision of a guarantee by the plaintiff.
5. Once the existence of irregularities has been confirmed, the court may, cognisant of the gravity thereof, order:
 - (a) the regularisation of the detected illegal situations, setting a deadline for that purpose;
 - (b) the dismissal of the incumbents of the corporate bodies responsible for the detected irregularities;
 - (c) the dissolution of the company, where the noticed irregularities constitute a cause for dissolution.
6. Once the existence of irregularities has been confirmed, court costs, the remuneration of the auditor referred to in subsection 2 above and the expenses the plaintiff has reasonably incurred, shall be borne by the company, which shall have the right of redress against the incumbents of the corporate bodies responsible for such irregularities.
7. An identical judicial examination of the company may be required by the registrar of companies whenever the omission of registration acts or the contents of documents filed for registration purposes make the registrar of companies believe that there are irregularities that, having been reported to the board of directors, have not been remedied.

Part IV
Corporate Bodies

Subpart I
General Provisions

Section 41
Corporate Bodies

1. Commercial companies shall be comprised of the following bodies:
 - (a) the general meeting;
 - (b) the board of directors;
 - (c) the single auditor or auditing board.
2. The existence of the company secretary and of the single auditor or auditing board shall be mandatory in companies that find themselves in one of the situations described below:
 - (a) have 10 or more partners or shareholders;
 - (b) issue debentures;
 - (c) have been constituted as a joint stock company;

- (d) exceed the limits determined by law in terms of share capital value, balance value or volume of income;
- 3. Every incumbent of a corporate body shall declare in writing whether he or she accepts to hold the position for which he or she has been elected or nominated.

Section 42

Judicial Installation in Corporate Positions

Where the person elected or nominated to a corporate position has been barred from holding such a position, he or she may apply for judicial installation, under the terms of civil procedural law.

Subpart II

General Meeting

Section 43

Matters within Shareholders' Decision-Making Capacity

In addition to matters that shall be specifically assigned to them by law, it is the responsibility of the shareholders to decide on the following matters:

- (a) elect and remove board of directors or auditing board members from office;
- (b) review the profit and loss account and the board of directors' report on the financial year;
- (c) review reports and opinions issued by the auditing board or single auditor;
- (d) apply the results of the financial year;
- (e) amend the articles of association;
- (f) increase or decrease the share capital;
- (g) demerge, merge or transform the company;
- (h) wind up the company;
- (i) any other matters that do not, by law or the articles of association, fall under the competence of other corporate bodies.

Section 44

Modes of Decision-Making

- 1. Partners or shareholders shall take decisions at a general meeting, under the terms prescribed for each type of company.
- 2. The holding of the general meeting shall be preceded by the convening and all other procedures, under the terms and within the deadlines established for each type of company. However, the attendance of all its partners or shareholders, either in person or through a representative vested with special powers for that purpose, shall remedy any irregularities, including failure to convene a general meeting, provided that no partner or shareholder opposes the composition of the general meeting. At such a meeting only matters expressly agreed upon by all partners or shareholders shall be decided on.
- 3. Partners or shareholders may take decisions without recourse to the general meeting, provided that every member indicates in writing his or her vote intention, in a document that includes the proposed decision, duly dated, signed and addressed to the company.

4. A decision in writing shall be considered as having been taken on the date of receipt by the company of the documents referred to in subsection 3 above.
5. Once a decision has been taken under the terms of subsections 3 and 4 above, the company secretary or, where none exists, the chairperson of the general meeting, or his or her substitute, shall notify in writing all partners or shareholders of such a decision.

Section 45 General Meeting

1. Except as otherwise provided, every member shall be entitled to attend a general meeting for discussion and voting purposes.
2. Except as otherwise provided in the articles of association, a member may only be represented at a general meeting by another member, the spouse, or by a relative in the ascending or descending line. A letter signed by the former and addressed to the chairperson of the general meeting shall suffice as instrument of voluntary representation.
3. Members of the company bodies shall attend general meetings as convened by the chairperson.

Section 46 Restricted Right to Vote by Virtue of Conflict of Interest

A member shall not vote, either in person or through a representative, nor shall he or she represent another member in a voting, whenever he or she has a conflict of interest in respect of the matter to be decided on.

Section 47 Ordinary and Extraordinary General Meetings

1. The general meeting shall be convened ordinarily within three months following the end of each financial year, for the purposes of:
 - (a) reviewing the balance sheet, the profit and loss account and the board of directors' report covering the financial year;
 - (b) deciding on the application of outcomes;
 - (c) electing board of directors or auditing board members or a single auditor to fill any vacancy existing in any of the company bodies.
2. An ordinary general meeting may decide on proposed actions of liability against any director and on the removal from office of those held responsible by the general meeting, even if such an issue is not on the agenda.
3. The general meeting shall be convened extraordinarily whenever duly convened, on the initiative of its chairperson or at the request of the board of directors, the auditing body or of shareholders accounting for not less than 10% of the company's share capital.

Section 48
Convening General Meetings

1. A general meeting shall be convened by the chairperson, under the terms and deadlines established for each type of company, exception being made to the convening notice for the first general meeting that shall be the partners or shareholders' responsibility.
2. Where the chairperson fails to convene a general meeting, where he or she is required to do so, the board of directors, the auditing board or single auditor, or the partners or shareholders who have requested it, may convene it directly, and the documented expenses that have been reasonably incurred by the former shall be borne by the company.

Section 49
Convening Notice

1. The convening notice shall indicate at least:
 - (a) The corporate name, the type of company, the address of the company's registered office, the registry of companies where it is registered, its registration number in that registry, and, where applicable, the mention that the company is in liquidation;
 - (b) the place, date and time of the meeting;
 - (c) the type of meeting;
 - (d) the agenda for the meeting, with specific mention of the matters to be submitted to the members for consideration.
2. The convening notice shall also indicate the documents that are available for consultation by the partners or shareholders at the registered office.
3. The meetings shall take place at the company's registered office or, where deemed convenient by the chair of the general meeting, elsewhere within the same district as the company's registered office, provided such a place is duly identified in the convening notice.
4. Where a quorum for the general meeting to sit and decide on a certain issue is required by law or by its articles of association, a second date for another meeting may from the outset be set in the convening notice. In the absence of quorum for the first convened meeting, and insofar as the time between the two dates is not shorter than fifteen (15) days, the meeting that takes place on the second date is considered to be a general meeting, for all purposes.
5. The convening notice shall be signed by the chairperson or, in cases provided for in Section 48.2, by any of the directors, by the president of the auditing board or by the single auditor or the partners or shareholders convening the general meeting.

Section 50
Functioning of the General Meeting

1. General meetings shall be chaired by a panel composed of a chairperson and, at least, a secretary.
2. The chairperson shall be elected at a general meeting, from among company partners or shareholders or other persons, and the company secretary, if any, shall act as the chair secretary.

3. In the absence of a chairperson elected under the terms of the foregoing subsection, and in the event that there is no company secretary or where they both fail to attend, any of the directors shall act as chairperson and a member selected by the latter shall act as secretary.

Section 51 **Adjournment and Suspension of Sessions**

1. Where all issues on the agenda may not be dealt with on the day for which the meeting was convened, such meeting shall continue at the same time and in the same place on the following workday.
2. Without prejudice to the provision of the foregoing subsection, a decision to suspend the meeting may be reached and the date for a new session to be held within 30 days shall be set.
3. The same general meeting shall only be suspended twice.

Section 52 **Majorities**

1. A decision that has not been approved by the number of votes required by law or the articles of association shall, under no circumstance, be considered as having been taken.
2. Votes of partners or shareholders disqualified from voting under the terms of section 46 shall not be reckoned for the purpose of determining the majority required by law or the articles of association.
3. The casting of votes, the quorum for a general meeting and the formation of majorities required for decision-making, shall, depending on the issues to be decided on, follow the rules established by law in relation to each type of company.

Section 53 **Unity in Vote**

1. Voting rights may not be exercised in opposite directions in the same voting, nor shall they be exercised partially.
2. A breach of the provision of the foregoing subsection amounts to counting the votes cast by the partner or shareholder in that voting as abstentions.
3. A partner or shareholder representing another member may vote in a direction opposite to that of the partner(s) or shareholder(s) being represented and may also refrain from exercising his or her right to vote or that of the partner(s) or shareholder(s) he is representing.

Section 54 **Lack of Partners or Shareholders' Consent**

Except as otherwise provided by law or the articles of association, decisions taken by partners or shareholders on special rights of any partner(s) or shareholder(s) or categories of partners or shareholders shall not have any effect as long as the holder(s) of such rights have not given their explicit or implied consent.

Section 55 Null Decisions

1. A partners or shareholders' decision shall be null where
 - (a) it is taken at a general meeting that has not been convened, except as otherwise provided in Section 44.2;
 - (b) it is taken in writing when a partner or shareholder has not exercised in writing his or her right to vote under the terms of section 44.3;
 - (c) it is contrary to mores;
 - (d) it is on an issue that is, by law or in nature, not subject to a partners or shareholders' decision or is not on the agenda;
 - (e) it runs counter to legal norms designed principally and exclusively to govern company creditors and public interest.
2. For the purpose of paragraph (a) of the foregoing subsection, a general meeting the convening notice of which has not been signed by the competent person to do so, or does not indicate the date, time, venue and agenda for the meeting, shall not be considered as having been convened.
3. The nullity of a decision may not be rebutted where more than five years have elapsed over the date such a decision was recorded, except by the Public Prosecution Service where the decision constitutes a criminally punishable offence for which the law establishes a longer limitation period.

Section 56 Defeasible Decisions

1. A partners or shareholders' decision shall be defeasible if:
 - (a) it is in breach of any legal provision, when its nullity does not arise from the provision of section 55.1 or from the articles of association of the company;
 - (b) it was not preceded by the provision of the information elements requested by a partner or shareholder or that the latter is entitled to under the law or the articles of association;
 - (c) it has been taken at a general meeting whose convening procedure has suffered any irregularity other than any of those mentioned in Section 55.2.
2. For the purpose of annulling a decision on the basis of paragraph (b) of the foregoing subsection, it is irrelevant that the general meeting or other partners or shareholders state or have stated that the refusal to provide information has not influenced the taking of such decision.
3. The annullability of a decision the annulment of which has been applied for within the deadline established by law shall cease, provided that the partners or shareholders confirm that the decision may be annulled by another decision. However, the interested partner or shareholder may cause the action to proceed in order to annul the decision with regard to the period prior to the decision that has confirmed it.

Section 57 Annulment

1. Legitimacy to reverse a decision rests with:
 - (a) any partner or shareholder who has taken part in the decision-making process, unless he or she has cast a winning vote;

- (b) any partner or shareholder who has been unduly disqualified from attending the general meeting, or who has failed to attend it, where this has been improperly convened;
 - (c) the auditing board;
 - (d) any director or auditing board member, where the execution of the decision might make the any of the former incur criminal or civil liability.
- 2. An annulment action shall be lodged within 20 days of:
 - (a) the date the decision was taken;
 - (b) the date the partner or shareholder became aware of the decision, where he or she was unduly disqualified from attending the general meeting or where the latter was improperly convened.

Section 58

Provisions Common to Nullity and Annulment Action

1. An action to declare the nullity or annulment shall be lodged against the company only.
2. All expenses pertaining to an action lodged by the auditing board, even though such an action is deemed unfounded, shall be borne by the company.
3. A sentence declaring the nullity of, or annulling, a decision shall be effective against or in favour of all partners or shareholders and corporate bodies, even though the latter have not been a party to or have not intervened in the action.
4. A declaration of nullity or annulment shall not undermine any rights acquired in good faith by a third party, on the basis of acts performed while executing such a decision.
5. Good faith shall not be considered to exist where a third party was aware or should have been aware of the grounds of nullity or annullability.

Section 59

Suspension of Corporate Decisions

1. Any person with legitimacy to request a declaration of nullity or annulment of a partners or shareholders' decision may request a court to order the suspension, as a precautionary measure, of the execution of such decision or of its validity in case it has already been executed or is in the process of being executed.
2. Such a precautionary measure shall be applied for within five days of the dates referred to in paragraphs (a) and (b) of section 57.2 or of becoming aware of the decision, where the applicant is not a partner or shareholder, board of directors or auditing board member.
3. The applicant shall express an interest in the measure and the damage that might result from its execution, the continuation of its execution or from its validity.
4. The provisions of the civil procedural law shall apply to the extent that they do not conflict with the provisions of the foregoing subsections.

Section 60

Minutes

1. Partners or shareholders' decisions may only be proved by minutes of a general meeting or, where decisions in writing are accepted, by documents containing such decisions.
2. Minutes shall contain:
 - (a) the venue, date, time and agenda for the meeting;

- (b) the name and domicile of the person who chaired the meeting;
 - (c) the name and domicile of the person who took minutes of the meeting;
 - (d) references to documents and reports submitted to the general meeting;
 - (e) an accurate transcription of the proposed decisions and the result of the respective voting;
 - (f) an express mention of the vote intention of any partner or shareholder who so requires;
 - (g) the signature of the person who chaired the general meeting or of the person who chaired the following meeting and that of the person who took minutes of the meeting.
3. Decisions taken in writing under the terms of Sections 44.3 and 44.4 shall be recorded in the minutes book or in loose pages and decisions by public deed or made outside a general meeting shall be kept by the company.
 4. No partner or shareholder shall be expected to sign minutes that have not been entered in the respective book or in loose pages, duly numbered and initialled.

**Subpart III
Board of Directors**

**Section 61
Board of Directors**

1. All directors shall be individuals with full legal capacity.
2. At least one of the directors shall reside in Timor-Leste.
3. The composition, appointment, and removal from office of board of directors members, and the functioning of this board, shall comply with the rules for each type of company, and the first board of directors members ever shall be appointed by the partners or shareholders in the memorandum of association under the terms of paragraph (f) of section 7.6.

**Section 62
Competence of the Board of Directors**

1. The board of directors shall be responsible for managing and representing the company, under the terms established for each type of company.
2. The directors of a company shall always act in the company's interest and in so doing shall employ the diligence expected of a sound and orderly manager.
3. The company may, by an act of the directors representing it, propose managers for the conduct of business in any area of activity covered by the company's objects or appoint attorneys for the performance of certain acts or categories of acts, irrespective of any express authorisation granted by the articles of association.
4. The company shall be civilly liable for any act or omission performed or omitted by any of the persons referred to under subsections 2 and 3 above under the same terms as a delegator who shall be liable for any act or omission performed or omitted by a delegatee.

Section 63
Company Bound by Representation Powers
Exercised by its Directors

1. Any acts performed by the directors, on behalf of the company and within the powers assigned to them by law, are binding on the company in relation to third parties, notwithstanding the limitations set forth in the articles of association or arising out of a partners or shareholders' decision, even if such limitations have been advertised.
2. The company may, however, impose on a third party any power limitations arising from its corporate objects, where the company may prove that the third party was aware or could not ignore, taking into account the circumstances, that the act performed was not related to that clause and where the company did not assume it by way of an express or implied decision taken by its partners or shareholders.
3. The awareness referred to in the foregoing subsection may be proved not only by reference to the publicised articles of association of the company but also by reference to awareness obtained by other means.
4. A director shall bind the company by affixing his or her signature in that capacity.

Subpart IV
The Company Secretary

Section 64
The Company Secretary

1. The appointment of a company secretary shall be mandatory for the companies that meet some of the criteria indicated in Section 41.2, and optional for all other companies.
2. With the exception of the first-ever company secretary, who shall be immediately appointed by the partners or shareholders upon the signing of the memorandum of association under the terms of section 7.6 (f), the company secretary shall be appointed, from among the company directors or any of its employees, and removed from office, by the board of directors. Such act shall be recorded in minutes; and the functions of a company secretary may also be performed by a lawyer hired by the company for that purpose.
3. A company secretary, who is also acting as the company's attorney or director, may not intervene in the same act in this two-fold capacity.
4. In case of absence or inability to act of the secretary, the board of directors shall nominate a substitute, from among the persons mentioned in subsection 2.

Section 65
Competence of the Company Secretary

1. In addition to other functions as assigned by law or the articles of association, the company secretary shall be responsible for:
 - (a) certifying the statement of the author of the translations required by attesting that the texts have been faithfully translated;
 - (b) taking minutes of general and board of directors meetings and sign the respective minutes;

- (c) certifying, where required, that the signatures of partners or shareholders or directors have been affixed to the documents by the parties concerned in his or her presence;
- (d) certifying that the attendance list of the general meeting, if any, is filled in and signed;
- (e) proceeding with the registration and publication of acts within the scope of his or her competence;
- (f) certifying that all copies or transcriptions extracted from the company books are authentic, complete and up-to-date;
- (g) certifying the contents, in whole in or in part, of the articles of association in force, as well as the identity of the members of the various corporate bodies and the powers they hold;
- (h) applying for the legalisation of, and ensuring that, the company books are kept in good condition and order and updated;
- (i) ensuring that all company books that are supposed to be made available to the partners or shareholders or third parties for consultation, are available at least two hours each weekday, during office hours and in the location where, as indicated in the records, the books are to be kept;
- (j) ensuring that updated copies of the Sections of the association, of partners or shareholders' and board of directors' decisions, as well as of recent entries into the register of encumbrances, charges and guarantees, are delivered or sent, within eight days, to any person who has rightfully requested them.

2. Certifications made by the secretary, as referred to in paragraphs (c), (f) and (g) of the foregoing subsection, shall supersede, for all legal effects, the certificate of incorporation.

Section 66

Composition of the Auditing Body

1. The auditing of the company shall be the responsibility of a single auditor or auditing board, composed of three members.
2. The single auditor or one of the auditing board members, where applicable, or an auditing firm shall be the auditor.
3. An auditing firm sitting on the auditing board shall appoint one of its stakeholders or employees, in either case an auditor, to perform the functions entrusted thereto within the company.
4. All other members of the auditing board shall be individuals with full legal capacity.

