

The Liechtenstein Foundation



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Responsibility in Wealth

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Preface

The law on foundations is one of the most important legal pillars of the Liechtenstein financial centre. It has its roots in articles 552-570 of the PGR (Liechtenstein's Law on Persons and Companies) and is currently under revision. The aim is to create a homogenous law that is complete in itself, with clear structures and legal certainty in the core issues, such as fiducial formation of the foundation, the rights of the beneficiaries, definition of the foundation's purpose and the supervisory requirements.

The public consultation period expired in July 2007 and it is expected that the new law will come into effect by early 2008.

The key features of the revised law on foundations are:

Complete body of law

The law on foundations will be newly regulated in articles 552 §§ 1 to 38 of the PGR. The current cross-references to the TrUG (Law on Trust Companies) will be removed and the relevant provisions included directly in the new foundation law. At the same time however, the general regulations of the PGR on associations will continue to be applicable.

Increased responsibility of the founder

The legal status of the founder will be clearly regulated and his position strengthened, in that he will no longer be able to delegate certain rights to third parties. In this respect, the founder must provide the purpose of the foundation, and the right to revoke the foundation is his alone. These rights are the entitlement of the founder and lapse upon his death.

To preserve discretion, the formation of the foundation may continue to be carried out by a trustee.

Long-term security of deposited foundations

Under the new law, the possibility to establish a foundation whose basic data alone is deposited at the public registry (and therefore not accessible to the general public) will continue to exist. The method of deposition however will be fundamentally simplified, so that when the formation of the foundation is made by a trustee, only a notice of formation of the foundation board is required by the public register. The particulars in the notice of formation are to be verified by a Liechtenstein trustee, lawyer or other authorised agent according to article 180a of the PGR. A false verification of the contents gives rise to liability for criminal prosecution.

Legal definition of the beneficiaries and their rights

Just like the rights of the founder (e.g. the right to amend the foundation's purpose or revoke the foundation), the asset and information rights of beneficiaries will be clearly regulated and cannot be invalidated by contradictory statutory provisions. The exact content of the beneficiaries' information rights is still the subject of intensive discussion, as from many practitioners' point of view, restrictions to information rights are desirable in certain cases.

Supervision requirements

The distinction between a charitable foundation and private-purpose foundation will in future be the determining factor for compulsory registration with a supervisory body. Under the new law, charitable organisations will be compulsorily subject to the control of the government supervisory authority; whereas non-charitable organisations (in practice the majority of so-called family foundations) can voluntarily register for such supervision.

Increased protection of the foundation's assets (asset protection)

If the founder has reserved the right in the foundation deed to revoke the foundation or amend the foundation statutes, then these rights cannot be invalidated in cases of distraint.

The revised law will, with the appropriate temporary provisions, ensure that the numerous existing foundations can make a full transition to compliance with the new regulations. Moreover, in practice we will see that the new Liechtenstein foundation law has not lost any of its currency or attraction, and that in terms of legal security and flexibility, it will continue to act as a benchmark for foreign legal systems.

Dr. Nicola Feuerstein

CEO Trust Services

The foundation under Liechtenstein law

Articles 552 - 570 of the Law on Persons and Companies (PGR)

I. Definition, purpose and duration of the foundation

Definition

The Liechtenstein foundation is

- a legal entity without members, partners or shareholders;
- to which assets of the founder are transferred as property;
- that the foundation board administers and uses for the benefit and advantage of the beneficiaries;
- according to the founder's will documented in the statutes, by-laws and, where one exists, a «letter of wishes».

Purpose

Fundamentally, a foundation can pursue any purpose that is not against the law and does not offend public morals. The following possible purposes are particularly common:

- Execution of distributions and the provision of other advantages to members of one or more specified families for the purpose of defraying the costs of up bringing, education, material needs and support (so-called family foundation) or additionally also to ecclesiastical or other charitable institutions outside the family (mixed family foundation)
- Support and advancement of projects and institutions of a scientific, artistic, charitable or social nature (charitable foundation)
- Support for holders of ecclesiastical positions and functions as well as ecclesiastical institutions (ecclesiastical foundation)

In contrast to most foreign legal systems that allow for foundations, both charitable and pure family maintenance foundations are permitted under Liechtenstein law.

