

# Family Business Charter

## Preamble

Pursuant to Federal Decree Law No. (37) of 2022 concerning family businesses, the Ministry is mandated to develop a guide charter in respect of family businesses for the Family to consult.

### **1. Objectives of the Charter**

This Charter aims to:

1. Regulate family affairs related to the family business and the relationship between the family and the family business.
2. Establish benchmark rules for the operation of the family business and ensure its continuity and success across generations.
3. Set specific benchmark rules governing:
  - 1) Family ownership, objectives, and values.
  - 2) Mechanisms for evaluating shares.
  - 3) Profit distribution.
- 4) Development of a system for educating, training, and preparing family members to work in the family business and its subsidiaries.
- 5) Development of a comprehensive system for resolving and considering disputes and disagreements in family matters related to the family business.
- 6) Minimum academic qualifications and practical experience required for partners and family members to work in the family business or any of its subsidiaries, according to criteria that are easily achievable and verifiable by the family council, board of directors, partners, or any relevant committees.

## **2. Objectives and Values of the Family Business**

The objectives and values of the family business are as follows:

1. Growth and Sustainability: Fostering business growth and increasing profits in a sustainable manner.
2. Preserving Family Values: Upholding the values and ethics that strengthen the family's relationship with the company.
3. Development and Innovation: Investing in research and development to improve products and services.
4. Social Responsibility: Contributing to society through social responsibility programs and charitable projects.
5. Pursuing the Family Business' Founding Purpose: Achieving the purpose and objectives for which the family business was established and finding ways to sustain and uphold these goals.

## **3. Family Council**

1. Formation of the Council: The Family Council shall consist of 7 members elected by the family through a secret ballot at a meeting held for this purpose.
2. Criteria for Selecting Members of the Family Council: In selecting members of the Family Council, consideration shall be given to the personal, professional, and academic qualifications necessary to effectively exercise their duties on the Family Council.
3. Renewal of Membership in the Family Council: The term of the Family Council shall be three (3) years, and no family member shall serve on the council for more than two consecutive terms.
4. Chairman of the Family Council: The Family Council shall elect from among its members a chairman and a vice chairman by secret ballot.
5. Meetings: The Family Council shall hold a regular meeting every three months, and emergency meetings may be convened when necessary.
6. Decision-Making: Decisions shall be made by a majority vote, and in case of a tie, the chairman's vote shall be the casting vote.

7. Transparency: All meetings and decisions of the Family Council shall be documented and circulated to all partners.

#### **4. Family Employment Policy**

The purpose of these regulations is to ensure that the family hiring process is conducted with integrity and transparency, and to ensure that all employees, whether family members or external hires, possess the qualifications and competencies required for their roles.

##### **1. Appointment Criteria**

- Competency and Qualifications:
- The appointment of family members shall be based on their competence and qualifications suitable for the position.
- The individual shall possess the academic qualifications and professional experience required for the position.
- Transparency:
- The appointment process shall be transparent.
- The appointment process shall comply with the standards followed for recruiting employees from outside the family.
- Equality:
  - Job applications from family members shall be treated in the same manner as job applications from outside the family.
  - Equal opportunities shall be ensured in the appointment process.

##### **2. Role of the Recruitment Committee**

- Committee Formation: An independent recruitment committee shall be formed, comprising both internal and external members, to ensure impartiality and fairness.
- Review of Applications: The committee shall review all job applications, including those from family members, and evaluate them based on qualifications and experience.
- Interviews: Interviews shall be conducted with all candidates by the recruitment committee to assess their suitability for the position.

### **3. Dispute Resolution**

**Complaint Mechanism:** A clear mechanism shall be established for filing complaints and resolving disputes that may arise as a result of family appointment.

### **4. Training and Development**

**Training Programs:** Professional training and development programs shall be provided to all employees, including family members, to ensure that they are equipped with the necessary skills and knowledge to perform their roles effectively.

**5. Regular Evaluation:** Regular performance evaluations shall be conducted for all employees, including family members, to ensure that they are meeting their objectives and responsibilities.

### **6. Job Creation**

- Job creation within the company shall be based on commercial and professional criteria such as the company's business development and its need for additional positions.
- No position shall be created for the sole purpose of employing a family member.
- No employee who is not a family member shall be terminated without a valid reason for the purpose of replacing them with a family member.