Section 67

Disqualifications

1. The following persons shall not be eligible to become members of the auditing board:
 - (a) directors and the company secretary;
 - (b) any employee of the company or any person receiving therefrom any remuneration other than for the exercise of the functions of an auditing board member;
 - (c) a spouse, family member or relative, up to the third degree, inclusive, of the persons referred to in the foregoing subsections.
2. The auditor or an auditing firm serving as a single auditor or auditing board member shall not be eligible to become a partner or shareholder.

3. An unexpected occurrence of any of the disqualifications referred to in the foregoing subsections shall carry automatic termination of the appointment.

Section 68
Election of a Single Auditor or Auditing Board Members
and their Removal from Office

1. The single auditor or auditing board members shall, except as otherwise provided in Section 7.6(f), be elected at an ordinary general meeting, and shall remain in office until the next ordinary general meeting. The chairperson shall be appointed in the course of such election.
2. The single auditor or auditing board members may be re-elected.
3. The single auditor or auditing board members may be removed from office following a decision taken by the partners or shareholders at a general meeting, provided that there exists just cause for such a removal from office. However, removal from office shall not occur until the person concerned has been afforded the opportunity, at that general meeting, to expound the reasons for his or her acts or omissions.

Section 69
Competence of the Auditing Board
or Single Auditor

1. The auditing board or single auditor shall have competence to:
 - (a) supervise the administration of the company;
 - (b) verify the regularity and updating of the company books and of the documents supporting the entries;
 - (c) whenever deemed convenient and using the method thought adequate, verify the existing cash and the stocks of any type of goods or valuables belonging to the company or received by it as guarantee, for deposit or in any other manner;
 - (d) verify the accuracy of the annual accounts;
 - (e) verify if the appraisal criteria adopted by the company produce a correct appraisal of the assets and liabilities and of the results;
 - (f) prepare an annual report on its supervisory action and give an opinion on the balance sheet, the profit and loss account, the proposal for the application of results and the report of the administration;
 - (g) demand that the books and accounting registers enable a simple, clear and precise knowledge of the operations of the company and of its status in regard to its property;
 - (h) perform all other obligations mentioned in the law and in the articles of association.
2. Without prejudice to the duties of the other members of the supervisory organ, the accounting auditor shall have a special duty to undertake all necessary verifications and examinations for an accurate and complete audit and report on the accounts, in accordance with the provisions of special legislation.

Section 70
Powers and Duties of Members of
Auditing Board or Single Auditor

1. In order to perform the obligations of the supervisory organ, the members of the auditing board, jointly or separately, or the single auditor, shall have the power to:
 - (a) obtain from the administration or from the company secretary, when there is one, the presentation of the books, records and documents of the company, for examination and verification;
 - (b) obtain from the administration or from the company secretary, when there is one, any information or clarification on any matter within their respective competence or in which any of them has intervened or has had knowledge of;
 - (c) obtain from third parties who have made transactions on behalf of the company any information necessary for the proper clarification of such transactions;
 - (d) attend the meetings of the administration.
2. The members of the auditing board or the single auditor shall have an obligation to:
 - (a) attend the sessions of the general meeting;
 - (b) attend the sessions of the administration in which the accounts of the accounting period are considered;
 - (c) keep confidential any facts and information that they have knowledge of, without prejudice to the duty to report to the Public Prosecution Service any illegal acts punishable by criminal law;
 - (d) inform the administration of any irregularities and inaccuracies found and, if these are not corrected, inform the first general meeting that takes place after the expiry of the time reasonably needed for their correction.
3. In the exercise of their functions, the members of the auditing board or single auditor shall act in the interest of the company, the creditors and the public at large, and shall use the diligence of a rigorous and impartial supervisor.

Section 71
Meetings, Decisions and Minutes
of the Auditing Board

1. The president of the auditing board may call and chair meetings.
2. The auditing board shall meet whenever any member requests this from the president, and at least once every three months.
3. Decisions shall be adopted by majority; the board may only meet with the presence of the majority of its members, who may not delegate their functions.
4. Minutes of meetings shall be prepared, which shall be signed by all members present; the minutes shall mention the decisions passed as well as a summary report of all verifications, inspections and other steps taken by its members since the previous meeting, and their results.

5. If there is a single auditor instead of an auditing board, the report mentioned in the previous subsection shall, at least once every three months, be written down in the book or attached to it or in any other way inserted in it and duly signed.

Part V
Liability of Holders of Company Organs

Section 72
Liability of Directors Towards the Company

1. Directors shall be liable towards the company for damage caused to it by acts or omissions practiced in breach of duties arising from the law or from the articles of association, except if they prove that they acted without fault.
2. Directors who have not participated, or who have voted against a decision of the administration, and who have not participated in the respective execution, shall not be responsible for the damage arising from it; directors shall have the intention of their vote recorded in the minutes, otherwise they shall be presumed to have voted in favour.
3. Directors shall not be liable towards the company if the act or omission is based on a decision by shareholders, even if voidable, with the exception of the provision of the final part of Section 38.4, or if the decision was passed under their proposal.
4. The liability of directors shall be joint and several; of Section 19.2 shall apply to the relations among them.

Section 73
**Liability Restriction, Limitation, Renunciation
and Limitation of Actions**

1. Any clause excluding or restricting the liability of directors shall be void.
2. Decisions by which shareholders shall approve balance sheets and accounts shall not imply a renunciation by the company of the right to compensation against directors.
3. A company may only renounce the right to compensation or agree with judicial settlements by means of an express decision by shareholders, passed without a contrary vote representing a minority of at least 10% of the share capital, and only if the damage does not constitute a relevant reduction of the creditors' guarantee.
4. The time limit for limitation of actions shall run only from the moment when the majority of the shareholders gain knowledge of the facts.

Section 74
**Liability Proceedings Initiated
by the Company**

1. Liability proceedings to be initiated by the company shall depend upon a decision by shareholders passed by simple majority, and shall be initiated within three months from the date of adoption of the decision.
2. A decision to initiate liability proceedings shall imply the dismissal of the targeted directors; if necessary, shareholders shall immediately appoint special representatives of the company for the exercise of the right to compensation.

Section 75
Liability Proceedings Initiated by Shareholders

1. Liability proceedings in favour of the company may be initiated by an unlimited liability shareholder or by shareholders holding a capital participation of no less than 10%, if the company has not yet initiated the proceedings.
2. In the case mentioned in the previous subsection, the intervention of the company in the judicial proceedings shall be provoked, in accordance with procedure law.

Section 76
Liability Towards Creditor of the Company

1. Directors shall be liable towards the creditors of the company if, in breach of a provision of the law or of the articles of association, which is mainly or exclusively aimed at their protection, the assets of the company become insufficient for the payment of the respective credits.
2. Whenever the company or the shareholders have not done so, the creditors of the company may exercise the right to compensation to which the company is entitled, if there is a serious risk of relevant reduction of the patrimonial guarantee.
3. Subsections (2), (3) and (4) of Section 72 shall apply to the liability mentioned in subsection 1.

Section 77
**Direct Liability Towards Shareholders
and Third Parties**

In accordance with general rules, directors shall also be liable towards shareholders and third parties, for damage caused directly to them in the exercise of their functions.

Section 78
**Liability of Managers, Procurators and
Holders of Other Organs**

1. The provisions of Sections 102 to 106 shall apply to the managers and procurators of the company, with the necessary adaptations.
2. The members of the auditing board, the single auditor and the company secretary, when they exist, shall be liable in accordance with the provisions of Sections 102 to 106; they shall also be jointly and severally liable along with the directors for the acts or omissions of the latter where the damage would not have taken place had they fulfilled their obligations with due diligence.

Section 79
Joint and Several Liability of Shareholder

1. The shareholder who, by himself or herself or jointly with others to whom he or she is connected to by para-corporate agreements, shall have, by virtue of the provisions of the articles of association, the right to appoint an administrator without a decision by all

shareholders with regard to such appointment and shall jointly and severally be liable together with the appointed person whenever the latter is responsible, in accordance with the provisions of this law, towards the company or the shareholders and whenever a blame on the choice of the appointed person is found.

2. The shareholder who, by the number of votes that he or she has, by himself or herself or by others to whom he or she is connected to by para-corporate agreements, has the possibility of having an administrator or a member of the supervisory organ elected shall jointly and severally respond together with the elected person if there is blame in the choice of the latter, whenever he or she is responsible, in accordance with the provisions of this law, towards the company or the shareholders, as long as the decision has been taken by the votes of this shareholder and of those referred to above less than half of the votes of other shareholders present or represented in the meeting.
3. The shareholder who has the possibility, either by virtue of the provisions of the articles of association or by the number of votes available, by himself or herself or jointly with persons to whom he or she is connected to by para-corporate agreements, to dismiss or to have the administrator or the member of the supervisory organ dismissed and by the use of his influence shall determine this person to practice or to omit an act shall respond jointly and severally together with him or her, in case the latter, by such act or omission, incurs responsibility towards the company or shareholders, in accordance with the provisions of this Act.

Section 80

Liability of Single Shareholder

1. Without prejudice to the provisions of the previous Section and to the provisions for associated companies, if the bankruptcy of a company with a single shareholder is announced, whether the company is a holder of shares of its own capital or not, the single shareholder shall be personally, jointly and severally liable for all the debts of the company if it is proven that the company assets were not exclusively allocated to the fulfilment of the respective obligations.
2. It is presumed that company assets have not been exclusively allocated as provided for in the final part of the previous subsection, where the company accounting books are not kept in accordance with the terms provided for in paragraphs (b) and (g) of Section 69.1 or when the legal transactions have been entered into between the company and the shareholder without committing to written form.

Part VI

Books and Accounts of Companies

Subpart I

Books of Companies

Section 81

Compulsory Books

1. Besides the records and accounting books that the law declares compulsory, companies shall have:
 - (a) a book of minutes of the general meeting;
 - (b) a book of minutes of the administration;

- (c) a book of minutes of the auditing board, if it exists;
 - (d) a book of registration of liens, charges and guarantees;
 - (e) a book of registration of shares;
 - (f) a book of registration of bond issues.
2. The book mentioned in paragraph (d) of the previous subsection shall mention all personal and real guarantees provided by the company, as well as all liens and charges on company goods and also any limitations to the full ownership or disposability of the company goods; copies of the acts or contracts from which such situations arise shall be filed as attachments to the book.
 3. The books shall always be kept at the registered office of the company or in any other location within the district, in which the company has its headquarters, provided that this location has been made known to the register for this purpose, by means of a declaration signed by the secretary, if he or she exists, or by the administration of the company.
 4. The books mentioned in paragraphs (a), (d) and (e) of subsection 1 above shall be made available for consultation by the shareholders for at least two hours a day, during business hours.
 5. The book mentioned in paragraph (d) of subsection 1 above shall be made available for consultation by any interested party during the period mentioned in the previous subsection.
 6. All entries in the books mentioned in paragraphs (d) to (f) of Subsection 1 above that are no longer up-to-date shall be cancelled by the company secretary, if he or she exists, or by the administration, in a clearly visible manner, which however shall not prevent the reading of the entry; the responsible person shall sign and write in the margin the date of the cancellation.
 7. Any interested party may request the entry in the books of any acts related to the company that should be mentioned in them.
 8. Copies of any minutes or entries in books shall be provided to any shareholder or interested party who requests them, and who has a right to consult them, in the shortest time possible, and within no more than eight days.
 9. Shareholders shall have the right to consult and to obtain copies of any minutes of sessions or decisions of the administration, provided that three months have elapsed from their date or, before such time limit has expired, if authorised by the secretary, if there is one, or by the administration, on the grounds that there is no risk of damage to the company from the disclosure of such information.

Subpart II Company Accounts

Section 82 Duration, Start and End of Accounting Period

1. The accounting periods of companies shall be annual; they may start on 1 April, 1 July, 1 October or 1 January and end, respectively, on 31 March, 30 June, 30 September or 31 December, depending upon how this is established in the articles of association.
2. If the articles of association are silent in this respect, the accounting period of the company shall start on 1 January and end on 31 December.
3. The first accounting period of companies that adopt an annual accounting period different from the one corresponding to the calendar year shall not have a duration of less than six months, nor of more than 18 months, without prejudice to the provisions in the tax law.

Section 83
Annual Accounts, Report and Proposal

At the end of each accounting period, the administration of the company shall organise the annual accounts and, except if all shareholders are directors and the company does not have an auditing board or single auditor, prepare a report on the accounting period and a proposal for the apportioning of the results.

Section 84
Report of Administration

1. The report of the administration shall describe, with reference to the annual accounts, the state and the evolution of the management of the company in the different sectors in which the company is active, making special reference to costs, market conditions and investments, in order to enable an easy and clear comprehension of the economic situation and profitability achieved by the company.
2. The report shall be signed by all directors, except if any of them refuses to do so, which shall be justified in writing in an attached document.
3. The annual accounts, the report on the accounting period and the proposal for the apportioning of results shall be signed by the directors who exercise functions at the time of the presentation, but the former directors shall provide all information that may be requested from them in relation to their tenures.

Section 85
**Report and Opinion of Auditing Board
or Single Auditor**

1. The annual accounts, the report of the administration and the proposal for the apportioning of the results shall be handed to the auditing board or single auditor, together with the inventories that support them, up to 30 days before the date set for the ordinary general meeting.
2. The auditing board or single auditor shall prepare the report and opinion mentioned in paragraph (f) of Section 69.1 by the date on which the notices calling the ordinary general meeting are sent or published.
3. The report shall indicate:
 - (a) whether the annual accounts and the report of the administration are exact and complete, whether they communicate in an easy and clear manner the status of the company in regard to its property, whether they comply with the law and with the articles of association, and whether the supervisory organ agrees or not with the proposal for the apportioning of the results;
 - (b) the steps taken and verifications made, and their results;
 - (c) the criteria for appraisal adopted by the administration, and their adequacy;
 - (d) any irregularities or unlawful acts;
 - (e) any amendments submitted to be made to the documents mentioned in subsection 1 and the respective justification.
4. Subsections (2) and (3) of the previous Section shall apply to the report and to the opinion of the auditing board or the single auditor.

Section 86
Issue of Bonds and Public Offer

1. In companies that issue bonds or make public offers, the accounts shall also be the object of an opinion by an accounting auditor or company of accounting auditors without connection with the company, or with the single auditor, or with any of the members of the auditing board.
2. The previous subsection shall apply to companies that exercise permanent activity in Timor-Leste, even if they do not have their registered office or main administration in it.

Section 87
Consultation of Annual Accounts

The annual accounts, the report on the accounting period and the proposal for the apportioning of results, together with the report and opinion of the auditing board or single auditor, if they exist, shall be made available to the shareholders at the registered office of the company, during business hours, from the date when the notices calling the ordinary general meeting were sent or published.

Section 88
Judicial Approval of Accounts

1. If the annual accounts and the report of the administration are not presented to the shareholders up to three months after the end of the respective accounting period, any shareholder may request the court to set a time limit, of no more than 60 days, for its presentation.
2. If such presentation does not take place within the time limit set in accordance with the final part of the previous subsection, the court may order the termination of the functions of any one or more directors and order a judicial examination in accordance with Section 200, appointing a judicial administrator with the task of preparing the annual accounts and the report of the administration covering all the time elapsed since the last approval of the accounts.
3. Once the balance sheet, the accounts and the report are prepared, they shall be subject to the approval of shareholders in a general meeting called for such purpose by the judicial administrator.
4. If the shareholders do not approve the accounts, the judicial administrator shall petition the court, in the framework of the examination, for their judicial approval, enclosing an opinion by an accounting auditor not connected with the company.

Part VII
Amendments to Articles of Association

Subpart I
Amendments in General

Section 89
General Principles

1. Shareholders shall be competent to pass amendments to the articles of association, except if the law provides otherwise.
2. If the consequence of the amendment is an increase to the payments imposed by the articles of association upon shareholders, such imposition shall bind only those shareholders who expressly agreed to such increase.
3. Amendments to the articles of association shall be drafted in one of the official languages of Timor-Leste.

Subpart II
Increase of Capital

Section 90
Types and Limits

1. The capital of a company may be increased by means of new contributions or by the registration of available reserves.
2. It shall not be possible to pass an increase of capital until the initial share capital or the capital from a previous increase is fully paid.

Section 91
Requirements of Decision

A decision increasing the capital shall expressly mention:

- a) The type and the amount of the increase of capital;
- b) The nominal value of the new company participations;
- c) The time limits for the payment of the capital participations arising from the increase;
- d) The reserves to incorporate, if the increase of capital is done by registration of reserves;
- e) Whether only shareholders participate in the increase and under what conditions, or if it will be open to third parties, namely through a public offer;
- f) If new shares are formed or if the nominal value of the existing ones is increased.

Section 92
Increase by Means of New Entries

A decision of increase of capital by means of new entries may only allow a delay in payment of participations within the limits set by the law.

Section 93
Increase by Means of Registration of Reserves

1. If it is not approved in the general meeting that approves the accounts of the accounting period or in the following 60 days, an increase of capital by registration of reserves may only take place with the approval of a special balance sheet, organised, approved and registered in accordance with the rules of the annual balance sheet.
2. The company's own shares shall participate in the increase, except if there is a decision by shareholders to the contrary.
3. If there are company participations subject to usufruct, the usufruct shall apply in the same manner to the new participations arising from the increase by registration of reserves.

Subpart III
Reduction of Capital

Section 94
Requirements of Reduction Decision

1. A decision approving a reduction of capital shall clarify its purpose as well as the respective type, mentioning if the nominal value of the participations is reduced or if there is dissolution of participations and, in the latter case, which are the shares allocated by the reduction.
2. A reduction not motivated by losses may only be approved if the net worth of the company will become at least 20% in excess of the sum of the capital, the legal reserve and the compulsory reserves formed in accordance with the articles of association, certified through a report to be prepared by an accounting auditor or firm of auditors, which shall be attached to the decision.