Foundations, in principle, may not engage in commercial activities. However, the foundation may pursue commercial trade when this serves the attainment of its non-commercial purpose, or the nature and extent of the foundation's assets (e.g. the holding of participations) necessitates business operations.

Duration

In principle, a foundation can exist indefinitely, or for the duration until the foundation's purpose is fulfilled.

II. Formation and establishment of the foundation

Formation

A foundation can be formed by

- a legal transaction inter vivos,
- a testamentary disposition,
- or a contract of inheritance.

The foundation is deemed to be formed when the donation of the assets for a certain defined purpose has been completed in the form stipulated by law.

Establishment

The establishment of a Liechtenstein foundation is generally not subject to an authorisation procedure. The foundation attains legal status upon its registration in the public register (notable exception: «deposited foundation»; see «deposition» below).

Registration in the public register is mandatory for exclusively charitable (common) foundations as well as foundations that engage in commercial activities.

Deposition

The majority of foundations found in practice, namely pure and mixed family foundations as well as foundations whose beneficiaries are defined or ascertainable, are exempt from the registration requirements. In lieu of registration, the foundation deed, last testament or inheritance contract must be deposited at the public registry.

The contents of the deposited documents are not open to the public.

Regulatory supervision

Ecclesiastical foundations, pure and mixed family foundations, as well as foundations whose beneficiaries are defined or ascertainable, or which only manage assets and distribute their proceeds or hold participations, are not subject to any mandatory regulatory supervision.

Any Liechtenstein foundation may however voluntarily register for regulatory supervision.

III. Assets of the foundation

Minimum capital

The minimum capital required for forming a Liechtenstein foundation is CHF 30,000.--. This sum must be fully paid up or donated.

After the formation of the foundation, the assets of the foundation can be increased at any time through contributions of the founder (supplementary endowment) or third parties (endowment contribution).

Composition of the assets

There are no restrictions at all on the composition of the foundation's assets. Anything representing an asset may be donated to the foundation, including for example: cash, securities, real estate, participations in companies, and works of art.

Asset management

The founder can specify the asset investment strategy in the foundation documents. This is recommended, as in the absence of such specifications, the assets, according to Article 558 paragraph 5 of the PGR, are to be invested in cases of doubt in accordance with the provisions for trust investments which stipulate so-called «gilt-edged» and low-return investments.

Even though the founder is not prohibited from managing the foundation's assets personally, the asset management should still be carried out by an independent third party for the purposes of clear asset separation.

IV. Foundation documents

Foundation deed and statutes

The formation of the foundation is fixed in the foundation deed signed by the founder.

The statutes define the purpose, the organisation of the foundation and the competencies of the foundation board and other organs (protector, auditor, advisory board).

It must be clearly ascertainable from both documents that it was the founder's intention to form an independent foundation and donate to it the original assets (minimum capital) to attain the defined purpose.

In addition, details of the domicile, name and duration of the foundation are required content of these documents.

By-laws

The by-laws supplement the statutes and serve to specify the foundation's purpose in more detail, for example, in that they define the class of beneficiaries.

There is no obligation to deposit by-laws at the public registry.

Letter of wishes (optional)

In the «letter of wishes» the founder defines, for the attention of the foundation board, his expectations, motivations and wishes with regard to the administration and use of the foundation's assets.

The possible content can include detailed descriptions of the foundation's purpose, the individual beneficiaries, as well as any conditions, limitations or requirements on which the nomination of a beneficiary is dependant. In addition, the founder can indicate personal circumstances or links that are to be taken into account in the administration of the foundation.

