

## Companies' Law

Royal Decree No. (M/6) Dated 22/3/1385H (corresponding to 22/7/1965AD)

WITH THE HELP OF ALMIGHTY ALLAH,

WE, FAISL IBN ABDULAZIZ AL-SAUD, KING OF THE KINGDOM OF SAUDI ARABIA,

After reviewing the Council of Ministers Resolution No. (185) dated 17/3/1385H (Corresponding to 17/7/1965AD),

And after reviewing the Article 19 of the Law of the Council of Ministers of Saudi Arabia, issued by the Royal Decree No.

(38) dated 22 Shawwal 1377H (corresponding to 12/5/1958AD),

HEREBY DECREE THE FOLLOWING:

First: The approval of the Law of Companies with the attached form Second: His Excellency Deputy Prime Minister and Minister of Commerce and Industry shall bring this Decree into force.

Royal Signature

## Law of Companies

### Part 1

#### General Provisions

##### Article (1):

A company is defined as a contract under which two or more persons undertake to participate in an enterprise for profit, by contributing a share in the form of money or work, with a view to dividing any profits (realized) or losses (incurred) as a result of such enterprise.

##### Article (2):

The provisions of this Law, as well as such conditions laid down by the partners and such customary rules that are consistent with this Law, shall apply to the following companies:

A. 1) General partnership; 2) Limited partnership; 3) Joint venture; 4) Joint-stock corporation; 5) Partnership limited by shares; 6) Limited liability partnership; 7) company with variable capital; and 8) Cooperative company.

Without prejudice to such companies known in Islamic jurisprudence, any company that does not assume one of the mentioned forms shall be (considered) null and void, and the persons who have made contracts in its name shall be personally and jointly liable for the obligations arising from such a contract.

The Council of Ministers may, by a decision, amend the minimum and maximum limits of the capital of companies provided for in this Law.

The provisions of this Law shall not be applied to companies incorporated in whole or in part by the Government or by any other public legal person, provided that a

Royal Decree shall be issued authorizing its incorporation and containing the provisions which the company shall be subject to.

Article (3):

A partner's contribution may consist of a certain sum of money (a contribution in cash), or of a capital asset (a contribution in kind). The contribution may also comprise works except in the cases where the provisions of this Law imply otherwise, but it may not consist of the partner's reputation or influence.

Only contributions in cash and in kind shall form the company's capital. Such capital should not be modified only in accordance with the provisions of this Law and conditions, set forth in the company's contract or law, that are consistent with this Law.

Article (4):

If a partner's contribution consists of a right of ownership or of usufruct, or any other rights of funds, the partner shall, in accordance with the provisions of the sale contract, be liable for the guarantee of the contribution in case of loss, claim for recovery or the discovery of any defect or shortage therein.

If a partner's contribution was merely paid as a usufruct of money, the provisions of a lease contract shall apply to the abovementioned matters, and if his contribution consists of claims against third parties, he shall be exonerated from liability to the company only after such claims have been collected by the latter.

If a partner's contribution consists of works, any earnings resulting from such works shall accrue to the company. Nevertheless, such a partner shall be under no obligation to submit to the company any patent rights that he may have obtained on any invention, unless it was so agreed.

Article (5):

Every partner shall be considered indebted to the company for the contribution he has undertaken to make. If he fails to surrender it on the date set therefore, he shall be liable to the company for any damages arising from such delay.

Article (6):

A personal creditor of any partner may not receive his rights out of his debtor's share in the company's capital; but he may do so out of the debtor's share in the profits in accordance with the company's balance sheet. Upon liquidation of the company, however the creditor's right shall be transferred to his debtor's share in the company's assets after payment of its debts.

If a partner's share is represented by shares of stock, his personal creditor may, in addition to the rights mentioned in the preceding paragraph, request that such shares be sold so that he may collect his funds out of the proceeds of their sale. This provision, however, shall not apply to the shares of cooperative companies.

Article (7):

All partners shall share the profits and losses. Hence, if it is agreed to deprive any partner of profits, or to exempt him from losses, such condition shall be null and void, and the provisions of Article 9 shall be applied in this case.

However, a partner who contributes only his works may, by agreement, be exempted from sharing losses, provided that no remuneration shall have been allotted to him for his work.

Article (8):

Without prejudice to the provisions of Articles 106 and 205, shares may be distributed to the partners only out of net profits. If fictitious profits are distributed to the partners, the company's creditors may request each partner, even though he may have acted bona fide, to refund such fictitious profits. A partner shall not be obligated to refund the true profits he has received, even if the company incurs losses in subsequent years.

Article (9):

If a company's contract hasn't specified a partner's share in the profits or losses, such share shall be in proportion to his share in the capital.

If the contract only specifies a partner's share in the profits, his share in the losses shall be equal thereto. The same rule shall apply if the contract only specifies a partner's share in the losses.

If a partner's contribution is limited to his works and the contract has not specified his share in the profits or losses, such partner shall have the right to request that his works be evaluated and such evaluation shall be the basis for determining his share in the profits or losses in accordance with the above general rules. If there are more than one partner rendering works and their individual shares are not evaluated, such shares shall be considered equal unless proven otherwise. But if a partner has contributed, in addition to his work, a contribution in cash or in kind, he shall have a share in the profits or losses for his work contribution and another share for his contribution in cash or in kind.

Article (10):

With the exception of a joint venture, a company's contract shall be recorded in writing before a notary public. Otherwise, such contract shall be null and void in

relation to third parties. This article was amended by the Royal Decree No. M/22 dated 30/7/1412H (corresponding to 4/2/1992AD).

The partners may not invoke the invalidity of the contract, or any amendment thereto that was not recorded in the above manner, against third parties, but the latter may invoke it against the partners.

The directors or the members of the board of directors shall be jointly responsible for damages sustained by the company, the partners, or third parties, as a result of failure to record the contract or any amendment thereto.

#### Article (11):

With the exception of a joint venture, the directors or the members of the board of directors must fame the company` s contract and any amendments thereto in accordance with the provisions of this Law.

If the contract is not famed in the aforementioned manner, it shall be null and void in relation to third parties.

But, if the failure to fame is limited to one or more of the statements which must be famed, only such statements shall be invalid in relation to third parties.

The company`s directors or the members of the board of directors shall be jointly responsible for damages sustained by the company, the partners, or third parties as a result of such non-faming.

#### Article (12):

All contracts, receipts, notices, and other documents issued by the company must bear its name and state its kind and the location of its head office.

In addition to these statements, the amount of the company's capital as well as the paid amount must be stated in such documents with the exception of general and limited partnerships.

Furthermore, upon termination of the company, there must be stated in such documents that the company is under liquidation.

#### Article (13):

With the exception of joint ventures, a company shall, as from the date of its incorporation, be considered a legal person. Such personality, however, may be invoked in relation to third parties only after completion of the publication and naming procedures.

#### Article (14):

With the exception of joint ventures, any company incorporated in accordance with this Law shall establish its head office in the Kingdom. It shall be deemed to have Saudi nationality, but this shall not necessarily entail its enjoyment of such rights limited to Saudis.

#### Article (15):

With due regard to the causes of termination related to each kind of companies, a company shall be terminated for any of the following reasons.

1. Expiration of the term fixed for the company.
2. Realization of the object for which the company was established, or the impossibility of realizing such object.
3. Transfer of all shares or stocks to one partner.

4. Loss of all the company's funds, or the major part thereof, so the remainder cannot be effectively utilized.

5. Agreement of the partners to terminate the company before the expiry of its term, unless the contract stipulates otherwise.

6. Merger of the company into another.

7. Issuance of a decision by the Commission for the Settlement of Commercial Companies' Disputes to terminate the company upon the request of one of the parties concerned and for serious reasons that justify such a step.

The company shall be liquidated upon the expiry of its term in accordance with the provisions set forth in Part 11 of this Law to the extent that they are not inconsistent with the company's contract or bylaw.

## Part 2

### General Partnership

#### Article (16):

A general partnership is an enterprise of two or more partners who assume joint liability, in all their entire funds, for the partnership's debts.

#### Article (17):

The general partnership's name shall consist of the name of one or more of the partners, combined with an indication that a partnership exists. The name of the partnership shall be conformable to the real name, and if it includes a name of a foreigner with the latter's due knowledge of such matter, he shall be jointly liable for the partnership's debts.



The partnership may, however, retain the name of a retired or deceased partner as its name, provided that such retired partner or the heirs of such deceased partner agree.

Article (18):

The partners' shares in the partnership may not be negotiable instruments.

A partner may waive his share only upon the consent of all the partners or in accordance with the conditions set forth in the contract. In this case, the assignment shall be published in the way set forth in (Article 21).

Any agreement, stipulating the unrestricted assignment of shares, shall be considered null and void. Nevertheless, a partner may assign to a third party the rights related to his share, but the effect of such assignment shall be restricted to the parties thereto.

Article (19):

A partner who joins the partnership shall be liable, jointly with the other partners in all his entire funds, for the partnership's debts incurred before and after the date of his joining the partnership. Any agreement between the partners, that contradict the aforementioned procedure, shall be of no effect in respect of third parties.

If a partner withdraws from the partnership, he shall not be liable for such debts due by the partnership after the month of his withdrawal. However, if a partner assigns his share, he shall be exonerated from liability for the partnership's debts only unless creditors consent such assignment.

Article (20):

A partner may not be required to pay a debt of the partnership out of his own money unless the partnership's debt has been verified either by virtue of an acknowledgment by officials in charge of its management or by a decision of the Commission for the Settlement of Commercial Companies' Disputes, and after the partnership has been duly called upon to pay the debt.

Article (21):

The directors of the partnership must, within thirty days of its formation, publish a summary of its contract in a daily newspaper distributed in its head office, and must apply for the registration of the partnership in the Companies' Register at the Companies General Department in the appropriate time. In addition, they must register the partnership in the Commercial Register in accordance with the provisions of the Law of Commercial Registration. Any amendment to the particulars set forth in the above mentioned summary shall be published in the preceding manner.

Article (22):

A summary of the partnership's contract shall specifically contain the following particulars:

1. The partnership's name, activities, head office, and branches if any.
2. The partners' names, place of residence, occupations, and nationalities.
3. The amount of the partnership's capital with sufficient details concerning the contribution each partner has undertaken to make and the date on which it becomes payable.
4. The names of directors and the persons authorized to sign for the partnership.

5. The date of formation of the partnership and its term.
6. The beginning and end of the partnership's fiscal year.

Article (23):

A partner may not, without the consent of the other partners, engage for his own account or for the account of third parties in a business of the same type as that carried on by the partnership. Besides, he may not be a partner in a rival partnership if the latter is a general, limited, or limited liability partnership.

If any partner violates this obligation, the partnership may either claim compensation from him, or consider the operations conducted for his account as having been conducted for the partnership's account.

Article (24):

A partner who is not a director may not interfere in the management of the partnership.

However, a partner may personally follow up the partnership's business at its head office, examine its books and documents, extract a summary statement on the financial standing of the partnership, and extend advice to its manager. Any agreement, that contradicts such provisions, shall be null and void.

Article (25):

Resolutions shall be adopted by a numerical majority of the partners' votes unless, the partnership's contract mentions otherwise.

Nevertheless, resolutions concerning the amendment of the partnership's contract shall be valid only if adopted by unanimous vote.

Article (26):

Profits and losses and the share of every partner therein shall be determined at the end of the partnership's fiscal year on the basis of the balance sheet and the profit and loss statement.

Every partner shall be considered a creditor of the partnership for his share in the profits as soon as such share is determined. Any reduction in the partnership's capital as a result of losses shall be made up out of the profits of subsequent years, but a partner shall not be bound to make up any reduction of his share in the capital due to such losses unless he agrees to do so.

Article (27):

The partners may appoint, in the partnership's contract or in a separate contract, one director or more for the partnership from among themselves or from third parties. If management is entrusted to several persons, but the powers of each of them are not specified and none of them is entrusted to assume the responsibility of management alone, each director may individually perform any of the act of management, provided that the remaining directors shall have the right to object to such act before it is enforced, in this case, the opinion of the majority of directors shall prevail. In case of a tie, the matter must be submitted to the partners.

However, if it is provided that the resolutions of directors are adopted by unanimous or majority vote, such provision may not be violated except for an urgent matter whose postponement will entail substantial loss for the partnership.

Article (28):

If the partners fail to specify the manner in which the partnership shall be managed, each individual partner shall have the right to manage the partnership alone,

provided that all or any of the partners shall be entitled to object to any act before it is enforced. The majority of partners shall have the right to reject such objection.

Article (29):

The director may perform all such regular acts of management that are implied within the activity of the partnership, unless the partnership's contract restricts his authority in this respect.

The director may make compromises on the partnership's rights or request arbitration, if this is in the interest of the partnership.

The partnership shall be bound by any act performed by the director in its name within the limits of his authority, even if the director uses the partnership's signature for his own account, except if the other party in the contract is acting mala fide.

Article (30):

The director shall not undertake any acts beyond the scope of the regular acts of management, except with the consent of the partners or by virtue of an explicit provision in the contract.

This prohibition shall specifically apply to the following acts:

1. Making donations, except for small and regular denotations.
2. Selling the partnership's real estate unless such sale falls within the scope of the purpose of the partnership.
3. Mortgaging the partnership's real estate, even if partnership's contract authorizes him to sell real estate.
4. Selling or mortgaging the partnership's place of business.

Article (31):

A director may not sign an agreement for his own account with the partnership, except with a special permission from the partners to be granted for each case separately. In addition, the director may not perform any business of the same type as that carried on by the partnership, except with the consent of all the partners.

Article (32):

The director shall be responsible for damages sustained by the partnership, or the partners, or third parties as a result of his violation of the provisions of the partnership's contract, or of any wrongful acts committed by him in the course of performing his work. Any agreement, that contradicts the above mentioned provisions, shall be null and void.

Article (33):

If the director is an appointed partner in the partnership's contract, he may not be removed from his position only by a decision issued by the Commission for the Settlement of Commercial Companies' Disputes at the request of a majority of the partners, provided that a legal justification is provided. Any agreement, that contradicts the above mentioned provision, shall be considered nonexistent.

The removal of the director in the above case shall entail the termination of the partnership, unless the partnership's contract mentions otherwise.

If the director is an appointed partner in a separate contract or if he is a non partner appointed either in the partnership's contract or in a separate contract, he may be removed by a decision of the partners, but his removal shall not entail the termination of the partnership.

Any director, receiving remuneration for his work and being removed from his position at an improper time or without legal justification, may claim compensation from the partnership for damages sustained by him.

Article (34):

If the director is an appointed partner in the partnership's contract, he may not resign from management, except for acceptable cause; otherwise, he shall be responsible for damages. Such resignation shall entail the termination of the partnership, unless the partnership's contract mentions otherwise.

If the director, whether a partner or a non partner, is appointed in a separate contract, he may resign from management only at a proper time and after notifying the partners of such decision; otherwise, he shall be responsible for damages. Such resignation, however, shall not entail the termination of the partnership.

Article (35):

A general partnership shall be ended by the death, quarantine, declaration of bankruptcy or insolvency of one of the partners, or by the withdrawal of any partner from the partnership, if its term is not specified. Nevertheless, the partnership's contract may provide that, if any partner dies, the partnership shall continue to exist with his heirs even though they are minors.

The partnership's contract may also provide that, upon the death, quarantine, declaration of bankruptcy, insolvency, or withdrawal of any partner, the partnership shall continue to exist among the surviving partners. In this case, such partner or his heirs shall have only his share in the partnership's assets. Such share shall be determined in accordance with the last inventory made, unless the partnership's contract mentions another method for determining such share. The

partner or his heirs shall not have a share in any subsequent rights, except that such rights may have resulted from previous transactions.

### Part 3

#### Limited partnership

##### Article (36):

A limited partnership consists of two teams of partners, one including at least one joint partner who shall be responsible in his entire funds for the partnership's debts, and the other including at least one dormant partner who shall be responsible for the partnership's debts to the extent of his share in the capital.

##### Article (37):

With due regard to the provisions of paragraphs 2 and 3 of Article 17, the name of a limited partnership shall consist of the name of one or more of the joint partners, combined with an indication that a partnership exists; but it may not include the name of any dormant partner. If it includes the name of any dormant partner with the latter's due knowledge of such matter, he shall be considered a joint partner as regards third parties.

##### Article (38):

A dormant partner may not interfere in the external acts of management not even on basis of a power of attorney. He may, however, participate in the internal acts of management within the limits prescribed by the partnership's contract. Such participation shall not entail any liability on his part.



If a dormant partner violates the above restriction, he shall be jointly liable, in his entire funds, for all the debts arising from such acts of management which he has performed. Moreover, if the acts performed by the dormant partner give third parties the impression that he is a joint partner; he shall be liable, in his entire fortune, for all the partnership's debts.

Article (39):

With due regard to the preceding provisions, if a limited partnership includes several joint partners, it shall be considered a general partnership as among these partners:

In addition, the following provisions governing general partnerships shall apply to a limited partnership:

1. The provisions relating to the type of share of each partner and its waiving, as set forth in Article (18).
2. The provisions relating to publication or faming set forth in Articles (21) and (22). However, the summary of the contract of a limited partnership needs not to include the names of the dormant partners, but must contain an adequate description of the shares which they have undertaken to make and their value.
3. The provisions governing the partners' relations set forth in Articles 23, 24, 25, and 26.
4. The provisions related to the management of the partnership set forth in Articles 27 through 34.
5. The provisions relating to the reasons for termination set forth in Article 35.

## Part 4

### Joint Venture

#### Article (40):

A joint venture is an association of which third parties are not aware of and which neither enjoys a legal personality nor subjects to the publication or fanning procedures.

#### Article (41):

A joint venture may not issue negotiable instruments.

#### Article (42):

Every partner shall continue to be the owner of the contribution which he has undertaken to make, unless the joint venture's contract stipulates otherwise.

If the contribution is a specific capital asset and the partner who holds it is declared bankrupt, the owner of such asset shall be entitled to recover it from bankruptcy after payment of his share of the losses of the joint venture.

But, if the contribution is in the form of cash or of tangible assets that are not set apart, the owner's sole remedy shall be to participate in the bankruptcy as a creditor for the value of such contribution, less his share in the losses of the joint venture.

#### Article (43):

The contract of a joint venture shall specify its object, the rights and liabilities of the partners, and the manner of the division of profits and losses among them.

Article (44):

No new partner shall have the right to participate in the same operations of the venture except with the consent of all the partners unless the contract of the joint venture provides otherwise.

Article (45):

The existence of a joint venture may be established by any means, including evidence.

Article (46):

A third party shall have recourse only against the partner with whom he has dealt. But if the partners have performed an action as to disclose the existence of a joint venture to a third party, such venture shall be considered a factual general partnership in regard to such third party.

Article (47):

The provisions of Articles 23 through 26 and the provisions of Article 35 shall apply to a joint venture.

Part 5

Joint-Stock Corporation

Chapter 1

General Provisions

Article (48):

The capital of a joint-stock corporation shall be divided into negotiable shares of equal value. The members thereof shall be responsible only to the extent of the

value of their shares, and their number shall not be less than five.

Article (49):

The capital of a joint-stock corporation that offers its stocks for public subscription shall not be less than SR 10 million. In all other cases, the capital of a joint-stock corporation shall not be less than SR 2 million.

The paid-in capital upon the incorporation shall not be less than one half of the prescribed minimum, with due regard to the provision of Article 58. The value of each share shall not be less than SR 50.

Article (50):

The name of a joint-stock corporation may not include the name of a natural person, unless the company's purpose is utilization of a patent registered in the name of such person, or unless the company owns a commercial firm and adopts the name of the latter as its own name.

Article (51):

The Minister of Commerce shall issue a decision in a form for joint-stock corporation bylaws. Such form may not be violated except for reasons satisfactory to the said minister.

## Chapter 2

### Incorporation and Publication of a Joint-Stock Corporation

Article (52):

The following joint-stock corporations may be incorporated only by virtue of an authorization issued upon a royal decree based on the approval of the Council of Ministers and the recommendation of the Minister of Commerce, with due regard to the provisions of the Regulations:

- a) Chartered corporations.
- b) Corporations managing a public utility.