Section 95
Registration and Publication of Decision

A decision approving a reduction of share capital shall be registered and published.

Section 96
**Moment in which the Reduction of
Share capital Takes Effect**

Share capital shall be reduced with the registration of the decision on the reduction of the capital.

Section 97
Protection of Company Creditors

1. Guarantees shall be provided to creditors whose credits were formed prior to the publication of the decision on the reduction and who may not claim payment yet, provided that they demand such guarantees within 30 days from such publication; the creditors shall be informed of the right mentioned in this subsection in the publication of the decision.
2. Creditors whose credits are already guaranteed may not exercise the right granted to them in the previous subsection.
3. Payments to shareholders on the basis of the reduction of capital may not be made before 60 days from the date of publication of the decision of reduction, and only after guarantees have been given or payment made to creditors who have demanded it.

Section 98
Reduction Motivated by Losses

1. The previous Section shall not apply:
 - a) If the reduction is motivated by losses;
 - b) If the purpose of the reduction is the formation or the reinforcement of the legal reserve.
2. In the cases mentioned in the previous subsection the shareholders shall not be released from their obligations of payment of capital.

Section 99
Simultaneous Increase and Reduction of Capital

1. It shall be allowed to approve the reduction of capital to an amount lower than the minimum required by the law for the respective type of company if such reduction is expressly subject to the condition of an increase of capital, to an amount equal or higher than minimum, to be made within 60 days from such decision.
2. The provisions on minimum capital for each type of company shall not affect the validity of a decision of reduction if the transformation of the company into a type that may legally have a capital of the reduced amount is simultaneously approved.

Subpart IV
Modification of Company Object

Section 100
Rights of Creditors

If the effect of an amendment to the articles of association is an essential modification of the object, or if it involves a complete change of activity, any creditor of the company may claim the early payment of his or her credits within 30 days from the registration of the decision, except if there is a prior agreement to the contrary.

Part VIII
Merger of Companies

Section 101
Concept and Types

1. Two or more companies, even if they are of different types, may merge into a single one.
2. The merger may be done:
 - a) By the global transfer of the property of one or more companies to another one, and the attribution to the shareholders of the former of parts or shares in the latter;
 - b) By the formation of a new company, to which the properties of the merged companies shall be globally transferred, the shareholders of the latter being given parts or shares in the new company.

Section 102
Merger Project

1. The administrations of companies wanting to merge shall prepare together a merger project which, besides other elements necessary or convenient for the perfect knowledge of the operation aimed at, shall mention:
 - a) The type, motivation, conditions and objectives of the merger, in relation to all participating companies;
 - b) The firm, registered office, amount of capital and registration number of each of the companies;
 - c) The participation that any of the companies may have in the capital of the other;
 - d) Especially prepared balance sheets of the intervening companies, mentioning the value of the elements of the assets and liabilities to be transferred to the absorbing company or to the new company;
 - e) The parts or shares to be allocated to shareholders of the company being absorbed in accordance with paragraph (a) of Section 101.2, or of the companies being merged in accordance with paragraph (b) of that subsection and, if any, the amount in money to be paid to the same shareholders, specifying the ratio of exchange of the company participations;
 - f) The draft amendment to be introduced in the articles of association of the absorbing company, or the draft articles of association of the new company;
 - g) The measures to protect the rights of creditors;
 - h) The rights ensured by the absorbing company or by the new company to shareholders holding special rights;
 - i) In mergers in which the absorbing company or the new company is a public company, the types of shares of such companies and the date from which the shares shall be handed over and shall provide a right to profits, as well as the modalities of this right.
2. The project, or an attachment to it, shall indicate the appraisal criteria adopted, as well as the bases of the exchange ratio mentioned in paragraph (e) of the previous subsection.

Section 103
Supervision of Project

1. The administration of each of the participating companies shall communicate the merger project and its attachments to the respective auditing board or single auditor, to have their opinion or, in the absence, to an accounting auditor or firm of auditors.
2. The auditing board or the single auditor, the accounting auditor or firm of accounting auditors, may request from all participating companies any information and documents needed, and may undertake necessary verifications.

Section 104
Registration of Project and Call of General Meeting

1. A merger project shall be submitted for decision to the shareholders of each of the participating companies, in a general meeting, irrespective of the type of company; the general meetings shall be called after the registration of the merger project and shall meet no earlier than 30 days from the date of sending or publication of the call, in accordance with subsection 2, depending upon which takes place later.
2. A public notice of the registration of the merger project shall be made according to this law stating that the project and the attached documentation may be consulted by the respective shareholders and creditors at the registered office of each company and stating the dates for the general meetings.

Section 105
Consultation of Documents

1. From the publication of the notice required by the previous, the shareholders and creditors of any of the companies participating in the merger have the right to consult the following documents in the registered office of each company, and to obtain, free of charge, a full copy of:
 - a) the merger project;
 - b) reports and opinions prepared by the supervisory organs or by accounting auditors.
2. They may also consult the accounts, reports of the organs of administration, reports and opinions of the organs of supervision and decisions of the general meetings on those accounts, covering the last three accounting periods.

Section 106
General Meeting

1. In the meeting, the administration shall start by expressly declaring if, since the elaboration of the merger project, there has been any relevant change to the factual elements on which it is based and, in the affirmative case, what are the modifications of the project that are necessary.

2. If there has been a relevant change in accordance with the previous subsection, the general meeting shall decide if the merger process must be restarted, or if it will continue with the consideration of the proposal.
3. The proposal presented to the various general meetings must be strictly identical; any modification introduced by a general meeting is considered as a rejection of the proposal, without prejudice to its renewal.
4. Any shareholder may demand, in the general meeting, any information about the participating companies that may be indispensable for him to understand the merger project.

Section 107 **Decision**

1. In the case of lack of special provision, the decision shall be taken in accordance with the terms prescribed for the amendment of the articles of association.
2. The decision may only be executed after the assent of the prejudiced shareholders is obtained, if it:
 - (a) increases the obligations of all or some shareholders;
 - (b) affects special rights that some shareholders hold;
 - (c) modifies the proportion of their participations in relation to the other shareholders of the same company, except to the extent to which such modification arises from payments demanded in order to comply with legal provisions imposing a determined or minimum value for each unit of participation.
3. If any of the participating companies has various categories of shares, the merger decision of the respective general meeting is only effective after its approval by a special meeting of each category.

Section 108 **Participation of a Company in the Capital of Another**

1. If any of the companies holds a participation in the capital of another, it may not make use of a number of votes higher than the sum of all the other shareholders.
2. For the purposes of the previous subsection, to the votes of the company shall be added the votes of other companies controlled by the in accordance with Section 79, as well as the votes of persons acting in their own name but for the account of some of these companies.
3. As an effect of a merger by absorption, the absorbing company shall not receive parts or shares of itself in exchange for parts or shares in the absorbed company which are held either by the former or by the latter or by persons acting in their own name but for the account of any of these companies.

Section 109 **Right of Resignation of Shareholders**

1. If the law or the articles of association grant to a shareholder who has voted against a merger project the right to exonerate himself from the company, the shareholder may demand, within the 30 days following the date of the publication required by Section 112.1, that the company acquires, or have a third party acquire, his company participation.
2. Except if otherwise stipulated in the articles of association, or if there is an agreement of the parties, an accounting auditor without connection with the merging companies shall determine the value of the participation.
3. The company must pay the value set within 90 days; if not, the shareholder may request its dissolution.
4. The right of the shareholder to transfer his participation by other means is not allocated by the provisions of the previous subsection; the limitations prescribed by the articles of association of the company do not apply to such transfer, if effected within the time limit there mentioned.

Section 110 Merger Document

1. Once the merger has been approved by decision of the general meeting of each of the participating companies, the respective administrations shall sign the respective merger document.
2. If the merger takes place through the formation of a new company, the provisions that apply to such formation shall be complied with, except if something otherwise arises from their justification.

Section 111 Publicity of Merger and Opposition of Creditors

1. The administration of each of the participating companies shall promote the registration and publication of the decision that approves the merger project.
2. Creditors of the participating companies may judicially oppose the merger within 30 days from the last publication done in accordance with the previous subsection, based on the damage arising from it to the payment of their credits, if the latter are prior to such publication.
3. The creditors mentioned in the previous subsection shall be given notice of their right of opposition in the publication mentioned in subsection 1 and, if their credits are mentioned in books or documents of the company or are by any other means known to it, by registered mail.

Section 112 Effects of Opposition

1. Judicial opposition by any creditor prevents the registration of the merger until any of the following acts have taken place:
 - (a) it is judged without merit, by a decision that may no longer be appealed, or, if the case was dismissed for procedural reasons, if the opposing creditor does not initiate new proceedings within 30 days;
 - (b) the opposing creditor withdraws the proceedings;

- (c) the company has paid the opposing creditor or given a guarantee for an amount agreed or ordered by judicial decision;
 - (d) the amount due to the opposing parties are judicially deposited.
2. If the court allows the opposition, the court shall order the reimbursement of the credit of the opposing party or, if it may not yet be demanded, the giving of a guarantee.
 3. The provisions of the previous Section and of subsections 1 and 2 do not obstruct the application of contractual clauses that give the creditor the right to the immediate payment of his credit if the debtor company merges with another company.

Section 113 Bondholder Creditors

1. The provisions of Sections 111 and 112 apply to bondholder creditors, with the modifications mentioned in the following subsections:
2. Meetings of the bondholders of each company shall take place; they shall be called by the common representative for each issue, in order to assess the merger in relation to possible damage to these creditors; decisions shall be adopted by absolute majority of the bondholders present or represented.
3. If the meeting does not approve the merger, the right of opposition shall be collectively exercised through the common representative.
4. The holder of obligations, convertible or not into shares, enjoy, in relation to the merger, the rights that have been attributed to them for such case; if no specific rights were attributed to them, they enjoy the right of opposition, in accordance with this Section.

Section 114 Holders of Other Instruments

The holders of instruments other than shares, to which special rights are inherent, shall continue to enjoy at least equivalent rights in the absorbing company or in the new company, except if:

- (a) it is decided, in an extraordinary meeting of the instrument holders and by absolute majority of the number of each type of instrument, that the said rights may be modified;
- (b) if the special extraordinary meeting is not foreseen in the law or in the articles of association, all bearers of each type of instrument individually assent to the modification of their rights;
- (c) the merger project foresees the acquisition of such instruments by the absorbing company or by the new company, and the conditions for such acquisition are approved, in an extraordinary meeting, by the majority of the bearers present or represented.

Section 115 Registration of Merger

After the period mentioned in Section 111.2 has elapsed without any opposition or any of the facts mentioned in Section 112.1 having taken place, the administration of any of the

companies participating in the merger, or the new company, shall proceed with the commercial registration of the merger.

Section 116 Effect of Registration

With the registration of the merger:

- (a) the absorbed companies or, in the case of formation of a new company, all merged companies, are dissolved; their rights and obligations are transferred to the absorbing company or to the new company;
- (b) the shareholders of the dissolved companies become shareholders of the absorbing company or of the new company.

Section 117 Condition of Term

If the effects of a merger are dependent upon a suspensive condition or a suspensive term and, before the occurrence of such, relevant modifications take place in the factual elements on which the decisions were based, the general meeting of any of the companies may decide to petition the court for the rescission or modification of the merger, its effect being delayed until the moment when the decision pronounced in the proceedings may no longer be appealed.

Section 118 Liability Arising from Merger

1. The directors, the members of the auditing board or single auditor and the secretary of each of the participating companies are jointly and severally liable for damage caused by the merger to the company and to its shareholders and creditors, if they have not observed the diligence of a systematic and ordered manager in verifying the patrimonial situation of the companies and in concluding the merger.
2. In relations among themselves, the co-obliged parties are liable in accordance with Section 21.2.
3. The dissolution of companies caused by a merger does not hinder the exercise of the right to compensation mentioned in subsection 1, nor of their rights and obligations arising from the merger; such companies are considered to be in existence for this purpose.

Section 119 Enforcement of Liability in Case of Dissolution of Company

1. The rights mentioned in the previous Section, if relating to companies mentioned in its subsection 3, are exercised by a special representative, whose appointment may be requested from the court by any shareholder or creditor of the company.
2. Such special representative shall invite the shareholders and creditors of the company, by means of a notice published according to the form prescribed for company notices,

to claim their rights of compensation, within a time limit stated by him or her of no less than 30 days.

3. Compensation granted to the company shall be used in the payment of the respective creditors, to the extent that they have not been paid or guaranteed by the absorbing company or by the new company; any excess shall be distributed by the shareholders, in accordance with the rules applicable to the distribution of the balance of a liquidation.
4. Those shareholders and creditors who have not claimed their rights in due time are not included in the sharing mentioned in the previous subsection.
5. The special representative has the right to reimbursement for expenses that he has justifiably made and to remuneration for his activity; the court, using prudent discretion, shall determine the amount of the expenses and the remuneration, as well as the extent to which they shall be paid by the shareholders and interested creditors.

Section 120

Absorption of a Company Totally Controlled by Another

1. The previous Sections shall apply, with the exceptions mentioned in the following subsections, to the absorption by a company of another of whose parts or shares the former is the only holder, directly or for its account but under a separate name.
2. In this case the provisions on the exchange of company participations, on the reports of company organs of the absorbed company, and on the liability of those organs shall not apply.
3. The merger document may be prepared without previous decision by the general meetings, provided that the following cumulative requirements are met:
 - (a) the merger project indicates that if the respective call is not requested in accordance with paragraph (d) the document shall be signed without previous decision by the general meetings;
 - (b) the publicity required by Section 104 has been made at least two months in advance in relation to the date of the document;
 - (c) the shareholders were able to gain knowledge, at the registered office, of the documentation mentioned in Section 105, at least from the eighth day following the publication of the merger project, and they have been informed of this in the same project or simultaneously with its communication.
 - (d) up to 15 days before the date set for the preparation of the document, no general meeting to decide the merger has been requested by shareholders holding 5% of the share capital.

Section 121

Nullity of Merger

1. The nullity of a merger may only be declared on the basis if a document or of a previous declaration of nullity or annulment of any of the decisions of the general meetings of the participating companies.
2. Proceedings to declare the nullity of a merger may only be initiated while the existing defects have not been corrected, but not after six months from the publication of the

- registered merger, or from the publication of a judicial decision that may no longer be appealed declaring void or voiding any of the decisions of the said general meetings.
3. The court shall not declare the nullity of a merger if the defect producing it is corrected within a time limit that it shall state.
 4. A judicial declaration of nullity is subject to the same publicity required for a merger.
 5. The effects of the acts practiced by the absorbing company, after the entering of a merger in the register and before the decision declaring nullity, are not affected by this declaration, but the absorbed company is jointly and severally liable for the obligations contracted by the absorbing company during that period; the merged companies are liable in the same manner for the obligations contracted by the new company, if the merger is declared void.

Part IX Demerger of Companies

Subpart I General Provisions

Section 122 Concept and types

1. A company is allowed to:
 - (a) separate part of its assets in order to form a new company with it;
 - (b) dissolve itself and divide its assets, each of the resulting parts being used to form a new company;
 - (c) separate parts of its assets or dissolve itself, dividing its assets into two or more parts, in order to merge it with existing companies or with parts of the assets of other companies, separated by identical processes and with the same purpose.
2. Demerger may take place even if the company is in liquidation.
3. The companies resulting from a demerger may be of different types from the demerged company.

Section 123 Demerger Project

1. The administration of a company that is to be demerged or, in the case of a demerger or merger, the administrations of the participating companies, shall together prepare a demerger project which, besides all other elements necessary or convenient for the project knowledge of the operation aimed at, shall mention:
 - (a) the modality, motivation, conditions and objectives of the demerger in relation to all participating companies;
 - (b) the firm, registered office, capital value and registration number of each of the companies;
 - (c) any participation that any of the companies may have in the capital of another;
 - (d) the complete enumeration of the assets to be transferred to the absorbing company or to the new company, and if the values attributed to these;

- (e) in the case of a demerger or merger, the balance sheet of each of the participating companies, prepared in accordance with paragraph (d) of Section 102.1;
 - (f) the parts or shares of the absorbing company or of the new company as well as, if applicable, the amounts in money to be distributed to the shareholders of the company being divided, specifying the ratio of the exchange of the company participations and the basis for this ratio;
 - (g) the categories of shares of the companies arising from the demerger, if they are public companies, and the dates from which such shares shall be made available;
 - (h) the date from which the new participations grant the right to receive profits, as well as any possible specificities to this right;
 - (i) the rights ensured by the companies resulting from the demerger to shareholders of the demerged company who hold special rights;
 - (j) the project for the amendments to be introduced in the articles of association of the absorbing company or the draft articles of association of the new company;
 - (k) measures to protect the rights of creditors;
 - (l) measures to protect third party non-shareholders' rights to participate in the profits of the company;
 - (m) the attribution of the contractual position of the company of intervening companies arising from labour contracts concluded with their employees, which are not dissolved as a result of the demerger.
2. The project or an attachment to it shall indicate the appraisal criteria adopted, as well as the bases of the exchange ratio mentioned in paragraph (f) of the previous subsection.

Section 124 Applicable Provisions

The provisions on the merger of companies apply to demerger, with the necessary adaptations.

Section 125 Exclusion of Novation

The attribution of debts of a demerged company to the absorbing company or to the new company does not cause novation.

Section 126 Liability for Debts

1. A demerged company is jointly and severally liable for the debts that, as a result of the demerger, have been attributed to the absorbing company or to the new company.
2. Companies benefiting from the entries resulting from a demerger are jointly and severally liable, up to the value of such contributions, for debts of the demerged company formed prior to the registration of the demerger.

3. A company that pays debts that have not been attributed to it as a result of the joint and several liability prescribed in the previous subsections has a right of return against the main debtor.