Alongside the statutes, by-laws and possible regulations, the «letter of wishes» is part of the documentation that the foundation board draws upon to interpret and implement the founder's will.

There is no obligation to deposit the «letter of wishes» at the public registry.

V. The founder and his rights

The founder

The founder is the natural or legal person who

- initiates the formation of the foundation,
- donates assets to it,
- and defines the framework for the distribution of the foundation's assets.

The founder defines the tasks and objectives of the foundation, specifies the class of potential beneficiaries and defines the organisation of the foundation, to name only his most important competencies.

In order to ensure discretion for the founder, the formation of the foundation is usually carried out by a Liechtenstein trustee or trust company.

Rights of the founder

The founder's freedom to arrange matters and exert influence is only unlimited until the moment when the foundation comes into existence.

Once the foundation exists as an entity with its own legal personality, it is essentially no longer subject to outside control and the will of the founder is fixed in the form of the foundation documents, which, for this reason, should be set out in detail.

The founder is permitted by law, to explicitly reserve the right in the statutes to subsequently amend the same. However, any subsequent amendment of the foundation's purpose must take into particular consideration the specific circumstances of the foundation (e.g. previously existing statutory beneficiary rights) fixed by the founder at the time of formation.

After the formation of the foundation, the founder is granted the legal rights of a «foundation participant» (application and hearing rights as well as the right to file appeals).

VI. Organisation of the foundation

General

In the framework of the foundation's organisation, the individual organs are legally and statutorily assigned their rights and obligations as well as their respective terms of reference.

The founder specifies at the time of the foundation's formation which organ is responsible for management and representation of the foundation and, in particular, which organ takes on the supervisory and monitoring function and how the decision-making process within the organs is carried out.

Organs

A foundation can include the following organs:

- Foundation board
- Protector
- Auditor
- Family council or other advisory board

Foundation board

The foundation board, as a rule, acts as the supreme, and only administrative and representative organ of the foundation.

Its primary task is to fulfil the foundation's purpose, which normally requires the administration and utilisation of the foundation's assets.

Members of the foundation board can be one or more natural or legal persons. At least one member of the foundation board that is authorised to manage and represent the foundation must be a qualified professional with place of residence in Liechtenstein or another member state of the European Economic Area.

The members of the foundation board are initially appointed at the foundation's formation by the founder in the foundation deed.

The foundation board can define provisions for the cooption of further members as well as the by-election of replacement members in cases of dismissal, resignation, incapacity or death of a member, as long as the statutes do not already stipulate any such provisions.

In addition, the foundation board can define the signatory rights of its members as well as the required attendance at meetings and the decision-making procedure, as long as the statutes do not already stipulate such provisions.

Protector

The statutes and/or by-laws can additionally provide for the office of a protector. The protector monitors, as the «representative» of the beneficiaries, first and foremost the implementation of the foundation's purpose by the foundation board, without hereby, (in normal cases) exerting influence directly on the management («Checks and Balances - System»).

In this function the protector can – depending on the content of the statutes – be granted far reaching control, application, information and approval rights.

In addition, the protector can be empowered to require from the foundation board that a special audit of the management be made by an auditor.

In principle, any person can be appointed as protector, as long as a conflict of interest does not arise because:

- he also belongs to the class of potential beneficiaries
- he is concurrently a member of the foundation board
- he is concurrently the auditor of the management of the foundation board

In order to effectively fulfil his function as the link between the foundation board and the (potential) beneficiaries, the protector should ideally be a trustworthy person who is familiar with the circumstances of the founder's family.

Auditor

The appointment of an auditor is mandatory when the foundation, in pursuing its non-profit purpose, engages in commercial activities, or the type and scope of the foundation's assets require business operations.

The optional appointment of an auditor is however permitted for all foundation types, and is advisable as an additional control mechanism, in particular after the death of the founder.

The tasks of the auditor include checking the annual statements for compliance with the legal and statutory provisions, for concordance, where applicable, with the special regulations enacted by the foundation board as well as compliance with the investment regulations. Additionally, the auditor monitors the appropriate administration and use of the foundation's assets.