### **7. Employee Compensation:**

The compensation of an employee of the company, whether a family member or not, shall be determined based on the following:

- The level of the position held.
- The assigned duties and responsibilities.
- Educational qualifications.
- Performance level.
- Family membership shall not be a factor in determining the compensation of a family member.
- The duly approved salary and bonus structure.

## **5. Educational Qualifications and Practical Experience**

1- Partners or family members wishing to work for the family company or any of its subsidiaries shall meet the following requirements:

1. Minimum Qualifications: Possess at least a university degree in a field related to the company's business.
2. Practical Experience: Have at least five years of practical experience in a field related to the company's business.

### **2- Development of Educational Qualifications and Practical Experience:**

- 1- Developing Practical Experience: The company shall support the professional development of family members and ensure their participation in a number of training programs or job assignments to fully equip them with the administrative and operational knowledge related to the family business.
- 2- Education and Training of Family Members: The company shall provide education and training programs for family members to prepare them for potential roles within the company through obtaining scholarships or training grants.

## **6. Succession Planning**

1. Succession Plan: A clear succession plan shall be developed to ensure the continuity of effective leadership and management within the company. This plan shall include the training and development of future generations of the family to assume leadership roles.
2. External Evaluation: External consultants may be engaged to evaluate the succession plan and ensure its alignment with best practices.

## **7. Profit Distribution**

- Unless otherwise decided by the family business or provided for in the memorandum and articles of association, the family business may distribute profits in various ways, including:

- Cash Dividends: Dividends are distributed to shareholders in cash based on their respective shareholdings.
  - Semi-annual or Annual Distributions: Dividends are distributed at specified intervals, such as semi-annually or at the end of the fiscal year.
2. Dividend Reinvestment and Dividend Reinvestment Program: It enables shareholders to choose to reinvest their dividends in purchasing new shares of the company.
  3. Dividend in Shares:
    - Share Dividends: Instead of cash dividends, the company distributes additional shares to shareholders.
    - Bonus Shares: Shares are granted as a bonus to existing shareholders at a specified percentage of their current shareholdings.
  4. Share Repurchases:
    - Share Repurchases Program: The company may repurchase a portion of its shares from the market, increasing the value of the remaining shares.
  5. In-kind Dividends:
    - In-kind Dividends: The company shall distribute non-cash assets, such as products or property.
  6. Preferred Dividends:
    - Preferred Dividends: A specified portion of the profits is allocated to preferred shareholders before the distribution of regular dividends to other shareholders.

## 2. Considerations for Dividend Distribution:

1. Financial Policies: A clear and written policy on how to distribute dividends shall be in place.
2. Retained Profits: A portion of the profits may be retained within the company to fund future growth or pay off debts.
3. Taxes: Tax laws vary from country to country and may affect the way dividends are distributed.
4. The appropriate method of dividend distribution shall be selected based on the company's financial position, long-term goals, and shareholder preferences.
5. Determining the Distribution Percentage: The company's net profit after deducting all expenses and taxes shall be distributed to partners at a rate of (...)% and (...)% shall be reinvested in the company.

6. Identifying Entitled Parties: Dividends shall be distributed to partners based on their respective shareholdings in the company.
7. Timing of Distribution: Dividends shall be distributed annually after the issuance and approval of the annual financial report by the family council, either once a year, semi-annually, quarterly, or monthly.

## **8. Share Disposal, Exit, and Valuation**

1. Any partner wishing to dispose their share in the family business, with or without compensation, shall first offer it to the other family members.
2. Each shareholder may have the right of first refusal to purchase these shares within thirty (30) days from the date of the offer to the other family members. If this period lapses without any shareholder exercising their right to purchase, the transferring shareholder may dispose of their shares as they see fit.
3. Notwithstanding the provisions of clause (1), a partner may transfer their share, with or without compensation, to their spouse or any of their first-degree relatives without offering it to the other partners.
4. Shares shall be valued by independent professional valuers to determine fair market value, which shall be approved by the general assembly of the family business.

## **9. Dispute Resolution and Settlement Mechanism**

### **1) Council of Elders:**

1. Formation: A dispute resolution council, to be known as the "Council of Elders," shall be formed. The Council shall consist of five senior family members who possess wisdom and experience.
2. Appointment: The Board of Directors of the family business, or the company, or the general assembly shall appoint the members of the Council of Elders and specify their qualifications, provided that none of them shall have any conflict of interest.