Section 127 **Requirements of simple demerger**

1. The demerger mentioned in paragraph (a) of Section 122.1 is not possible:
 - a) if the value of the assets of the demerged company becomes lower than the sum of the value of the share capital, the legal reserve and the compulsory reserves formed in accordance with the articles of association, and the corresponding reduction of the share capital is not effected before or together with the demerger;
 - b) if the capital of the company to be divided is not fully paid.
2. For the purpose of paragraph (a) of the previous subsection, in private companies the amount of the supplementary payments made by the shareholders and not yet refunded shall be added.
3. The verification of the conditions required in the previous subsections shall be expressly mentioned in the opinions and reports of administration and supervision of the companies, as well as by the accounting auditor or firm of accounting auditors.

Section 128 **Separable Assets and Liabilities**

1. In a simple demerger, only the following elements may be separated for the formation of the new company:
 - (a) participation in other companies, whether they are all or part of those that the company to be divided holds, and only for the formation of a new company whose exclusive object is the management of company participations;
 - (b) assets that are coordinated within the assets of the company to be divided so that they form an autonomous unit.
2. In the case of paragraph (b) of the previous subsection, it is possible to attribute to the new company the debts that are economically related with the formation or the functioning of the unit there mentioned.

Section 129 **Capital Reduction of Company to be Divided**

The capital reduction of a company to be divided is only subject to general rules to the extent to which it does not remain within the global amount of the capital of the new companies.

Section 130 **Requirements for Demerger or dissolution**

1. The demerger or dissolution mentioned in paragraph (b) of Section 122 shall include all the assets of the company to be divided.
2. If the decision for demerger did not set the criteria for the attribution of assets and liabilities that are not mentioned in the definitive demerger project, the assets shall be distributed among the new companies in accordance with the proportion arising from the demerger project; the new companies are jointly and severally liable for any debts, and a company that pays debts of an amount higher than the proportion arising from the demerger project has a right of return against the new companies.

Section 131 Participation in New Company

The shareholders of a company divided by demerger or dissolution participate in each of the new companies in accordance with the proportion in which they participated in the former, except if there is an agreement among the interested parties to the contrary.

Section 132 Applicable Provision

Section 116 is especially applicable to demerger or dissolution, with the necessary adaptations.

Subpart IV Demerger or merger

Section 133 Special Requirements

The requirements to which the transfer of certain assets or rights may be subject in accordance with the law or contract are not dispensed with in the case of a demerger or merger.

Section 134 Formation of New Companies

1. The formation of new companies by the simultaneous demerger or merger of two or more companies may involve only those companies that are the subject of such demerger or merger.
2. The participation of the shareholders of the demerged company in the formation of the capital of the new company may not exceed the value of the assets separated, liquid of any debts that contractually accompany them.

Section 135 Applicable Provisions

1. The provisions of Section 108 and of Sections 117 and 118 are especially applicable to the demerger or merger, with the necessary adaptations.

2. The provisions of Sections 127 and 128 are also applicable to the demerger or merger if the demerged company keeps its legal personality; the provisions of Sections 116, 119, 130 and 131 are applicable in the opposite case.

Part X Transformation of Companies

Section 136 General Principles

1. Except in the case of legal prohibition, any company may adopt a different type after its formation and registration.
2. Civil companies may transform themselves into commercial companies, provided that they adopt one of the types mentioned in Section 159.1; the rules on the formation and registration of companies shall apply to this, with the necessary adaptations.
3. The transformation of a company does not cause its dissolution.

Section 137 Impediments to Transformation

A company may not be transformed:

- (c) if the capital participations provided for in the articles of association, and already matured, have not been fully paid;
- (d) if the balance sheet of transformation shows that the net worth of the company is lower than its capital;
- (e) in the case of a public company, if it has issued bonds convertible into shares which have not yet been fully refunded or converted.

Section 138 Report by Administration

1. The administration of a company shall organise a report justifying the transformation, which shall have attached:
 - (a) an especially prepared balance sheet of the company;
 - (b) a draft of the articles of association that shall regulate the company.
2. If the general meeting that decides upon the transformation takes place within 60 days following the approval of the balance sheet of the last accounting period, the presentation of a special balance sheet shall be dispensed with, and the former shall be attached to the report.
3. The provisions of this law on the supervision of the project and the consultation of documents in case of merger of companies shall apply, with the necessary adaptations.

Section 139 Decisions

1. The following matters shall be object of separate decisions:
 - (a) the approval of the balance sheet;
 - (b) the approval of the transformation and of the articles of association that shall regulate the company.
2. Decisions for transformation causing for all or some shareholders the assumption of unlimited liability, or that imply the elimination of special rights, are only effective if approved by those shareholders who will assume that liability or by the holders of the allocated special rights.
3. The new articles of association may not set longer time limits for the payment of capital participations not yet matured, nor may they contain provisions that hinder or in any way limit previously existing rights of bondholders.

Section 140 **Formalities of Transformation**

The provisions on the amendment of articles of association shall apply to the transformation of companies in all matters that are not especially regulated in this Section.

Section 141 **Participation of Shareholders**

1. The proportion of each participation in relation to the capital may not be modified, except with the agreement of all shareholders.
2. If, as a consequence of transformation, it becomes impossible to have working shareholders, an agreed capital participation shall be attributed to them, and the participations of the other shareholders shall be proportionally reduced.

Section 142 **Resignation of Opposing Shareholders**

1. Those shareholders who did not vote in favour of the decision for transformation may exonerate themselves from the company, communicating that intention in writing within 30 days from the registration of the transformation.
2. Shareholders who exonerate themselves from the company in accordance with the previous subsection shall be paid the value of their proportion, in accordance with Section 13.
3. If the payment of the value of the participations of shareholders exonerating themselves from the company affects the share capital, all shareholders shall be called on to decide on a revocation of the transformation or on capital reduction.
4. Resignation is effective from the date of its registration.

Section 143 **Guarantees of Third Parties**

1. Transformation does not affect the personal and unlimited liability of the shareholders for previously contracted company debts.

2. The personal and unlimited liability of the shareholders that may result from the transformation of a company does not include previously formed company debts.
3. The rights of enjoyment or of guarantee existing over company participations at the date of the transformation are maintained, and shall have as object the new corresponding participations.

Part XI
Dissolution and liquidation

Subpart I
Dissolution

Section 144
Causes of dissolution and their registration

1. Companies are dissolved in the cases provided for in the law, in the articles of association, and also:
 - (a) by a decision by shareholders;
 - (b) by the expiry of the time limit for its duration;
 - (c) by the suspension of activity for a period longer than three years;
 - (d) by the non-exercise of any activity for a period longer than 12 consecutive months if the activity is not suspended in accordance with Section 22;
 - (e) by the dissolution of its object;
 - (f) by supervening illegality or impossibility of its object if, within 45 days, its amendment has not been decided by shareholders, in accordance with the rules applicable to the amendment of articles of association;
 - (g) if the accounts of the accounting period show that the net worth of the company is less than half of the value of the company, except as provided for in Section 35;
 - (h) by bankruptcy;
 - (i) by judicial decision determining dissolution.
2. In case of doubt as to the occurrence of a cause of dissolution and in the case mentioned in paragraph (e) of the previous subsection, a general meeting shall be called to decide on the recognition or not of the dissolution or on the extension of the duration of the company or on the amendment of its object.
3. Any creditor or the Public Prosecution Service has legitimacy to request from the court a declaration of dissolution of a company due to the occurrence of any fact that causes it, even if there is a decision by shareholders not recognising the dissolution in accordance with the previous subsection.

Section 145
Effects of Dissolution

1. The effect of dissolution is the commencement of the liquidation of the company.

2. Dissolution takes effect from the date on which it is registered or, in relation to the parties, on the date from which the judicial decision declaring or determining it may no longer be appealed.

Section 146
Obligations of the Administration of a Dissolved Company

1. After dissolution, directors shall submit to the approval of the shareholders, within 60 days, the inventory, balance sheet and profit and loss account, prepared on the basis of the date of registration of the dissolution.
2. Once the accounts are approved by the shareholders, those directors who do not become liquidators shall deliver to the liquidators the documents, books, papers, records, money and goods of the company.
3. The directors shall also provide all information and clarifications on the activity and situation of the company that may be requested by liquidators.

Subpart II
Liquidation

Section 147
General Rules

1. A company in liquidation continues to have legal personality and, except if there is an express provision to the contrary, the provisions that regulated it until the dissolution shall continue to apply.
2. A company in liquidation keeps the same firm name, with the addition of the expression “in liquidation”.

Section 148
Time for Liquidation

1. An extra-judicial liquidation may not last more than two years from the date of registration of the dissolution until the registration of the closure of the liquidation.
2. If the liquidation is not completed within that time limit, it shall continue by judicial means; the liquidators shall request the judicial continuation of the liquidation within eight days after the expiry of the time limit mentioned in the previous subsection.

Section 149
Liquidators

1. The directors of a company shall become its liquidators, except if there is a clause of the articles of association or a decision to the contrary.
2. Legal persons may not be appointed as liquidators, with the exception of law or auditing firms.
3. If there is a just cause, any interested party may the judicial dismissal of the liquidators.
4. The liquidators commence their functions on the date of approval of the accounts mentioned in Section 146.1.

Section 150
Rules Applicable to Liquidators

1. With the exception of the legal provisions that apply especially to them and of the limitations resulting from the nature of their functions, liquidators, in general, have the duties, powers and liability of company directors.
2. Liquidators may only initiate new operations in the framework of the object of the company, and borrow funds, if there is a previous decision by shareholders.
3. Liquidators shall especially close the transactions and operations already initiated by the date of dissolution, collect the credits and perform the obligations of the company and, except if there is an unanimous decision of the shareholders, transform the remaining assets into funds.
4. Liquidators shall demand from shareholders any contributions not paid to the extent that these contributions may be necessary to the performance of the obligations of the company or to pay the costs of liquidation

Section 151
Annual Accounts, Final Accounts and
Report of Liquidators

1. Apart from the accounts that by the end of each accounting period must be presented to shareholders on the financial position of the company and the progress of liquidation, liquidators shall present final or closing accounts, together with a complete report on the liquidation and a proposal for the distribution of the remaining assets.
2. After the approval of the final accounts and the proposal for distribution, the shareholders shall appoint a depository for the books and documentation of the company, which shall be kept for five years.
3. The final accounts may only be presented to the shareholders after all third party credits known to the liquidators have been paid or provided for.
4. Liquidators are directly liable to creditors for damage caused to them as a result of the non-fulfilment of the previous subsection.
5. If the assets of the company are not sufficient for the payment of all its debts, the liquidators shall file for bankruptcy of the company as soon as they realize this, except if the unlimited liability shareholders pay those debts.

Section 152
Approval of Final Accounts, Distribution, Registration
and Dissolution of Company

1. After the approval of the final accounts, the assets, liquid from the expenses of the liquidation and from tax and registration debts not yet matured, are distributed among the shareholders in accordance with the articles of association or, in their absence, in accordance with the following subsections.
2. The remaining assets shall be used first to reimburse the amount of capital contributions effectively paid; this amount shall be the fraction of the capital corresponding to each shareholder, without prejudice to any provisions of the articles of association for the case in which the assets with which a shareholder contributed his entry have a value higher than such nominal fraction.

3. If a full refund may not be done, the existing assets are distributed among the shareholders in such manner that the shortage falls on each of them in accordance with the proportion of his respective part in the losses of the company; to such effect, account must be taken of the contributions due from shareholders.
4. If after the full reimbursement there is a balance, it shall be shared in accordance with the ratio applicable to the distribution of profits.
5. Any balance from liquidation which may not be handed to the respective shareholder shall be deposited in his name in an authorised bank established in the country.

Section 153

Registration and Dissolution of Company

1. Liquidators shall request the registration of the decision closing the liquidation within 15 days, attaching the documents mentioned in Section 151.1.
2. The company is dissolved as of the date of registration of the closure of liquidation.

Section 154

Supervening Assets and Liabilities

1. After registration of the closure of liquidation and the dissolution of the company, the former shareholders are jointly and severally liable for company liabilities that have not been considered in the liquidation, up to the amount that they received in the distribution of the balance of the liquidation, without prejudice to the provisions on unlimited liability shareholders.
2. Any judicial proceedings in which the company is involved shall continue after its dissolution; the company is considered as replaced by the shareholders as of the date of dissolution; proceedings are not suspended nor is habilitation necessary.
3. If after registration of the closure of the liquidation assets of the company that were not distributed are found, any of the shareholders mentioned in the previous subsection may propose to the other an additional distribution, which shall be made in accordance with terms agreed by all.

Part XII

Publicity of Company Acts

Section 155

Publication

1. The publication of company acts, required by the law or by the articles of association, shall be done in accordance with this law.
2. If publications have to be made in both official languages, the translation from one language to the other shall contain a statement that the text was faithfully translated; such statement shall be made before the company secretary or, if he does not exist, before an administrator, and certified by them.

Section 156
Liability for Discrepancies

1. A company is liable for damage caused to shareholders or third parties by any discrepancy between the content of acts practised, the content of registration and the content of publications; the administration and the company secretary, if there is one, are jointly and severally liable with the company, except if they prove that they acted without fault.
2. The directors and company secretary, if there is one, shall adopt the measures necessary for the correction of discrepancies, in the shortest time possible, from the date when they gained knowledge of these.
3. In the case of discrepancy between the content of any publication and of registration, the company may not invoke the published text against third parties, but the third parties may invoke it, except if the company proves that the third party knew of the text mentioned in the registration.

Section 157
Mentions in Documents Addressed to Third Parties

Without prejudice to the provisions of special laws, all contracts, correspondence, publications, announcements and generally all documents addressed by the company to third parties shall always mention the firm name, registered office, registration number and share capital, as well as the amount of the capital effectively paid, if this is different from the share capital.

Part XIII
Supervision by the Public Prosecution Service

Section 158
Supervision by the Public Prosecution Service

1. The Public Prosecution Service shall request, without the need for a prior declarative procedure, the judicial liquidation of companies that:
 - a) not being registered, exercise activity for more than three months;
 - b) are not registered or do not function in accordance with the law; or
 - c) have an object that is unlawful or contrary to public order.
2. The court shall order the notification of the request to the company and to the shareholders and, if correction of the situation is possible, shall set a reasonable time limit for it.

Part XIV
Limitation of Actions

Section 159
Limitation of Actions

1. The rights of the company against shareholders, directors, members of the auditing board or single auditor, company secretary and liquidators, as well as the rights of the latter against the company, are barred after five years from:
 - (a) the due date of payment of the obligation to pay capital or supplementary instalments;
 - (b) the conclusion of all wilful or negligent conduct, or from its revelation if it has been hidden, and from the occurrence of damage, irrespective of whether the damage has fully occurred, in relation to the obligation to compensate the company;
 - (c) the date of maturity in relation to any other obligation.
2. The rights of shareholders and of third parties arising from liability towards them by other shareholders, directors, members of the auditing board or single auditor, company secretary and liquidators shall be barred five years from the moment mentioned in paragraph (b) of the previous subsection
3. Credit rights of third parties against the company which may be exercised against former shareholders, and rights that the latter may exercise against third parties, in accordance with Section 154, shall be barred 5 years from the registration of the dissolution of the company, if they are not barred earlier in accordance with other provisions
4. The rights to compensation mentioned in Section 118 are barred 5 years from the date of registration of a merger.
5. If the fact from which the obligation arises is a crime for which the law sets a longer period of limitation of actions, such period shall apply.

Chapter II General Partnerships

Part I General Provisions

Section 160 Characteristics

1. In a general partnership each partner is subsidiarily liable in relation to the partnership and jointly and severally with the other partners for the obligations of the partnership, even if these have been contracted prior to the date when he joined.
2. A partner who pays for obligations of the partnership has a right of return against the other partners, in the proportion in which they share in the losses of the partnership.
3. In case of the mismatch mentioned in subsection 2 above, the other partners are subsidiarily liable towards the partner at issue, and jointly and severally liable among themselves for the payment of the difference in money.
4. A person who, not being a member of the partnership, acts in any way towards third parties as if he was, is jointly and severally liable with the partners towards the persons who have negotiated with the partnership in the belief that he was a partner.

5. The firm of the general partnership shall, if it does not individualise all the partners, contain, at least, the name or the firm of one of them, adding in abbreviation or full, “and Company” or any other that indicates the existence of other partners.

Section 161
Partners and their Contributions

1. General partnerships may only be formed by at least two partners, who may contribute with capital or with working.
2. The time limit of delay of payment of capital participations may not exceed five years.

Section 162
Contents of Articles of Association

1. The articles of association of a general partnership shall especially mention:
 - (a) the complete name of each partner;
 - (b) the value attributed to the working contributions in order to determine the distribution of profits.
2. Working partners shall, in an attached statement, describe in summary the activities that they undertake to perform.

Section 163
Working Partners

1. The value of working contributions is not computed in the capital of the partnership.
2. In internal relations, working partners do not share in losses, unless there is a clause of the articles of association to the contrary.

Section 164
Competition and Participation in other Partnerships or Companies

1. A partner may only exercise, for his own or other persons' account, an activity covered by the object of the partnership, or be an unlimited liability of another partnership, or be a shareholder with a participation of more than 20% in the capital or in the profits of a partnership or company whose object coincides totally or partly with the former, with the express assent of all the other partners.
2. A partnership may demand that a partner transfers to it the right to the profits obtained or to be obtained in breach of the previous subsection, and shall do so within 30 days from knowledge of the forbidden fact and, in any case, within six months from its occurrence.
3. The assent mentioned in subsection 1 above is presumed if the exercise of the activity or the participation in another partnership or company is prior to the joining of the partner, and all the other partners had knowledge of such facts.

Section 165
Right to Information

1. Apart from the right to information provided for in this Law, a partner who is not an administrator has the right to information of the state of business and the patrimonial situation of the partnership; the directors shall allow him or her to inspect the property of the partnership and to consult, at the registered office, the respective books and documents.
2. In consulting accounts, books or documents and in inspecting the property of the partnership, the partner may be accompanied by an expert, and may also use the powers mentioned in the Civil Code regarding reproduction of documents.

