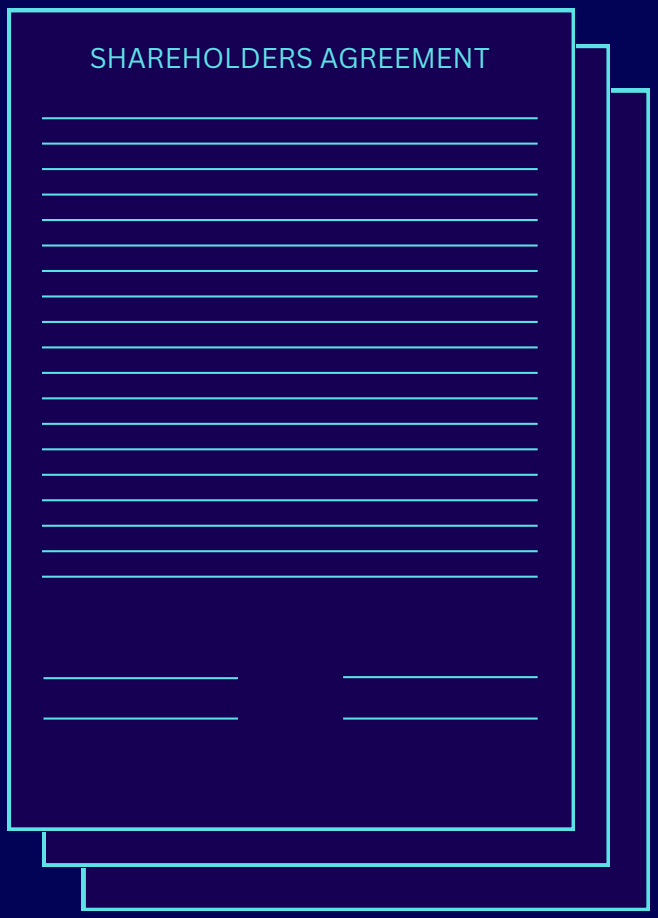
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DIFC Shareholder Disputes

BY SARAH MALIK AND SEBINA NOREEN MALIK









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INTRODUCTION

The Dubai International Financial Centre (DIFC), located in Dubai, UAE, is a financial free zone with its own legal and regulatory framework. The DIFC legal system is based on common law principles in the DIFC Courts, which hear civil and commercial disputes within their jurisdiction. Companies incorporated in the DIFC are governed by the DIFC Companies Law, DIFC Law No. 5 of 2018 ('**DIFC Companies Law**') as amended, and the DIFC Companies Regulations for matters relating to shareholders and directors.

ROLE OF SHAREHOLDERS AND DIRECTORS

A shareholder owns shares in a company and a director is responsible for managing or overseeing the company affairs. An individual may hold both positions, however, being a shareholder does not automatically mean that they are subject to the same legal duties as a director under the DIFC Companies Law.

Under the DIFC Companies Law, directors have specific legal duties when managing a company, including promoting the success of the company, acting in the company's best interests, exercising reasonable care and skill, and avoiding conflicts with their personal interests and those of the company.

Shareholder disputes involving DIFC incorporated companies may arise from matters such as, differences in business objectives or expectations, disagreements over management decisions, financial matters, shareholder rights, breaches of shareholder agreements, access to financial information, or the ownership and transfer of shares.

Disputes may occur from the conduct of directors who are also shareholders, for example, a majority shareholder who is also a director may be using company funds for personal expenses, entering into transactions that benefit themselves or a family member, or failing to disclose a personal interest in a business transaction. Depending on the circumstances, such conduct may be considered a breach of the director's legal duties under the DIFC Companies Law.

When shareholders understand their rights and responsibilities, they are better placed to avoid disagreements and disputes. A clearly drafted shareholder agreement helps to define the roles of shareholders, states how business decisions are made and the procedures to be followed when disagreements arise. Shareholders exercise their rights through voting on matters requiring shareholder approval, while directors are responsible for decisions falling within their management authority.

A company's Articles of Association help determine how these powers are divided and whether particular decisions require shareholder consent. Shareholders may disagree with a decision to enter into a major commercial contract, however, a shareholder disagreeing with the decision does not necessarily mean that the directors acted improperly. It is important to establish whether the directors had authority to make the decision and whether they complied with their duties.