- c) Corporations receiving subsidy from the government.
- d) Corporations in which the government or any other public legal person participates, except for General Organization for Social Insurance and Pension Fund.
- e) Corporations practicing banking activities.

Other corporations may be incorporated only by an authorization to be issued by the Minister of Commerce and published in the Official Gazette. The Minister of Commerce shall issue the said authorization only after reviewing a study proving the economic feasibility of the company's objectives, unless the company has submitted such study to another competent government agency that has authorized the establishment of the enterprise.

The application for such authorization shall be signed by at least five partners of the corporation and submitted in the manner to be prescribed by a decision of the Minister of Commerce.

The application shall state the manner of subscription in the corporation's capital, the number of shares reserved by the founders to themselves and the amount subscribed by each founder. The applicant should attach thereto a copy of the corporation's contract and bylaws both signed by the partners and other founders. The said application shall be recorded in the register kept for that purpose by the Companies General Department.

The said General Department may request that modifications be made to the corporation's bylaws so as to be consistent with the provisions of this Law or conformable to the standard form referred to in Article 51.

#### Article (53):

A founder of a corporation shall be any person who has signed its contract, applied for an authorization to incorporate it, offered a contribution in kind upon its incorporation, or actually participated in its incorporation.

#### Article (54):

If the founders do not limit subscription in all stocks to themselves, they must,

within 30 days of the date of publication of the Royal Decree in the official Gazette or of the Minister of Commerce's decision authorizing the incorporation, offer for public subscription the shares of stock in which they did not subscribe. The Minister of Commerce may, if necessary, authorize the extension of such period by not more than 90 days.

Article (55):

If an invitation for subscription is made to the public, subscription must be offered through the banks designated by the Minister of Commerce.

The founders shall place a sufficient number of copies of the company's bylaws at the said banks.

Any interested party may, during the period of subscription, obtain a copy thereof at a reasonable price.

The invitation for public subscription shall be set out in a prospectus, specifically containing the following particulars:

1. The founders' names, place of residence, occupations, and nationalities.
2. The name, activity, and head office of the corporation.
3. The amount of paid-in capital; the stocks' type, value, number, the amount offered for public subscription, and the amount subscribed in by the founders; and the restrictions imposed on the negotiability of stocks.
4. The particulars concerning the contributions in kind and the rights thereof.
5. The special privileges granted to the founders or others.
6. The method of distribution of profits.
7. An estimated statement of the incorporation expenses.
8. The dates set for initiating and closing the subscription and the place and terms thereof.
9. The method to be adopted for the distribution of shares to subscribers, if the number of the shares subscribed in exceeds the number offered for subscription.
10. The date of issue of the royal decree authorizing the incorporation and the number of the official Gazette in which it was published. This prospectus shall be

signed by the founders who have signed the application for authorization.

They shall be jointly responsible for the correctness of the particulars contained therein, as well as the fulfillment of all particulars referred to in the third paragraph of this Article.

The prospectus shall be published in a daily newspaper distributed in the corporation's head office at least five days prior to the date set for initiating the subscription.

Article (56):

Subscription shall be open for a period of not less than 10 days but not more than 90 days. The corporation shall not be duly incorporated unless the entire capital has been subscribed in.

If the entire capital has not been subscribed in within the mentioned period, the period of subscription may, with permission from the Minister of Commerce and Industry, be extended for a period not exceeding 90 days.

Article (57):

The subscriber or his representative shall sign a document setting forth specifically the corporation's name, activity, and capital; the conditions of subscription; the subscriber's name, address, occupation and nationality; the number of shares subscribed in by him; and a covenant to accept the company's bylaws as established by the constituent assembly.

The subscription shall be final and unconditional. Any condition laid down by the subscriber shall be considered nonexistent.

Article (58):

The paid-in amount of cash share upon subscription shall not be less than one quarter of its par value; a notation or endorsement of the amount paid from such value shall be made on each share.

The proceeds of the subscription shall be deposited in the name of the company

under incorporation in one of the banks designated by the Minister of Commerce. Such proceeds may be surrendered only to the board of directors, after publication of the incorporation in accordance with Article 63.

Article (59):

If the number of shares subscribed in exceeds the number offered for subscription, shares shall be distributed to subscribers in proportion to their individual subscriptions, with due regard to decisions of the Minister of Commerce in each case in respect of minor subscribers.

Article (60):

If contributions in kind or special privileges are established for founders or others, the Companies General Department shall, at the request of founders, appoint one or more experts to ascertain the correctness of the evaluation of contributions in kind, to appraise the justifications for granting the special privileges, and to set forth the evaluation factors thereof.

The expert shall submit a report to the Companies General Department within 30 days of the date of his assignment to perform the work. The Department may, upon the request of the expert, grant him a delay not exceeding 30 days.

The General Department shall send a copy of the report of the expert to the founders who must present it to subscribers at least 15 days prior to the holding of the constituent assembly. The said report shall also be filed at the head office and every interested party may be entitled to review it.

The said report shall be submitted to the constituent assembly for deliberation. If the assembly resolves to reduce the value fixed for the contributions in kind, or to decrease the special privileges (granted), such reduction must be approved during the meeting by the contributors in kind or by the beneficiaries of such special privileges. If they refuse to approve the reduction, the company's memorandum of association shall be considered null and void with regard to all its members.

Shares of stock representing contributions in kind shall not be delivered to their holders only after the ownership of such contributions has been fully transferred to



the company.

Article (61):

The founders shall summon subscribers to a Constituent Assembly meeting, to be held in the manner set forth in the company's bylaws, provided that the interval between the date of the summons and date of the meeting shall not be less than 15 days, and provided further that in case there are any contributions in kind or privileges, the meeting shall not be held before the lapse of at least 15 days from the date on which the report referred to in the preceding Article was filed at the company's head office. Any subscriber, regardless of the number of his shares, shall have the right to attend the Constituent Assembly meeting. The meeting shall be valid only if attended by a number of subscribers representing at least one half of the company's capital. If such majority is not obtained, a single summon shall be sent for a second meeting to be held at least 15 days after the date of the summon. Such meeting shall be valid regardless of the number of subscribers represented thereat.

Resolutions at the Constituent Assembly shall be adopted by absolute majority vote of the shares represented thereat. However, if such resolutions relate to the evaluation of contributions in kind or special privileges, they must be adopted by two thirds' majority of the subscribers for cash shares, after the exclusion of the subscriptions made by the contributors in kind or the beneficiaries of special privileges. They shall have no vote on these resolutions, even if they are holders of cash shares. The minutes of the meeting shall be signed by the chairman of the meeting, the secretary, and the teller; and the founders shall send a copy thereof to the General Department of Companies.

Article (62):

With due regard to the provisions of Article (60), the Constituent Assembly shall specifically be competent to do the following:

- 1) Ascertain that the capital has been subscribed in fully and that the minimum capital has been paid in accordance with this Law to the amount payable on the

value of each share.

- 2) Draw up the final provisions of the company's bylaws. However, the constituent assembly may not introduce fundamental alterations to the bylaws submitted to it, except with the approval of all the subscribers represented thereat.
- 3) Appoint the members of the first board of directors for a period not exceeding 5 years and the first auditor, if they have not been appointed in the memorandum of association or in the bylaws of the company.
- 4) Deliberate the founders' report on the acts and expenses necessitated by the incorporation of the company.

#### Article (63):

The founders shall, within 15 days of the date of conclusion of the constituent assembly, submit an application to the Minister of Commerce and Industry requesting him to announce the incorporation of the company. The following documents shall be attached to the said application:

- 1) A statement that the capital has been subscribed in fully, showing the amount paid by subscribers on the value of shares, the names of such subscribers, and the number of shares subscribed in by each.
- 2) The minutes of the constituent assembly.
- 3) The bylaws of the company as approved by the constituent assembly.
- 4) The resolutions adopted by the constituent assembly in respect of the founders' report, the evaluation of the contributions in kind and the special privileges, and the appointment of the members of the board of directors and the auditor, if such appointment was not made in the memorandum of association or bylaws of the company.

#### Article (64):

The company shall be considered duly incorporated from the issuance date of the Minister's Decree announcing its incorporation. Afterwards, any action to invalidate the company for any violation of the provisions of this Law or its memorandum of association or bylaws shall be barred.

As a consequence of the decision announcing the incorporation of the company, liability for all the acts performed by the founders for the account of the company shall transfer to the latter and the company shall bear all the expenses incurred by the founders during the period of incorporation.

If the company is not incorporated in the manner prescribed in this Law, the subscribers may recover the amounts paid or contributions in kind made by them; and the founders shall be jointly responsible for fulfillment of this obligation and compensation, if necessary. The persons in charge shall also bear all the expenses incurred for the incorporation of the company, and shall be jointly responsible to third parties for all acts performed by them during the period of incorporation.

#### Article (65):

The decree of the Minister of Commerce and Industry announcing the incorporation of the company shall, together with a copy of its memorandum of association and bylaws, be published in the Official Gazette at the expense of the company.

The directors must, within 15 days of the issuance of the above mentioned decree, apply for the registration of the company in the Register of Companies at the General Department of Companies. Such registration shall specifically contain the following particulars:

- 1) The company's name, activity, head office, and term.
- 2) The founders' names and their residence, occupations, and nationalities.
- 3) The types, value, and number of shares, as well as the amount offered for public subscription, the amount subscribed by the founders, the amount of paid-in capital, and the restrictions imposed on the circulation of shares.
- 4) Method of dividing profits and losses.
- 5) The particulars concerning contributions in kind and the rights attached thereto, and special privileges granted to the founders or others.
- 6) The date of the Royal Decree authorizing the incorporation of the company, and the issue number of the Official Gazette in which the Royal Decree was published.
- 7) The date of the decree issued by the Minister of Commerce announcing the

incorporation of the company, and the issue number of the Official Gazette in which the decree was published.

The directors must also register the company in the Commercial Registration in accordance with the provisions of the Law of the Commercial Registration.

## Chapter Three

### Management of Joint-Stock Corporation

#### Section One

##### The Board of Directors

###### Article (66):

The Joint-Stock corporation shall be managed by a board of directors whose number shall be specified by the bylaws of the company, provided that it is not less than three directors.

The Ordinary General Assembly shall appoint the members of the board of directors for the term specified in the company bylaws, which shall not exceed 3 years.

The Council of Ministers may determine the number of the boards of directors on which a member may be appointed.

The members, however, shall always be eligible for re-appointment, unless the company bylaws provide otherwise.

The company bylaws shall specify the manner of membership termination of the board of directors; but the Ordinary General Assembly may, at any time, remove all or some of the members even if the company's bylaws provide otherwise, without prejudice to the right of a removed member to hold the company liable if the removal is made without acceptable justification or at an improper time.

A member may resign, provided that such resignation is made at a proper time; otherwise, he shall be responsible before the company.

###### Article (67):

Unless the company bylaws provide otherwise, if the position of a member becomes vacant, the board of directors may appoint a temporary member to fill the vacancy, provided that such appointment shall be laid before the first meeting of the Ordinary General Assembly. The new member shall complete the unexpired term of his predecessor.

If the number of members falls below the minimum number prescribed in this Law or in the company's bylaws, the Ordinary General Assembly must be convened as soon as possible to appoint the required number of directors.

#### Article (68):

A member of the board of directors must own a number of shares whose value shall not be less than SR 10 thousand.

The company's shares shall, within 30 days from the date of appointment of a member, be deposited in one of the banks designated by the Minister of Commerce. They shall be set aside as a guarantee for members' liability, and shall remain non-negotiable until the lapse of the period specified for hearing the action in liability provided for in Article (77), or until a decision has been rendered on such action.

If the member fails to submit such guarantee shares within the specified period, he shall forfeit his membership.

The auditor must ascertain compliance with the provisions of this Article, and must mention in his report submitted to the General Assembly any violation in this respect.

#### Article (69):

A member of the board of directors should not have any interest whether directly or indirectly, in the transactions or contracts made for the account of the company, except with an authorization from the Ordinary General Assembly, to be renewed annually. Transactions made by way of public bidding shall, however, be excluded from this restraint if the member has submitted the best offer.

The member must inform the board of directors of any personal interest he may

have in the transactions or contracts made for the account of the company. Such declaration must be recorded in the minutes of the board meeting, and the interested member shall not participate in voting on the resolution to be adopted in this respect.

The chairman of the board of directors shall inform the Ordinary General Assembly, when it convenes, of the transactions and contracts in which any member has a personal interest. Such communication shall be accompanied by a special report from the auditor.

Article (70):

A member should not, without authorization renewed annually from the Ordinary General Assembly, to participate in any business competitive with that of the company, or engage in any of the commercial activities carried on by the company; otherwise, the company shall have the right either to claim damages from him or to consider the operations he has conducted for his own account as having been conducted for the account of the company.

Article (71):

A Joint-Stock corporation should not grant any cash loan whatsoever to any of its board of directors' members; nor to guarantee any loan contracted by a member with a third party. Banks and other credit companies shall be exempted from this provision, as they may, within the limits of their activities and under the same terms and conditions followed in their transactions with the public, grant loans or open credits for their members of the board of directors or guarantee loans contracted by them with third parties.

Any contract concluded in violation of the provisions of this Article shall be considered null and void.

Article (72):

Members of the Board of Directors should not disclose the secrets of the company to the stockholders or to third parties outside the meeting of the General Assembly,

because they share in its management; otherwise, they must be removed and held liable for damages.

Article (73):

With due regard to the competence of the General Assembly, the board of directors shall enjoy full powers in the management of the company. It shall be entitled, within the scope of its competence, to authorize one or more of its members or others to perform an act or certain acts.

Nevertheless, the board of directors should not contract loans for terms exceeding 3 years, or sell or mortgage the real estate property or the place of business of the company, or release the debtors of the company from their liabilities, unless so authorized in the bylaws of the company and be subject to the terms set forth therein.

If the company's bylaws do not contain any provisions in this regard, the board of directors should not perform the above acts without an authorization from the Ordinary General Assembly, unless such acts fall by virtue of their nature within the scope of the company's activities.

Article (74):

The company's bylaws shall specify the manner of remunerating the members of the board of directors. Such remunerations may consist of a specified salary, a fee for attending the meetings, in take benefits, a certain percentage of the profits, or a combination of two or more of these benefits.

If, however, such remuneration represents a certain percentage of the company's profits, it must not exceed 10% of the net profits after deduction of expenses, depredations, and such reserves determined by the general assembly pursuant to the provisions of this Law or the company's bylaws, and after distribution of a dividend of not less than 5% of the company's capital to the stockholders. Any determination of remuneration made in violation of this provision shall be null and void.

The board of directors' report to the Ordinary General Assembly must include a

comprehensive statement of all the amounts received by members of the board of directors during the fiscal year in the way of salaries, share in the profits, attendance fees, expenses, and other benefits, as well as all the amounts received by the members in their capacity as employees or executives of the company, or in consideration of technical, administrative, or advisory services.

Article (75):

The company shall be bound by all the acts performed by the board of directors within the limits of its competence, and shall also be responsible for damages arising from the unlawful acts committed by the members in the management of the company.

Article (76):

Members of the Board of Directors shall be jointly responsible for damages sustained by the company, the stockholders, or third parties due to their maladministration of the affairs of the company, or their violation of the provisions of this Law or the company's bylaws. Any condition contrary to this provision shall be considered nonexistent.

Liability shall be assumed by all members if a wrongful act arises from a resolution issued and adopted by them all. But with respect to resolutions adopted by majority vote, dissenting members shall not be liable if they have expressly recorded their objection in the minutes of the meeting. Absence from the meeting at which such resolution is adopted shall not constitute cause for relief from liability, unless it is established that the absentee was not aware of the resolution, or unable to object after becoming aware of it.

The approval of the Ordinary General Assembly to exonerate the members from liability shall not be required when filing a liability claim. Such a claim shall not be heard after the lapse of 3 years from the date of disclosure of the harmful act.

Article (77):

The company may file a liability claim against the members of the board of



directors for wrongful acts that cause prejudice to all the stockholders. The resolution to file this claim shall be made by the Ordinary General Assembly, which shall appoint a person to pursue the claim on behalf of the company. If the company is adjudged bankrupt, the right to file the claim shall transfer to the bankruptcy trustee, and upon the termination of the company, the liquidator shall pursue the claim after obtaining the approval of the Ordinary General Assembly.

Article (78):

Every stockholder shall have the right to file a liability claim against the members of the board of directors on behalf of the company if the wrongful act committed by them is of a nature to cause him personal prejudice. However, the stockholder may file such claim only if the company's right to file such claim is still valid and after notifying the company of his intention to do so. If a stockholder files such claim, he shall be adjudged compensation only to the extent of the prejudice caused to him.

Article (79):

With due regard to the provisions of the company's bylaws, the board of directors shall appoint from among its members a chairman and a delegated member. A single member may hold the positions of a chairman and a delegated member. The company's bylaws shall specify the duties and competences of the chairman and the delegated member as well as the special emoluments to be received by each of them in addition to the remuneration prescribed for the board members. In the absence of any provisions in this respect in the company's bylaws, the board of directors shall divide duties and powers and specify their special emoluments. The board of directors shall also appoint a secretary from among its members or others, and shall determine his duties and remuneration, if the company's bylaws do not contain any provisions in this respect.

The term of the chairman, the delegated member, and the secretary who is a member of the board of directors shall not exceed the term of their respective memberships in the board of directors, and they may be re-appointed; unless the company's bylaws stipulate otherwise.

The board may, at all times, remove all or some of them, without prejudice to their right to damages if the removal is made without acceptable justification or at an improper time.

Article (80):

The board of directors shall meet at the summons of its chairman in the manner prescribed in the company's bylaws. Nevertheless, and notwithstanding any provision to the contrary in the company's bylaws, the chairman must convene the board if requested to do so by two directors.

A meeting of the board shall be valid only if attended by at least one half of the directors, provided that the number of those present shall not be less than three, unless the company's bylaws provide for a larger proportion or number.

A member of the board of directors should not delegate other member to attend the meeting on his behalf, unless this is authorized by the company's bylaws.

Resolutions of the board shall be adopted by majority vote of the members present or represented. In case of a tie, the chairman would have the casting vote, unless the company's bylaws provide otherwise.

Article (81):

The board of directors may adopt resolutions by submitting them to the members individually, unless a member has requested in writing that the board be convened to deliberate on such resolutions; given that such resolutions shall be laid before the board at the first following meeting.

Article (82):

Deliberations and resolutions of the board shall be recorded in minutes to be signed by the chairman and the secretary. Such minutes shall be entered in a special register which shall be signed by the chairman and the secretary.

Section Two

## Stockholders Commissions

### Article (83):

The bylaws of the company shall specify the classes of stockholders entitled to attend the general assembly meetings. Nevertheless, every stockholder who holds 20 shares shall have the right to attend, even if the bylaws of the company provide otherwise.

A stockholder may, in writing, give proxy to another stockholder other than a member of the board of director to attend the general assembly meeting on his behalf.

The Ministry of Commerce may delegate one or more representatives to attend the general assembly meetings as observers.

### Article (84):

Except for matters falling within the jurisdiction of the extraordinary general assembly, the ordinary general assembly shall be competent in all matters related to the company and shall be convened at least once a year within six months after the end of the company's fiscal year.

Other ordinary general assembly meetings may be convened whenever the need arises.

### Article (85):

The extraordinary general assembly shall have jurisdiction to amend the bylaws of the company except in respect of:

- a) Amendments of a nature to deprive a stockholder of his fundamental rights in his capacity as a member of the company, derived from the provisions of this Law or from the bylaws of the company. Such rights are set forth in Articles (107) and (108).
- b) Amendments of a nature to increase the financial liabilities of stockholders.
- c) Amendments of the activity of the company.
- d) Transferring to a foreign country the head office of the company incorporated in

the Kingdom.

e) Changing the nationality of the company.

Any provision to the contrary shall be considered nonexistent.