Section 166
Transfer of Participations Between Living Natural Persons

1. The assent of all the others is necessary for a partner to transfer to a living natural person his or her participation in the partnership.
2. Special rights are not transmitted with the participation.

Part II
Decisions of Partners and Administration

Section 167
Decisions of Partners

1. Except if there is a provision of the law or articles of association to the contrary, decisions that have obtained the majority of votes in favour of the partners are considered as passed.
2. Amendments to the articles of association, merger, demerger, transformation, dissolution and appointment of directors may only be approved by unanimity.
3. Each partner has one vote.
4. Section 208.1 applies to the calling of general meetings.

Section 168
Administration and Supervision

1. Except if there is a stipulation of the articles of association to the contrary, all partners are directors, whether they have formed the partnership or acquired that capacity later.
2. Persons who are not partners may be elected as directors by means of a unanimous decision by partners.
3. Except if there is a stipulation of the articles of association to the contrary, a partner administrator may only be dismissed if there is just cause, either by means of a decision taken by the majority of the other partners or by a judicial decision issued in proceedings initiated by any of them.
4. The removal of a partner administrator, if the partnership has only two partners, or if the former has been appointed through a special clause of the articles of association, may only be decided by court.

5. An administrator who is not a partner may be dismissed at any time, with the votes of all partners, or of the majority if there is just cause.
6. In the absence of an auditing board or a single auditor, the supervision of the partnership is a competence of all partners.

Section 169
Functioning of Administration

1. The management and representation of a partnership is conducted by the directors; in the absence of a stipulation of the articles of association to the contrary, all have equal and independent powers.
2. An administrator binds the partnership with his signature, mentioning the capacity in which he intervenes; the latter may be indicated by means of the apposition of a stamp of the administration or a seal of the partnership.
3. Any administrator may oppose acts that the others intend to execute; it is for the majority of the administration to decide on the merits of the opposition.

Part III
Redemption, Death, Execution, Resignation and Exclusion

Section 170
Redemption of Participations

1. The participation of a partner shall be redeemed in the following cases:
 - (a) death of the partner, unless any of the cases mentioned in the following Section takes place;
 - (b) execution of the participation, in accordance with the law;
 - (c) exclusion or self-resignation of the partner.
2. If the redemption of a participation is not accompanied by a corresponding reduction of the capital, the participations of the other partners shall be proportionally increased; this fact shall be registered.
3. Partners may, however, pass a unanimous decision creating one or more participations, of a nominal value equal to the one that was dissolved, for immediate transfer to partners or third parties.
4. The redemption of participations shall be done in accordance with Section 175.
5. After registration of the redemption of a participation, the liability of the partner or of his heirs in case of death, continues for two years, in relation to transactions concluded before that moment.
6. The redemption of a participation may not take place if, at the moment of its execution, the net worth of the partnership, after the payment of the redemption, will become lower than the capital of the partnership.
7. If redemption of a participation is to take place as a result of the death of a partner, or of the self-resignation of a partner on the basis of Section 173.2, and it may not be effected due to the reasons mentioned in the previous subsection, no profits shall be distributed until the payment of the redemption is made without breach of the previous subsection. When, for exclusion of a partner, the redemption may not take place for

the reasons provided for in the preceding subsections, the partner repossesses the right to profits and the liquidation quota until such a time as the payment is made.

Section 171

Death of a Partner

1. If the articles of association do not provide to the contrary, in case of death of a partner, the remaining partners shall redeem the respective participation; however, they may continue the partnership with the heirs if the latter agree to this within 90 days, or instead decide to dissolve the partnership, in which case they shall inform the heirs within 60 days from the moment at which any of the partners knew of the death.
2. If the heirs are called to the partnership they may freely divide the participation of the deceased partner, or entitle one or some of them to it.

Section 172

Execution of Participation

1. If other assets of a partner enable payment, a private creditor of such partner may only execute his right to profit and to share in the liquidation.
2. If the other assets of such partner become insufficient, the creditor may demand the redemption of his participation.

Section 173

Resignation

1. Apart from the cases mentioned in law or in the articles of association, if the duration of a partnership is for an undetermined period of time or if it was established for the duration of the life of a partner or for a period longer than 30 years, any partner who has had this capacity for at least 10 years has the right to resign from the partnership.
2. The same right is recognised to any partner if, against his express vote and despite the existence of just cause, the partnership has resolved not to dismiss an administrator or exclude a partner, if such right is exercised within 90 days from the date at which he gained knowledge of the fact allowing resignation.
3. Resignation only becomes effective at the end of the annual accounting period in which the respective communication is made, but never sooner than 90 days from the end of such accounting period.

Section 174

Exclusion of Partner

1. A partnership may exclude a partner in the cases mentioned in the law and in the articles of association, and also:
 - (a) if a serious breach of his obligations towards the partnership is imputable to him or her, namely the obligation of non-competition, or if he is dismissed from the administration on the basis of a just cause consisting of an act of negligence that may cause damage to the partnership;
 - (b) in case of interdiction, inability, declaration of bankruptcy, or insolvency of the partner;

- (c) in the case of a working partner, if it becomes impossible for him or her to render to the partnership the services for which he or she is obliged.
2. A decision of exclusion must obtain the votes of all other partners, and shall be approved within the 90 days following the day on which any of the directors gained knowledge of the fact that allows the exclusion.
 3. If the partnership has only two partners, the exclusion of either of them, on the basis of any of the facts mentioned in paragraphs (a) and (c) of subsection 1, may only be declared by the court.
 4. The calculation of the value of the participation of the excluded partner shall be made with reference to the moment of the decision of exclusion or, if it is the result of a judicial decision, the date by which the sentence may no longer be appealed.

Section 175 **Appraisal of Participation**

1. In cases of death, resignation, or exclusion of a partner, the value of his participation shall be determined by an accounting auditor on the basis of the state of the partnership at the date on which the fact determining the redemption occurred or produced effect; if there business underway, the partner or the heirs shall participate in the profits or losses resulting from it
2. The applicable part of subsections 2 to 4 of Section 152 shall apply to the appraisal of participations, with the necessary adaptations.
3. Without prejudice to Section 170.6, the payment of the redemption value shall be made, unless there is an agreement to the contrary, within six months from the day in which the fact determining the redemption occurred or produced effect.

Part IV **Dissolution and Liquidation**

Section 176 **Dissolution and Liquidation**

1. Apart from the cases mentioned in the law, a partnership is dissolved if the number of partners is reduced to one and, within three months, a plurality of partners is not re-established or the partnership transformed into a single shareholder company.
2. The partnership may also be judicially dissolved upon request of an heir of a deceased partner or upon request of a partner who has resigned on the basis of Section 173.2, if the situation mentioned in Section 170.6 lasts for three years.
3. In order to pay the debts of a partnership, liquidators shall claim from the partners, besides the unpaid capital participations, the amounts necessary, in accordance with the proportion in which they share in losses; the part of an insolvent partner shall be divided by the others in accordance with the same proportion.
4. If dissolution by reason of the expiry of a time limit stated in the articles of association takes place, an extension may be agreed by the majority of the partners; the rules on the redemption of participations shall apply to partners who resign from the partnership.

Chapter III Limited Partnerships

Section 177 Types of Limited Partnerships

1. A limited partnership may be formed as a simple limited partnership or, if the participations of the silent partners are represented by shares, as a partnership limited by shares.
2. The firm of the partnership is formed by the name or firm of at least one of the general partners and by adding “*em Comandita*” or “*& Companhia*,” “*em Comandita por Ações*” or “*Comandita por Ações*”.

Section 178 Characteristics

1. The distinctive elements of a limited partnership involve the combination of general partners and the silent partnership of funds.
2. Each silent partner is liable only for the payment of his capital participation, and may not contribute with working; general partners are liable for the obligations of the partnership in the same manner as the partners of a general partnership.
3. Private companies and public companies may be general partners.

Section 179 Contents of Articles of Association

1. The articles of association of a limited partnership shall indicate separately the silent partners and the general partners.
2. The articles of association shall specify if the partnership is formed as a simple limited partnership or as a partnership limited by shares.

Section 180 Rules Applicable to Limited Partnerships

1. The rules on general partnerships shall apply to limited partnerships, to the extent that they are compatible with the norms of this Chapter.
2. In partnerships limited by shares, the provisions on public companies shall apply to the silent partnership of funds in everything that is not especially regulated in this Chapter.

Section 181 Decisions

1. Silent partners and general partners vote separately; each general partner shall have one vote and each silent partner shall have one vote for each US\$ 10 of capital held.
2. Decisions approved by an absolute majority of the votes of general partners and by an absolute majority of the votes of silent partners are considered as passed, without prejudice to different provisions of the law or articles of association.

3. Decisions on dissolution, merger, demerger or transformation of the partnership and those that have as effect an amendment to the articles of association are only considered approved if they obtain the unanimous vote of the general partners and two-thirds of the votes of the silent partners.

Section 182 Administration

1. Except if there is a stipulation in the articles of association to the contrary, all general partners are directors, whether they have formed the partnership or acquired that capacity later.
2. Persons who are not general partners may be elected as directors by means of a unanimous decision of the general partners and two-thirds of the silent partners.
3. Except if there is a provision in the articles of association to the contrary, an administrator general partner may only be dismissed if there is just cause, by a decision taken with the favourable votes of the majority of the other general partners and the majority of the silent partners, or by judicial decision pronounced in proceedings initiated by any of them.
4. If the partnership has only one or two general partners and any of them, or both, are the only directors, they may only be dismissed by a judicial decision, if there is just cause, upon petition of any partner.
5. An administrator who is not a partner may be dismissed at all times; the same votes required for his election are necessary, unless there is just cause, in which case the concurrence of the votes of the majority of the general partners and of the majority of the silent partners suffices.

Section 183 Transfer of Participations

1. The transfer between living natural persons and for reason of death of the participation of a general partner requires the unanimous assent of the other general partners, as well a decision by the majority of the votes of the silent partners.
2. The transfer between living natural persons of the participation of a silent partner of a simple limited partnership requires a decision taken by the majority of both the general partners and the silent partners.
3. In case the transfer of the participation of a silent partner is not authorised, the provisions on redemption of participations shall apply, with the necessary adaptations.

Section 184 Dissolution

1. A partnership is dissolved by the absence of all general partners if, within 45 days, a new partner not admitted or the transformation of the partnership into a private or public company is not decided.
2. In the absence of all silent partners, a partnership is dissolved if, within 90 days, a new silent partner is not admitted or the partnership is not transformed into a general partnership or, if the partnership has only one general partner who is not a collective person, into a single shareholder private company.

Chapter IV Limited Companies

Part I General provisions

Section 185 Characteristics

1. The capital of a limited company is broken down into shares and the shareholders are jointly and severally liable for the payment of all shares in accordance with the provisions of Section 191.
2. Shares may not be embodied in negotiable instruments and may not be designated as stock.
3. In addition to the requirements of Section 7.5, the articles of association of private companies shall specify the share of capital held by each shareholder.
4. The firm of such companies must be formed, with or without abbreviation, by the name or corporate name of all, of someone, or of some of the partners, or by a particular designation, or by the merger of all these elements, but in any case it shall conclude with the word "Limited" or the abbreviation "Ltd".

Section 186 Direct Liability of Shareholders Towards Company Creditors

1. The memorandum of association may stipulate that one or more specified shareholders are also liable, up to a certain amount, towards the company creditors, in addition to their liability towards the company in accordance with subsection 1 of the previous Section.
2. The memorandum of association may either provide for a joint and several liability with the company or for a subsidiary liability; however, the type of liability shall be the same for all shareholders that have such liability.
3. The liability regulated in the previous subsections includes only obligations undertaken by the company while the shareholder is a member of it, and is not transferred as a result of the death of the shareholder, without prejudice to the transfer of his former obligation.
4. A shareholder who pays company debts in accordance with this Section has a right of return against the company for the full amount that he has paid, but not against the other shareholders.

Section 187 Maximum Number of Shareholders

1. A private company may not have more than 30 shareholders.
2. No act which caused the number of shareholders of a private company to become greater than 30 shall have effect in relation to such company before it is transformed, by a shareholders' decision, into a public company.

3. If the fact that causes the number of shareholders to exceed the limit stated in subsection 1 is *mortis causa*, the heirs may request the court to set a reasonable time limit, under penalty of dissolution, in order to decide upon transformation into a public company.
4. Whenever a share is held in common by several persons, they shall be registered as only one shareholder for the purpose of this Section.

Section 188
Minimum and Maximum Share capital

1. Share capital shall always correspond to the sum of the nominal value of the shares.
2. A private company may not have a capital lower than US\$ 5,000.
3. A private company may not have a capital higher than US\$ 500,000.
4. If a decision is passed to increase the capital to an amount higher than the amount referred to in subsection 3, a decision must simultaneously be passed to transform the company into a joint stock company under penalty of nullifying the decision of increase of capital.

Part II
Relations Among Shareholders

Subpart I
Shares and their Payment

Section 189
Shares

1. The nominal value of each share shall be equal to or higher than US\$ 100 and shall represent a multiple of 10.
2. The previous subsection shall apply to shares arising from demerger.
3. The capital subscribed by each shareholder in the memorandum of association may only correspond to one share; the capital that any shareholder subscribes or holds after an increase of capital may only correspond to one new share.
4. Shares to which special rights are attached are always independent and indivisible.

Section 190
Moment of Payment of Shares

1. The payment of shares due in money may be delayed, up to half of their nominal value, provided that the amount thus paid in money, in addition to the nominal value of the shares paid in kind, make up a value equal to or higher than the minimum capital stated in Section 188.2.
2. Payment of shares may only be delayed, for a period of no more than three years, until a specified date indicated or to be indicated by the administration.
3. If the administration has to indicate such date and fails to do so, the payment shall mature three years from the date of filing of the memorandum of association of the company, or from the decision of increase of capital.

Section 191
Liability of Other Shareholders for Payment of Shares

1. If a shareholder does not punctually pay his share, the other shareholders shall pay the delayed part in proportion to their shares, but jointly and severally with the company.
2. Before notifying the other shareholders to pay the part in debt in accordance with the previous subsection, the administration of the company shall serve notice to the shareholder in delay, by means of a registered letter, that he has a supplementary time limit of 60 days from the sending of the letter to pay the share, without prejudice to subsections 2 and 3 of Section 33.
3. If the shareholder in delay does not pay the share within the time limit set in accordance with the previous subsection, the company shall notify the other shareholders to pay the part in delay.
4. The share, in its totality, shall belong to the shareholders who pay the missing part, in accordance with the proportion of the amount of their payments; for this purpose, the share shall be divided and added to their respective shares.
5. A shareholder who loses his share in accordance with the previous subsections does not have the right to reimbursement of the amounts already paid for the account of the payment of the share.
6. The shareholder in delay shall also be served notice of these consequences in the letter mentioned in subsection 2 above.
7. The company secretary or, if one does not exist, an administrator, shall enter the corresponding amendments in the books of the company and arrange registration.

Section 192
Pre-emption Right in Case of Increase of Capital

1. Shareholders have a pre-emption right in the subscription of capital increases.
2. Section 298.4 shall apply to the limitation or exclusion of the pre-emption right mentioned in the previous subsection.

Subpart II
Division of Shares

Section 193
Division of Shares

1. Without prejudice to Section 189.1, a share may only be divided as an effect of partial redemption, partial or fractional transfer, share or division among co-holders.
2. Any acts implying a division of shares shall be made in writing, and may be done by private document, except if the law provides otherwise.
3. The division of a share does not have to be allowed by shareholders, without prejudice to the provisions of the law or the articles of association regarding transfer of shares; the share shall not for any purpose be regarded as divided if the division has not been entered in the books of the company and registered.

Section 194

Share Held in Common by Various Persons

1. The co-holders of a share held in common by various persons shall exercise the rights and fulfil the obligations inherent to such share by means of a common representative.
2. Company acts that must be personally notified to shareholders shall be notified to the common representative or, in his absence, to any of the co-holders.
3. Co-holders are jointly and severally liable for the obligations inherent to a share.
4. The appointment and dismissal of a common representative shall be communicated in writing to the company, under penalty of not producing effect.
5. Towards the company, the common representative shall exercise all rights and fulfil all obligations inherent to the share held in common; any restriction to his powers of representation, necessary for such purpose, may not be invoked against the company.
6. Except if there is a legal provision to the contrary, this Section applies to shares included in an autonomous assets that is to be distributed.

Subpart III Transfer of Shares

Section 195 Form and Registration of Transfer

1. The transfer of a share between living natural persons shall be made in writing, which may be merely particular, except if there is a legal provision stating otherwise.
2. The transfer of a share has no effect in relation to the company until it has been communicated to it in writing and registered.

Section 196 Pre-emption Right in the Transfer of Shares

1. Unless otherwise provided for in the articles of association, the company and, if the company does not exercise it, the partners in the proportion of the respective shares, have pre-emption right in all cases of transfer of shares between living natural persons.
2. The company may only exercise the pre-emption right if, as a result of the acquisition, its net situation does not become less than the sum of the capital, the legal reserve and the compulsory statutory reserves.
3. No transfer between living natural persons shall be effective, even among the parties, if the company and the partners have not been notified by registered letter of the exercise of the pre-emption right.
4. Once the company and the partners have been notified of the desired transfer, the respective price, identification of the proposed buyer and other conditions, first the company and then the partners, shall have 45 days and 15 days, respectively, to exercise the referred right.
5. If the price of the desired transfer exceeds in more than 50% the value of the share that results from an evaluation specifically made by an accounting auditor with relation with the company, the company and the partners have the right to acquire the share by the value resulting from the evaluation added by 25%.

6. Section 202.3 shall apply to the share acquired by the company following the exercise of the pre-emption right.
7. The judicial decision that determines the transfer of share in any process shall be officiously notified to the company for the purposes of this Section, and the company shall notify the partners in writing.
8. The articles of association may not establish other limits to the transfer of shares between living natural persons.