Further organs

Provision may be made in the foundation deed and statutes for other organs, such as a family council or other advisory board (e.g. business advisory board).

Aside from their supervisory function, these organs have in particular the task, within their area of specialisation, to support the foundation board in fulfilling the foundation's purpose, without exerting direct influence on the management of the foundation.

Representative

The representative of a foundation domiciled in Liechtenstein is a natural or legal person appointed by the founder at the formation of the foundation, who is selected to represent the foundation to the Liechtenstein authorities and courts as well as provide the service address.

The function of the representative, which is not an organ of the foundation, can only be carried out by a Liechtenstein citizen resident in the Principality, and is generally performed by a Liechtenstein trustee or Liechtenstein trust company.

VII. Statement of assets

The foundation board is legally obliged to compile annual financial statements.

The foundation accounts are an important tool for the foundation board in realising its management functions, (e.g. when reaching distribution decisions) and moreover, represent a suitable control measure for the parties interested in the corresponding supervision of the management (in particular the founder, the beneficiaries, and the appointed protector).

Keeping accounts of the foundation is also highly recommended where complex beneficiary regulations exist, and to establish – for tax purposes – the necessary separation between the foundation's capital and foundation's returns.

VIII. Beneficiaries of the foundation

General

Beneficiaries of the foundation are those persons and organisations

- which belong to the class of beneficiaries determined by the founder,
- and on the basis of a resolution of the foundation board, derive a present or future advantage from the assets of the foundation, be it a share in the revenues or a share in the assets of the foundation.

If the legal right to be appointed as a beneficiary is dependant upon a prior condition being fulfilled (e.g. completion of a course of study) or the expiry of a period of time (e.g. reaching full age), the concerned person is called a reversioner.

Foundation usufruct

The term foundation usufruct encompasses all distributions made to the beneficiaries.

Appointment

The definition of the potential beneficiaries is made at the foundation's formation, whereby the founder names one or more beneficiaries or at least an ascertainable class of beneficiaries (e.g. family members of the founder). The simple fact of belonging to this class of potential beneficiaries does not create a legal right for individual persons. This requires, as a rule, a corresponding distribution resolution of the foundation board.

Rights of the beneficiaries

The rights of the beneficiaries are specified by law and in the documents of the foundation.

The beneficiaries can demand from the organs the observance of the law and, in particular, the provisions of the foundation documents. In the case of non-compliance with such provisions by the organs, the beneficiaries have the power to bring legal proceedings at the District Court of Liechtenstein. The judge will order protectionary measures and in the event of breach of duty, will remove the guilty parties from office and appoint a substitute.

Insofar as their beneficiary rights are concerned, beneficiaries also have the right to information concerning the foundation's assets, management and general administrative activities. Reversioners are, in principle, first entitled to these rights from the point in time at which they attain beneficiary status.

This legal right to information may however be reduced or increased by the founder through provisions in the foundation statutes.

Bankruptcy privilege

This special feature of the Liechtenstein family foundation law aims to ensure that possible creditors of beneficiaries may not, through bankruptcy proceedings or execution, seize assets which such beneficiaries receive from the property of the foundation.

To achieve legal effect, this bankruptcy privilege must be anchored by the founder in the statutes of the foundation.

IX. Transformation, termination, revocation

Transformation

A foundation may be transformed by the foundation board or a third party specified by the same into an establishment or a trust enterprise without liquidation as long as

- the statutes expressly provide for the possibility of transformation,
- the transformation is required to protect essential interests of the foundation or the beneficiaries,
- and the legal conditions for the establishment or trust enterprise are fulfilled.