In addition to the prerogatives granted to it, an extraordinary general assembly may adopt resolutions on matters falling primarily within the jurisdiction of the ordinary general assembly in the same terms and conditions as prescribed for the latter.

Article (86):

If a resolution adopted by the general assembly entails the amendment of the rights of a certain class of stockholders, such resolution shall not be valid unless it is approved by those entitled to vote from among the stockholders of that class, at a special meeting of such stockholders convened in accordance with the rules prescribed for extraordinary general assembly.

Article (87):

Stockholders' general or special assembly shall be convened at the summons of the board of directors in the manner prescribed in the bylaws of the company.

The board of directors must call for an ordinary general assembly, if so requested by the auditor or by a number of stockholders representing at least 5% of the capital.

The General Department of Companies may, at the request of a number of stockholders representing at least 2% of the capital or pursuant to a decision by the Minister of Commerce, call for a general assembly meeting if such a meeting is not called within one month from the due date set therefore.

Article (88):

Notices of the general assembly meetings shall be published in the Official Gazette and in a daily newspaper distributed in the locality of the head office of the company, at least 25 days prior to the date set for the meeting.

Nevertheless, if all the stock of the company is registered as nominative, a notice

sent by registered mails at least 25 days before the date of the meeting shall suffice. The notice shall contain an agenda of the meeting. A copy of both the notice and the agenda shall be sent to the General Department of Companies at the Ministry of Commerce within the period specified for publication.

Article (89):

The board of directors shall, at least 60 days prior to the date set for the holding of the annual ordinary general assembly meeting, prepare for every fiscal year of the company a balance sheet, a profit and loss statement, and a report on the company's operations and financial position and on the method which it proposes for the distribution of net profits. The said documents shall be signed by the chairman of the board of directors, and copies thereof shall be placed at the disposal of stockholders in the head office of the company at least 25 days prior to the date set for such general meeting. The chairman of the board of directors must publish, in a newspaper distributed in the locality of the head office of the company, the balance sheet, the profit and loss statement, a comprehensive summary of the board of directors report and the full text of the auditor's report, and must send a copy of each of these documents to the General Department of Companies at least 25 days prior to the date set for the general assembly meeting.

Article (90):

Stockholders wishing to attend a general or special assembly meeting shall register their names at the head office of the company and may do so up to the time fixed for such meeting, unless the bylaws of the company provide otherwise.

When the meeting convenes, a list shall be prepared including the names and residence places of the stockholders present or represented thereat, and showing the number of shares held by each, whether personally or by proxy, and the number of votes allotted thereto. Any interested party shall be entitled to review this list.

Article (91):

The ordinary general assembly meeting shall be valid only if attended by

stockholders representing at least one half of the company's capital, unless the bylaws of the company provide for a higher proportion. If this quorum has not been obtained at a first meeting, a notice shall be sent for a second meeting to be held within 30 days of the previous meeting. This notice shall be published in the manner prescribed in Article (88). The second meeting shall be considered valid, regardless of the number of shares represented thereat.

Resolutions of the regular general meeting shall be adopted by absolute majority vote of the shares represented thereat, unless the bylaws of the company provide for a higher proportion.

#### Article (92):

An extraordinary general assembly meeting shall not be valid only if attended by stockholders representing at least one half of the company's capital, unless the company's bylaws provide for a higher proportion. If this quorum has not been obtained at the first meeting, a notice shall be sent for a second meeting in the manner prescribed in Article (91). The second meeting shall be valid if attended by a number of stockholders representing at least one quarter of the company's capital. Resolutions of an extraordinary general assembly meeting shall be adopted by a two-thirds majority vote of the shares represented thereat. But if a resolution pertains to an increase or a decrease in capital, or to extension of the term of the company, or to termination of the company prior to expiry of the term specified in its bylaws or to merger of the company into another company or firm, it shall be valid only if adopted by a three-fourths majority vote of the shares represented at the meeting.

The board of directors must publish, in accordance with the provisions of Article (65), the resolutions adopted by an extraordinary general assembly meeting if these provide for amendment of the company's bylaws.

#### Article (93):

The company's bylaws shall prescribe the manner of voting at stockholders

meetings. Nevertheless, the members of the board of directors may not participate in voting on resolutions of the assembly pertaining to relief them from liability of their administration.

Article (94):

Every stockholder shall have the right to discuss the matters listed in the agenda of the general assembly, and to address questions to the directors and the auditor in respect thereof. Any provision in the company's bylaws depriving a stockholder of this right shall be considered null and void. The board of directors or the auditor shall answer stockholders' questions to such an extent as would not jeopardize the company's interests. If a stockholder feels that the answer to a question is unsatisfactory, he may appeal to the general assembly whose decision shall be final in this respect.

Article (95):

Minutes shall be kept for every general assembly meeting, showing the names of stockholders present or represented thereat, the number of shares held by each of them, whether personally or by proxy, the number of votes allotted thereto, the resolutions adopted, the number of consenting and dissenting votes, and a comprehensive summary of the debate conducted at the meeting.

Following every meeting, the minutes shall be regularly entered in a special book, which shall be signed by the chairman, the secretary, and the teller of the meeting.

Article (96):

Subscription in or ownership of stock shall imply that the stockholder accepts the company's bylaws and shall abide by the resolutions adopted by stockholders' assembly in conformity with the provisions of this Law and the company's bylaws, whether in his presence or absence, and whether he has voted for or against them.

Article (97):

Without prejudice to the rights of any bona fide third party, all resolutions adopted

by stockholders' assembly contrary to the provisions of this Law or to the company's bylaws shall be considered null and void. The General Department of Companies and any stockholder who has recorded his objection to the resolution in the minutes of the meeting or who was absent from the meeting for acceptable reason, may request to invalidate a resolution. A resolution adjudged invalid shall be considered nonexistent as far as all concerned stockholders. Nevertheless an action of invalidation shall be barred after the lapse of one year from the date of adopting such resolution.

## Chapter Four

### Bonds Issued by a Joint Stock Company

#### Section 1

#### Stocks

##### Article (98):

The shares of a joint stock company are indivisible in the face of the company. If the share is owned by many people, they shall choose someone to represent them in the use of the rights concerned with the share, and such people are jointly liable for the commitments arising from the ownership of the share. The shares shall not be issued for less than their nominal value, but they may be issued for higher than this value if the regulation of the company provides that or it is approved by the General Assembly. In the latter case, the difference in value is added to the statutory reserve even if it reaches the maximum provided for in this regulation. The preceding provisions shall apply to the interim certificates delivered to shareholders before issuing the shares.

##### Article (99):

It is permissible that the company's shares are in cash or in kind, and the type of



share is mentioned in the instrument confirming it. The share may be nominal or to the bearer. The share remains nominal until the fulfillment of its full value. And the paid part of its value shall be shown in the bond of the share. Also, the temporary certificate remains nominal until replaced by the bond of the share.

Article (100):

It is not permissible to commercialize the shares in cash underwritten by the founders or the shares in kind or the foundation portions before the publication of the balance sheet and the profits and losses account for two complete fiscal years of not less than twelve months for each from the date of founding the company. These bonds shall be marked with what shows their type and date of the foundation of the company and the period when commercializing shall be refrained. However, during the ban period, it is permissible to transfer the ownership of the shares in cash in accordance with the provisions of selling the rights from one of the founders to another or to a member of the Board of Directors to be submitted as a collateral for the administration, or from the heirs of one of the founders - in the event of his death - to others. The provisions of this article shall apply to what is underwritten by the founders in the case of capital increase before the expiration of the period of the ban.

Article (101):

It is permissible to provide for restrictions, in the company's regulation, related to shares commercializing, provided that it would not outlaw this commercializing.

Article (102):

The nominal shares are commercialized by enrolling in the register of shareholders, prepared by the company, which includes the names of the shareholders, their nationalities, their place of residence, occupations, numbers of shares and the paid amount, and it shall be endorsed on the share. And the transfer of ownership of the nominal share in the face of the company or others is not considerable except from the date of enrolling in the mentioned register, and the shares of the bearer shall be

commercialized as soon as handing over.

Article (103):

The shares result in equal rights and commitments. However, the General Assembly may, if there is no preventing text in the company's regulation, decide to issue preferred shares or decide to convert common shares into preferred ones. It is permissible that the shares result in a priority to their owners in getting a certain profit, or a priority in the recovery of what has been paid off from the capital upon liquidation, or priority in both matters, and any other advantage. But it is not permissible to issue shares that give multiple votes. If there are preferred shares, it is not permissible to issue new shares - with priority - without the approval of a special assembly composed, in accordance with Article (86), of the owners of the preferred shares who are harmed of this issuance and the approval of a General Assembly composed of all categories of shareholders, unless the regulation of the company provides otherwise. This provision shall apply also when modifying or voiding the rights of priority decided for the preferred shares in the regulation of the company.

Article (104):

It may be provided, in the company's regulation, for the shares redemption during founding the company if it is a project that perishes gradually or temporary rights-based. The redemption of the shares shall be only from the profits or the reserve that may be disposed of. The redemption shall be conducted successively by annual lots or any other way that guarantees equality between the shareholders. The redemption may be conducted by the purchase of the company to its shares provided that the price is less than the nominal value or equal to it. The company shall execute the shares obtained by this way. And it is permissible to provide, in the company's regulation, for giving dividend shares to the owners of the shares that are redeemed by lots. The company's regulation arranges the rights resulted in to their owners. However, a percentage of the annual net profit of the shares that are not redeemed shall be allocated to be distributed to them, by priority, on the

dividend shares. In the case of the expiration of the company, the shareholders - of the unredeemed shares — shall have the priority of getting the company's assets equivalent to the nominal value of their shares.

Article (105):

It is not permissible for the company to purchase its shares, except in the following cases:

- 1- If the purpose of purchase is the redemption of the shares under the conditions set out in the previous article.
- 2- If the purpose of the purchase is the capital reduction.
- 3- If the shares are within a range of funds that the company purchases by its assets and liabilities. With the exception of the shares provided to ensure the liability of the members of the Board of Directors of the company, the company shall not mortgage its shares or the shares held by the company shall not have votes in the deliberations of the Assemblies of shareholders.

Article (106):

It may be provided, in the company's regulation, for distributing a fixed amount to the shareholders that does not exceed 5% of the capital for a period not exceeding five years from the date of founding of the company. In the case of lack of net profits sufficient to pay the mentioned amount, what the shareholders have earned of the expenses of founding the company shall be considered and deducted from the first profit in the method specified by the company's regulation.

Article (107):

The shareholder undertakes the right to vote in the General Assemblies or special ones in accordance with the provisions of the company's regulation, and the shareholder who has the right to attend the assemblies of shareholders has one vote at least. The company's regulation may determine a maximum limit to the number of votes to be for those who have several shares.

Article (108):

Article (108) has been amended by the Royal Decree No. M/22 on 30/07/1422 AH by considering the current text of Article (108) of the companies' regulation paragraph (1) and adding to it two new paragraphs with the numbers (2) and (3).

The wording of Article (108) shall be as follows:

(1) The shareholder is confirmed to have all the rights related to the share, and in particular the right to receive a portion of the profits determined to be distributed, the right to receive a portion of the company's assets upon liquidation, the right to attend the assemblies of shareholders and participate in its deliberations and vote on decisions, the right to dispose of shares, the right to request access on the company's books and documents, and to monitor the work of the Board of Directors and bring a claim of liability against the members of the Board and appeal the invalidity of the decisions of the shareholders' assemblies. All this shall be conducted according to the conditions and restrictions contained in this regulation or in the company's regulation.

(2) Based on a provision in its regulation and after the approval of the Minister of Commerce and in accordance with the principles defined by him, the company may issue preferred shares that do not give the right to vote, and not exceeding 5% of its capital. The company shall arrange the mentioned shares to the owners as well as the right to participate in the net profits distributed on the ordinary shares as follows:

A- The right to obtain a certain percentage of the net profits of not less than 50% of the nominal value of the share after setting aside the statutory reserve and before any distribution to the company's profits.

B- A priority to retrieve the value of their shares in the capital upon liquidation of the company and obtain a certain percentage of the output of the liquidation. The company may purchase these shares in accordance with the principles and the method prescribed by its regulation provided that this regulation shall not include any provision for forcing the shareholder to sell his shares, and these shares shall not enter the account of the required quorum for convening the General Assembly of the company stipulated in the Articles (91/92).

(3) In the case of not distributing any profits for any fiscal year, it is not permissible to distribute profits for the following years but after paying the percentage referred to in the previous paragraph (2) to the shareholders of nonvoting shares for this year. And if the company fails to pay this percentage of the profits for three consecutive years, it is permissible for the Assembly — special for the owners of these shares — held in accordance with the provisions of Article (86) to decide either they may attend the meetings of the General Assembly of the company and participate in the vote or appoint representatives in the Board of the company with full payment of priority profits allocated to the owners of these shares for the previous years.

Article (109):

The shareholders who represent at least 5% of the capital have the right to ask for an authority to resolve the commercial disputes of the companies to order the inspection over the company if they found anything suspicious concerning the acts of the members of the Board of Directors or the auditors in the affairs of the company. The mentioned authority has the right to order an inspection over the management of the company on the expense of the complainants, after hearing the statements of the members of the Board of Directors and observers in a special session. That authority may, if necessary, impose the complainants to provide a guarantee. If the complaint proved to be true, the referred authority may order as it deems of interim measures, and call for the General Assembly to take the necessary decisions. Also, in the case of extreme necessity, it may dismiss the members of the Board of Directors and the observers and appoint an interim manager that it shall define his power and the duration of his mission.

Article (110):

The shareholder shall pay the value of the share on the dates designated for that and the owners contracting for the share shall be jointly liable for the fulfillment of its value. With the exception of the last owner, each shareholder is discharged of this liability upon the expiry of one year from the date of registering the disposition of

the share. If the shareholder fails to meet the deadline of the fulfillment, the Board of Directors may - after warning the shareholder by a registered letter - sell the share at a public auction. However, the defaulting shareholder may - until the day fixed for the bid - pay the amount due on him, plus the expenses spent by the company. The company takes its due amounts from the outcome of the sale and then returns the rest to the owner of the share. If the sale outcome is insufficient to meet these amounts, the company may take the rest from all the funds of the shareholder, and the company voids the sold share and gives the purchaser a new share that carries the number of the voided share and endorses this in the shares register.

#### Article (111):

The company shall not ask the shareholder to pay amounts in excess of the amount of the commitments made when issuing the share even if the regulation of the company provides otherwise. The shareholder shall not ask for recovering his part of the company's capital. The company shall not discharge the shareholder from the commitment to pay the rest of the value of the share, and the clearance shall not occur between this commitment and the shareholder rights granted by the company.

## Section Two

### Foundation Stakes

#### Article (112):

The joint stock company, based on a provision in its regulation, may issue foundation stakes for those who submitted to it — at the time of foundation or after — a patent or a commitment he got from a general juridical person. And these stakes shall be nominal or for the bearer and commercialized in accordance with the provisions of Articles (100, 101 and 102) and they shall not be divisible within

the meaning of Article (98).

Article (113):

The foundation stakes shall not be entered in the composition of the capital and their owners shall not participate in the management of the company or in the preparation of the accounts or in shareholders' assemblies. These stakes shall be subject to the decisions of the assemblies of the shareholders issued in accordance with the provisions of this regulation or the provisions of the regulation of the company, including decisions on redemptions and reserves of any kind and for whatever amounts and extending the duration of the company or termination of the company before the specified period, or a capital increase or decrease or the redemption of the shares of the capital or the purchase of the company shares or the issuance of shares with a priority in the dividends. However if the decisions of the shareholders' assemblies may modify or void the rights prescribed for the foundation stakes, these decisions shall not be valid unless approved by an assembly held by shareholders in accordance with the provisions of the special assemblies of the shareholders. The owners of the foundation stakes may appeal for the invalidity of the decisions of shareholders' assemblies or the decisions of the special assemblies if issued in contrary to the provisions of this regulation or the provisions of the company's regulation in accordance with the provisions of Article (97).

Article (114):

Subject to the provisions of the preceding article, the regulation of the company or the decision of the General Assembly originating the foundation stakes determines the right allocated to them. And it may grant these stakes a percentage of the net profits of not more than 10% after the distribution of a portion to the shareholders of at least 5% of the paid-up capital. Also, it may grant upon liquidation a priority with the mentioned percentage in the recovery of the surplus of the assets of the company after paying off their debts.

Article (115):

The General Assembly of the shareholders may decide to void the foundation stakes after ten years from the date of issuance for a fair compensation. And the company, all the time, may purchase - from its net profits — foundation stakes at the market price or the price agreed upon with the owners of these stakes together in a special assembly of their own to be held according to the provisions of Article (86).

Section Three

Instruments

Article (116):

The joint stock company may issue, by the loans it conducts, instruments of equal value, available for commercialization and indivisible. These instruments may become nominal or for the bearer. And the bond shall remain nominal until full payment of its value. The instruments issued on the occasion of one loan result in equal rights. Every condition that provides otherwise is considered null.

Article (117):

No loan instruments may be issued, only under the following conditions:

- 1- To be authorized for that in the company's regulation.
- 2- To be decided by the Ordinary General Assembly
- 3- The capital of the company is paid in full.
- 4- The value of the instruments shall not exceed the value of the paid-up capital.

No instruments may be issued for a new loan unless the underwriters pay the old bonds' value in full, and provided that the value of the new instruments in addition to the rest of the old instruments at the security of the company shall not exceed the paid-up capital. The provisions of the preceding paragraph shall not apply on the companies of real estate credit and agricultural or industrial credit banks and the companies licensed to do so by the Minister of Commerce.



Article (118):

The General Assembly may authorize the Board of Directors to set the amount of the loan and its conditions. The decision of the Assembly to issue loan instruments shall be implemented only after being registered in the Commercial Registration and published in the Official Gazette.

Article (119):

If loan instruments are floated for public underwriting, this shall be done through banks designated by the Minister of Commerce. And the call for the public to underwrite shall be conducted by a bulletin signed by the members of the Board of Directors, and it shall include - in particular - the following data:

- 1- The General Assembly decision to issue instruments and the date of declaring the decision.
- 2- The number of the instruments to be issued and their value.
- 3- The date of the commencement and end of the underwriting.
- 4- The deadline of the instruments maturity and the conditions and guarantees of payment.
- 5- The value of the previously issued instruments and their guarantees and the value of the non-paid ones at the time of the issuance of the new ones.
- 6- The company's capital and the paid amount of it.
- 7- The main center of the company and its founding date and duration.
- 8- The value of the stakes in kind.
- 9- The summary of the last balance sheet of the company.

The underwriting prospectus shall be declared in a daily newspaper and distributed in the main center of the company five days prior to the date of the start of the IPO at least. The underwriting document, the bonds of instruments, the advertisements and bulletins related to the issuance process shall contain, all the data mentioned in the prospectus with reference to the newspaper in which the publication has been made.

Article (120):

The members of the Board of Directors, within thirty days from the date of closure of the IPO, shall submit to the General Administration of companies a statement of the number of the underwritten instruments and their value and the paid of them, and attach this statement a table of the names of the underwriters and the number of instruments underwritten by each of them.

Article (121):

The nullity results from violating the provisions of Articles (116, 117 and 119). The company is committed to refund the value of the null instruments as well as compensate for the damage that has affected their owners.

Article (122):

The decisions of the shareholders assemblies shall apply to instruments holders. However, the mentioned assemblies shall not amend the rights decided for them only with a consent issued to them in an assembly of their own held in accordance with the provisions of Article (86). The provisions of Article (110) shall apply to non-fulfillment of the value of the bond

## Chapter Five

The finance of the JSC (Joint Stock Company)

### Section (1)

The company's accounts

Article (123):

The Board of Directors shall conduct, at the end of each fiscal year, an inventory of the value of the company's assets and liabilities at the mentioned date. It shall also prepare the company's balance sheet, profit and loss account and a report on the

activities of the company and its financial position for the last fiscal year, and this report shall include the proposed method for the distribution of the net profits. The Board puts these documents at the disposal of the auditor fifty five days before the deadline for holding the meeting of the General Assembly at least.