2. Jurisdiction of the Council of Elders: The Council shall have the authority to consider disputes arising between partners, between partners and other family members who are shareholders in the family business, and between such persons and the family business, and to attempt to reconcile the parties.
  3. Procedures for Filing: Disputes shall be submitted in writing to the Council of Elders, together with all evidence and documents.
  3. Hearings: The Council of Elders shall hold hearings for the disputing parties and analyze the evidence.
  4. Timeframe for Resolution: The Council shall consider the dispute within a maximum period of three (3) months from the date of submission, unless this period is extended by mutual agreement of the disputing parties.
  5. Final Resolution: The Council of Elders shall issue a binding resolution on the disputing parties by unanimous consent. If unanimity is not reached, the resolution shall be made by a majority vote.
  6. Appeal: An appeal may be filed against a resolution of the Council of Elders to the Family Business Dispute Settlement Committee established pursuant to Article (20) of Federal Decree Law No. 37 of 2022.
  7. Family Business Dispute Settlement Committee:
    1. Recourse to the Committee: The disputing parties may have recourse to the Family Business Dispute Settlement Committee established in the relevant emirate pursuant to Article (20) of Federal Decree Law No. 37 of 2022, if they agree not to refer their disputes to the Council of Elders, or if the Council of Elders is unable to convene or if its mediation efforts are unsuccessful.
    2. Resolution: The resolutions of the Committee shall be subject to appeal at the competent court in the state
- 2) Arbitration:
1. Recourse to Arbitration: The disputing parties may resort to arbitration if they so agree or if the Council of Elders is unable to convene, in accordance with the rules of [Arbitration Institution], and the seat of arbitration shall be in [City, Country].
  2. Resolution: The resolution of the arbitrators shall be final and binding on all parties.

## **10. Governance and Oversight:**

1. Separation of Ownership and Management: There shall be a separation of management and ownership functions to ensure that decisions are made objectively and impartially.
2. Code of Conduct: All family members involved in the family business shall adhere to the company's code of conduct, which sets out the ethical and professional standards to be followed.
3. Standing Committees: The family business shall establish standing committees, including an executive committee, an audit committee, and a nominations and remuneration committee, and shall define the responsibilities of these committees in accordance with the standards set forth in Federal Decree Law No. (37) of 2021 concerning commercial companies and the resolutions issued thereunder, including those relating to governance.
4. Internal Audit: The family business shall establish an internal audit department within the family business, which shall report directly to the board of directors, and its responsibilities shall be defined by the board in accordance with the applicable standards set forth in Federal Decree Law No. (37) of 2021 concerning commercial companies and the resolutions issued thereunder, including those relating to governance.

## **11. Confidentiality and Non-Competition:**

1. Confidentiality: Shareholders, members of the board of directors, and senior management shall maintain the confidentiality of all information relating to the company.
2. Non-Competition: Family members involved in the management or operation of the company, senior management, or employees shall not engage in any business activities that directly compete with the company without the prior approval of the family council.

## **12. Philanthropy and Corporate Social Responsibility:**

1. Commitment: The family and the company shall give back to the community and participate in charitable activities.
2. Fund: A percentage of the company's profits shall be allocated to a charitable fund managed by the family and overseen by the family council.

3. Initiatives: The family council shall identify and support initiatives that align with the family's values and contribute to social and environmental well-being.

### **13. Amendments**

1. Proposal of Amendments: Any family member may submit a proposal to amend the Charter in writing to the family council.
2. Review of Amendments: The family council shall review and discuss the proposals at its next meeting.
3. Approval of Amendments: Any amendment shall be approved by a majority of the members of the family council.
4. Circulation of Amendments: Upon approval, the amendments shall be circulated to all partners and documented in the family charter.

Conclusion:

This Charter aims to foster cooperation and understanding among the partners and to ensure the continuity and success of the family business across generations. This Charter shall be binding on all partners and shall be updated as needed based on proposals from the family council and the approval of a majority of the partners.

This Charter has been approved by the family council and the undersigned partners on: \_\_\_\_/\_\_\_\_/\_\_\_\_.

<b>Family Council Members</b>	<b>Signature</b>	<b>Date</b>