Subpart IV Redemption of Shares

Section 197 Redemption of Shares

1. Redemption of shares may only take place in cases of exclusion or resignation of a shareholder.
2. The effect of the redemption is the dissolution of the share; Section 170.2 shall apply, with the necessary adaptations.
3. It is not allowed to pass a decision redeeming a share that is not fully paid.
4. If a company has the right to redeem a share, it may purchase it instead, or have a shareholder or a third party purchase it; in the former case, Section 202.3 shall apply.
5. Shareholders may only pass a decision redeeming a share in accordance with Section 202.2.

Section 198 Form and Effect of Redemption

1. Redemption of shares is effected by means of a decision by shareholders in case of exclusion of a shareholder, or at the discretion of a shareholder who wants to resign from the company.
2. Once a fact that allows the exclusion of a shareholder in accordance with the law or with the articles of association has taken place, the other shareholders may, within 90 days from knowledge of such fact by the administration, decide to redeem the shares held by the former shareholder.
3. A decision of redemption takes effect with registration and notification to the excluded shareholder.
4. Once the fact that allows a shareholder to resign from the company has taken place, he may communicate to the company his intention to redeem the respective shares, by means of a registered letter, within 30 days from knowledge of such facts.
5. Once registered, the redemption becomes effective 30 days after the receipt of the notification by the company but, if the requirements of Section 202.2 are not met, the payment of the redemption shall be made only after they are met.

Section 199 Settlement of Redemption

1. The settlement of a redemption consists in payment to the shareholder of an amount corresponding to the value of the share, resulting from an appraisal expressly prepared for this purpose by an accounting auditor without any connection with the company.
2. The settlement shall be paid in two equal settlements, which mature respectively six months and one year from the date at which the redemption becomes effective or on which the requirements of Section 202.2 are met.

Section 200 Exclusion of shareholder

1. A shareholder may be excluded in the cases especially provided for in the articles of association and also by judicial decision, if his behaviour has caused relevant damage to the company.
2. The exclusion of a shareholder does not preclude his duty to compensate the company for any damage that he may have caused to it.
3. An amendment to the articles of association regarding exclusion of shareholders is allowed only by means of a unanimous decision.

Section 201 Resignation of Shareholder

1. In addition to the cases provided for in the articles of association, a shareholder may resign from the company if, against his vote, the shareholders decide:
 - (a) an increase of capital to be totally or partly subscribed by third parties;
 - (b) a modification of the object with the scope mentioned in Section 100;
 - (c) a relocation of the registered office of the company outside the country.
2. A shareholder may resign only if his or her shares are fully paid.

Subpart V Acquisition of Own Shares

Section 202 Acquisition of Own Shares

1. A company may acquire its own shares against payment by means of a decision of the shareholders, and may acquire them gratuitously by means of a decision by the administration.
2. The company may only acquire own shares that are fully paid if, as a result of the acquisition, its net worth does not become less than the sum of the capital of the company, the legal reserve and the reserves compulsory in accordance with the articles of association.
3. All rights inherent in the shares held by the company are suspended, with the exception of the right to receive new shares or increases of the nominal value of participations following a capital increase arising from registration or reserves.

Subpart VI Supplementary Payments

Section 203
Obligation of Supplementary Payments

1. The articles of association may foresee supplementary payments to be made in money.
2. The articles of association shall set the maximum global amount of supplementary payments; in the absence of such limit they may not be demanded.
3. Supplementary payments are not part of the capital of the company, do not bear interest or confer the right to a share in the profits.
4. Shareholders shall effect supplementary payments in accordance with the proportion of their shares.

Section 204
Demand for Supplementary Payments

1. A demand for supplementary payments always depends upon a decision by shareholders setting the amount due, within the limit stated in subsection 2 of the previous Section, and the time limit for payment, which may not be less than 60 days.
2. The decision shall be approved by the majority required to amend the articles of association.
3. Shareholders may not decide to require supplementary payments if the subscribed capital has not been fully paid, or after the dissolution of the company for any cause.
4. Company creditors may not subrogate shareholders in the exercise of the right to demand supplementary payments.
5. Section 33 applies to the obligation to make supplementary payments.

Section 205
Refund of Supplementary Payments

1. Supplementary payments may only be refunded to shareholders if, as a result of such refund, the net worth of the company does not become less than the sum of the capital, the legal reserve and the reserves which are compulsory in accordance with the articles of association.
2. Share capital may not be increased before any supplementary payments made by shareholders have been refunded to them, except in case of their partial or total conversion.
3. Refund of supplementary payments depends upon a decision by shareholders.

Subpart VII
Profits and Legal Reserve

Section 206
Profits and Legal Reserve

1. The distributable profits of an accounting period shall be disposed of in accordance with a decision by shareholders.

2. The articles of association may stipulate that a certain percentage of the distributable profits of the accounting period, of no less than 25% and no more than 75%, shall be compulsorily distributed to shareholders.
3. Shareholders' credit to profits matures 30 days after the registration of the decision approving the accounts of the accounting period and of the decision that decided on the apportionment of the results.
4. A part of the profits of the accounting period of no less than 25% shall be retained as legal reserve by the company, until it reaches an amount equal to half of the capital.
5. The provisions of subsections 2 and 3 of Section 261 apply to private companies, with the necessary adaptations.

Subpart VIII Special Rights of Shareholders

Section 207 Special Rights of Shareholders

Special rights of a patrimonial nature may be transferred together with the respective share, except if the memorandum of association or the articles of association reveal that they were formed for personal reasons; the latter, and non-patrimonial special rights, are not transferred with the share.

Part III General Meeting and Administration

Section 208 General Meeting

1. The call for general meetings shall be made by means of a letter, addressed to the shareholders, which shall contain the call notice and shall be sent at least 15 days before the date of the session of the meeting, except if the articles of association state that the call notice must be published or set a longer time limit.
2. No shareholder may be deprived of the right to attend sessions of general meetings, even if he is barred from exercising the right of vote.

Section 209 Allotment of Votes and Calculation of Majority

1. Each capital share corresponds to one vote. The vote corresponds to the percentage that the nominal value of the share represents in the capital.
2. Abstentions are not counted in order to determine if a proposal has obtained a majority of votes, for its approval or rejection.

Section 210 Competence of Shareholders

Without prejudice to other matters that depend upon a decision by shareholders in accordance with the law or the articles of association, the shareholders shall have competence to take decisions on:

- (a) amendments to the articles of association, without prejudice to section 9.2;
- (b) exercise of pre-emption rights in transfers of shares between living natural persons;
- (c) extra judicial exclusion of a shareholder and redemption of the respective shares;
- (d) acquisition of own shares by the company;
- (e) demand for and refund of supplementary payments;
- (f) approval of the annual accounts of the company and the report of the administration;
- (g) distribution of profits;
- (h) appointment and dismissal of directors;
- (i) appointment and dismissal of the single auditor or members of the auditing board;
- (j) merger, demerger, transformation and dissolution of the company;
- (k) approval of the final accounts by liquidators;
- (l) acquisition of participations in companies with unlimited liability or having a different object or in companies regulated by special laws.

Section 211 Majorities

Without prejudice to cases in which the law or the articles of association require a higher percentage of votes, the following shall be regarded as passed:

- (a) decisions concerning matters mentioned in paragraphs (a) and (j) of the previous Section, if they obtain favourable votes corresponding to at least two thirds of the share capital;
- (b) decisions concerning other matters if, in a first call, they obtain favourable votes corresponding to the absolute majority of the share capital or, in a second call, to the absolute majority of the share capital that is present or represented.

Section 212 Composition of the Administration

1. Private companies shall be managed and represented by one or more directors, who may or may not be shareholders.
2. Private companies with a capital equal or higher than US\$ 200,000 shall have a collective organ of administration composed by an odd number of members.

Section 213 Appointment and Term of Office of Directors

1. Directors are appointed in the memorandum of association or elected by a decision by shareholders.

2. The term of office of the directors, who may be re-elected, has a determined period of time that may not exceed three mandates, but without prejudice of the articles of association, which may provide for an undetermined period of time.
3. Directors may not be represented by third parties in the exercise of their functions.

Section 214 **Substitution of Directors**

If all directors are temporarily or permanently absent, any shareholder may perform acts of an urgent nature that may not be delayed until the election of new directors or until the absence ceases.

Section 215 **Functioning of Administration**

1. If there is only one director, the company is bound by acts performed by him or her on its behalf, within the limits of his or her powers.
2. If the administration is made of two directors, both have equal powers of administration; the company is bound by the acts practiced by either of them in its name, within the limits of their powers, or practiced jointly by both if the articles of association so provide.
3. If the administration has three or more directors, it shall function as a board of administration; except if there is a provision of the articles of association to the contrary, decisions which obtain the favourable votes of the majority of the directors are considered passed, and the company is bound by legal transactions concluded by the majority of the directors, or ratified by the majority.
4. If the articles of association do not provide otherwise, the board of administration may delegate powers to one or more directors to deal, together or separately, with specific matters concerning the management of the company or to practice certain acts or categories of acts.
5. The delegation of powers mentioned in the previous subsection shall be written in the minutes of the session of the organ in which it is approved.
6. The board of administration meets informally or whenever called by any administrator, and minutes shall be drawn up from every session which, if the secretary is absent or does not exist, shall be signed by the directors attending before it is registered in the respective minutes book.
7. In the exercise of their powers, the directors shall act in compliance with decisions by shareholders, regularly taken on matters of company management.

Section 216 **Remuneration of Directors**

1. Directors have the right to a remuneration set by means of a decision by shareholders.
2. Any shareholder may request the court to reduce the remuneration of the directors if it is manifestly out of proportion to the services rendered or to the situation of the company.
3. If an administrator is dismissed without just cause, he has the right to receive as compensation the remuneration that he would have earned until the end of his term of

office or, if no time limit was set, the remuneration corresponding to two accounting periods.

Section 217 Renunciation of Directors

1. An administrator may renounce his mandate by means of a registered letter addressed to the administration; in the absence of an administration, or where there is only one administrator, the letter shall be addressed to the company secretary and, if the latter does not exist, to the chairman of the general assembly.
2. Renunciation takes immediate effect upon registration.
3. If a mandate has a specified time limit, the renouncing administrator shall compensate the company for damage arising from his renunciation.

Section 218 Dismissal of Directors

1. Shareholders may decide the dismissal of directors at any time.
2. The articles of association may require that the dismissal of one or more directors shall be decided by qualified majority.
3. If the articles of association grant a special right to administration to a shareholder, he may not be dismissed by decision of the other shareholders.
4. If there is just cause, any administrator may be dismissed by decision of the court, upon request of any shareholder or administrator.
5. A serious or repeated breach of the duties of administrator is just cause for dismissal
6. The following namely shall be regarded as serious breaches of the duties of administration:
 - (a) the non-registration or the late registration of acts subject to it, or the lack of maintenance in order and updating of the company books;
 - (b) the exercise, for his or hers or other persons' account, of an activity in competition with the company, except if there is prior assent by shareholders.

Part IV Single Shareholder Private Companies

Section 219 Single Shareholder Private Company

1. Any natural or legal person may form a private company the capital of which, consisting of a single share, he or she shall be the initial single holder; the provisions of this Section and the provisions applicable to private companies shall apply, with the necessary adaptations.
2. The provisions of this Section shall apply to private companies that have a single shareholder from the outset, for as long as there is a single shareholder, and to private companies that subsequently come to have a single shareholder, if after 90 days the plurality of shareholders is not re-established.

3. The corporate name of these companies shall be formed by the expression <*sociedade unipessoal*> or by the word <*unipessoal*> before the word <*Limitada*> or the abbreviation <*Lda*>.

Section 220
Legal Transactions Between
Single Shareholder and Company

1. Under the risk of penalty of nullity, any legal transactions undertaken, directly or through a third party, between a company and the shareholder shall always be documented in writing, unless a more formal procedure is required and provided that such transaction is necessary, useful or convenient to fulfil the company's object.
2. The legal transactions referred to in the previous subsection shall always be the object of a prior report drawn up by an accounting auditor not connected with the company, who shall namely declare that the interests of the company are duly safeguarded and that the transaction is in accordance with normal market conditions and price; otherwise they may not be concluded.

Section 221
Decisions of Single Holder

1. Decisions on matters that are, according to the law, included in the competence of shareholders shall be taken personally by the single shareholder and entered in a book kept for that purpose, and shall be signed by the shareholder and by the company secretary.

Chapter V

Joint Stock Companies

Part I
General Provisions and Public Subscription

Subpart I
General Provisions

Section 222
Characteristics

1. Joint stock companies may only be formed by a minimum of three shareholders and their capital may not be less than US\$50,000.
2. The capital shall be divided into shares, all of the same nominal value, which may not be less than US\$10, represented by instruments.
3. The liability of a shareholder shall be limited to the value of the shares he or she subscribes.
4. The corporate name of these companies shall be formed, with or without abbreviation, by the name or corporate name of one or some of the shareholders or by a particular denomination, or by the combination of both of these elements, but, in whichever case, it shall be concluded with the expression "joint stock company" or by the abbreviation "S.A."

Section 223
Paying up of Capital

1. Joint stock companies may not be formed without the full subscription of the share capital and the paying up of at least 25% of it.
2. The paying up of capital due in kind, if it exists, as well as the payment of a premium of issue, shall not be deferred.

Section 224
Memorandum of association

Shareholders shall sign the memorandum of association, unless the company is formed by public subscription; and the articles of association shall, in addition to the requirements stated in Section 7.6, contain the following details:

- (a) the nominal value and number of the shares;
- (b) the nature of the instruments representing the shares, either nominative or to bearer, and rules of conversion;
- (c) the authorisation for the issuance of bonds, if there is one;
- (d) the amount up to which the administration may raise the share capital without the need for a decision by shareholders;
- (e) the types of shares, ordinary or preference, if they are different;
- (f) the various categories of ordinary shares, if equal rights do not attach to all of them.

Subpart II
Formation Through Public Subscription

Section 225
Formation Through Public Subscription

1. The formation of a company through public subscription shall be initiated by one or more promoters, whether singular or collective, who shall be jointly liable for the entire process until the registration of the company.
2. The promoters themselves shall subscribe and pay up shares, in cash, the nominal value of which shall add up to at least US\$50,000 or 20% of the capital, depending on which is higher; such shares may not be transferred or charged prior to the approval of the accounts of the third accounting period.
3. In companies formed through public subscription there may only be ordinary shares of a single category.

Section 226
Project

1. The promoters shall prepare a draft containing:
 - (a) the full draft of the articles of association, precisely specifying the object of the company;
 - (b) the number of shares for public subscription as well as their nature, nominal value and issue premium, if it exists;

- (c) the estimated amount of the costs borne by the promoters, if these are to be refunded by the company in accordance with Section 17.2;
 - (d) the time limit for subscription and the credit institutions at which it may be undertaken;
 - (e) the time limit within which the incorporating meeting shall take place;
 - (f) a technical, economic and financial study forecasting the evolution of the company for three years, prepared on the basis of faithful and complete data and taking into account the known circumstances and forecasts available at that date, in order to clearly inform any persons possibly interested in the subscription;
 - (g) rules on the allocation of the subscription, where necessary;
 - (h) the indication of the conditions in which the company shall be formed where public subscription is incomplete, or, in which case, the indication that the company shall not be formed;
 - (i) the amount of capital subscribed that shall be paid up in the act of subscription, the time limit for the payment of the remainder, and the time limit for the refund of such amount if the company is not formed.
2. The project shall further contain the complete identification of the promoters and authors of the study mentioned in paragraph (f) of subsection 1 above, if they are different.

Section 227 Liability

1. All company promoters shall be personally, jointly and severally liable for the accuracy of the factual elements contained in the project.
2. To this end, the authors of the study mentioned in paragraph (f) of Section 226.1 above shall also be considered as company promoters.

Section 228 Supervision of Project and Offer

1. A copy of the project referred to in Section 226 shall be delivered to the Monetary and Foreign Exchange Authority.
2. Fifteen days after the delivery mentioned in the previous subsection, the promoters shall formulate a public offer of subscription, signed by them, which shall be registered together with the project.

Section 229 Publicity

1. Once the offer and the project have been registered, these shall be published in full, without prejudice to the subsection that follows.
2. The publication of the study mentioned in paragraph (f) of Section 226.1 may be replaced by indicating that copies of it shall be available to any interested party, free of charge, at the credit institutions where subscription may be made.

Section 230
Payment in Cash

In companies formed through public subscription, capital may only be paid up in cash.

Section 231
Incomplete Subscription

1. A company may only be formed if at least 75% of the shares offered to the public are subscribed and if that possibility is foreseen in the project in accordance with paragraph (h) of Section 226.1.
2. If the company may not be formed because the shares made available to the public were not subscribed in a sufficient percentage, the promoters shall, within the five business days following the end of the time limit for subscription mentioned in the project, publish notices in which they inform the subscribers of such fact, and shall also cancel the registration of the project.
3. The same notices shall inform the subscribers that the company shall not be formed, and that the capital paid up by each of them shall be available at the credit institution at which the subscription was done; the notices shall be repeated a month later.

Section 232
First meeting

1. Once the time limit for subscription has expired, and once the company may be formed, the promoters shall, within the following five business days, call a meeting of all subscribers.
2. Such call, which shall have two dates so that the meeting may take place, if necessary, on a second call, shall comply with the provisions on general meetings of joint stock companies; the meeting shall be chaired by one of the promoters and a lawyer shall act as secretary.
3. Lists of attendance and minutes of the meeting shall be prepared in accordance with Section 61.2.
4. All documents related to the subscription and, generally, to the formation of the company shall be made available to the subscribers from the moment of the publication of the call, which shall mention such fact, indicating the place where they may be consulted.
5. On the first date set, the meeting may only function if the promoters are present or represented, as well as subscribers holding or representing three-quarters of the capital subscribed by the public; in such case, decisions shall be passed by a majority of the votes corresponding to the share capital, each subscribed share having one vote.
6. If, on the second date set, the promoters and subscribers holding or representing half of the capital subscribed by the public are not present or represented, decisions shall be passed by two-thirds of the votes, each subscribed share having one vote.