Article (124):

It shall be taken into account, when the tabulating the balance sheet and profit and loss account each year, to follow the tabulation followed in the previous years, and the basics of evaluating the assets and liabilities shall remain fixed unless the General Assembly decides, based on the auditor's proposal, to modify that tabulation or evaluation basics.

Article (125):

The Board of Directors shall set aside each year 10% of the net profits to form a reserve called the statutory reserve. The Ordinary General Assembly may decide to stop this saving when the mentioned reserve reaches half of the capital. And it may be provided in the company's regulation to set aside a certain percentage of the net profits to form a reserve called the conventional and it shall be allocated for the purposes specified by the mentioned regulation. The Ordinary General Assembly may, when determining the portion of the shares in the net profits, decide to form other reserves to the extent that achieves the continuity of the company's prosperity or ensures the distribution of fixed dividends - as much as possible — to the shareholders. Also, the mentioned assembly may deduct amounts from the net profit to create social institutions for the staff of the company and its workers or to help the existent of these institutions. And if such institutions are found and depended, in the formation of their money, on what the company pays and what is deducted from the employees' salaries and the wages of workers, those may - in the event of terminating their employment contracts - regain the deducted amounts as much as depriving them of the benefits provided for in the regulation of the social organization.

Article (126):

The statutory reserve shall be used to cover the company's losses or to increase its capital. If the mentioned reserve exceeds half of the capital, the Ordinary General Assembly may decide to distribute the increase to the shareholders in the years when the company's net profit is not enough for the distribution of the portion set for them in the company's regulation. The conventional reserve shall not be used only by a decision of the Extraordinary General Assembly. And if the mentioned reserve is not specified for a specific purpose, the Ordinary General Assembly may, on the proposal of the Board of Directors, decide to spend it on the benefit of the company.

Article (127):

The company's regulation shows the percentage of the net profits that shall be distributed to the shareholders after setting aside the statutory reserve and the conventional reserve, on condition that the mentioned percentage is not less than 5% of the capital. The shareholder deserves his portion in the profits as soon as the distribution decision is issued by the General Assembly.

Article (128):

The members of the Board of Directors shall, within thirty days from the date of the approval of the General Assembly on the balance sheet, the profit and loss account, the report of the Board of Directors and the auditor's report, deposit copies of the mentioned documents at the Commercial Registration Office and the General Management of the Companies.

Section Two

The auditor

Article (129):

The shareholders monitor the accounts of the company in accordance with the provisions set forth in the company's regulation and subject to the following provisions:

Article (130):

The Ordinary General Assembly shall appoint an auditor or more, of the observers authorized to work in the Kingdom, and determine their remuneration and the duration of their work. And it may re-appoint them and, at any time, change them without prejudice to their right for compensation if the change occurred at improper time or for an unacceptable reason. It is not permissible to combine the work of the auditor and to participate in the foundation of the company or board membership or to do a technical or administrative work in the company, even on a consultative basis. It is also not permissible for the observer to be a partner to one of the founders of the company or one of its board members or an employee or one of his relatives - to fourth class - to enter the end. Any action or work is null and void if contrary to the provision of this paragraph, and the violator shall pay back to the Ministry of Finance and National Economy every penny he got from the company.

Article (131):

The auditor has, all the time, the right to access the company's books, records and other documents. He also may request data and explanations that he sees necessary, and he also may investigate the company's assets and liabilities. The president of the Board of Directors shall enable him to perform his duty specified in the preceding paragraph. And if the auditor encountered a difficulty in this regard, he shall record that in a report submitted to the Board of Directors. And if the board does not facilitate the work of the auditor, the latter shall call the Ordinary General Assembly to consider the matter.

Article (132):

The auditor shall submit a report to the annual Ordinary General Assembly and it shall include the attitude of the administration of the company regarding enabling

him to obtain the data and explanations that he requested, and the violations of the provisions of this regulation or the provisions of the company that he revealed, and his opinion on the compatibility of the company's accounts to the fact. The auditor's report shall be read in the General Assembly. And if the Assembly decided to ratify the report of the Board of Directors without hearing the auditor's report, its decision shall be null and void.

#### Article (133):

It is not permissible for the auditor to broadcast to the shareholders, out of the General Assembly, or to others what he knew of the secrets of the company due to his position in the company, otherwise he shall be changed as well as requested for compensation. The auditor shall be asked for compensating the damage that occurs to the company, the shareholders or others because of errors made by him in performing his work. And if the observers, who participated in the error were many, they shall be jointly liable.

## Chapter 6

### Modifying the Company's Capital

#### Section (1)

#### Increasing the Capital

#### Article (134):

The Extraordinary General Assembly may decide to increase the company's capital once or several times, provided that the original capital is paid in full.

#### Article (135):

The capital is increased by one of the following ways:

- 1- Issuing new shares whose value is paid in cash.
- 2- Issuing new shares for stakes in kind.
- 3- Issuing new shares for the company's debts of particular amount at paying off.
- 4- Issuing new shares by the amount of the excess reserve, which the Extraordinary General Assembly would decide to include it into the capital or increase the nominal value of the commercialized shares as much as the aforementioned excess.
- 5- Issuing new shares in exchange for foundation stakes or commercialized bonds.

Article (136):

The shareholders have the priority to underwrite the new cash shares unless the regulation of the company includes giving up or restricting this right. The Council of Ministers may, upon the proposal of the Minister of Commerce after the agreement with the Minister of Finance and National Economy, cancel or restrict the right of priority for the following companies:

- A) Concessionaire.
- B) That manages a public utility.
- C) That is provided a subsidy by the government.
- D) That is joined with the country.
- E) That is engaged in banking business

The provision of this paragraph applies to companies even if they were formed before it came into force. This article does not apply to the oil and mineral companies that work under special agreements issued by royal decrees. And the shareholders shall declare their priority in underwriting by publication in a daily newspaper of the decision of increasing the capital and underwriting requirements. And it would be sufficient to notify them with this statement by registered letters if all the shares of the company are nominal. Each shareholder shows his desire - in writing - to use his right to priority within fifteen days from the date of publication or the notification referred to in the preceding paragraph.

Those shares shall be distributed to the original shareholders who have asked for underwriting by what they have of the original shares provided that what they get does not exceed what they asked of the new shares. And the rest of the new shares

shall be distributed to the original shareholders who have requested more than their portion by what they have of original shares provided that what they get does not exceed what they asked of the new shares. And the remaining new shares shall be floated for public underwriting and in this IPO (Initial Public Offering) the provisions related to underwriting by the capital of the company under foundation shall be followed.

In the case of floating the new shares for public underwriting, the President of the Board of Directors and the auditor shall sign the prospectus, which shall - particularly - include the following data: -

- 1- The decision of the Extraordinary General Assembly to increase the capital and the date of this decision.
- 2- The capital of the company when issuing the new shares and the amount of the proposed increase and the number of the new shares and premium, if any.
- 3- A definition of the stakes in kind.
- 4- A statement about the average profits distributed by the company during the two years preceding the decision to increase the capital.

Article (137):

The provisions of evaluating the stakes in kind offered on the occasion of the foundation of the company apply to the shares in kind issued on the occasion of the capital increase, and the Ordinary General Assembly replaces the Founding Assembly.

Article (138):

If the new cash shares are issued for the debts of a certain amount due on the company at the time of paying off, the Board of Directors and the auditor shall prepare a statement about the origin and amount of these debts and this statement shall be signed by the members of the Board and the auditor and testify to its rightness.

Article (139):



If the capital increase is conducted by entering the surplus reserve in the capital, the new shares shall be issued in the same form and conditions of the commercialized shares and those shares shall be distributed to the shareholders free of charge according to what each of them own from the original shares. If the referred surplus reserve included profits taken out of the stakes of the owners of the foundation stakes, it is obligatory to call those to attend a meeting of an assembly of their own held in accordance with the set provisions in Article (86) for the approval of entering what belongs to them in the mentioned surplus reserve of the capital and determining what belongs to them of the new shares. If this approval is not achieved, the capital increase shall be limited to that part of the surplus reserve that belongs to the shareholders.

Article (140):

It is not permissible to increase the capital by converting the foundation stakes to shares except after the expiration of the period stipulated in Article (100) and subject to the approval of the shareholders on this conversion in accordance with the provisions of Article (86). And the shares that replace the canceled stakes shall be commercialized from the date of issuance.

Article (141):

No loan bonds may be converted into shares only if stipulated in the terms of issuance. However, in this case, the owner of the bond has the choice between accepting the conversion and catching the nominal value of the bond.

## Section Two

### Capital Reduction

Article (142):

The Extraordinary General Assembly may decide to reduce the capital if it exceeds

the need of the company or if the company suffered losses. And in the latter case only, the capital may be reduced to below the limit set in Article (49). That decision shall not be issued until after reading the auditor's report about the reasons causing the reduction and the commitments on the company and the effect of the reduction on these commitments.

Article (143):

If the capital reduction occurred as a result of the capital exceeded the company's need, it is obligatory to call the creditors to show their objections to it within sixty days from the date of the publication of the decision of the reduction in a daily newspaper distributed in the main center of the company. If one of them objected and presented to the company his documents on the mentioned time, the company shall pay him his debt if it was due or provide a sufficient guarantee to fulfill it if it was delayed.

Article (144):

The capital is reduced by one of the following ways:

- 1- Partial reimbursement of the nominal value of the share to the shareholder or discharge him of all or some of the unpaid amount of the value of the share.
- 2- Reduction of the nominal value of the shares equal to the loss that has hit the company.
- 3- Voiding of a number of the shares equal to the amount to be reduced.
- 4- Purchasing a number of shares equal to the amount to be reduced.

Article (145):

If the capital reduction is conducted by voiding a number of the shares, it is obligatory to take into account the equality between the shareholders and they shall submit to the company, within the time limit specified by it, the shares decided to be voided, or the company has the right to consider them void.

Article (146):

If the capital reduction is conducted by purchasing a number of the shares of the company and voiding it, it is obligatory to call the shareholders to offer their shares for sale. This call is made by a publication in a daily newspaper distributed in the main center for the company and it may be sufficient to notify the shareholders by registered letters with the desire of the company to purchase the shares only if all the shares of the company are nominal. If the number of the shares offered for sale exceeded the number that the company decided to purchase, it is obligatory to reduce sales orders by this increase. The purchase price of shares shall be estimated in accordance with the provisions of the company's regulation. If the mentioned regulation has no provisions in this regard, the company shall pay a fair price.

## Chapter Seven

### The Expiration of the Joint Stock Company

#### Article (147):

If the joint stock company has expired due to the transfer of all its shares to one shareholder, this shareholder shall be responsible for the debts of the company within the limits of its assets. If one year passed from the decline of the number of the shareholders to below the minimum stipulated in Article (48), any interested party may request the termination of the company.

#### Article (148):

If the company losses amounted to contribute three-quarters of the capital, the members of the Board of Directors shall call for the Extraordinary General Assembly to consider the continuation of the company or its termination before the term specified in its regulation. The decision shall be published, in all cases, by the methods stipulated in Article (65). If the members of the Board of Directors neglected to call the Extraordinary General Assembly or if the Assembly is unable to pass a decision on the subject, each interested party may request the termination

of the company.

## Part Six

### Limited Partnership in Shares

#### Article (149):

The limited partnership in shares is a company that is composed of two teams: a team of at least a partner in solidarity and responsible in all his money for the debts of the company, and another team composed of shareholding partners not less than four and they are not asked about the company's debts only to the extent of their stakes in the capital.

#### Article (150):

The capital of the limited partnership in shares shall not be less than one million Saudi riyals. The paid capital at the foundation shall not be less than half of the minimum. The company's capital is divided into shares of equal value, commercialized and indivisible. The value of the share is not less than fifty Saudi riyals.

#### Article (151):

All the general partners and other founders of the company shall sign the contract of the company and its regulation. The regulation shows the names of the general partners, their place of residence, nationality and the names of those — among them - who are appointed as directors to the company. The Minister of Commerce and Industry issues a decision with a model of the limited partnership in Shares Company. This model cannot be violated only for reasons approved by the mentioned minister.

#### Article (152):

This kind of companies is run by a solidarity partner or more. And the provisions of the managers in the company of solidarity shall apply to their authority, responsibility and dismissal.

Article (153):

The General Assembly of the shareholders shall appoint a supervisory board of at least three shareholders immediately after the foundation of the company. The solidarity partners shall have no opinion about this appointment. The mentioned assembly may reappoint the members of the Supervisory Board or to approve them in accordance with the provisions set forth in the company's regulation. And the Supervisory Board shall monitor the company's business and show opinion on matters, submitted by the company director, and the acts suspended by the company by a prior authorization from the said board. And the Supervisory Board may call the General Assembly of the shareholders to convene if the occurrence of a grave breach in the management of the company appears. The Board shall submit to the General Assembly of the shareholders, at the end of each fiscal year, a report on the results of its monitoring to the company's business. The members of the Supervisory Board shall not be asked about the managers' works or their results unless they knew what occurred of mistakes and they neglected notifying the General Assembly with these mistakes.

Article (154):

The provisions applied to the acting partners in the partnerships shall be applied to the acting partners in the limited partnership in shares. The provision of Article (37) shall be applied to the limited partnership in shares. The provisions contained in Article (38) shall be applied to the partner who has shares in the mentioned company.

Article (155):

Subject to the provisions contained in this section, the provisions of the joint stock company shall be applied to the limited partnership in shares in the following

matters:

- 1- The provisions of the foundation of the company and registering it with the exception of the provisions contained in Article (52) of the Royal Decree authorizing the foundation of the joint stock company.
- 2- The provisions of the shares and the rights and commitments related to them.
- 3- The provisions of the shareholders' assemblies, however, it is not permissible in the limited partnership in shares to proceed with the mentioned assemblies or to ratify actions related to the company's relationship with others, or to modify the company's regulation without the approval of all the general partners.
- 4- The provisions for the company's finances.

And the word (managers) shall be replaced with the words (board members) wherever they appear in the section of the joint stock company.

Article (156):

The limited partnership in shares shall expire by the withdrawal of one of the general partners or his death, or being under quarantine, or his bankruptcy or insolvency, unless the company's regulation provides otherwise. The mentioned company also will be terminated by reasons of terminations of the joint stock company, taking into account that in the application of the first paragraph of Article (147) on the limited partnership in shares if the only partner was an acting partner, he shall remain responsible for all his money for the debts of the company.

Part Seven

Limited liability company

Article (157):

A limited liability company is a company that consists of two or more partners who are responsible for the debts of the company as much as their shares in the capital. The number of partners in this company does not exceed fifty.

Article (158):

The capital of the limited liability company shall not be less than five hundred thousand Saudi riyals. The capital shall be divided into stakes of equal value and they shall not be represented in commercialized instruments and the stake shall be indivisible. If the stake is owned by multiple people, the company may stop the use of the related rights until the owners of the stake chooses one of them to be the only owner in the face of the company. And the company may set for these an appointment to make this choice; otherwise it is the company's right - after the expiration of the mentioned appointment - to sell that stake to the account of their owners. In this case, the stake is offered to the partners and then to others. It is not permissible for a company with limited liability to resort to underwriting to compose or increase its capital or to obtain a loan.

Article (159):

It is not permissible that the purpose of the limited liability company is to perform insurance work or savings in banks.

Article (160):

The name of the limited liability company may be the name of one partner or more and the name may be derived from its purpose.

Article (161):

The limited liability company is founded under a contract signed by all the partners and the said contract includes the data be specified by a decision of the Minister of Commerce and Industry and it shall include the following data:

- 1- The type of company, its name, purpose and main office.
- 2- The names of the partners, their residence places, professions and nationalities.
- 3- The names of the managers, whether they are partners or others if they are named in the contract of the company.
- 4- The names of the members of the Supervisory Board, if any.
- 5- The amount of the capital, the cash portions and the portions in kind and a

detailed description of the portions in kind and their value the names of their offering people.

6- A ratification of the partners to distribute all the stakes of the capital and fulfill the full value of these stakes.

7- The method of distributing the profits.

8- The company's start and end date.

9- The form of the notifications that may be sent by the company to the partners.

Article (162):

The Company shall not be founded definitively unless all the stakes in cash the stakes in kind are distributed to all the partners and are fully fulfilled. The cash stakes shall be deposited in a bank designated by the Minister of Commerce and Industry. The bank may not disburse them only to the company's managers after submitting the documents indicating the company registration by the methods stipulated in Article (164). And the partners shall be jointly liable in their own money in the face of others for the right estimation of the stake in kind; however the claim of liability shall not be heard - in this case - after the expiration of three years from the date of fulfilling the registration procedures set forth in Article (164).

Article (163):

Any limited liability company founded in violation of the provisions of Article (157, 158, 159, 161 and 162) shall be null and void for each concerned party. But the partners may not protest on others by this nullity. If the nullity has been decided due to the previous article, the partners who caused that nullity with the first managers in solidarity shall be in the face of the rest of the partners and others for the compensation of the damage occurred due to this nullity.

Article (164):

The company's managers shall - within thirty days of its foundation - ask for publishing a summary of the contract of the company in the Official Gazette at the expense of the company. And the mentioned summary shall include the articles of



the contract related to the data referred to in Article (161). Also, the managers shall ask, at the same time limit, for registering the company in the register of companies in the General Administration of companies and they shall also register the company in the commercial registration in accordance with the provisions of the commercial registration and the mentioned provisions shall apply to each amendment made to the company's contract.

Article (165):

A partner may waive his stake to one of the partners or others in accordance with the terms of the company's contract, however if he wants to waive his stake to others with a compensation, he shall notify the other partners through the director of the company with the terms of the waiver. In this case, each partner may ask for refund the money of the stake with its true value. If thirty days passed from the date of notification without any of the partners using his right of restitution, the owner of the stake has the right to dispose of it, taking into account the provisions of the second paragraph of Article (157). If more than one of the partners used the right of restitution and the waiver was related to a group of stakes, these stakes shall be divided between those who asked for restitution by the stake of each of them in the capital. If the waiver was related to one stake, it shall be given to the partners who have asked for restitution, taking into account the provisions of the second paragraph of Article (158). If the waiver of the stake was without compensation, then the asking partner shall pay the value according to the latest inventory conducted by the company. The right of restitution provided for in this article shall not be applied to the transfer of ownership of the stakes by inheritance or a will.

Article (166):

The company shall set a special register for the names of the partners and the number of the stakes owned by each of them and actions implemented on the stakes. The transfer of the ownership shall not be implemented in the face of the company or others but by registering the cause of transferring the ownership on the

mentioned register.

Article (167):

The company shall be run by a director or more of the partners or others and the partners appoint the managers in the company contract or in a separate contract for a certain uncertain period, paid or non-paid. It may be provided in the contract of the company for forming a Board of Directors of the managers if they were many. In this case, the contract shall define the method of the work of this board and the majority required for the decisions. The company is committed to the work of the managers within the limits of their authority declared and reported in accordance with the provisions of Article (164).

Article (168):

It is permissible to the partners to dismiss the managers appointed by the company's contract or a separate contract, without prejudice to their right to compensation if the dismissal occurred without an acceptable justification or at improper time. The managers shall be jointly liable for compensating the damage that may occur to the company or the partners or others due to the violation of the provisions of this regulation or the articles of the company's contract or because of what comes out of them of mistakes in the performance of their work. And any condition that requires otherwise shall be considered null and void. The partners' approval to discharge the managers does not preclude from bringing a claim of liability, and the claim of liability shall not be heard after the expiration of three years from the date of discovering the tort.

Article (169):

The limited liability company shall have one auditor or more in accordance with the provisions set in the section of the joint stock companies.

Article (170):

If the number of the partners exceeded twenty, it shall be provided in the company

contract to appoint a board of supervisors of three partners at least. If this increase occurred after the founding of the company, the partners shall do this appointment as soon as possible. The provisions of the Supervisory Board in the limited partnership in shares shall be applied to this supervisory board.