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The appointment and removal of directors can also raise disagreements. In smaller companies, shareholders may expect to participate directly in management or nominate individuals to the board. Whether such expectations are enforceable depends on the company's governing documents, any relevant contractual arrangements and the applicable DIFC Companies Law. Disputes may also arise where a director has access to confidential company information that is not available to shareholders in the same capacity. The right to receive information must be considered separately from a director's responsibilities in handling company records and confidential business matters.

Where disagreements arise concerning management decisions, shareholders should first check the company's Articles of Association, shareholder resolutions and any agreements governing board appointments or decision making authority.

SHAREHOLDERS

A majority shareholder usually holds more than 50% of the voting rights in a company, giving them significant influence over decisions such as the appointment of directors and other matters requiring shareholder approval. However, certain decisions under DIFC law require a higher level of approval, and the extent of a shareholder's control will also depend on the company's Articles of Association and the voting rights attached to their shares. Disputes may arise where minority shareholders believe that decisions concerning dividend payments, changes to the company's structure or other important business matters are being made without proper regard to their rights or interests.

Minority shareholder disputes can include being denied access to company information to which they are entitled, the issue of new shares that reduce their percentage of ownership, disagreements over dividend payments, exclusion from management roles previously agreed on, or transactions that benefit majority shareholders or persons connected to them. That does not mean that every decision made by a majority shareholder, which a minority shareholder disagrees with is a breach of the law.

Under the DIFC Companies Law, the rights and protections available to minority shareholders depend on the circumstances, the company's Articles of Association, any shareholder agreement and the rights attached to their shares. Where a dispute arises, it is important to establish whether the majority shareholders have acted within their legal rights. Minority shareholders may have limited influence over the company's decisions, but this does not mean that their legal rights can be disregarded. The DIFC Companies Law provides provisions through which shareholders may challenge certain conduct, depending on the circumstances and the legal requirements related to the claim.

Disagreements may also arise where minority shareholders believe that company procedures have not been properly followed and may question whether a meeting was correctly convened, whether the required notice was given or whether a resolution was passed in accordance with the company's Articles of Association and the applicable law.



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The rights attached to different classes of shares are another important consideration. Not all shares necessarily carry identical voting, dividend or other rights. Before challenging a decision, a shareholder should establish the rights attached to their particular shares and whether those rights have been affected.

Minority shareholders should also maintain copies of their shareholder agreements, relevant correspondence, meeting notices and financial documents they are entitled to receive. These records may help establish the circumstances of a disagreement and provide important evidence if the matter develops into a formal dispute and a breach of the DIFC Companies Law or the company's governing documents, giving rise to a potential legal remedy.