7. If, in accordance with the previous subsections, the meeting may not take decisions on any of the dates stated in the call, the company may not be formed, and, subsections (2) and (3) of the previous Section shall apply.
8. If the company is not formed, all expenses incurred with a view to its registration shall be paid by the promoters.

Section 233

Decisions

1. At the meeting, the promoters shall make a declaration equivalent to that mentioned in Section 107.1 and, if a relevant change has taken place, the meeting shall pass a decision in accordance with subsection 2 of the same Section.
2. If there was no relevant change or if a decision was taken that it is not necessary to reformulate the project, the incorporating meeting shall decide on the formation of the company and on the appointment of the first holders of positions in the company organs.
3. If formation is decided in spite of the fact that the capital was not fully subscribed, the capital shall be reduced to the amount subscribed.
4. If it is decided to reformulate the project or to not incorporate, subsections (2) and (3) of Section 231 shall apply, with the necessary adaptations.
5. The minutes, which shall be published if the formation of the company is decided, shall have attached a list of attendance of the subscribers, indicating which voted in favour of the formation of the company; the attached list does not have to be published.
6. The rules on nullity, voidability and suspension of decisions of the general meetings of shareholders shall apply to the decisions of the first meeting.
7. Such decisions may also be voided on the basis of a relevant falsehood in the study mentioned in paragraph (f) of Section 226.1, but annulment may not be requested after six months from the registration of the formation of the company, even if the subscriber only gained knowledge of it at a later date.
8. The previous subsection shall not prejudice the civil and criminal liability of the promoters.

Section 234

Filing of the Memorandum of Association

For the purpose of registration, the memorandum of association shall consist of the minutes of the first meeting and the respective attendance list.

Section 235

Indirect Subscription

1. A subscription shall be public even if it is indirectly done by credit institutions authorised by the law to intervene in such operations.
2. In such case, the intervening institutions shall subscribe all capital reserved for public subscription, undertaking the obligation to offer the shares to the public at the price and conditions mentioned in the project.

Section 236

Transferability of Shares

Shares of companies formed by a public offer shall always be freely transferable, with the exception of the case mentioned in Section 226.2.

Part II

Relations of Shareholders with the Company

Subpart I

Shares and their Paying up

Section 237

Types and Categories of Shares

1. Shares may be ordinary or preference; ordinary shares shall grant the right to vote and to a dividend from distributable profits; preference shares shall not grant the right to vote but shall confer the right to a priority dividend and to priority reimbursement in the distribution of the balance of a liquidation.
2. Ordinary shares may be divided into different categories if the rights inherent to each category of shares are different.
3. The diversity of rights in ordinary shares may consist in the removal of proportionality regarding the distribution of the profits and the distribution of the assets resulting from the liquidation, but the shares that integrate a certain category shall confer equal rights.
4. Preference shares may be redeemable.

Section 238

Moment of Paying up of Shares

1. The paying up of shares, up to 75% of their nominal value, which shall be paid up in cash, may be deferred provided that the amount paid up in cash is at least equal to the minimum capital stated in Section 222.1.
2. The paying up may only be deferred for a time limit no longer than five years, and to a date specified and determined or to be determined by the administration.
3. If the administration has the power to determine such date and it fails to do so, the obligation to pay up the shares shall mature five years from the date of registration of the company's memorandum of association or from the decision on the increase of capital.
4. The amount to be paid up by shareholders may not be less than the nominal value of the shares, but it may be superior if an issue premium is required.
5. The payment of the issue premium may not be deferred.

Section 239

Liability for Paying Up of Shares

1. Each shareholder shall only be liable for the paying up of the shares that he or she has subscribed; if there is a deferment of the contributions in cash to a date to be

- determined by the administration, he or she shall not be deemed in delay before 30 days have elapsed from the notification of the decision that sets such date.
2. The original subscribers and all other subscribers, to whom the shares may have been transferred, shall be, under any title, jointly liable for the paying up of the shares.
 3. If a shareholder or previous holders fall into delay, the administration shall notify them again, stating that an additional time limit of 90 days shall be given to them to pay up the shares subscribed and in delay, plus interest, under penalty of forfeiting to the company the shares and the amount already advanced regarding the paying up.
 4. If the company was formed through public subscription, corresponding notices, addressed to the subscribers in general, shall be published on the date of expedition of the first and second notices.

Section 240

Nature of Share Certificates

1. Share certificates may be nominative or to bearer, except if the law or the articles of association provide otherwise.
2. The certificates shall be nominative if the shares are not fully paid up, if they may not be transferred by reason of a legal provision, or if the shareholders have a right to pre-emption in their transfer under terms established in the Memorandum of Association.

Section 241

Conversion of certificates

1. Bearer certificates may be converted into nominative and nominative into bearer, upon request and at the expense of the shareholder, except for the restrictions provided for in subsection 2 of the previous Section and others arising from the law or from the Memorandum of Association.
2. The company may effect such conversion by replacing the existing certificates or by amending the respective text.

Section 242

Coupons

certificates may have coupons for the collection of dividends.

Section 243

Indivisibility

1. Shares shall be indivisible.
2. In case of joint ownership of a share, the rights inherent to it shall be exercised by means of a common representative; the joint owners shall be directly and jointly liable for the performance of obligations.

Section 244

Special Rights

1. Special rights granted to a category of shares may only be suppressed or restricted by means of a special decision taken in a meeting of the shareholders holding shares of the said category.
2. Special rights shall be transferred with the shares to which they are inherent.
3. Any amendments to the articles of association that affect different types of shares in a different manner shall depend upon a special decision taken in a meeting of shareholders holding each of the types of shares, under the terms and with the majority required for amendment of the Memorandum of Association.

Section 245 **Share certificates**

1. A serial number shall be given to each share, which shall be mentioned in the certificate in which they are registered.
2. Certificates representing a larger number of shares may be transformed into certificates representing a smaller number and vice-versa, always upon request and at the expense of the shareholder.
3. The share certificates shall mention in a clear and easily understandable manner, in both official languages:
 - (a) the nature of the instrument;
 - (b) the type, category, serial number, nominal value and total number of the shares registered in each instrument;
 - (c) the corporate name, registered office and registration number of the company;
 - (d) the amount of the subscribed share capital;
 - (e) the percentile amount to which the shares registered in the instrument are paid up;
 - (f) the signatures, which may be done with a seal, of a company director and the company secretary;
 - (g) the legal restrictions upon the transfer of the certificates.
4. Share certificates shall be made available to the shareholders within 90 days from the filing of the memorandum of association or from the increase of capital.
5. During the period mentioned in the previous subsection, shareholders may request the company to issue provisional certificates, which, for all purposes, and until the issuance of the definitive instruments, shall replace them; such provisional certificates shall include the same data as definitive instruments and shall always be nominative.

Section 246 **Book for Registration of Shares**

1. The book for registration of shares shall contain, in Sections separated by type and category of shares and by the nature of the instruments:
 - (a) the serial number of all shares;
 - (b) the number and the total nominal value of each type or category of shares;
 - (c) the delivery dates to shareholders of the provisional or definitive instruments;
 - (d) the name and address of the first holder of each share;

- (e) conversions made and the respective dates;
 - (f) splits or concentrations and the respective dates;
 - (g) liens or charges over shares registered in registered securities;
 - (h) redemptions of preference shares and the respective dates;
 - (i) transfers of nominative shares and the respective dates.
2. Shares owned by the company itself shall be mentioned in the book, in a separate section.
3. The company secretary or a company director shall initial the entries recorded in the book in accordance with paragraphs (c) to (i) of subsection 1 above.

Section 247 Deposit of Shares

1. The deposit of bearer shares, for the purpose of taking part in a general meeting, may be done at any financial institution.
2. The president of the chairing committee of the general meeting shall be obliged to allow into the meeting any shareholders who present a document of deposit, provided that it shows that the instruments were deposited at least eight days before the date of the general meeting and that the depositor has the number of instruments necessary to take part in the meeting.
3. A president of the chairing committee of the general meeting who does not allow a shareholder, who has complied with the provisions of the previous subsection to take part in the meeting, shall be subject to the penalty applicable to the crime of qualified disobedience, without prejudice to the civil liability that such conduct may entail.

Section 248 How to Make a Deposit

1. A deposit shall be made on the basis of a statement written by the interested party, or by another person on his behalf, identifying the company and the purpose of the deposit.
2. Such statement shall be presented in duplicate; one of the copies, mentioning that the deposit was done, shall remain with the depositor.

Subpart II Preference Shares Without Vote

Section 249 Issue and Priority Dividend

1. The articles of association may authorise the company to issue, up to half of the share capital, shares without right to vote, which grant, in accordance with Section 237.1, the right to a priority dividend of no less than 5% of its nominal value, to be defined in the decision of issue, and the right to priority reimbursement of its nominal value in the distribution of the balance of the liquidation.

2. If there are distributable profits, the general meeting shall distribute at least the priority dividends or, if the profits are not sufficient, shall share the distributable profits proportionally among the holders of preference shares.

Section 250
Non-Payment of Priority Dividend

1. If a priority dividend may not be paid in two consecutive accounting periods, the holders of preference shares shall have the right to have their shares transformed into ordinary shares, upon request.
2. If there are various categories of ordinary shares the shareholder shall indicate in his or her request the category into which his or her shares are to be transformed.

Section 251
Rights, Quorum and Majority

1. With the exception of the right to vote, preference shares shall grant to the holder all rights registered in ordinary shares.
2. Preference shares shall not count for the purpose of quorum or formation of majorities in the passing of decisions by shareholders, but holders shall have the right to attend the sessions of the general meeting or, if the articles of association prohibit the presence of shareholders without right to vote, to be represented by means of a common representative.

Section 252
Redeemable Preference Shares

1. Except if the articles of association provide to the contrary, preference shares may be issued subject to the condition that they shall be redeemed on a fixed date or on a date to be determined by the board of directors, but which shall not be more than 10 years from the date of issue.
2. Preference shares may only be redeemed after full payment.
3. Redemption shall be done on the basis of the nominal value of shares, except if the articles of association allow the payment of a redemption premium, of an amount stated in the decision of issue.
4. Redemption may only take place if, as a result of the payment of the nominal value and the redemption premium, the net worth of the company does not become less than the sum of the capital, the legal reserve and the reserves which are compulsory in accordance with the Memorandum of Association.
5. From the redemption, an amount equal to the nominal value of the redeemed shares shall be placed in a special reserve, which for all purposes shall be treated similarly to the legal reserve, without prejudice to its elimination in case of reduction of capital.
6. Redemption of shares shall not automatically cause a reduction of the capital and, except if there is a provision of the articles of association to the contrary, new shares of

the same type may be issued by means of a decision of the general meeting, in substitution of the redeemed shares, to be transferred to shareholders or to third parties.

7. A decision of redemption of shares shall be subject to registration and publication.
8. The articles of association may provide for sanctions for the breach by the company of the obligation to redeem shares on the date stated therein; in the absence of a provision of the Memorandum of Association, any holder of such shares may request the company, one year from that date if the redemption was not yet done, the transformation of his or her shares in accordance with Section 250, or petition the court for winding up of the company.

Subpart III Transfer of Shares

Section 253 Transfer of Share Certificates

1. Shares shall be transferred by the transfer of share certificates.
2. Registered securities shall be transferred between living natural persons by endorsement written on the security itself, and entry in the book of registration of shares.
3. Bearer certificates shall be transferred by simple delivery; and the exercise of the rights inherent in them shall depend on their possession.

Section 254 Legal Restrictions on Transfer

Provisional certificates or share certificates, whose transferability is determined by legal provision, shall be specifically stated thereon, in easily understandable wording.

Subpart IV Acquisition of Own Shares

Section 255 Acquisition of Own Shares

1. Without prejudice to a prohibitive or more restrictive provision of the Memorandum of Association, a joint stock company may not acquire own shares corresponding to more than 10% of its capital.
2. The limit established in accordance with the previous subsection may be surpassed or, in case of total prohibition, may be disregarded, whenever:
 - (a) the acquisition is especially permitted or imposed by a legal provision;
 - (b) a property is globally acquired;
 - (c) the acquisition is gratuitous;
 - (d) the acquisition is done in executive proceedings, if the debtor has no other sufficient assets.

3. The company may only acquire own shares if, by such fact, its net worth does not become less than the sum of the capital, the legal reserve and the reserves that are compulsory in accordance with the Memorandum of Association.
4. The company may only acquire own shares that are fully paid up, with the exception of Section 238.3.
5. All acquisitions undertaken in breach of the provisions of this Section shall be void, without prejudice to the liability of the persons intervening in such act of acquisition.
6. The company may not accept as guarantee, shares representative of its capital, except in order to guarantee the exercise of the company functions.

Section 256
Decision for Acquisition of Own Shares

1. The acquisition of own shares shall require a decision by shareholders.
2. Such decision shall specify the object, the price and the other conditions of the acquisition, the time limit and the respective margins of variation within which the administration may proceed with the acquisition.
3. In the cases provided for in paragraphs (a) to (c), subsection 2 of the previous Section, if the acquisition depends upon the will of the company, this shall be expressed in a decision of the administration.

Section 257
Transfer of Own Shares

Subsections (1) and (2) of the previous Section shall apply, with the necessary adaptations, to the transfer of own shares.

Section 258
Rules Applicable to Own Shares

1. Section 202.3 shall apply to own shares, with the necessary adaptations.
2. In the report and in the accounts of the accounting period, express mention shall be made of the number of shares that the company itself holds by the end of the accounting period.

Subpart V
Right to Information

Section 259
Right to Information Prior to General Meeting

Besides the right to information granted to all shareholders in general, shareholders of joint stock companies shall also have a right to consult, in the registered office of the company, during business hours, from the date of expedition of the call notices or from their publication:

- a) All documents needed for the passing of any decisions on matters included in the order of the day;

- b) The text of the proposals that the administration or the auditing board or single auditor have decided to present to the meeting;
- c) The text of the proposals that any shareholders have delivered to the company, namely if the general meeting has been requested by them;
- d) The full identification and a curriculum vitae of persons proposed by the administration for the exercise of company positions.

Subpart VI Profits and Legal Reserve

Section 260 Right to Profits

- 1. The destination of the distributable profits of an accounting period shall be decided by the shareholders.
- 2. The articles of association may impose that a percentage of no more than 25% of the distributable profits of the accounting period shall be distributed to shareholders.
- 3. The credit of a shareholder to profits matures 30 days after the registration of the decision that approved the accounts of the accounting period and of the decision that decided on the apportionment of the results.

Section 261 Legal Reserve

- 1. From the profits of the accounting period, no less than 10% shall be retained by the company as a legal reserve, until it reaches an amount equal to a quarter of the share capital.
- 2. Reserves made of the following sums shall, for all purposes, be treated as the legal reserve, but shall not exempt the integration of the legal reserve in accordance with the previous subsection:
 - (a) premiums of shares issues;
 - (b) issue or conversion premiums of bonds convertible into shares;
 - (c) the value of entries in kind which exceed the nominal value of shares paid up in such manner.
- 3. The legal reserve and the assimilated reserves may only be used:
 - (a) to cover losses resulting from the balance sheet of the accounting period, except if these may be covered by any other reserves;
 - (b) to cover losses from previous accounting periods that could not be covered by profits of the accounting period or any other reserves;
 - (c) for registration in the share capital.

Part III Bonds

Section 262

Concept and Types

1. Joint stock companies may issue negotiable instruments designated as bonds, which, in a single issue, shall grant equal rights for the same nominal value.
2. It shall namely be possible to issue bonds that:
 - (a) besides granting to their holders the right to a fixed interest, qualify them to a supplementary interest or to a reimbursement premium, either fixed or dependent upon the company profits;
 - (b) include interest and plan for reimbursement, depending upon the existence of profits and variable in accordance with such profits;
 - (c) are convertible into shares, with or without an issue or conversion premium.

Section 263

Conditions and Limits

1. Bonds may only be issued by companies of which the two last balance sheets have been regularly approved, or which have resulted from the merging or de-merging of companies of which at least one is in the said situation.
2. Bonds may not be issued if there are shareholders in default.
3. Joint stock companies may not issue bonds that exceed the amount of the paid up and existing capital, in accordance with the last balance sheet approved.
4. The limit mentioned in the previous subsection shall be calculated by adding the nominal value of all bonds issued by the company that have not been redeemed by the date of the decision for the issuance of new bonds.
5. A new bonds issue may not take place while the bonds of a previous issue are not fully subscribed.

Section 264

Series and Incomplete Subscription

1. Shareholders may authorise that a bonds issue approved by them shall be accomplished in various separate series, to be set by them or by the board of directors; however, such authorisation shall lapse after five years regarding any series not yet issued.
2. A new series may not be launched while the bonds of the previous series are not subscribed.
3. If a bonds issue is only partially subscribed within the time limit stated for its subscription, the issue shall be limited to the amount subscribed.

Section 265

Registration

1. Each bonds issue shall be subject to registration, as shall the issuance of each series of bonds.
2. While a series or issue of bonds shall not be registered, the respective instruments may not be issued.

3. Company directors shall arrange registration of the effective amount of an issue if it is reduced as a result of an incomplete subscription.

Section 266 Issue Decision

1. Bonds issues shall be decided by shareholders, except if the articles of association allow them to be decided by the board of directors.
2. A decision to issue bonds convertible into shares shall always be taken by the shareholders, with the majority required for a decision on an increase of capital.
3. A decision that has approved an issue of bonds convertible into shares shall be considered as an implied approval of an increase of share capital to an amount under the conditions that might be necessary to satisfy the requests for conversion.