Termination

The dissolution of the foundation takes place by law as soon as its purpose has become unattainable, in particular:

- when the foundation has fulfilled its purpose or the foundation's purpose can no longer be realised
- when the foundation, through the lack of sufficient assets, can no longer fulfil its tasks
- when the duration of the foundation specified in the foundation deed or the statutes has expired

Revocation

The founder is permitted by law to explicitly reserve the right in the foundation deed to revoke the foundation. Depending on the circumstances however, reserving the right of revocation is connected with consequences for the legal recognition of the foundation. For this reason, the inclusion of such a condition is generally not advisable.

X. Foundation taxation

One-off stamp duty

Ecclesiastical and charitable foundations, family foundations, and foundations whose purpose consists exclusively of asset management, the holding of participations or the continuous management of participations in other companies, are required to pay a non-recurring stamp duty amounting to 0.2 percent of the original capital, but not less than CHF 200.--.

Annual Capital Tax

Liechtenstein foundations are exempted from wealth tax, business tax and income tax. They are only required to pay a capital tax amounting to 0.1 percent of the paid in capital, but not less than CHF 1,000.-- annually. This capital tax is calculated on a diminishing scale. Charitable foundations are, for the portion of the assets which serve charitable purposes, exempt from tax.

Foundations do not have to pay any other taxes or levies within Liechtenstein. Payments to beneficiaries resident in other countries are likewise tax-free in Liechtenstein as are the proceeds of liquidation of the foundation should it be wound up.

If goods and services are rendered by the foundation domestically, then a value added tax of 7.6% is incurred.

Advantages of Liechtenstein and the Liechtenstein foundation

Liechtenstein ...

- ... offers political and economic stability, as well as a central location in Europe
- ... has a liberal and business-oriented legal system
- ... is an efficient financial services centre with a long tradition in business structuring and asset management
- ... has stringent professional secrecy regulations for banks and trustees
- ... has very high due diligence standards
- ... enjoys a AAA-Rating from Standard & Poor's

A well-structured foundation ...

- ... is a suitable instrument for effective succession planning as well as the preservation of family wealth over generations
- ... offers efficient protection from the donated assets being accessed by third parties, as they are legally separated from the seizable assets of the founder (Asset Protection)
- ... is an efficient instrument for international tax planning
- ... offers flexibility in regard to the pursuit and advancement of charitable or religious purposes
- ... is suitable for implementation as a holding as well as an instrument for safeguarding a business in inheritance cases
- ... enables the discrete and anonymous realisation of the founder's wishes

Appendix

In the following appendix there are examples of statutes as well as an extract from possible by-laws of a Liechtenstein foundation.

The statutes, and in particular the by-laws, must be formulated differently from case-to-case and should take into account the personal and economic situation of the founder as well as the intended purpose of the foundation.

The professional advice from a Liechtenstein trustee ensures that the statutes and the by-laws are formulated in accordance with the wishes of the founder and the framework of the law. We would be pleased to advise you in this regard.

Statutes

Foundation

Art. 1

Name, registered office, law applicable, place of jurisdiction and duration

Under the name of

a foundation with legal personality within the meaning of articles 552 ff. of Liechtenstein's PGR (Liechtensteinisches Personen- und Gesellschaftsrecht, Liechtenstein's Law on Persons and Companies) is hereby set up with registered office in Vaduz.

All legal circumstances arising out of the establishment, administration, and continued existence of the foundation are subject to Liechtenstein law.

The foundation has its regular place of jurisdiction in Vaduz.

The duration of the foundation is unlimited.

In these statutes (where the context admits) the masculine shall include the feminine and neuter and vice versa in each case.

Art. 2

Funds of the foundation

The funds of the foundation consist of the following components:

1. Registered capital

The capital of the foundation, donated by the founder on the occasion of the foundation's establishment, is in the amount of CHF 30,000.00.-- (thirty thousand Swiss francs).

2. Contributions

The funds of an established foundation can be increased at any time through a contribution of the founder (supplementary endowment) or third parties (endowment contribution).

3. Result of the foundation

The result of the foundation is made up of the earnings of the foundation together with any capital gains and losses realised, minus any capital losses not realised (the «precautionary principle») and all expenses incurred in connection with administering the foundation.