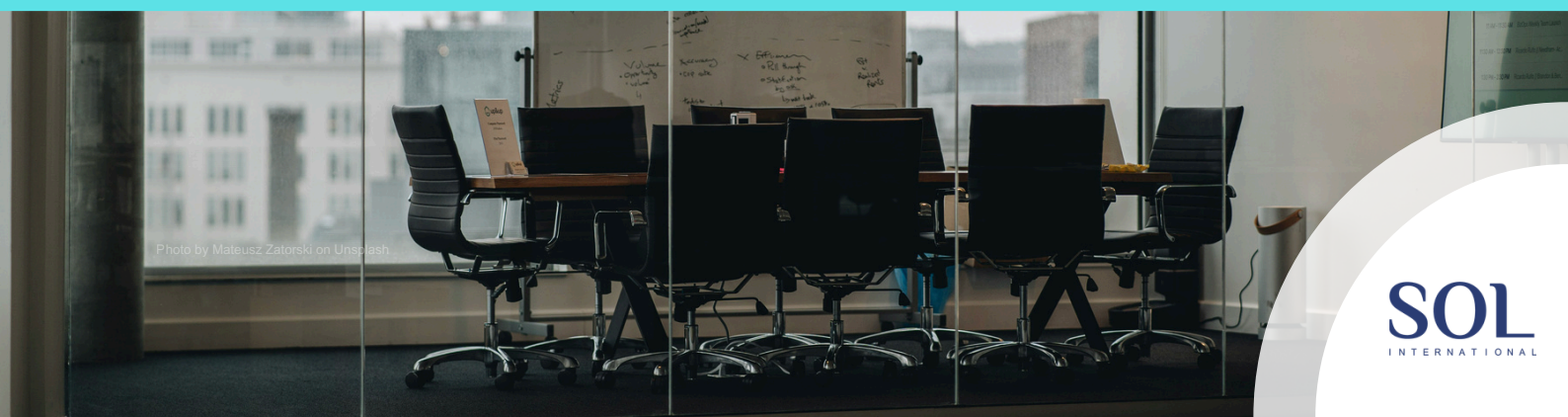
DEADLOCK

A clearly drafted shareholder agreement reduces uncertainty in companies owned by a small number of shareholders. However, the existence of an agreement does not guarantee that disputes will be avoided, especially where shareholders hold equal voting rights or where certain important business decisions require the unanimous consent of all the shareholders. If the shareholders cannot agree, this may result in a deadlock, preventing the company from making important decisions or carrying out its business effectively.

A shareholder agreement should clearly identify which decisions require shareholder approval, the number of votes needed to approve those decisions and the steps to be taken if an agreement cannot be reached. It is equally important that the procedures for resolving a deadlock are clear. For example, requiring shareholders to hold repeated meetings may not resolve a dispute where their business relationship has broken down and neither party is willing to compromise. Depending on the circumstances, a shareholder agreement may provide for negotiation, mediation, asking an independent expert to decide on specific issues, or arrangements allowing one shareholder to purchase the shares of another. Where a shareholder agreement includes provisions requiring shares to be sold or purchased, it should clearly explain how the shares will be valued, when payment must be made and how the purchase will be funded.

Shareholders should consider what happens when one of them is unable or unwilling to participate in important decisions due to a prolonged absence, serious illness or breakdown in communication. Depending on the company’s voting arrangements, it may make it difficult to obtain the necessary approvals required. The shareholder agreement should set out procedures for dealing with situations, which must remain consistent with the company's Articles of Association and applicable DIFC law.

Another important consideration is the difference between decisions concerning the company's day to day business activities and decisions that could significantly affect shareholder investments. It may not be necessary to obtain unanimous approval for every management decision which may unnecessarily restrict the company's ability to operate.



It is also important to consider how the company will continue operating while a deadlock remains unresolved. A shareholder agreement may address temporary arrangements for essential expenditure, existing contractual commitments and other matters necessary for business continuity. Such provisions can reduce uncertainty while the shareholders work towards a resolution.

LITIGATION, ARBITRATION AND THE CHOICE OF FORUM

Shareholder disputes involving DIFC incorporated companies may be resolved through negotiation, mediation, arbitration or court proceedings, depending on the circumstances and any agreements between the parties. Before commencing legal proceedings, it is important to establish which court or arbitration tribunal can hear the dispute.

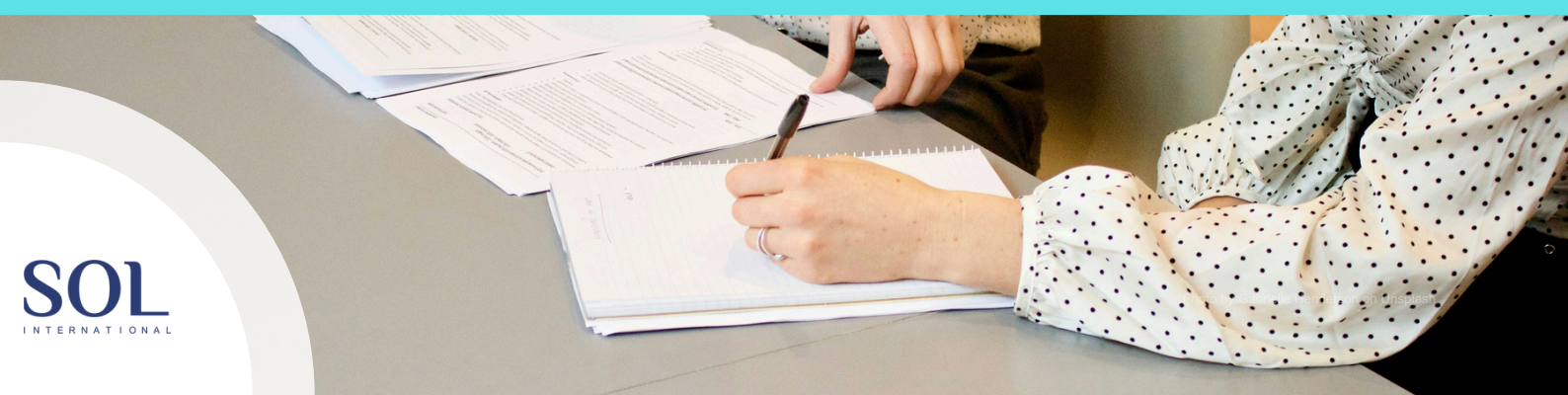
The DIFC Courts have jurisdiction over certain civil and commercial disputes under the applicable legislation. However, not every dispute involving a DIFC company will necessarily be heard by the DIFC Courts. The nature of the dispute, the parties involved and any agreement concerning where disputes should be resolved must be considered.