Article (171):

The stakes result in equal rights in the net profits and the surplus of the liquidation unless the contract of the company provides otherwise. Each partner shall have the right to participate in the deliberations and voting and a number of votes equal to the number of stakes he owns and no agreement may be performed otherwise. Each partner may entrust, in writing, another partner who is not of the directors to attend the meetings of the partners and voting, unless the company's contract provides otherwise. The partner who is not a manager, in the company which has no supervisory board, may advise the managers. He may also request access, in the center of the company, its business and inspect its books and documents within fifteen days prior to the date fixed for the presentation of the annual closing accounts to the partners and every term is contrary to that is considered null and void.

Article (172):

The decisions of the partners shall be issued in a General Assembly. However, in the company which has no more than twenty partners, it is permissible for them to show their opinions separately. In this case, the manager of the company shall send a registered letter to each partner with the proposed decisions to vote in writing. In all cases, the decisions shall not be valid unless approved by a number of partners representing half of the capital at least unless the contract of the company provides for a larger majority. If this majority is not available in the deliberation or at the first consultation, it is obligatory to call the partners to attend the meeting by registered letters and the decisions in this meeting shall be issued with the consent of the majority of the present members whatever capital they represent unless the company's contract stipulates otherwise.

Article (173):

It is not permissible to change the nationality of the partners or increase the financial burdens for them only with the consent of all the partners. In matters other than those two, the company's contract may be amended by the approval of the majority of partners representing three-quarters of the capital at least unless the company's contract provides otherwise.

Article (174):

The General Assembly is held by the call of the managers in accordance with the conditions specified by the company's contract and it shall be held at least once a year during the six months following the end of the fiscal year of the company. The Assembly may be called all the time at the request of the managers or the supervisory board or the auditor or a number of partners representing half of the capital at least. Minutes shall be drawn up with the summary of the deliberations of the General Assembly and the minutes and the decisions of the Assembly or of the partners shall be recorded in a special register prepared by the company for this purpose.

Article (175):

The managers shall prepare, for each fiscal year, the company's balance sheet and the profit and loss account within four months from the end of the fiscal year. The managers shall send a copy of these documents and a copy of the report of the Supervisory Board and a copy of the auditor's report to the General Administration of companies and to each partner within two months from the date of the preparation of the mentioned documents. Each partner, in the companies that do not have a General Assembly, may ask the managers to call the partners to attend a meeting for deliberation on those documents.

Article (176):

Each company shall set aside, in every year, at least 10% of its net profit for the

formation of a reserve, and the partners may decide to stop that when the reserve reaches half of the capital.

Article (177):

Without prejudice to the rights of non bona fide shareholders, every decision passed by the General Assembly or the partners in violation of the provisions of this regulation or the provisions of the company's contract shall be null and void.

However, it is not permissible to ask for nullification except by the partners who objected - in writing - to the decision or who were unable to object it after learning it. Confirming the nullification results in considering the decision null and void for all the partners and no nullification claim shall be heard after the expiration of one year from the date of the mentioned decision.

Article (178):

The company with limited liability shall not expire due to the withdrawal of one of the partners or putting him under quarantine or his bankruptcy or insolvency unless the company's contract stipulates otherwise.

Article (179):

The first paragraph of Article (147) shall be applied to limited liability companies in which all the shares are transferred to one partner.

Article (180):

If the losses of the limited liability company reached three-quarters of its capital, the managers shall call the partners to attend a meeting within a period of not more than thirty days from the date of the loss reaching that limit to consider the continuation of the company with the commitment of the partners to pay its debts or terminating it. The decision of the partners in this regard shall not be valid unless issued in accordance with Article (173). And in all cases, this decision shall be registered and declared as stipulated in Article (164). If the company continued to engage in its activities without issuing a decision of continuation or termination

as in the previous conditions, the partners shall be jointly liable for the payment of all the debts of the company and any concerned party may ask for terminating it.

## Part Eight

### The company with a changeable capital

#### Article (181):

Each company may provide in its contract or regulation that its capital can be increased by new payments from the partners or by the accession of new partners, or that its capital can be reduced by the partners retrieving their stakes in the capital. In this case, this provision shall be registered by registering ways specified for the type of company.

#### Article (182):

The company of a changeable capital is subject to the provisions contained in this section and what is inconsistent with the General Provisions specified for the type of company.

#### Article (183):

Increasing or reducing the capital in the company with a changeable capital is not subject to any special conditions or procedures unless the contract of the company provides otherwise.

#### Article (184):

At foundation, the company's capital shall not exceed fifty thousand Saudi Riyals and it may be increased after that by a decision of the partners from one year to another on condition that any increase does not exceed the mentioned amount.

#### Article (185):

If the partners' stakes took the form of shares, these shares shall be kept nominal

even after paying their full value. The mentioned shares shall not be commercialized except after the final foundation of the company. The contract of the company or its regulation may grant the managers or the members of the Board of Directors or the General Assembly the right to object to the transfer of the ownership of those shares.

Article (186):

The contract of the company or its regulation shall specify the amount which the capital cannot be less than as a result of the partners recover their portions. This amount shall not be less than one fifth of the capital of the company. This provision shall be registered by registering ways specified for the type of company.

Article (187):

Taking into account the provision of the previous article, each partner may withdraw from the company at any time unless the contract of the company provides otherwise. The contract of the company or its regulation may entitle the partners the authority to dismiss one partner or more by conditioned majority to amend the contract or regulation. The partner who withdrew or got dismissed shall remain responsible - in the face of partners and others for two years from the time of withdrawal or dismissal - for the fulfillment of all the commitments that existed at the time of ending his description as a partner.

Article (188):

The company shall not be terminated whatsoever by the withdrawal of one of the partners or his dismissal or death or putting him under quarantine or bankruptcy or insolvency, but it shall continue to exist between the other partners unless the contract of the company provides otherwise.

## Part Nine

### Cooperative company

#### Article (189):

It is permissible to found a joint-stock company or a limited liability company in accordance with the cooperative principles if they aimed for the benefit of all the partners and their joint efforts to the following purposes:

- 1- Reducing the price of the cost or the price of the purchase or the price for the sale of some products or services by the company practicing the business of producers or intermediaries.
- 2- Improving the product type or the level of the services provided by the company to the partners or provided by these to the consumers.

#### Article (190):

It is permissible to issue special regulations for a type or more of cooperative companies. In these cases, the provisions of this section shall not be apply on the company only in so far as not to conflict between them and the provisions of those special regulations. With the exception of the provisions contained in this section, the cooperative company shall remain - by its type - subject to the provisions of the joint stock company or the provisions of the limited liability company.

#### Article (191):

The cooperative company shall be with a changeable capital and subject to the provisions of Part Eight, with the exception of the provisions of Articles (184 and 186). However, the cooperative company's capital shall not fall due to the partners retrieve their shares for the highest amount reached after founding the company.

#### Article (192):

It may be provided in the contract of the cooperative company or in its regulation



for the responsibility of the partners - in the case of the company's bankruptcy or insolvency — shall be an extra responsibility for its debts within the limits of twice the value of partners' stakes.

Article (193):

The cooperative company's capital shall be divided into stakes or nominal shares with an equal value and are indivisible in the face of the company. And the value of the stake or the share shall not be less than ten Saudi Riyals nor more than fifty Saudi Riyals, and the paid value of the stake or the share at founding the company shall not be less than the quarter, and the rest shall be paid within a period not exceeding three years from the date of the final foundation of the company.

Article (194):

The contract or its regulation may allow non-partners to benefit from its activity, but in this case the company shall accept those who were allowed to benefit from its activities or those who were beneficial to the company as partners whenever they ask for that and they meet the conditions set forth in the company's contract or regulation.

Article (195):

All the partners in the cooperative company shall have equal rights and shall not be discriminated on the grounds of the date of joining to it.

Article (196):

It is permissible for the cooperative companies — for the service of their common interests - to form a cooperative union or more than one in accordance with the provisions of the cooperative companies.

Article (197):

The cooperative companies may benefit from all the benefits scheduled for the cooperative societies. And the Ministry of Commerce and Industry has as much

authority over the cooperative companies concerning supervisory or termination as the Ministry of Labor and Social Affairs of the mentioned matters under the regulation of cooperative societies.

Article (198):

The cooperative joint-stock company is not subject to the condition of obtaining a royal decree as stipulated in Article (52). Also, the cooperative company with limited liability is not subject to the maximum number of partners provided for in Article (157).

Article (199):

For founding the cooperative company, whatever its kind is, it is required to obtain a license from the Ministry of Commerce and Industry in accordance with the conditions specified by the license. The license application shall be attached with a copy of the contract of the company and its regulation signed by the partners and other founders. The contract or the regulation of the company shall include, beside all the necessary data depending on the type of company, the following data:

- 1- The conditions of the admission of new partners and the conditions of the withdrawal and dismissal of the partners.
- 2- Additional responsibility of the partners for the debt of the company in the case of bankruptcy or insolvency.
- 3- Determination of the percentage distributed to the partners of the net profits and the method of distributing the transactions dividends on them.

And when the company meets the terms of its founding, the members of the Board of Directors shall submit, within fifteen days from the mentioned time, an application to the Minister of Commerce and Industry to declare the foundation of the company in accordance with the conditions specified by the mentioned minister. The company shall be considered founded correctly and valid from the date of issuing the referred decision. Then, no nullification claim shall be heard

against the company for any violation of the foundation provisions set forth in this regulation or in the company contract or its regulation.

Article (200):

The company shall publish in the Official Gazette at its expense decision of the Minister of Commerce to declare its founding attached by a copy of its contract and regulation. The members of the Board of Directors shall, within fifteen days from the date of the mentioned decision, request registering the company in the register of companies at the General Administration of companies and they shall also, during the same appointment, register the company in the commercial registration in accordance with the provisions of the CR regulation. And each amendment that may occur to the company or its regulation shall be registered by the same methods.

Article (201):

The cooperative company is run by a Board of Directors that consists of a number determined by the contract of the company or its regulation provided that it shall not be less than three. And the members of the Board of Directors shall not receive any wages for their work. The contract or the regulation of the company identifies the duration of the membership of the Board of Directors provided that it shall not be more than five years. And the General Assembly may all the time dismiss all the members of the Board of Directors or some of them.

Article (202):

The administration of the cooperative company shall submit to the delegates of the Ministry of Commerce, at their request, its books, records and documents. And it shall also provide them with all the data and explanations that demonstrate the company's commitment to the provisions of this regulation.

Article (203):

The decisions of the partners shall be issued in the General Assembly and each

partner shall have the right to attend it and have one vote in its deliberations, irrespective of the number of his portions or shares. However, the contract or the regulation of the company may provide for dividing the partners into sections and each section shall meet, and its members deliberate separately, and each section chooses from among its members those who may attend the General Assembly. And it may be provided in the contract of founding the Cooperative Union or its regulation for granting the member companies a number of votes proportional to the number of their factual members or with their dealings with the Union. With the exception of the provisions contained in this Article, the provisions of the shareholders societies in the joint stock company shall be applied to the General Assembly of the partners in the cooperative company.

Article (204):

It is permissible for the partners' stakes in the cooperative company with limited liability to take the form of shares. The stakes or shares shall not be waived except by the consent of the Board of Directors or the General Assembly in accordance with the terms of the company or its regulation. The contract or the regulation of the company may prevent the company from this waiver and without prejudice to the right of the partner to withdraw from the company. The company may waive to claim due amounts owed by one of the partners, but this results in dismissing the partner from company after warning him to pay those amounts through at least sixty days from the date of the mentioned warning. If one of the partners withdrew or got dismissed from the company or died and he was worth retrieving his stake, it is not permissible for him or his heirs to get more than the value of the this stake estimated on the basis of the balance sheet of the fiscal year in which the withdrawal or dismissal or death occurred, after deducting — if necessary - his stake in the loss of the capital.

Article (205):

A percentage of the net profits determined by the contract or regulation of the company shall be distributed to the partners, provided that it shall not exceed 6% of

the paid-up capital. The contract or the regulation of the company may provide that in the case of insufficient net profits for the distribution of the mentioned percentage to the partners, the necessary amounts for that shall be deducted from the reserves or from the profits of the following four years. With the exception of the percentage referred to in the first paragraph of this article, no profits shall be distributed to the partners but as far as what belongs to them of the revenues of the transactions in accordance with the conditions determined by the company's contract or regulation. This distribution shall not include the profits resulting from the company's transactions with the public.

Article (206):

The company shall set aside, each fiscal year, at least 10% of the profits remaining after the distribution of the amounts set forth in the first and third paragraphs of the previous article until the mentioned reserve equals the amount of the capital.

Article (207):

After setting aside the amounts provided for in the preceding two articles, the surplus profit shall be carried over to the reserve or allocated to assist other companies or cooperative unions or directed to public utility services.

Article (208):

It is not permissible to increase the cooperative company's capital by the integration of the reserve in the capital or by discharging the stakes from the rest of their value. It is not permissible to cancel the cooperative character of the company.

Article (209):

In the case of the termination of the cooperative company, the surplus of the liquidation shall be transferred - by the decision of the General Assembly - to other companies or cooperative unions or allocated for public utility services.

## Part 10

### Transformation and Integration of the Companies

#### Chapter (1)

##### Transformation of the companies

###### Article (210):

It is permissible for the company to transform to any other type of companies by a decision issued in accordance with the conditions prescribed for the amendment of the contract of the company or its regulations provided that it meets the requirements of foundation and registering prescribed for the type that the company transformed to. However it is not permissible for the cooperative company to transform into another type, but other companies may transfer to cooperative companies. In case the company transfers to a joint stock company or a limited partnership in shares, the provision of Article (100) of this regulation shall be applied to the shareholders provided that the ban period begins from the date of issuing the decision of the approving the transformation of the company. However, if the company's transformation coupled with an increase in its capital using IPO, the ban shall not be applied to the underwritten shares by this way.

###### Article (211):

The transformation of the company does not result in creating a new legal person and the company remains retaining its rights and commitments prior to the mentioned transformation.

###### Article (212):

The transformation of the joint company or Partnership Company does not result in discharging the general partners of the responsibility for the company's debts unless the creditors accept that and this acceptance is assumed if none of the creditors object to the decision of transformation within thirty days from the date of

his notification by a registered letter.

## Chapter (2)

### Integration of companies

#### Article (213):

It is permissible for the company, even if it is in the phase of liquidation, to integrate into another company of its kind or of another kind, but the cooperative company shall not be integrated into a company of another kind.

#### Article (214):

The integration is conducted by joining of one or more companies to another existing company or by combining two or more companies in a new company under foundation. The integration contract determines the conditions and shows, in particular, the method of evaluating the security of the integrated company and the number of stakes or the shares belong to it in the capital of the integrating company. The integration shall not be valid unless the decision made by each company is issued in accordance with the conditions of transforming the company prescribed in the contract of the company or its regulation. This decision shall be registered and declared in the applied ways of registering and fanning of the amendments that occur to the contract of the integrated company or its regulation.

#### Article (215):

The integration decision shall be implemented only after the expiry of ninety days from the date of registering. The creditors of the integrated company may, during the mentioned time, object the integration by a registered letter sent to the company. In this case, the integration remains suspended until the creditor waives his objection, or until (authority of dispute settlement of the commercial companies) judges - based on the company's request - the invalidity of the

mentioned objection or that the company offers a guarantee sufficient to discharge the debt of the objector whether it is instant or delayed. If no objection is provided within the mentioned time, the integration is considered effective.

## Part (11)

### Liquidation of companies

#### Article (216):

The company, as soon as it expires, enters the phase of liquidation and retains the legal personality to the extent necessary for the liquidation and until the liquidation ends.

#### Article (217):

The authority of the managers or the Board of Directors ends upon the expiry of the company. However they remain in charge of the administration of the company and are considered, for others, as liquidators until the liquidator is appointed.

#### Article (218):

The liquidation shall be conducted by one liquidator or more of the partners or from others. The partners or the General Assembly shall appoint the liquidators or replace them and determine their powers and remuneration. If (authority of dispute settlement of the commercial companies) decides to termination or the invalidity of the company, it shall appoint the liquidators and determine their powers and remuneration.

#### Article (219):

If liquidators are many, they shall work together unless the appointing authority declares them to work separately. And they shall be jointly liable to compensate the damage that occur to the company, partners and others as a result of exceeding the limits of their powers or as a result of the mistakes committed by them during the



performance of their work.

Article (220):

Subject to the restrictions contained in the document of appointing the liquidators, they shall have the highest powers in converting the assets of the company into cash, including the sale of the movables and real estate by bidding or auction. But the liquidators may not sell the company's funds in full or offer them as a stake in another company unless allowed by the authority that appointed them. The liquidators may not start new works unless it is required for the completion of the previous work.

Article (221):

The liquidators shall register and declare the decision issued to appoint them and the restrictions imposed on their powers in the due registering and declaring ways to the amendment of the company's contract or regulation.

Article (222):

The liquidators shall repay the debts of the company, if they were due, and set aside the necessary funds to repay them if they were delayed or disputed. The debts arising from the liquidation have the priority over other debts. After repaying the debts as described, the liquidators return to the partners the value of their portions in the capital and distribute the surplus on them thereafter in accordance with the provisions of the company's contract. If the contract does not include provisions in this regard, the surplus shall be distributed on the partners according to their stakes in the capital, and if the net assets of the company are not sufficient to fulfill the stakes of the partners, the loss shall be distributed among them according to the prescribed percentage in the distribution of losses.

Article (223):

The liquidators shall set, within three months of assuming their work and in conjunction with the auditor of the company, if any, an inventory of all that the

company's assets and liabilities. The managers or members of the Board of Directors shall submit to the liquidators, in this event, the company's books, records, documents and clarifications and the data that they require. At the end of each fiscal year, the liquidators shall prepare a balance sheet and profit and losses account and a report on the work of the liquidation, and all these documents shall be submitted to the partners or the General Assembly for approval in accordance with the provisions of the contract the company or its regulation. At the end of the liquidation, the liquidators offer a final account on their work and the liquidation ends only with the ratification of the partners or the General Assembly on the said account and the liquidators declare the end of the liquidation by the methods referred to in Article (221).

Article (224):

The company is committed to the work of the liquidators within the limits of their powers and conducting the mentioned work does not entail any responsibility on the liquidators.

Article (225):

The company's panels shall have their competence assigned to them in this regulation or in the contract or the regulation of the company to the extent that is inconsistent with the terms of the competence of the liquidators. The partner remains competent to access the company documents as scheduled in this regulation or in the company's contract or regulation.

Article (226):

No claim shall be heard against the liquidators because of the liquidation after three years passed, and after declaring the end of the liquidation in accordance with the provisions of Article (223) and also no claim shall be heard - after the expiry of the mentioned period - against the partners because of the company's business or against the managers or the members of the Board of Directors or the auditors because of their jobs.

## Part (12)

### Foreign companies

#### Article (227):

Without prejudice to the provisions of the foreign capital investment or the special agreements concluded with some companies, the provisions of this regulation shall be applied to foreign companies operating in the Kingdom, except for the provisions related to the foundation of companies.

#### Article (228):

The foreign companies shall not found branches, agencies or offices that represent them or issue or offer securities for underwriting or sale in the Kingdom without a license from the Minister of Commerce, and these branches, agencies or offices shall be subject to the provisions of the regulations of the Kingdom regarding the type of the practiced activity. If the branch or agency or office practiced works before meeting the conditions set forth in this regulation or other regulations, the people who conducted these works shall be responsible for them personally and as a matter of solidarity.

## Section (13)

### Penalties

#### Article (229):

Without prejudice to what is required under the provisions of the Islamic regulation, he/she shall be punishable by imprisonment for a period not less than three months but not exceeding one year and a fine of not less than five thousand

Saudi Riyals and not exceeding twenty thousand Saudi Riyals, or either.