Art. 3

Object

It is the object of the foundation to undertake distributions to members of one or several specific families to defray the costs of education and training, to provide support in general, and to provide financial help in the broadest sense. Therefore the funds of the foundation are to be invested and managed by the board of foundation or a third party authorized by the board of foundation.

Furthermore, the foundation may make distributions to natural or legal persons, institutions and the like, if they are closely associated with the group of persons specified in paragraph 1 and to charitable institutions or otherwise procure them financial advantages.

In terms of asset management, the foundation is authorised to perform all legal transactions serving to further and accomplish its object. The funds of the foundation may be disposed of or encumbered with a charge for asset management purposes or for beneficiaries within the scope of their entitlement.

A business of commercial nature will not be conducted.

Art. 4

Beneficiaries' usufruct and right of information

The benefits of the foundation are understood to include all distributions made in the pursuit of the object of the foundation as defined in article 3.

Within the framework of rules set out by the founder (e.g. in by-laws), the board of foundation appoints the beneficiaries and determines the substance and extent of their beneficiary rights. Any such appointment by the board of foundation needs the prior advice of the protector.

The benefit enjoyed by the beneficiaries appointed by resolution may not be sold, transferred or encumbered without the consent of the board of foundation.

The abolition or amendment of rights of benefit does not justify any liability for damages or actionable claims.

Beneficiaries' creditors cannot, through the medium of security proceedings, execution, or bankruptcy, deprive beneficiaries of foundation benefits acquired free of charge (art. 567 paragraph 3, PGR).

The beneficiaries appointed by resolution are entitled to access the documents of the foundation, receive information and accounting insofar as their beneficiary rights are concerned. For this purpose the beneficiaries are entitled to access all account books and documents and copy them as well as verify all facts and relations either personally or by a representative.

Nominated reversioners do not have any right on disclosure or receiving any information until their entitlement as beneficiary commences.

Nominated reversioners are those who are legally entitled to be appointed as beneficiary after commencing of a condition precedent or reaching maturity.

The right on information may not be misused or exercised for dishonest intentions. When providing information, the board of foundation has to preserve the interests of the foundation as well as of the beneficiaries.

Art. 5

Organs

The organs of the foundation are:

1. The board of foundation (Stiftungsrat) (article 6)
2. The protector (article 7 - optional)
3. The auditor (article 8 - optional)

The board of foundation can designate other organs to perform the object of the foundation. The designation of other organs requires an amendment of these statutes.

The organs, their agents, and their authorised representatives shall be reasonably remunerated for their activities.

Art. 6

Board of foundation

The board of foundation is the supreme organ of the foundation. Its competence embraces all rights and powers that under the law belong to the supreme organ of a corporate body and are not expressly reserved for a different organ.

The board of foundation manages and represents the foundation and in accordance with the provisions of the law and of these statutes ensures performance of the object of the foundation. As regards managing the assets of the foundation, the board of foundation may draw up written investment guidelines with the consent of the protector.

The board of foundation consists of one or more natural or juridical persons whereby at least one member must fulfil the requirements of article 180a PGR. Members of the board of foundation are first appointed by the founder for an indeterminate period on establishing the foundation. If more than one board member is appointed, the board of foundation shall constitute itself following the establishment of the foundation and appoint a chairman of the board of foundation. Regarding the election of further board members and the organisation of a by-election in the event of the dismissal, inability to act or death of a member, the board of foundation can lay down guidelines. In case no such guidelines were laid down the remaining members elect a replacement. Members of the board of foundation can also be dismissed by the majority of the remaining members. If no further members of the board remain, the representative of the foundation (article 10) may proceed to a by-election or file a petition for a re-appointment of the board of foundation with the District Court (Landgericht) of the Principality of Liechtenstein with the consent of the protector.

Any natural and legal person acting in their capacity as beneficiary or as representative of the foundation and hence being in conflict of interests cannot become a member of the board of foundation.