Arbitration may be an alternative to court proceedings where the parties have entered into a valid arbitration agreement. It allows disputes to be determined by an independent arbitrator or tribunal and may be particularly useful where confidentiality or specialist expertise is important. However, arbitration is not always quicker or less expensive than litigation. The costs, procedures and time required will depend on the complexity of the dispute and the circumstances of the case.

Some shareholder disputes may involve challenges to company decisions, shareholder rights or matters affecting individuals or companies who did not agree to arbitration. It is important to consider whether arbitration is suitable and whether the arbitrator has the power to make the order being requested. The shareholder agreement should clearly explain how disputes are to be resolved, while taking account of the rights and remedies available under DIFC Law. Before choosing how to resolve a dispute, shareholders should consider whether the disagreement concerns the interpretation of contractual clauses, the exercise of shareholder rights or the conduct of the company's affairs.

The wording of the dispute resolution clause is also important. If the clause does not clearly identify the agreed method of resolving disputes, it may create uncertainty and lead to further disagreements about where proceedings should take place. Shareholders should therefore ensure that the relevant provisions are clear and consistent with the company's other governing documents.

Shareholder disputes may also involve several parties, including the company, individual shareholders and directors. Where different agreements contain different dispute resolution clauses, difficulties may arise in determining whether related disputes can be heard together to reduce separate proceedings concerning the same issues.



RECENT DEVELOPMENTS IN DIFC DISPUTE RESOLUTION

Dubai Law No. 2 of 2025 introduces changes to the legal framework governing the DIFC Courts. These developments are relevant to shareholder disputes because they concern how certain disputes may be heard and how parties may seek protection while proceedings are ongoing.

A shareholder may be concerned that company assets will be transferred or important financial records will be destroyed before a dispute is resolved. Depending on the circumstances, the shareholder may be able to ask the court for a temporary order/ interim relief, to protect the assets or evidence.

Such orders are not granted automatically. The court must have the authority to hear the application, and the person seeking the order must meet the relevant legal requirements. Shareholders should therefore consider whether urgent action is needed before the dispute causes further harm.

The DIFC Courts Mediation Service Centre was established under Resolution No. 2 of 2025. It provides a process in which a registered mediator assists the parties in discussing their differences to help them reach an agreement. Mediation may be useful where shareholders intend to continue their business relationship without ending their investment in the company.

The DIFC Courts Mediation Service Centre also provides for electronic mediation sessions, allowing parties to participate remotely. This may be helpful where shareholders are based in different countries or where arranging meetings in person would cause unnecessary delays or expense. Where the parties reach an agreement, it is important to record the settlement clearly, including the obligations of each party and the time allowed for compliance.

REMEDIES

When resolving a shareholder dispute, having clear and reliable evidence is just as important as understanding the legal rights of the parties involved. Company records, including board meeting minutes, shareholder resolutions, financial statements, emails, transaction documents and shareholder registers, can help establish what was agreed between the parties, what decisions were made and whether the correct procedures were followed. Where a shareholder wishes to leave the company or sell their shares, disagreements may arise over how much those shares are worth.

The shareholder agreement should clearly explain how the shares will be valued, the date used to value the shares, and the valuation will take account of the shareholder's minority interest. Without clear provisions, shareholders may find themselves in further disputes over the value of their shares, even after agreeing that one shareholder should leave the company. It is also important to understand that the legal remedies available will depend on the nature of the dispute and the rights that have been breached.