- 1- Everyone who registers - deliberately - in the company's contract or regulation, or in underwriting bulletins or in other company documents or in the application for a license to found the company false data or contrary to the provisions of this regulation and all of those who signed these documents or distributed them with their knowledge about that.
- 2- Every founder or manager or member of the Board of Directors extended a call for public underwriting for shares or bonds in violation with the provisions of this regulation and all of these who offered these shares or bonds for underwriting to the company's account with his knowledge of that violation.
- 3- Every one of the partners or others who exaggerated, with ill intent, in the valuation of the stakes in-kind or the special features.
- 4- Everyone who founded a cooperative company in violation with the provisions of this regulation and each member of the Board of Directors or an auditor who began that work with his knowledge of the violation.
- 5- Every manager or member of the Board of Directors who received or distributed, to the partners or others, fictitious profits.
- 6- Every manager or member of the Board of Directors or an auditor or a liquidator who mentioned - intentionally - false data in the balance sheet or in the profit and loss account or in one of the reports of the partners or the General Assembly or omitted to include these reports some substantial facts with a view to conceal the financial position of the company from the partners or others.
- 7- Every government employee who divulges the secrets of the company, which he briefed by virtue of his job, to the non-competent authorities.
- 8- Every official in a company who does not take into account the application of the mandatory rules issued by the regulations or decisions.
- 9- Every official in a company who does not comply with the instructions issued by the Ministry of Commerce without reasonable causes with respect to the commitments of the company or briefing the delegates of the ministry on the documents and records or providing data and information needed by the ministry.
- 10- The fines prescribed in the preceding two paragraphs (8) and (9) shall be

aggregated from the reward of the members of the Board of Directors in accordance with the provisions of Article (76) of this regulation.

Article (230):

Without prejudice to what is required under the provisions of the Islamic religion, he/she shall be punishable by a fine of not less than one thousand Saudi Riyals and not more than five thousand Saudi Riyals.

- 1- Everyone who violates the provisions of Article (12).
- 2- Everyone who issues shares or loan bonds or underwriting receipts or temporary certificates or offers them for commercializing at odds with the provisions of this regulation.
- 3- Every manager or board member who neglected in providing the public administration for companies with the documents stipulated in this regulation.
- 4- Every manager or member of the Board of Directors who hampered the work of the auditor.

Article (231):

If a claim cannot be brought against those who have committed one of the violations set forth in the preceding two articles and the competent authority brought the claim against the company, it may be judged by the fine assessed for this violation. And in the case of recidivism, the penalty provided for in the two preceding articles shall be doubled.

Part (14)

Authority of dispute settlement of the commercial companies (1)

Article (232):

Under this regulation, an authority called (the Authority of dispute settlement of the commercial companies). It consists of three members of specialists and the mentioned authority shall settle the disputes arising from the application of this

regulation and impose the penalties set forth herein. And a decision of the Council of Ministers shall be issued to form such an authority on the proposal of the Minister of Commerce. The Board also determines its procedures and the authority shall be provided with sufficient number of technical and administrative staff (2).

(1) The transfer of jurisdiction of the Authority of dispute settlement of the commercial companies to the Bureau of Grievances under the Council of Ministers Decision No. 241, dated 26/10/1407 AH.

(2) The article has been voided by the Royal Decree No. M / 63 dated 26/11/1407 AH.

Part (15)

Final provisions

Article (233):

The Minister of Commerce shall issue the decisions and regulations necessary to implement the provisions of this regulation.

Article (234):

All the provisions that are inconsistent with the provisions of this regulation shall be voided.

Royal Decree No. M/5 dated 12/02/1387 AH

With the Help of Allah the Almighty,

By the Name of His Excellency the King, We, Khalid Bin Abdul Aziz Al-Saud, King Of the Kingdom of Saudi Arabia,

After reviewing the Royal Order No. 5 - 5/1/33 dated 27/01/87 date and after reviewing Article (20) of the Council of Ministers regulation issued by Royal Decree No. 38 and 22nd Shawwal 1377 AH.

And after reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/85 AH and after reviewing the Council of Ministers Decision No. 218 dated 08/02/87, we have decreed what is to come.

**First** - The end of Article (229) of the Companies Regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH shall contain the following paragraphs:

8- Every company that does not take into account the application of the mandatory rules issued by the regulations or decisions.

9- Every company that does not comply with the instructions issued by the Ministry of Commerce and Industry without reasonable causes with respect to the commitments of the company or briefing the ministry delegates on the documents and records or providing the data and information needed by the ministry.

10- The fines prescribed in the preceding two paragraphs (8) and (9) shall be aggregated from the reward of the members of the Board of Directors in accordance with the provisions of Article (76) of this regulation.

**Second** — The Deputy Prime Minister and Minister of Commerce and Industry shall implement our decree this.

Royal Signature

**Royal Decree No. M/23 dated 28/06/1402 AH**

With the Help of Allah the Almighty,

We, Khalid Bin Abdul Aziz Al Saud

King of the Kingdom of Saudi Arabia

After reviewing Article (19) and Article (20) of the regulation of the Council of Ministers issued by Royal Decree No. (38) dated 22nd Shawwal 1377 AH, and after reviewing the companies' regulation issued by Royal Decree No. (M/6) and the date 22/03/1385 AH amended by Royal Decree No. (M/5) and the date 12/02/1387

AH and after reviewing the Council of Ministers decision No. 17 dated 20/01/1402 AH,

We have decreed the following:

**First:** The following amendments shall be added to the Companies Regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH amended by Royal Decree No. M/5 dated 12/02/1387 AH.

1- The phrase (the General Administration of companies) shall replace the phrase (the Companies Authority) wherever it appears in the regulation and the word (evaluation) wherever mentioned shall be modified to be (estimation).

2- Amending the second article in the section of the General Provisions to the following text:

A) The provisions of this regulation and what is inconsistent with it of the terms of partners and custom rules on the following companies:

1. Joint Company.
2. Limited Partnership.
3. Particular Partnership.
4. Joint Stock Company.
5. Partnership by Shares.
6. Limited Liability Company.
7. Companies of Changeable Capital.
8. Cooperative Company.

Without prejudice to the companies known in Islamic jurisprudence, every company that does not take one of the mentioned forms shall be void and the people who contract on behalf are personally and jointly liable for the commitments arising from this contract. The Council of Ministers may, by a decision, amend the minimum and maximum limits for the capital companies stipulated in this regulation.

B) The provisions of this regulation shall not be applied on the companies that are founded or co-founded by the state or other public legal persons, provided that these companies get a license issued by a royal decree that includes the provisions that the company shall be subject to.



C) The second paragraph of Article (51) is void.

3- The words of the last paragraph of Article (9) shall be amended to the following text:

If the partner's stake is limited to his work and the contract of the company did not decide his portion in the profit or loss, he may request the estimation of his work and this estimation shall be the basis for determining his stake in the profit or loss in accordance with the rules set forth. If the partners were many at work without estimating each one's stake, these portions shall be considered equal unless the contrary is proved. If the partner offered a stake in cash or in kind as well as his work, he shall have a stake in the profit or loss from his portion of the work and another portion for his stake in cash or in kind.

4- Article (49) shall be amended to the following text:

The capital of the joint stock company, which put its shares for public underwriting, shall not be less than ten million Saudi riyals, with the exception of this case; the company's capital shall not be less than two million Saudi riyals. The paid-up capital at the founding of the company shall not be less than half of the minimum taking into account what is required by Article (58), and the value of the share shall not be less than fifty Saudi Riyals.

5- The first paragraph of Article (52) shall be amended to the following text:

It is not permissible to found the following joint stock companies without a license issued by a royal decree on an approval of the Council of Ministers and the presentation of the Minister of Commerce to take into account as required by the regulations. The companies that:

- A) Are privileged.
- B) Manage a public utility.
- C) The state provides a subsidy to them.
- D) The state or other public legal persons are involved in.
- E) Practice banking business.

The other joint stock companies shall not be founded without a license issued by the Minister of Commerce and published in the Official Gazette. The Minister of

Commerce shall not issue the said license but after reviewing a study that shows the economic feasibility for the purposes of the company unless the company has made such a study for another government competent authority that authorized the foundation of the project.

6- Article (54) shall be amended to the following text:

If it the founders did not confine underwriting all shares to themselves, they shall float for public underwriting the shares that have not been underwritten within thirty days from the date of the publication of the royal decree or the decision of the Minister of Commerce authorizing the foundation of the company in the Official Gazette. The Minister of Commerce is authorized, when necessary, to extend this time for a period that does not exceed ninety days.

7- The following statement shall be added to the end of Article (59) (taking into account as determined by the Minister of Commerce, in each case for small underwriters).

8- The following statement shall be added at the end of paragraph (2) of Article (66) as follows:

The Council of Ministers may determine the number of the boards of directors in which the member may be appointed.

9- The phrase (not less than two hundred) contained in Article (68) shall be amended to these words (not less than ten thousand riyals)

10- Article (79) shall be amended to the following text:

Taking into account the provisions of the company, the Board of Directors shall appoint from among its members a president and a managing director, and it is permissible that a member may combine between the position of the president of the Board and the position of the managing director. The regulation of the company shows the competence of the president of the Board and the managing director, and the special remuneration earned by each of them in addition to the set remuneration for the council members. If the company's regulation did not include

provisions in this regard, the Board of Directors shall undertake the distribution of the competences and setting the special remuneration. The Board of Directors shall appoint a secretary chosen from among its members or others and sets his competence and remuneration if the company's regulation did not include provisions in this regard. The duration of the president of the Board and the managing director and the secretary the member of the Board of Directors shall not exceed the duration of the membership of each of them in the Board. It is always permissible to re-appoint the managing director and the secretary the member of the Board of Directors unless the company's regulation provides otherwise. For the President of the Board, his presidency of the Board shall be confined to a single period. And the Board, all the time, may dismiss all of them or some of them without prejudice to their right to compensation if the dismissal occurred for an unacceptable justification or at an improper time.

11- A third paragraph shall be added to the end of Article (83) that reads as follows: (The Ministry of Commerce may send a delegate or more to attend the General Assemblies as observers).

12- The following statement shall be added to the last paragraph of Article (87) after the statement (a number of shareholders representing 2% of the capital, at least) the following phrase:  
(or upon a decision from the Minister of Commerce).

13- Article (88) shall be amended to the following text:  
The call for holding the General Assembly shall be published in the Official Gazette and in a daily newspaper distributed in the main center of the company twenty-five days at least before the time set for holding. However, if all the shares are nominal, it is sufficient to call for holding in the mentioned time by registered letters and the call shall include the agenda and a copy of the call and the agenda shall be sent to the General Administration of the companies in the Ministry of Commerce within the time limit for publication.

14- Article (89) shall be amended to the following text:  
The Board of Directors, for each fiscal year, shall prepare the balance sheet of the company, the profit and loss account, a report on the activities of the company, its

financial position and the way in it proposes for the distribution of the net profits at least sixty days prior to the annual meeting of the Ordinary General Assembly. The President of the Board of Directors shall sign the referred documents, and the copies thereof shall be deposited in the main center of the company at the disposal of the shareholders twenty-five days at least before the deadline for the General Assembly. The President of the Board of Directors shall publish, in a newspaper distributed in the main center of the company, the balance sheet of the company, the profit and loss account and a compendium of the report of the Board of Directors and the full text of the auditor's report, and send a copy of these documents to the General Administration of Companies twenty-five days at least before the date of the General Assembly.

15- Article (97) shall be amended to the following text:

Without prejudice to the rights of non-bona fide, every decision issued by the assemblies of the shareholders in violation of the provisions of this regulation or to the provisions of the company's regulation and the General Administration of companies shall be null and void. And each shareholder who objected in the minutes of the meeting on the decision or was absent from the meeting because of an acceptable reason may ask for the nullity, and the nullity results in considering the decision null and void for all the shareholders. No claim for nullity shall be heard after the expiration of one year from the date of the said decision.

16- The period set out in Article (123) shall be amended so as to be "fifty-five days at least" instead of "twenty-five days at least".

17- The first paragraph of Article (136) shall be amended to be the following:

The shareholders have a priority for underwriting the new cash shares unless the company's regulation includes their waiver of that right or restricting it. The Council of Ministers may, upon the proposal of the Minister of Commerce after agreement with the Minister of Finance and National Economy, cancel or restrict the priority right for the following companies that:

- A) Are privileged.
- B) Manage a public utility.
- C) The state provides a subsidy to them.
- D) The state or other public legal persons are involved in.

E) Practice banking business.

The provision of this paragraph applies to the companies even if they were founded prior to its entry into force. This article does not apply to the oil and mineral companies that operate under special agreements issued by royal decrees.

18- The wording of the first paragraph of Article (150) shall be amended to be the following text:

The capital of the company of partnership of shares shall not be less than one million Saudi riyals and the paid part shall not be less than half of the minimum at the foundation of the company.

19- The first paragraph of Article (158) shall be amended to be as follows:

The capital of the limited liability company shall not be less than five hundred thousand Saudi Riyals and the capital shall be divided into portions of equal value and these portions shall not be represented in bonds that can be commercialized.

20- The statement (if named in the contract of the company) shall be added to the end of the statement (3) of Article (161) so that it reads as follows:

The names of the managers whether they are from the partners or others if named in the contract of the company..

21- Article (164) shall be amended to the following text:

The managers of the company shall, within thirty days of its founding, ask - at the expense of the company — for publishing a summary of its contract in the Official Gazette and the mentioned summary shall include the articles of the contract related to the data referred to in Article (161). And also the managers shall ask, at the same mentioned time limit, for registering the company in the companies' register in the Public Administration of Companies, and they also shall register the company in the commercial register in accordance with the provisions of the CR regulation. The mentioned provisions shall apply to each amendment made to the company's contract.

22- The duration (three months) stipulated in Article (174) shall be amended to the duration (six months).

23- A) The phrase (within two months) contained in the first paragraph of Article (175) shall be amended to the phrase (within four months).

B) The phrase (within fifteen days) contained in the second paragraph of Article (175) shall be amended to the phrase (within two months).

24- A) The paragraph (8) of Article (229) shall be amended to the following text:  
(Every official in the company that does not take into account the application of the mandatory rules issued by the regulations or decisions).

B) The paragraph (9) of Article (229) shall be amended to the following text:  
(Every official in the company that does not comply with the instructions issued by the Ministry of Commerce without a reasonable cause with respect to the commitments of the company or briefing the ministry delegates on the documents and records or providing the data and information needed by the ministry).

25- Article (233) shall be added to the regulation to read as follows:

(The Minister of Commerce shall issue the decisions and regulations necessary to implement the provisions of this regulation).

And the number of the original Article (233) shall be amended to (234).

**Second:** These amendments apply to the existing companies even if they were founded before the amendments come into force, except for the provisions contained in items (4 - 18 – 19) of FIRST in these amendments.

**Third:** The Deputy Prime Minister and the Ministers according to their competences shall implement our decree.

**Fourth:** This Decree shall be published in the Official Gazette and shall take effect from the date of its publication.

## Royal Decree No. M/46 dated 04/07/1405 AH

With the Help of Allah the Almighty

We, Fahd bin Abdul Aziz Al Saud

King of the Kingdom of Saudi Arabia

After reviewing Article (20) of the regulation of the Council of Ministers issued by Royal Decree No. M/38 dated 22/10/1377 AH,

After reviewing the companies' regulation issued by Royal Decree No. (M/6) dated 22/03/1385 AH amended by Royal Decree No. (M/5), dated 12/02/1387 AH and the Royal Decree No. (M/23) dated 28/06/1402 AH

After reviewing the Council of Ministers Decision No. 80 dated 30/04/1405 AH.

We have decreed the following:

### **First:**

Article (79) of the Companies' Regulation issued by Royal Decree No. (M/6) dated 22/03/1385 AH amended by Royal Decree No. (M/5), dated 12/02/1387 AH and the Royal Decree No. (M/23) dated 28/6/1402 AH shall be amended to be replaced by the following text:

"Subject to the provisions of the Companies' Regulation, the Board of Directors shall appoint from among its members a president and a managing director. One member may combine between the position of the president of the Board of Directors and the position of the managing director. The company's regulation shows the competence of the president and the managing director and the special remuneration earned by each of them in addition to the set remuneration for the board members. If the company's regulation did not include provisions in this regard, the Board of Directors shall undertake the distribution of competences and identify the special remuneration.

The Board of Directors shall appoint a secretary chosen from among its members or others and sets his competence and remuneration if the company's regulation did not include provisions in this regard. The duration of the president of the Board, the managing director and the secretary who is the member of the Board of Directors, shall not exceed the duration of the membership of each of them in the

Board. It is always permissible to re-appoint the managing director and the secretary the member of the Board of Directors unless the company's regulation provides otherwise. For the President of the Board, his presidency of the Board may be renewed for one other period only. And the Board, all the time, may dismiss all of them or some of them without prejudice to their right to compensation if the dismissal occurred for an unacceptable justification or at an improper time.

**Second:**

The Deputy Prime Minister and the Ministers, each in his competences shall implement our decree.

**Royal Decree No. M/63 dated 26/11/1407 AH**

With the Help of Allah the Almighty

We, Fahd bin Abdul Aziz Al Saud  
King of the Kingdom of Saudi Arabia

After reviewing Article (20) of the regulation of the Council of Ministers issued by Royal Decree No. M/38 dated 22/10/1377 AH,

After reviewing the companies' regulation issued by Royal Decree No. (M/6) dated 22/03/1385 AH

After reviewing the Council of Ministers Decision No. 241, dated 26/10/1407 AH.

We have decreed the following:

First: Article (232) of the Companies' Regulation issued by Royal Decree No. (M/6), dated 22/03/1385 AH to be cancelled.

Second: The Deputy Prime Minister and the Ministers, each in his competences shall implement our decree.



## Royal Decree No. M/22 dated 30/07/1412 AH

With the Help of Allah the Almighty

We, Fahd bin Abdul Aziz Al Saud

King of the Kingdom of Saudi Arabia

After reviewing Articles (19 & 20) of the regulation of the Council of Ministers issued by Royal Decree No. (38) dated 22/10/1377 AH,

After reviewing the Companies' Regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH, and its amendments.

And after reviewing the Council of Ministers Decision No. (90) dated 30/07/1412 AH, we have decreed the following:

First: The Articles (10, 25, 76, 77, 168, 180, 210, 231) of the companies' regulation issued by royal decree No. M/6 dated 22/03/1385 AH and its amendments shall be amended to be as follows:

1- Article (10): "With the exception of the joint venture company, the company's contract shall be registered in writing before a notary otherwise the contract is unenforceable against others. The partners may not object to others by the unenforceability of the contract that has not been registered as advanced, but others may object by it against them. The managers of the company or its board members shall be jointly liable for compensating the damage that may occur to the company or the companies or others due to lack of writing its contract.

2- The item "d" of the first paragraph of Article (52) amended by Royal Decree No. M/32 dated 28/06/1402 AH, to be as follows:

It is not permissible to found the following joint stock companies without a license issued by the a royal decree upon the approval of the Council of Ministers and the presentation of the Minister of Commerce, provided that the regulations should be taken into account:

- A) Are privileged.
- B) Manage a public utility.
- C) The state provides a subsidy to them.
- D- Involve the State or other public legal persons with the exception of the General Organization for Social Insurance and Pension Fund.
- E) Practice banking business.

As for other joint stock companies, it is not permissible to found them without a license issued by the Minister of Commerce and published in the Official Gazette. The Minister of Commerce shall issue the mentioned license only after reviewing the study that shows the economic feasibility of the purposes of the company unless the company has submitted such a study to another competent governmental authority that authorized the foundation of the project.

3- Article (76): The members of the Board of Directors are jointly liable for the compensation of the company or shareholders or others for the damage arising from their mismanagement of the affairs of the company or violating the provisions of this regulation or the texts of the company's regulation. Each condition provides otherwise is considered null. The responsibility shall be of all the members of the Board of Directors if the error arose by a decision issued by their consensus; for the decisions made by the majority of opinions, the objectors to that decision are not liable as soon as they could prove explicitly their objection in the meeting. Absence from attending the meeting which issued the decision shall not be considered a reason for exemption from liability unless the member has proven his lack of knowledge of the decision or not being able to object after knowing it. The Ordinary General Assembly's approval to discharge the members of the Board of Directors shall not preclude bringing a claim of liability. The claim of liability shall not be heard after the expiration of three years from the date of discovering the tort.

