

Founding a private limited company (PLC) in Hungary

(Part 1)

General rules of a private limited company or joint-stock company

The private limited company is an economic association founded with a joint stock consisting of a previously stipulated type and amount of shares. The shareholder (member of the company) is obliged vis-à-vis the private limited company to provide the counter value of the share per nominal value or per accountable par. The shareholder shall not be liable – with some exception stipulated by law – for the obligations of the private limited company.

The name of the company shall indicate the form of being private limited company by including the abbreviation 'zrt.' in the name of the company. The private limited company is entitled to modify company form; however, such modification does not result in the change of the private limited company.

A limited company is private, if the shares cannot be put into circulation publicly. Further, the company is deemed a private limited company, if the shares have been put into circulation publicly, but are not sold by way of public bidding, or the shares have been omitted from the regulated market. It is not allowed to invite shareholders to found the company or collect the registered capital by ways of public invitation.

The main organ of the company may pass a resolution on the modification of the company form of the private limited company, with special regard to the legal stipulations of security papers.

The nominal value of all the shares makes up the share capital of the private limited company. It is null and void to issue the shares at a value not reaching the nominal value. Should the shares be issued at a value not reaching the nominal value before the company is registered at the companies' registry, the founders of the private limited company shall be jointly and severally liable for any and all damages of third parties deriving from this violation. If the shares are issued at such an unlawful value after the private limited company has been registered at the companies' register, the private limited company itself shall be liable for any and all damages of third parties.

The nominal value of the share can be specified by the quota of the amount of the share capital at any times.

The private limited company may provide payment from its own capital to the shareholder only in accordance with the legal stipulations on accounting and as per the stipulations and procedural rules of the civil code regarding joint stock companies. The shareholder is entitled to the membership and pecuniary rights towards the company

embodied by the share and stipulated by law. Regarding the embodied rights, it is forbidden to discriminate among the shareholders holding shares of the same series of shares of the private limited company.

Shares of a private limited company

The private limited company may issue the following types of shares in accordance with its articles of association: ordinary share, preference share, employee's share, interest-bearing share, redeemable share. Any and all shares not being identical with any of those listed above shall be considered an ordinary share.

The total sum of the nominal value of the ordinary shares issued by the private limited company shall exceed at any times 50% of the share capital.

The articles of association of a private limited company can stipulate the issue of shares that enable preferential rights to the holders towards other shareholders of the company (so called preference shares). Such preferential rights include: preference regarding the payment of dividends; receiving payment preferentially from the assets to be divided in case of liquidation of the company; preferential rights regarding voting; preferential rights regarding the appointment of the managing director or member of the supervisory board; preference to pre-emption right to a share. The articles of association may stipulate the issue of shares embodying more than one preferential rights.

(To be continued in Part 2)