The board of foundation may draw up guidelines fixing the organisation of the foundation and stating special regulations governing the signatory rights of its members, the attendance requirements, the structure and the number of board meetings, and the way in which the board of foundation passes its resolutions.

The chairman of the board of foundation shall invite board members to meetings of the board of foundation in writing not less than 14 days prior to the date of the meeting (in emergencies, at even shorter notice), giving details of the agenda. In special instances, provided that all board members agree, adherence to the period of advance notice can be waived. The board of foundation can also utilise electronic media to send out its invitations.

In special instances the board of foundation may advise the protector, in writing or electronically, of the agenda of a prospective board meeting and invite the protector to attend or to obtain his comments or statements with regard to certain issues.

Minutes are to be kept of meetings of the board of foundation and in particular of any resolutions passed by it. Such minutes should be sent to the protector for his attention. The same applies in respect to the circular decisions referred to in paragraph 10 of this article.

Where more than one member is appointed to the board of foundation, the board of foundation is to pass its resolutions by simple majority, with the chairman having the casting vote in the event of a tie, under the condition that no provision is made to the contrary in these statutes or in guidelines. Where the board of foundation is comprised of only two members, its resolutions require unanimity.

The board of foundation can also pass its resolutions in writing by circular. Circular resolutions require board members to vote unanimously.

The board of foundation may appoint and dismiss attorneys and determine their responsibilities and signatory rights. In the event of its making use of such rights, the board of foundation shall notify the protector thereof.

The liability of the members of the board of foundation is limited to intention and gross negligence.

Art. 7

Protector (optional)

In case a protector is elected he monitors implementation of the object of the foundation. His function is to supervise the business operations of the board of foundation without directly influencing the management of the foundation's affairs.

The protector may request information regarding all the facts and circumstances of the foundation. The protector may ask the board of foundation to have a special audit carried out by a chartered accountant or auditing company at the foundation's expense. He must lay down in writing the aim and object as well as the content, scope, and timeframe of such an audit. This written report goes to the protector and to the board of foundation.

The first protector is appointed by the founder. Members of the board of foundation and the auditor are excluded from the appointment as protector. Beneficiaries of the foundation may be excluded from being appointed as protector due to reasons of potential conflict of interests.

Immediately upon accepting to act as protector of the foundation the protector shall appoint a deputy or successor protector in the event that he is prevented from exercising the mandate, refuses to exercise the mandate, or resigns the mandate. The deputy or successor shall notify the board of foundation immediately on taking up office.

If, for whatever reason, the protector or his deputy or successor appointed by the original protector is unavailable, the board of foundation has to appoint a protector in accordance with the beneficiaries.

Art. 8

Auditor (optional)

The board of foundation may appoint an independent chartered accountant or an independent auditing company as auditor for a period of one year. Once appointed, an auditor can only be dismissed or replaced by unanimous resolution of the board of foundation.

The auditor examines the annual accounts for compliance with the provisions of legislation and of these statutes, for conformity to the special guidelines laid down by the board of foundation in accordance with article 9 paragraph 2, and for adherence to the investment guidelines. The auditor reports to the board of foundation in writing regarding the results of its examination.

Art. 9

Financial year and annual accounts

The financial year ends on December 31 of each year and for the first time on December 31, 2007.

The foundation's accounting is primarily determined by the provisions of these statutes and secondarily by the provisions of legislation regarding rendering of account. In addition, the board of foundation may lay down special guidelines.

Identification of the funds of the foundation in the annual accounts is effected in accordance with the breakdown set out in article 2, with the accumulated distributions from the funds of the foundation being openly deducted from the relevant funds components («gross principle»).

In case bookkeeping is established, the board of foundation is obliged to draw up and adopt annual accounts in accordance with the provisions of paragraphs 2 and 3 not later than six months after the end of each financial year. The adoption resolution contains a record of the contributions to the funds of the foundation (article 2/contributions) received during the financial year as well as the manner, amount, and date of the distributions made by the foundation during the financial year and the appropriation of the annual result. The annual accounts, the auditor's report, and the adoption resolution are to be forwarded to the protector.