4- Article (77): The Company may bring a claim of liability against the members of the Board of Directors due to the errors that cause damages to the total shareholders. The General Assembly decides to bring this claim and appoint a representative of the company to conduct it. If the company's bankruptcy has occurred, bringing the said claim shall be of the competence of the representative of the bankruptcy. And if the company has been terminated, the liquidator shall

immediately pursue the claim after obtaining the approval of the Ordinary General Assembly.

5- Article (168): It is permissible to the partners to dismiss the managers appointed by the company's contract or by a separate contract, without prejudice to their right to compensation if the dismissal occurred without an acceptable justification or at improper time. The managers shall be jointly liable for compensating the damage that may occur to the company or the partners or others due to the violation of the provisions of this regulation or the articles of the company's contract or because of what comes out of them of mistakes in the performance of their work. And any condition that requires otherwise shall be considered null and void. The partners' approval to discharge the managers does not preclude from bringing a claim of liability, and the claim of liability shall not be heard after the expiration of three years from the date of discovering the tort.

6- Article (180): If the losses of the limited liability company reached three-quarters of its capital, the managers shall call the partners to attend a meeting within a period of not more than thirty days from the date of the loss reaching that limit to consider the continuation of the company with the commitment of the partners to pay its debts or terminating it. The decision of the partners in this regard shall not be valid unless issued in accordance with Article (173). And in all cases, this decision shall be registered and declared as stipulated in Article (164). If the company continued to engage in its activities without issuing a decision of continuation or termination as in the previous conditions, the partners shall be jointly liable for the payment of all the debts of the company and any concerned party may ask for terminating it.

7- Article (210): It is permissible for the company to transform to any other type of companies by a decision issued in accordance with the conditions prescribed for the amendment of the contract of the company or its regulations provided that it meets the requirements of foundation and registering prescribed for the type that the company transformed to. However, it is not permissible for the cooperative company to transform into another type, but other companies may transfer to cooperative companies. In case the company transfers to a joint stock company or a limited partnership in shares, the provision of Article (100) of this regulation shall

be applied to the shareholders provided that the ban period begins from the date of issuing the decision of the approving the transformation of the company. However, if the company's transformation coupled with an increase in its capital using IPO, the ban shall not be applied to the underwritten shares by this way.

8- Article (231): If a claim cannot be brought against those who have committed one of the violations set forth in the preceding two articles and the competent authority brought the claim against the company, it may be judged by the fine assessed for this violation. And in the case of recidivism, the penalty provided for in the two preceding articles shall be doubled.

Second: The current text of Article (108) of the Companies' Regulation, paragraph (1) shall be considered, and two new paragraphs with number (2) and (3) shall be added to the wording of Article (108) to be as follows:

(1) The shareholder is confirmed to have all the rights related to the share, and in particular the right to receive a portion of the profits determined to be distributed, the right to receive a portion of the company's assets upon liquidation, the right to attend the assemblies of shareholders and participate in its deliberations and vote on decisions, the right to dispose of shares, the right to request access on the company's books and documents, and to monitor the work of the Board of Directors and bring a claim of liability against the members of the Board and appeal the invalidity of the decisions of the shareholders' assemblies. All this shall be conducted according to the conditions and restrictions contained in this regulation or in the company's regulation.

(2) Based on a provision in its regulation and after the approval of the Minister of Commerce and in accordance with the principles defined by him, the company may issue preferred shares that do not give the right to vote, and not exceeding 50% of its capital. The company shall arrange the mentioned shares to the owners as well as the right to participate in the net profits distributed on the ordinary shares as follows:

A- The right to obtain a certain percentage of the net profits of not less than 50% of the nominal value of the share after setting aside the statutory reserve and before any distribution to the company's profits.

B- A priority to retrieve the value of their shares in the capital upon liquidation of the company and obtain a certain percentage of the output of the liquidation. The Company may purchase these shares in accordance with the principles and the manner prescribed by its regulation provided that this regulation shall not include any provision for forcing the shareholder to sell his shares, and these shares shall not enter the account of the required quorum for the convening of the General Assembly of the company stipulated in the articles (91/92).

(3) In the case of not distributing any profits for any fiscal year, it is not permissible to distribute profits for the following years but after paying the percentage referred to in the previous paragraph (2) to the shareholders of no voting shares for this year. And if the company fails in paying this percentage of the profits for three consecutive years, it is permissible for the Assembly — special for the owners of these shares — held in accordance with the provisions of Article (86) to decide either they may attend the meetings of the General Assembly of the company and participate in the vote or appoint representatives in the Board of the company commensurate with the value of their shares in the capital until the company becomes able to pay the full payment of the profits of the priority allocated to the owners of these shares for the previous years.

Third: This Decree shall be published in the Official Gazette and shall come into force after one hundred and eighty days from the date of publication.

Fourth: The Deputy Prime Minister and the Ministers, each within his jurisdiction shall implement our decree.

Royal Signature

## Council of Ministers Decision No. (90) dated 30/07/1412 AH

The Council of Ministers,

After reviewing the transaction received from the Prime Minister's Divan No. 7/1692 /r dated 07/02/1409 AH containing a letter of the Minister of Commerce No. 2309/11 dated 04/12/1408 AH and its full attachments about requesting His Excellency to approve the proposed amendments on the articles (10, 66, 76, 77, 91, 103, 108, 168, 180, 210, 231) of the companies' regulation for the justifications referred to in the explanatory memorandum attached to His Excellency's aforementioned letter No. 11/230.

After reviewing the transaction received from the Prime Minister's Divan No. 7/1849 /r dated 19/2/1411 AH containing a letter of the Minister of Commerce No. 2436/11 dated 7/10/1410 AH containing the request of His Excellency to amend Article (52) of the Companies' Regulation for the exclusion of joint stock companies, that the General Organization for Social Insurance shares in the founding, from the requirement to obtain a license issued by a royal decree for the reasons described in the aforementioned letter of His Excellency.

After reviewing the letter of His Excellency the Minister of Finance and National Economy, No. 3/298 dated 10/01/1411 AH containing a request to except the joint stock companies, that the Pension Fund shares in the founding, from the condition of obtaining a license issued by a royal decree for the reasons described in His Excellency's letter.

After reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH, and its amendments on Articles (10, 52, 66, 76, 77, 91, 103, 108, 168, 210, 231) of the said regulation.

After reviewing the minutes prepared in the experts division No. 133, dated 09/09/1410 AH.

After reviewing the recommendation of the General Committee of the Council of Ministers No. 14 dated 07/02/1411 AH.

After reviewing the recommendation of the General Committee of the Council of Ministers No. 29 dated 28/02/1411 AH.

After reviewing the memorandum of the experts division No. 91, dated 19/06/1411 AH.

After reviewing the recommendation of the General Committee of the Council of Ministers No. 69/M dated 28/06/1411 AH.

After reviewing the minutes of the division No. 35, dated 24/05/1412 AH.

After reviewing the recommendation of the General Committee of the Council of Ministers No. 46 dated 15/06/1412 AH.

Decree the following:

**First:** To approve the amendment of the text of articles (10, 52, 76, 77, 168, 180, 210, 231) of the Companies' Regulation issued by Royal Decree No. M / 6 dated 22/03/1385 AH, and its amendments to be as follows:

1- Article (10): ("With the exception of the joint venture company, the company's contract shall be registered in writing before a notary, otherwise the contract is unenforceable against others. The partners may not object to others by the unenforceability of the contract that has not been registered as advanced, but others may object against them. The managers of the company or its board members shall be jointly liable for compensating the damage that may occur to the company or the companies or others due to lack of writing its contract).

2- The item (d) of the first paragraph of Article (52) amended by Royal Decree No. M/32 dated 28/06/1402 AH, to be as follows:

It is not permissible to found the following joint stock companies without a license issued by a royal decree upon the approval of the Council of Ministers and the presentation of the Minister of Commerce provided that the regulations should be taken into account:

- A) Are privileged.
- B) Manage a public utility.
- C) The state provides a subsidy to them.
- D- Involve the State or other public legal persons with the exception of the General Organization for Social Insurance and Pension Fund.
- E) Practice banking business.

As for other joint stock companies, it is not permissible to found them without a license issued by the Minister of Commerce and published in the Official Gazette. The Minister of Commerce shall issue the mentioned license only after reviewing the study that shows the economic feasibility of the purposes of the company unless the company has submitted such a study to another competent governmental authority that authorized the foundation of the project.

3- Article (76): (The members of the Board of Directors are jointly liable for the compensation of the company or shareholders or others for the damage arising from their mismanagement of the affairs of the company or violating the provisions of this regulation or the texts of the company's regulation. Each conditions provides otherwise is considered null. The responsibility shall be of all the members of the Board of Directors if the error arose by a decision issued by their consensus; for the decisions made by the majority of opinions, the objectors to that decision are not liable as soon as they could prove explicitly their objection in the meeting. Absence from attending the meeting which issued the decision shall not be considered a reason for exemption from liability unless the member has proven his lack of knowledge of the decision or not being able to object after knowing it. The Ordinary General Assembly's approval to discharge the members of the Board of Directors shall not preclude bringing a claim of liability. The claim of liability shall not be heard after the expiration of three years from the date of discovering the tort.)

4- Article (77): (The Company may bring a claim of liability against the members of the Board of Directors due to the errors that cause damages to the total shareholders. The General Assembly decides to bring this claim and appoint a representative of the company to conduct it. If the company's bankruptcy has occurred, bringing the said claim shall be of the competence of the representative of



the bankruptcy. And if the company has been terminated, the liquidator shall immediately pursue the claim after obtaining the approval of the Ordinary General Assembly.)

5- Article (168): (It is permissible to the partners to dismiss the managers appointed by the company's contract or a separate contract, without prejudice to their right of compensation if the dismissal occurred without an acceptable justification or at improper time. The managers shall be jointly liable for compensating the damage that may occur to the company or the partners or others due to the violation of the provisions of this regulation or the articles of the company's contract or because of what comes out of them of mistakes in the performance of their work. And any condition that requires otherwise shall be considered null and void. The partners' approval to discharge the managers does not preclude from bringing a claim of liability, and the claim of liability shall not be heard after the expiration of three years from the date of discovering the tort.)

6- Article (180): (If the losses of the limited liability company reached three-quarters of its capital, the managers shall call the partners to attend a meeting within a period of not more than thirty days from the date of the loss reaching that limit to consider the continuation of the company with the commitment of the partners to pay its debts or terminating it. The decision of the partners in this regard shall not be valid unless issued in accordance with Article (173). And in all cases, this decision shall be registered and declared as stipulated in Article (164). If the company continued to engage in its activities without issuing a decision of continuation or termination as in the previous conditions, the partners shall be jointly liable for the payment of all the debts of the company and any concerned party may ask for terminating it.).

7- Article (210): (It is permissible for the company to transform to any other type of companies by a decision issued in accordance with the conditions prescribed for the amendment of the contract of the company or its regulations provided that it meets the requirements of foundation and registering prescribed for the type that the company transformed to. However it is not permissible for the cooperative company to transform into another type, but other companies may transfer to cooperative companies. In case the company transfers to a joint stock company or a

limited partnership in shares, the provision of Article (100) of this regulation shall be applied to the shareholders provided that the ban period begins from the date of issuing the decision of the approving the transformation of the company. However, if the company's transformation coupled with an increase in its capital using IPO, the ban shall not be applied to the underwritten shares by this way.)

8- Article (231): (If a claim cannot be brought against those who have committed one of the violations set forth in the preceding two articles and the competent authority brought the claim against the company, it may be judged by the fine assessed for this violation. And in the case of recidivism, the penalty provided for in the two preceding articles shall be doubled.)

**Second:** The current text of Article (108) of the Companies' Regulation, paragraph (1) shall be considered, and two new paragraphs with number (2) and (3) shall be added to the wording of Article (108) to be as follows:

1. The shareholder is confirmed to have all the rights related to the share, and in particular the right to receive a portion of the profits determined to be distributed, the right to receive a portion of the company's assets upon liquidation, the right to attend the assemblies of shareholders and participate in its deliberations and vote on decisions, the right to dispose of shares, the right to request access on the company's books and documents, and to monitor the work of the Board of Directors and bring a claim of liability against the members of the Board and appeal the invalidity of the decisions of the shareholders' assemblies. All this shall be conducted according to the conditions and restrictions contained in this regulation or in the company's regulation.)

2. Based on a provision in its regulation and after the approval of the Minister of Commerce and in accordance with the principles defined by him, the company may issue preferred shares that do not give the right to vote, and not exceeding 50% of its capital. The company shall arrange the mentioned shares to the owners as well as the right to participate in the net profits distributed on the ordinary shares as follows:

A- The right to obtain a certain percentage of the net profits of not less than 50% of the nominal value of the share after setting aside the statutory reserve and before any distribution to the company's profits.

B- A priority to retrieve the value of their shares in the capital upon liquidation of the company and obtain a certain percentage of the output of the liquidation. The Company may purchase these shares in accordance with the principles and the manner prescribed by its regulation provided that this regulation shall not include any provision for forcing the shareholder to sell his shares, and these shares shall not enter the account of the required quorum for the convening of the General Assembly of the company stipulated in the articles (91/92).

In the case of not distributing any profits for any fiscal year, it is not permissible to distribute profits for the following years but after paying the percentage referred to in the previous paragraph (2) to the shareholders of no voting shares for this year. And if the company fails in paying this percentage of the profits for three consecutive years, it is permissible for the Assembly — special for the owners of these shares — held in accordance with the provisions of Article (86) to decide either they may attend the meetings of the General Assembly of the company and participate in the vote or appoint representatives in the Board of the company commensurate with the value of their shares in the capital until the company becomes able to pay the full payment of the profits of the priority allocated to the owners of these shares for the previous years.

A draft Royal Decree has been prepared for that purpose and its formula is attached hereby.

Prime Minister

Ministerial Decree No. 1071 dated 02/11/1412 AH

The Minister of Commerce,

By the authorities assigned to him,

After reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH, and its amendments,

And the item (12) of the Council of Ministers Decision No. 202 dated 13/08/1404 AH that provides determining the actual amounts received by the members of the

boards of directors of the joint stock companies to which the state does not guarantee a minimum profit or it does but they do not benefit from this guarantee,

And the two circulars issued from this ministry No. 222/9362/4861 dated 10/11/1405 AH, and No. 222/9362/3163 dated 15/06/1412 AH,

And based on the requirements of the public interest,

Decides the following:

Article (1): The maximum annual remuneration for a member of the Board of Directors in the referred joint stock companies, whose regulation provides that the remuneration of the members of the Board of Directors shall be a certain percentage of the profits, shall be (200,000) two hundred thousand riyals. This remuneration shall be disbursed out of the profit after distributing a profit of 5% at least of the company's capital to the shareholders.

Article (2): The maximum allowance for attendance shall be (3000) three thousand riyals for each meeting of the Board of Directors.

Article (3): It is permissible for company's general assembly to decide to make the annual remuneration or the attendance allowance or both less than the maximum referred to.

Article (4): These rules shall not preclude the waiver of the member for the annual remuneration or the attendance allowance, or both.

In all cases, the amount of this remuneration shall be disclosed in the annual report of the Board of Directors and to be presented to the General Assembly.

Article (5): This decree shall be published in the Official Gazette and shall take effect from the date of its publication.

Minister of Commerce

Royal Decree No. M/29 dated 16/09/1418 AH

With the Help of Allah the Almighty

We, Fahd bin Abdul Aziz Al Saud

King of the Kingdom of Saudi Arabia

Based on Article (70) of the Basic Regulation of the judgment issued by the Royal Order No. (A/90) and dated 27/8/1412 AH.

And based on Article (20) of the Council of Ministers Regulation issued by the Royal Order No. (A/13) dated 03/03/1414 AH.

And based on Articles (17) and (18) of the Shura Council Regulation issued by the Royal Order No. (A/91) dated 27/8/1412 AH.

After reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH.

After reviewing the Royal Decree No. M/46 dated 04/07/1405 AH amending Article (79) of the companies' regulation.

After reviewing the Shura Council decision No. 7/13/18, dated 25/06/1418 AH.

After reviewing the Council of Ministers Decision No. (155) dated 14/09/1418 AH,

Have decreed the following:

**First:** The amendment of Article (79) of the Companies' Regulation amended by Royal Decree No. M/46 dated 04/07/1405 AH, to become as the following text:  
"Taking into account the provisions of the company, the Board of Directors shall appoint from among its members a president and a managing director, and it is permissible that one member may combine between the position of the president of the Board and the position of the managing director. The regulation of the company shows the competence of the president of the Board and the managing

director, and the special remuneration earned by each of them in addition to the set remuneration for the council members. If the company's regulation did not include provisions in this regard, the Board of Directors shall undertake the distribution of the competences and setting the special remuneration.

The Board of Directors shall appoint a secretary chosen from among its members or others and sets his competence and remuneration if the company's regulation did not include provisions in this regard. The duration of the president of the Board and the managing director and the secretary the member of the Board of Directors shall not exceed the duration of the membership of each of them in the Board. It is always permissible to re-appoint them unless the company's regulation provides otherwise. And the Board, all the time, may dismiss all of them or some of them without prejudice to their right of compensation if the dismissal occurred for an unacceptable justification or at an improper time."

**Second:** The Deputy Prime Minister and the Ministers, each within his jurisdiction shall implement our decree.

Royal Signature

### Council of Ministers Decision No. (155) dated 14/09/1418 AH

The Council of Ministers,

After reviewing the transaction received from the Prime Minister Divan No. 7/10739/r, dated 09/08/1418 AH containing a letter of His Excellency the Minister of Commerce No. 222/205/136/1121 dated 22/03/1417 AH and his letter No. 222/205/138/2303 dated 28/07/1417 AH on His Excellency's request for the consideration to exclude all of Al-Rajhi Banking and Investment, Inc. and Mecca for Reconstruction and Development from the provision of Article (79) of the Companies' Regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH.

After reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH amending Article (79) of the companies' regulation.

After reviewing the Shura Council decision No. 07/13/18, dated 25/06/1418 AH.

After reviewing the minutes prepared in the experts division No. 31 dated 27/01/1418 AH.

After reviewing the recommendation of the General Committee of the Council of Ministers No. 518, dated 29/08/1418 AH.

Decree the following:

The amendment of Article (79) of the Companies' Regulation amended by Royal Decree No. M/46 dated 04/07/1405 AH, to become as the following text:

"Taking into account the provisions of the company, the Board of Directors shall appoint from among its members a president and a managing director, and it is permissible that one member may combine between the position of the president of the Board and the position of the managing director. The regulation of the company shows the competence of the president of the Board and the managing director, and the special remuneration earned by each of them in addition to the set remuneration for the council members. If the company's regulation did not include provisions in this regard, the Board of Directors shall undertake the distribution of the competences and setting the special remuneration.

The Board of Directors shall appoint a secretary chosen from among its members or others and sets his competence and remuneration if the company's regulation did not include provisions in this regard. The duration of the president of the Board and the managing director and the secretary of the member of the Board of Directors shall not exceed the duration of the membership of each of them in the Board. It is always permissible to re-appoint them unless the company's regulation provides otherwise. And the Board, all the time, may dismiss all of them or some of them without prejudice to their right for compensation if the dismissal occurred for an unacceptable justification or at an improper time."

A draft royal decree has been prepared for that and its formula is attached hereby.  
Prime Minister

## Ministerial Decree No. 495, dated 25/03/1418 AH

The Minister of Commerce,

Within the authorities assigned to him,

After reviewing the competence regulation of the Ministry of Commerce issued by the decree of the Council of Ministers No. (66) dated 06/04/1374 AH,

After reviewing the companies' regulation issued by Royal Decree No. (M/6) dated 22/03/1385 AH and its amendments,

And based on the requirements of the public interest,

Decides the following:

**Article (1):** The Company that wants to transform to a joint stock company shall commit to the regulating rules, of transforming the companies into a joint stock company, attached to this decision.

**Article (2):** This decision shall be published in the official gazette Umm al-Qura and shall take effect from the date of its publication.