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Depending on the circumstances, shareholders may be able to seek compensation, enforcement of contractual obligations, a court ruling or interim orders to protect company assets or other relevant interests. Before taking legal action, shareholders should establish who has suffered the loss. In some cases, an individual shareholder may have suffered a direct loss. In others, the company itself may have suffered financial damage. This distinction is important because it can determine who has the right to bring a claim.

If company funds have been misused, the company may be the party that suffered the financial loss. A shareholder cannot necessarily bring a separate personal claim simply because the value of their shares has fallen. The appropriate legal action will depend on the circumstances and the applicable DIFC law.

Shareholders should also consider whether the dispute can be resolved without requiring one party to leave the company. Depending on the circumstances, a practical resolution may involve correcting company records, clarifying voting arrangements, improving financial reporting or agreeing changes to the way important decisions are approved.

Where a dispute concerns a proposed share transfer, shareholders should examine whether the company's Articles of Association or shareholder agreement will limit when and how shares can be transferred. These may include requirements to offer shares to existing shareholders before transferring them to another person. The validity and operation of any restriction must be assessed under the applicable legal framework.

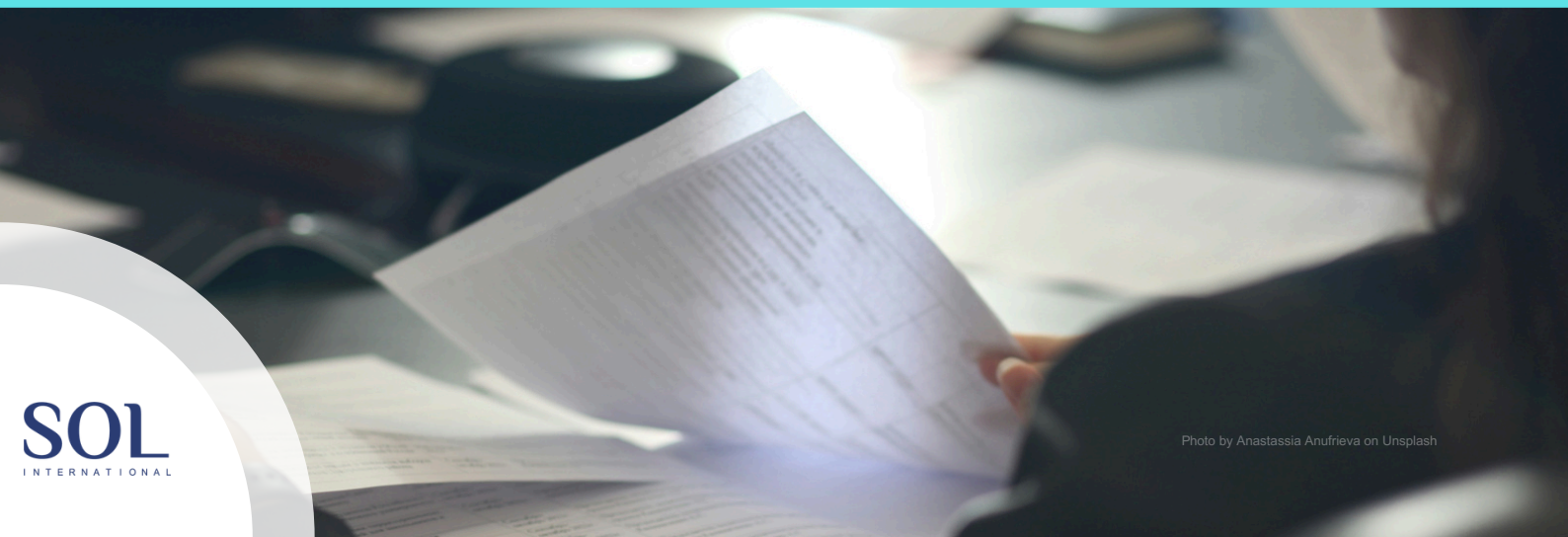


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Sebina is a UK qualified solicitor with experience in litigation, dispute resolution, and commercial advisory matters across the UK and UAE. Sebina also has a particular interest in sports law, including athlete image rights, sponsorship arrangements, governance matters, and international commercial structures within the sports industry.

In her recent publication with Sarah Malik, Athlete Image Rights and Cross-Border Challenges in the UK and UAE, she touched on the legal and commercial complexities relating to the protection of athlete image rights. The publication explores issues of law, business, and sport, highlighting some of the challenges faced by stakeholders operating across different jurisdictions.