Section 267 Minimum Content of Issue Decisions

1. A decision approving a bonds issue shall at least state the following:
 - (a) the global amount of the issue and the reasons that justify it, the nominal value of the bonds, the price at which they are issued and reimbursed or the method to determine it;
 - (b) the rate of interest and, depending upon the case, the method of calculation of the provision for payment of interest and reimbursement or the rate of fixed interest, as well as the criterion to determine supplementary interest or the reimbursement premium;
 - (c) the plan for redemption of the loan;
 - (d) the identification of the subscribers and the number of bonds to be subscribed by each, if the company does not use a public subscription.
2. A decision approving an issue of convertible bonds shall also indicate:
 - (a) the bases and the terms of conversion;
 - (b) the issue or conversion premium;
 - (c) if the shareholders are to be deprived of the right mentioned in Section 298.1 and the reasons for such measure.

Section 268 Supplementary Interest

1. In bonds with supplementary interest this may be:
 - (a) fixed and dependent only upon the existence of distributable profits of an amount equal to that of the supplementary interest;
 - (b) variable and corresponding to a percentage, not exceeding 10% of the distributable profits.
2. It is permitted to stipulate that, for any of the types of supplementary interest mentioned in the previous subsection, such interest shall only be payable if the distributable profits exceed a fixed amount or a fixed percentage of the capital, the bondholders only having a right to the fixed interest if no distributable profit higher than such limit is calculated.

3. If there is supplementary interest, the auditor of accounts shall issue an opinion on the calculation of the profit and, namely, on the correction and justification of the redemptions and provisions effected.
4. The distributable profit to be considered for the purpose of payment, in a certain accounting period, of the supplementary interest, is that of the previous accounting period.

Section 269
Payment of Supplementary Interest
and Reimbursement Premium

1. The supplementary interest for each year shall be paid one or more times, separately or together with the fixed interest, depending upon what is established in the issue.
2. If the redemption of a bond occurs before the maturity date of the supplementary interest, the issuing company shall provide to the respective holder a document that allows him or her to exercise his or her right to a possible supplementary interest.
3. Reimbursement premiums shall be fully paid on the date of redemption of the bonds, which may not be set for a date prior to the limit for the approval of the annual accounts.

Section 270
Pre-emption Right

1. Shareholders shall have a pre-emption right in the subscription of convertible bonds; Section 298 shall apply.
2. A person may not take part in a vote that suppresses or limits the pre-emption right of shareholders in the subscription of convertible bonds if that person might benefit from such suppression or limitation, nor shall his or her shares be taken into consideration for the purpose of the quorum for the functioning of the meeting or the majority required for the decision.
3. A decision for issue of bonds may form a pre-emption right of shareholders or bondholders in the subscription of the bonds to be issued, in which case it shall regulate its exercise.

Section 271
Prohibition of Amendments

1. Conditions established by decision of the general meeting of shareholders for the bonds issue may only be amended, without the assent of the bondholders, provided that such amendment causes neither a reduction of their respective advantages or rights nor an increase in their obligations.
2. From the date of the decision for issue of bonds convertible into shares, and while it is possible for any bondholder to exercise the right to conversion, it shall be forbidden for the company to amend the conditions of distribution of profits established in the

- memorandum of association, to distribute own shares to shareholders under any title, and to grant privileges to existing shares.
3. If the capital is reduced as a consequence of losses, the rights of bondholders who opt for conversion shall be reduced accordingly, as if such bondholders had been shareholders since the bonds issue.
 4. During the period of time mentioned in subsection 2, a company may only issue new bonds convertible into shares, modify the nominal value of its shares, distribute reserves to shareholders, increase the share capital by means of new participations or by registration of reserves, and practice any other act that may affect the rights of the bondholders who might opt for conversion, provided that rights equal to those of shareholders are assured to them.
 5. The rights mentioned in the final part of the previous subsection shall not include the right to receive any revenue from the instruments or to participate in distributions of free reserves, in relation to any period prior to the date at which the conversion produces effect.

Section 272
Attribution of Interest and
Dividends of Convertible Bonds

1. Bondholders shall have a right to the interest on the respective bonds up to the moment of conversion, which, for this effect, shall always be accounted for at the end of the quarter in which the conversion request is presented.
2. Conditions of issue shall always mention the rules on the attribution of dividends, which shall be applied to the shares into which the bonds are converted, for the accounting period during which the conversion takes place.

Section 273
Increase by Effect of Conversion
and Registration

1. The increase of share capital resulting from the conversion of bonds into shares shall be stated in a decision by the administration, which shall be passed:
 - (a) within the 30 days following the end of the time limit for the presentation of a conversion request if, according to the terms of the issue, the conversion is to be made in one occasion and at a determined moment;
 - (b) within the 30 days following the end of each time limit for the presentation of a conversion request if, according to the terms of the issue, the conversion may be made in more than one occasion;
2. If a decision for issue establishes only one occasion from which the conversion right may be exercised, once it occurs the administration shall take decisions for increase of capital, in the first and seventh months of each accounting period, each decision covering the increase resulting from the conversions requested during the immediately previous semester.
3. A conversion shall be considered, for all purposes, as effected:
 - (a) in the cases mentioned in subsection 1, on the last day of the time limit for presentation of the respective request;

- (b) in the cases mentioned in subsection 2, on the last day of the month immediately previous to that in which the decision for capital increase that covers such conversion is taken.
4. The registration of capital increase shall be done within 15 days from the date of the respective decisions.

Section 274
Agreement with Creditors and
Winding up of the Company

1. If a company that has issued bonds convertible into shares consents to an agreement with its creditors, the right of conversion may be exercised as soon as the settlement is certified and under the conditions set forth therein.
2. If a company that has issued bonds convertible into shares is dissolved, other than as a result of a merger, the bondholders, in the lack of adequate guarantee, may demand anticipated reimbursement.

Section 275
Own Bonds

A company may only acquire own bonds in the cases mentioned in Section 255.2 and if the condition mentioned in subsection 3 of the same Section is met.

Section 276
Meeting of Bondholders and
Common Representative

1. By means of the publication notices, a company shall call a general meeting of bondholders, 30 days after the time limit for subscription of a bonds issue.
2. The rules on the general meeting of shareholders shall apply to this meeting, with the necessary adaptations.
3. Bondholders shall elect a common representative, who may be an individual, a partnership of lawyers or a firm of accounting auditors; he or she shall attend and participate in general meetings, without vote, and represent the bondholders as a whole in court and towards the company of third parties.
4. In general meeting, bondholders shall have the power to take decisions on all matters of common interest.

Section 277
Bond Certificates

The bond certificates issued by a company shall mention:

- (a) the corporate name, registered office, subscribed capital and registration number of the company;
- (b) the date of the decision for issue;
- (c) the registration date of the issue;
- (d) the total amount of the bonds on that issue, the number of bonds issued, the nominal value of each, the rate and the method of payment of interest, the time limits and the conditions for issue and reimbursement, as well as any other special conditions of the issue;
- (e) the serial number of the bond;
- (f) the issue of conversion premium;
- (g) the special guarantees of the bond, if any;
- (h) the type of the bond, either nominative or to the bearer;
- (i) the series, if that is the case;
- (j) the signatures, which may be done by seal, of a company director and the company secretary.

Part IV Decisions by Shareholders

Section 278 Limits

Only upon request of the organ of administration may shareholders take decisions on matters of management of the company.

Section 279 Participation in Meeting

1. All shareholders who have the right to at least one vote shall have the right to attend the general meeting and to discuss and vote.
2. Shareholders without a right to vote, as well as bondholders, may attend general meetings and participate in the discussion of the matters included in the order of the day, except if there is a provision of the articles of association to the contrary.
3. The common representatives of both bondholders and holders of preference shares without vote may also be present in the general meeting, but are not allowed to participate in the discussion; other persons authorised by the president may also attend, except if there is opposition from shareholders.
4. Whenever the articles of association require the possession of a certain number of shares in order to have the right to vote in the general meeting, shareholders holding a number of shares lower than that required may group themselves in order to reach it, and to be represented by one of them.

Section 280 Call of Meeting

1. The call notice shall be published at least 15 days before the general meeting.
2. The articles of association may impose other formalities in calling shareholders, and may allow the substitution of publications by the mailing of registered letters to

shareholders, with the same advance period, if all shares of the company are nominative.

Section 281

Votes

1. One vote shall correspond to each share, except if there is a provision of the articles of association to the contrary.
2. The articles of association may require the possession of a certain number of shares in order to have one vote, provided that all shares issued by the company are included and that each US\$1,000 of capital shall correspond to at least one vote.

Section 282

Quorum for Functioning and Passing Decision

1. The general meeting shall take decisions by absolute majority of the votes corresponding to the capital present or represented, except if the law or the articles of association provide otherwise.
2. Abstentions shall not be counted in order to determine if a proposal obtained a majority of votes, approving or refusing it.
3. Decisions for amendment of the Memorandum of Association, merging, de-merging, transformation and winding up of the company, shall only be considered passed if, at the meeting that considers them, shareholders who possess shares corresponding to at least one-third of the capital are present or represented, provided that they obtain favourable votes corresponding to two-thirds of the capital present or represented, whether the meeting takes place at a first or second call; in the latter case, the meeting may take decisions whatever the capital present or represented.
4. If there are various proposals for the appointment of holders of company positions, the one obtaining the larger number of votes shall win.

Part V

Administration

Section 283

Composition

1. Administration shall be entrusted to a board of directors composed of an odd number of members, who may or may not be shareholders of the company.
2. The articles of association may authorise the appointment of substitute company directors, up to maximum number of three, whose order of precedence shall be established in the decision for election and which, if the decision is silent, shall be determined by the seniority of such directors.

Section 284

Duration of the Term of Office and Representation

1. The term of office of company directors shall last for three years, except if the articles of association establish a shorter period; they may be re-elected.
2. Once the term of office has expired, company directors shall remain in office until replaced by new company directors.
3. Company directors may not be represented in the exercise of their position, except in meetings of the board of directors or by another company director, by means of a letter addressed to the board.

Section 285
Substitution of Company directors

1. In case of definitive absence of any company director, his or her replacement shall be made by calling the first substitute.
2. In the absence of substitutes, the first following general meeting shall elect one or more company directors, to occupy the post until the end of the term of office of the remaining company directors, even if the matter is not included in the order of the day.

Section 286
Judicial Appointment

1. If it is not possible for the board of directors to meet for more than 120 days, because there are not enough acting company directors, and the substitutions prescribed in the previous Section were not carried out, and also if more than 180 days have passed since the end of the period for which the company directors were elected, without a new election having taken place, any shareholder may request the judicial appointment of a company director, until the election of a new board of directors takes place.
2. The provisions regarding the board of directors that do not imply a plurality of company directors shall apply to the judicially appointed company director.
3. The functions of the existing company directors, in the cases mentioned in subsection 1, shall cease with the judicial appointment of a company director.

Section 287
President of the Board of directors

1. The president of the board of directors shall be appointed by the general meeting that elects company directors; if the articles of association permit, he or she may be chosen by the board of directors itself.
2. The articles of association may grant the president a casting vote in the decisions of the board of directors.

Section 288
Guarantee and Remuneration

1. The liability of company directors shall be guaranteed if so determined by the articles of association or in a general meeting.

2. The general meeting, or a commission of shareholders elected by it, shall establish the remuneration of company directors.

Section 289

Transactions with Company

Any contracts concluded between a company and its company directors, directly or through a third party, shall be void, except in the case of a special permission expressly granted by a decision of the board of directors, with the favourable opinion of the auditing board or single auditor.

Section 290

Prohibition of Competition

It shall be forbidden for the company directors, except in the cases of authorisation expressly granted in a general meeting, to exercise, for their or other persons' account, an activity included in the object of the company.

Section 291

Suspension of Company directors

1. The auditing board or the single auditor may suspend the exercise of the activity of any company director if any personal circumstances related to them obstruct the exercise of their functions for a period of time presumed longer than sixty days.
2. During a period of suspension of exercise of the activity of company directors, their powers, rights and duties that presuppose the effective exercise of their functions shall also be suspended.

Section 292

Dismissal

1. The term of office of company directors may be revoked by a decision by shareholders, at any moment, without prejudice to the right of the company director to the compensation mentioned in Section 216.3 if the revocation is not based on just cause.
2. One or more shareholders, provided that they hold shares corresponding to 10% of the capital, may request from the court the dismissal of any company director, at any time, on the basis of just cause.

Section 293

Resignation

1. A company director may resign from his position, by means of a letter addressed to the board of directors or to the company secretary.
2. Resignation shall only take effect at the end of the month following that in which it was communicated, except if, in the meantime, a substitute was elected or appointed.
3. A resigning company director shall compensate the company for any damage that may arise from his resignation.

Section 294
Competence of Board of Directors

1. The board of directors shall be competent to manage the activities of the company and to represent it; it shall comply with decisions by shareholders and the interventions of the auditing board or single auditor, except in matters for which it has specific competence.
2. In addition to other matters stated in the law, the board of directors shall be competent to take decisions on:
 - (a) annual reports and accounts;
 - (b) acquisition, transfer and charges over any goods;
 - (c) granting of personal or real guarantees by the company;
 - (d) opening or closing of business premises;
 - (e) extensions or important reductions of the activity of the company;
 - (f) modifications in the organisation of the enterprise;
 - (g) projects of merging, de-merging and transformation of the company;
 - (h) any other matter on which any company director requires a decision of the board.

Section 295
Executive Company Director and
Executive Committee

1. The board of directors may delegate the management of the company to an executive company director or to an executive committee, composed of several company directors.
2. It shall not be possible to delegate competence on the matters mentioned in paragraphs (a), (c), (e) and (g), subsection 2 of the previous Section.
3. The delegation of current matters shall not prejudice the competence of the organ to pass any decisions on the same matters.
4. Company directors shall be responsible for following up the action of the executive company director or the members of the executive committee, and shall be jointly liable with them for any damage caused to the company if, being able to prevent or to reduce it, they do not do so, except if they prove that they acted without fault.

Section 296
Meetings and Decisions of the Board

1. The board shall meet, in ordinary sessions, upon call of its president, at least once a month, except if the articles of association provide otherwise.
2. The board shall meet in extraordinary sessions, whenever called by the president or by any member, or by any two members, depending on whether the number is equal to or less than five or more than five.
3. The board may only take decisions with the presence, or representation of the majority of its members, in accordance with Section 282.3.
4. Decisions shall be passed by a majority of the votes of the company directors present or represented.

5. The company secretary shall act as secretary to the meetings, and shall sign the respective minutes.
6. The rules of Section 44.4 and Sections 46, 55, 56 and 60 shall apply to decisions and minutes, with the necessary adaptations.

Section 297 Representation

1. Company directors shall jointly exercise powers of representation; the company shall be bound by legal transactions concluded by the majority of the company directors or ratified by them, except if there is a provision of the articles of association to the contrary.
2. Except if there is a prohibition in the Memorandum of Association, if the power to represent the company is included in the decision of delegation of powers, the company shall be bound by acts of the executive company director or of the members of the executive committee.
3. Company directors shall bind the company by signing and indicating their capacity.
4. Notifications or declarations from third parties to the company may be addressed to any of the company directors.
5. Notifications or declarations from a company director to the company shall be addressed to the board of directors or to the company secretary.

Part VI Increase in Capital

Section 298 Pre-emption Right of Shareholders

1. Shareholders, who have such capacity at the date of an increase of capital by subscription of new shares to be paid up in cash, shall have a pre-emption right in the subscription of the new shares, proportional to the number of shares that they hold.
2. In case not all shareholders exercise their pre-emption right, it shall be passed to the remaining ones, until full satisfaction of the shareholders or subscription of the shares.
3. If new shares of a certain category are not subscribed by the holders of shares of the same category, the pre-emption right shall pass to the remaining shareholders.
4. The pre-emption right granted in this Section may be suppressed or restricted by decision of the general meeting taken by the majority required for amendment of the Memorandum of Association.

Section 299 Notice and Time Limit for Exercise of Pre-emption Right

1. Shareholders shall be informed, by a notice, of the time limit for the exercise of the pre-emption right, which may be no less than 15 days.
2. In case all shares issued by the company are nominative, the notice may be replaced by a registered letter addressed to the respective holders.

Section 300
Incomplete Subscription

1. If a capital increase is not fully subscribed, it shall be limited to the subscriptions made, except if the decision on the increase provides that in such case it is without effect.
2. If the increase is without effect, the administration shall inform the subscribers of this fact, by a notice, within eight days from the end of the period of subscription; simultaneously, it shall make available to them the funds collected.

Part VII
Compulsory Notifications
Section 301
Notifications to Company

1. A shareholder who is a holder of non-registered bearer shares representing at least one-tenth, one-third or one-half of the capital, shall inform the company of the fact within the 30 days following the occurrence of the facts described by means of a letter addressed to the board of directors, which shall in turn inform the auditing board of the fact.
2. A similar notification shall be placed if the shareholder ceases to be in the situation mentioned in subsection 1 above.
3. The identity of shareholders who find themselves in the situations established in subsections 1 and 2 shall be published in an annex to the annual report.

Chapter VI
Final and Transitional Provisions

Section 302
Compulsory Publications

1. Compulsory publications shall be made in the Official Gazette of the Republic at the expense of the company.
2. Notices, advertisements and invitations addressed to shareholders or creditors, when the law or the contract provide for their publication, shall be published in accordance with the provision of the previous subsection and shall be published in a nationwide newspaper, or, in the absence of this, in at least one of the most widely-read papers of the country.

Section 303
Transitional Provisions

Commercial companies formed prior to the entry into force of the present act shall, within a period of one year, take all the necessary measures to adjust their functioning to the law.

Section 304

Entry into Force

The present law shall enter into force on the day following its publication.

Approved on 2 March 2004

The Speaker of the National Parliament

[Signed]
Francisco Guterres “Lu-Olo”

Promulgated on 5 April 2004

To be published.

The President of the Republic

[Signed]
Kay Rala Xanana Gusmão