Art. 10

Representative

On establishing the foundation, the founder appoints the representative to represent it vis-à-vis the authorities in Liechtenstein and to fulfil the obligations set out in these statutes. The board of foundation can dismiss the representative if a replacement is appointed at the same time.

Art. 11

Amending, supplementing and repealing statutes, by-laws and guidelines

The founder is entitled to change the organisation of the foundation if required for preserving the funds or attaining the object of the foundation. Similarly to the rights of the government under article 566 paragraph 1, PGR and in the event of the object of the foundation being unattainable, the founder is entitled to repeal, amend or supplement all or parts of these statutes.

The board of foundation is entitled to repeal, amend or supplement all or parts of the by-laws together with any guidelines of the foundation. To be valid, all such resolutions to amend, supplement, and repeal require the unanimous consent of the board of foundation and the protector and they must not fail to achieve the foundation's initial objects.

All resolutions to amend, supplement and repeal the by-laws additionally require the consent of the founder in order to be valid.

Art. 12

Dissolution, transfer of registered office, and structural adaptation

The dissolution of the foundation is effected for the reasons provided for in legislation.

In the event of substantial impairment of interests of the foundation or of the beneficiaries, whether as a result of changes to the provisions of domestic or foreign legislation or for other reasons, the board of foundation may undertake the following measures while always taking into account effectiveness and economic efficiency:

- moving the registered office of the foundation abroad
- transferring the assets of the foundation to a different or new legal structure
- distributing the assets of the foundation to the beneficiaries or, if unavailable, to domestic and foreign charitable institutions

Resolutions of the board of foundation relating to this paragraph must be unanimous and require the consent of the protector.

Art. 13

Court of arbitration

Any disputes arising out of the legal circumstances occasioned by the foundation, its regulations, and its guidelines shall be settled (excluding regular courts) before a court of arbitration comprising three persons and based in Vaduz.

The party appealing to the court of arbitration shall submit its request in writing, giving reasons, and propose an arbitrator. The request for the court of arbitration to be convened must be communicated to the defendant by registered letter, calling upon that party to appoint its own arbitrator within thirty days.

The arbitrators appointed by the disputants shall then jointly appoint a chairman of the court of arbitration within thirty further days. If the appointment is not made within that period the chairman shall by request be appointed by the District Court (Landgericht) of the Principality of Liechtenstein.

The court of arbitration shall after submission of the parties' written statements conduct settlement negotiations. If no settlement is possible, the court of arbitration institutes arbitration proceedings applying the provisions of Liechtenstein's Code of Civil Procedure (Zivilprozessordnung or ZPO) analogously.

The court of arbitration shall, if possible, reach a decision in writing not later than one year after being constituted. The decision of the court of arbitration is final, and the question of costs is determined by the court of arbitration applying the provisions of Liechtenstein's Code of Civil Procedure analogously.

Vaduz,

In witness whereof,
we have executed these statutes as founder:

By-Laws (Extract)

The founder of the

Fantasy Foundation, Vaduz

herewith establishes the following by-laws according to article 4, paragraph 2 of the statutes dated 30. August 2007:

I.

The foundation board may at its own discretion appoint as first beneficiary

John Sample
10 Sample Street, Sample City
born on 26.04.1950

with respect to all assets and revenues as well as any liquidation proceeds.

II.

After the death of John Sample, the foundation board may at its own discretion appoint as beneficiaries

1. The spouse of John Sample, namely

Judith Sample
10 Sample Street, Sample City
born on 14.09.1955

who may benefit as to 50 percent and

2. the joint children of the said John and Judith Sample, presently:

- a) Jan, born on 05.08.1982
- b) Christine, born on 22.11.1984

who may in equal parts benefit as to the remaining 50 percent.

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