May Allah bless us all,

Minister of Commerce

## The Modified Regulating Rules for the Transformation of Companies into a Joint Stock Company

### First: Introduction:

The rules regulating the transformation of the companies into a joint stock company are defined as a set of rules regulating the transformation of aiming to profit companies into a joint stock company. The transformation process is based



on the basis of providing the necessary information for the current owners and prospective investors, so as to enable reaping the fruits of transformation at the level of the transformed company in particular and the national economy in general. These rules are designed to clarify the instructions governing the transformation process, including the conditions provided to be found in the company seeking transformation, and to identify the information and data that shall be disclosed, and to identify the relationships and responsibilities for all parties involved in the process. These rules are intended to achieve the following:

1. Enabling the officials in competent government authorities to decide the transformation objectively and easily.
2. Giving the current owners and prospective investors the information necessary to make their decision.
3. Clarifying the transformation procedures.
4. Identifying the information and data needed to be disclosed.
5. Identifying the parties related to the transformation process.

**Second: The Conditions to be Provided for the Transforming company:**

1. The company seeking transformation had arrived in the year, prior to its request to transform, a size and profitability of relative importance, so that the company's net assets at the date of the transformation shall not be less than 50 million riyals.
2. The revenue on the shareholders' rights in any of the three years prior to the transformation shall not be less than 7%, and the feasibility study shall confirm that the expected revenue will be no less than this percentage in any of the three years following the transformation.
3. The company seeking transformation had been founded for five years at least.
4. The company seeking transformation to a joint stock company, with shares put up for public underwriting, shall put at least 40% of the shares of the company.
5. The company seeking transformation shall have the qualified administrative staff that is capable of conducting its work efficiently. It also shall have effective internal supervision to ensure the protection of the net assets. It shall have the ability to compete in the market.

### **Third: The Transformation Procedures:**

#### **1- Submitting the Transformation Application:**

1/1 The Company seeking transformation to a joint stock company once met the needed requirements shall submit the transformation application to the General Administration of companies in the Ministry of Commerce, and that application shall include, in particular, the following data:

1/1/1 The Company's name, address and date of foundation.

1/1/2 The amount of wages and remuneration paid to the company managers and executives and any other cash or in-kind benefits earned by any of them. (Including pensions or any other benefits).

1/1/3 A description of any significant stakes for the executive managers in other companies with a work related to the company.

1/1/4 A summary of the selected financial data for each year of the last three years of the company, including at least the sales, profits, working capital, the total assets, and long-term loans.

1/1/5 A description of any legal action or important cases filed against the company and has been not judged permanently yet.

1/1/6 A statement of the management's plans to use the funds collected from the transformation process.

1/1/7 A statement of how to determine the share price of the company to be founded and the various factors taken into account to determine that price. And a description of the method of transforming the company whether with the same current partners and the company's current capital or otherwise, and a statement of the proposed capital and the amount allocated to the existing partners and allocated to the underwriting, if any.

1/1/8 A statement of the value of the stakes owned by each of the managers and executives of the transforming company and any other persons related to the company, and the corresponding portions of the shares in the new company and clarifying any important relative differences, and this shall be for the three years preceding the transformation application.

1/1/9 A description of the arrangements of the guarantee of the underwriting in case of not covering underwriting. The names of the guarantor or guarantors of the underwriting and the number of the shares that have been associated with their guarantee all of them, and the value of the fees charged by each of them (if any).

1/2 The application submitted by the company shall be attached by the following documents:

1/2/1 A copy of the contract of founding the company and its subsequent amendments.

1/2/2 A letter that confirms the approval of the company's owners of the transformation.

1/2/3 Financial statements audited for the three years prior to the application of the transformation.

1/2/4 A report from the company's auditor on a limited check process of the financial statements of the company seeking transformation for the period since the date of the last audited financial statements to the date of submitting the transformation application. In this report, the auditor shows an opinion on his lack of knowledge of the existence of any facts contrary to what the financial statements that he checked shows.

1/2/5 A study shows the economic feasibility, for the purpose of the company, prepared by one of the licensed offices in the Kingdom. This study shall include an assessment of the transforming company and future financial statements of the new company for the first three years, and determine the price of the share of the joint stock company and the bases on which the price has been determined, in accordance with what is required by the generally accepted professional standards. The study shall also include a comprehensive summary of all the information and data contained in the request for the transformation of the company.

2- Studying the transformation application:

1/2 The General Administration of companies studies the transformation application and its annexes and it may request the completion of any information deemed necessary to obtain. The department makes sure to check the conditions referred to in "second" and the completeness of the data referred to in (1/1) third above.

2/2 In the light shown by the preliminary examination referred to in (1/2) above the General Administration of companies specifies whether it approves in principle to accept the application or save it. And the decision shall be justified in all cases. Then what is being reached shall be submitted to the Minister of Commerce for approval.

2/3 In the case of the initial approval of the transformation, the General Administration of companies requests the company to provide the following documents:

2/3/1 A decision of the partners' approval of the transformation issued in accordance with the set procedures for the amendment of the company's contract or regulation.

2/3/2 A preparation of the statute of the company according to the model of the joint stock company issued by a decision of the Minister of Commerce No. (583) dated 01/05/1385 AH, and its amendments and the regulation shall include provisions on the following:

A- The appointment of the first board of directors of the company for a period not exceeding three years, and the designation of an auditor for the first fiscal year of the company.

B- The conversion of the existing partners' stakes when transforming to the shares and deciding the ban of the shares commerce before the publication of the balance sheet and the profit and loss account for two complete fiscal years of not less than twelve months, for each, from the date of the issuance of the decision of approving the transformation.

C- Setting a maximum voting power in the General Assemblies so that no shareholder may have by his own behalf or on behalf of, or both qualities together, a number of votes that exceed (5% to 20%, depending on the company state at transformation) and so for all the decisions of the General Assemblies in accordance with article (34) of the model of joint stock company and the provisions of Article (107) of the companies' regulation.

2/4 The General Administration of companies appoints one or more experts whose mission shall be verifying the assessment of the transforming company and determining the fair value of the share in the joint stock company to be formed in accordance with the provisions of special stakes in kind contained in Articles (60 and 61) of the Companies' Regulation and in accordance with the generally acknowledged accounting standards in the case of the company's transformation with an increase of its capital through the IPO or the company's transformation with the same value of its assets and offer a part of it to the public underwriting. In

the case of the company's transformation and the stability of the capital and partners or the increase of the capital through the IPO closed on partners, the General Administration of companies shall estimate that in the light of the economic feasibility study. The transforming company shall pay his/their fees.

**Fourth: License of Transformation:**

If the Ministry of Commerce sees the completion and correctness of the transformation procedures referred to above, and the verification of the economic feasibility of the company's transformation, the ministry shall take the necessary actions to turn the company into a joint stock company by a decree issued by the Minister of Commerce in accordance with the provisions of the Companies' Regulation. And the underwriting prospectus shall include an adequate summary for the information and data contained in the transformation application and it shall be made available to all the investors to see the transformation application and its annexes.

**Ministerial Decree No. (1151) dated 22/09/1419 AH**

The Minister of Commerce,

With the authorities assigned to him,

After reviewing the regulation of the competence of the Ministry of Commerce issued by the decision of the Council of Ministers No. (66) dated 06/04/1374 AH,

And the companies' regulation issued by Royal Decree No. (M/6), dated 22/03/1385 AH and its amendments,

And the Ministerial Decree No. (495) dated 25/03/1418 AH issued by the regulations governing the transformation of companies into a joint stock company,

Decides the following:

Article (1): The paragraphs (1, 2, 3, And 4) of the "second" item: the conditions provided for the transforming company shall be amended to be as follows:

1. The company seeking transformation had arrived in the year, prior to its request to transform, a size and profitability of relative importance, so that the company's net assets at the date of the transformation shall not be less than (50) fifty million riyals.
2. The revenue on the shareholders' rights in any of the three years prior to the transformation shall not be less than 7%, and the economic feasibility study shall confirm that the expected revenue will be no less than this percentage in any of the three years following the transformation.
3. The company seeking transformation had been founded for five years at least.
4. The company seeking transformation to a joint stock company with shares put up for public underwriting shall put at least 40% of the shares of the issuing company.

Article (2): Cancelling the text of the paragraph (1/1/6) of item "third":  
"Transformation Procedures" on including the transformation application an explanation of the risk factors that the expected investors shall be aware of them.

Article (3): The phrase "the financial statements for five years" shall be amended to become "the financial statements for the three years," wherever mentioned in the rules."

Article (4): The company seeking transformation to a joint stock company shall commit to these rules.

Article (5): The regulating rules of transforming companies as attached to this decision shall be published in the Official Gazette Umm al-Qura and shall take effect from the date of publication.

May Allah bless us all

Minister of Commerce

**Ministerial Decree No. (959) dated 27/04/1423 AH**

The Minister of Commerce,

Within the authorities assigned to him,

After reviewing the competence system of the Ministry of Commerce issued by the decision of the Council of Ministers No. (66) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. (M/6), dated 22/03/1385 AH and its amendments,

And after reviewing the minutes of the recommendations of the committee supervising the share commercializing at its meeting dated 17/02/1423 AH,

And based on the requirements of the public interest,

Decree the following:

**Article (1):** The Board of Directors of the joint stock company shall, in case of proposing distributing dividends or free bonus shares, take the following actions:

A- The item of the proposal of distributing dividends in the agenda shall include the percentage that the Board of Directors proposes to distribute and how much to be disbursed for each share and the number of the free granted shares (and its percentage per share).

B- Determining the date of eligibility of the profits and the shares of the free grant to shareholders at the end of commercializing of the day specified for holding the General Assembly of the company. In case of a lack of quorum necessary for the validity of the first meeting, the date of eligibility shall be amended to become at the end of commercializing day specified for the second meeting. The Declaration for holding the Assembly in both cases shall contain this.

C- The companies whose shares are listed in the commercializing regulation, in addition to what has been mentioned in paragraph (b) above, shall inform the administration of the regulation of share commercializing in SAMA with the outcome of the meeting of the General Assembly of the company, an hour before the start of commercializing in the morning of the day following the meeting.

**Article (2):** All the joint stock companies shall coordinate with the ministry "the General Administration of companies" about the wording of the call to convene the General Assemblies of shareholders and the content of the agendas before publication.

**Article (3):** This decision shall be published in the Official Gazette (Umm al Qura) and shall be effective from the date of publication.

**Ministerial Decree No. (2217) dated 01/11/1423 AH on internal surveillance in joint stock companies**

The Minister of Commerce,

Within the authorities assigned to him,

As implementing the guidance of the Royal Decree No. (7/b/15904) dated 05/05/1423 AH approving the recommendation of the Standing Committee of the Supreme Economic Council by the adoption of the recommendations of the Ministerial Committee formed under the Royal Decree No. (3151) dated 06/03/1421 AH, to study the situation of the joint stock companies, such as:

1- The need to strengthen the role of internal surveillance in joint stock companies and educate the shareholders with their role to monitor the performance of these companies and achieve their goals.

2- The emphasis on the adequacy of the information contained in the financial statements and final accounts issued by companies in order to enable investors to evaluate the performance of the companies and reach sound opinions about the performance of those companies, and take appropriate decisions to protect their investments.

And after reviewing the Companies' Regulation issued by the Royal Decree No. (M/6), dated 22/03/1385 AH, and the memo dated 12/10/1423 AH filed by the



Director General of the General Administration of companies and the Secretary General of the Authority of Chartered Accountants, and the decision of the Board of Directors of the Saudi Organization for Chartered Accountants (No. 7/2 dated 21/10/1423 AH corresponding to 25/12/2002 AD) and examination standard of assurances issued under the Authority's administrative Council decision No. (11/2/1) dated 05/03/1421 AH corresponding to 07/06/2002 AD,

Decree the following:

**First:** Each joint stock company shall prepare a declaration in accordance with the attached model whereby the signer to this declaration testifies as follows:

A- According to the best information brought to the attention of the signer of this declaration, the Company's financial statements attached to the declaration does not include any incorrect phrases or data or information with relative importance, and that no data or information with relative importance, that their omission produces misleading.

B- The signer to the declaration has discussed the declaration and the attached reports with the Board of Directors and the Audit Committee, and he has not informed any of these parties with the existence of any matters of relative importance that may lead to the financial statements not showing fairly the financial position of the company and its results. The declaration referred to above and its annexes shall be signed by the key managers in the company (each separately), including (a) the Managing Director and / or Director-General. (B) The Financial Controller and / or Financial Manager. (C) The internal auditor. And this declaration shall be attached with the following:

1. Financial Statements of the Company as at the end of the fiscal year.
2. Verification of the adequacy of the presentation and disclosure in the financial statements attached to this declaration, taking into account developing this form by further regulations, decisions and circulars.
3. Verification of the adequacy of the completion of the companies' regulation requirements related to the adequacy of the preparation of financial statements attached to this declaration, taking into account developing this form by further regulations, decisions and circulars.

4. Letter of public disclosure provided for in paragraph (3031) of the standard of the evidence and indication review, which shows the bases of the preparation of financial statements, and that the company provided the auditor with all the information that have an impact on the financial statements of the institution showing fairly the financial position of the company and the results of its work, and the opinion of the auditing standards committee No. (20/3031/1) dated 29/08/1423 AH corresponding to 04/11/2002 AD about public disclosure letter. In the case of the existence of facts or incidents or events or circumstances that would make the declaration referred to above be untrue, each manager of the key managers (separately) shall prepare a detailed report that shows whereby the things appeared to him and attached by the documents referred to in "first" above.

**Second:** The company shall provide a copy of the declaration or the detailed report referred to in "first" above and its attachments to the auditor.

**Third:** As soon as the chartered accountant issues his report on the annual financial statements of the company, each company shall provide a copy of the declaration or the detailed report and its attachments (1,2,3) referred to in "first" above, to the General Administration of Companies in the Ministry of Commerce.

**Fourth:** The General Administration of Companies in coordination with the Saudi Organization for Chartered Accountants shall study the documents referred to above and complete the necessary regulation procedures.

**Fifth:** The Company's management shall issue a quarterly confirmation, according to the model adopted by the General Administration of Companies in the Ministry of Commerce companies, to confirm under it that each of:

- The members of the Board of Directors, general managers and executives in the company and their second-degree relatives.

- The wives of the members of the Board of Directors and general managers and executive officers in the company and their second-degree relatives have committed, during this quarter, to the rules governing the commercializing of the shares of joint stock companies and the circulars related to share trading. And the company's chartered accountant who audits its accounts shall submit a report

(check assurances) which supports the mentioned assurance. The management of the Company shall submit a copy of this report and the accompanying assurance to the General Administration of companies in the Ministry of Commerce during a maximum period of two weeks from the date of publishing the primary financial statements of the company.

**Sixth:** The competent authorities shall implement this decree, and it shall take effect from the date of its publication in the Official Gazette.

May Allah bless us all,  
Minister of Commerce

### Council of Ministers Decision No. (221) dated 02/07/1428 AH

The Council of Ministers,

After reviewing the transactions received from the Divan of the Presidency of the Council of Ministers No. 24152/b dated 27/05/1428 AH, containing a letter of His Excellency the Minister of Commerce and Industry No. 864/M, dated 04/12/1427 AH, containing the request of His Excellency to void the forefront of Article (158) of the Companies' Regulation issued by Royal Decree No. (M/6) dated 22/03/1385 AH, amended by Royal Decree No. (M/23) dated 28/06/1402 AH, which provides for the following: "The capital of the limited liability company shall not be less than five hundred thousand Saudi riyals."

After reviewing the companies' regulation, issued by Royal Decree No. (M/6) dated 22/03/1385 AH, and its amendments,

After reviewing the minutes No. (5), dated 11/01/1428 AH prepared in the authority of experts.

After reviewing the Shura Council Decision No. (27/21) dated 24/05/1428 AH,

After reviewing the recommendation of the General Committee of the Council of Ministers No. (395) dated 10/06/1428 AH,

Decree the following:

First: To approve the amendment of the forefront of Article (158) of the companies' regulation amended by the Royal Decree No. (M/23) dated 28/06/1402 AH to put the phrase "The capital of the limited liability company shall be set by the partners in its foundation contract" to replace the phrase "The capital of the limited liability company shall not be less than five hundred thousand Saudi riyals."

Second: To approve the amendment of the forefront of Article (180) of the companies' regulation amended by the Royal Decree No. (M/22) dated 30/07/1412 AH; to put the phrase "If the losses of the limited liability company reached fifty percent of its capital" to replace the phrase "If the losses of the limited liability company reached three-quarters of its capital"

A draft royal decree has been prepared for that and its words are attached.

**Ministerial Decree No. (117/s) and the date of 03/04/1429 AH**

The Minister of Commerce,

Within the authorities assigned to him,

After reviewing the regulation of the competence of the Ministry of Commerce issued by the decree of the Council of Ministers No. (66) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. (M/6), dated 22/03/1385 AH and its amendments,

And after reviewing the Ministerial Decision No. (1151) dated 22/09/1419 AH, issued with the amended regulations governing the transformation of the companies into joint stock companies,

And based on the requirements of the public interest,

Decree the following:

First: The abolition of the Ministerial Decree No. (1151) dated 22/09/1419 AH, issued with the amended regulations governing the transformation of the companies into joint stock companies.

Second: The requirements of founding a joint stock company and the company's transformation in accordance with the companies' regulation shall be applied to companies wishing to transform to a joint stock company.

Third: This decree shall be published in the Official Gazette Umm al Qura and shall take effect from the date of publication.

Minister of Commerce and Industry

Abdullah bin Ahmed Zainal Ali Reda

#### Ministerial Decree No. 4825 dated 22/04/1429 AH

The Ministry of Commerce and Industry,

After reviewing the competence system of the Ministry issued by the decree of the Council of Ministers No. (60) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH,

After reviewing the Royal Decree No. 5863/M.B, dated 28/04/1426 AH on the approval of the agreement between the Ministry of Commerce and Industry and the Capital Market Authority on the memorandum that involved the arrangements and procedures related to the foundation of joint stock companies and increasing their capital and their transformation,

And based on the requirements of the public interest,

Decree the following:

First: 1 / The stages and steps of the foundation of joint stock companies, according to the companies' regulation and the financial market regulation:

A- The founders submit to the Ministry of Commerce and Industry an application of the foundation of the company, and the ministry shall consider the application according to the companies' regulation.

B- The application shall be submitted to the Capital Market Authority to study the proposal and approve it.

C- Then, the Minister of Commerce and Industry issues his decision to license the foundation of the company. And the completion of the procedures for the above-mentioned steps shall be made within a period of time of a maximum (22) working days.

D- In the case the company needs to issue a royal decree, the Minister of Commerce and Industry shall submit the application to His Majesty for the issuance of a royal decree licensing the foundation of the company.

E- After the issuance of the ministerial decree and the royal decree licensing the foundation of the company, the CMA undertakes organizing putting the company's shares and allocation of shares and returns the surplus according to the financial market regulation.

F- After the convening of the Founding Assembly of the company according to Article (61) of the Companies' Regulation, the Minister of Commerce and Industry issues a decree to declare the foundation of the company and publishing it in the Official Gazette and registering the company in the commercial registration at the Ministry of Commerce and Industry.

G- The company shall submit to the Capital Market Authority an application for the registration and listing and commercializing its shares in the market according to the market regulation and its financial regulations.

2 / Modifying the joint stock company's capital in accordance with the companies' regulation and the financial market regulation:

A- A recommendation of the Board of Directors shall be issued to reduce the capital or the capital increase and placing the shares.

- B- The company shall submit to the Capital Market Authority an application to approve the IPO according to the market regulation and financial regulations.
- A- After the approval of the authority, the company shall submit to the Ministry of Commerce and Industry an application to specify the date of the Extraordinary General Assembly meeting and the adoption of the call.
- D- The matter of the capital increase shall be shown to the Extraordinary General Assembly of shareholders for approval.
- E- The authority supervises organizing the offering of the increase shares and the allocation of shares and returning the surplus according to the financial market regulation.
- F- The authority shall inform the Ministry of Commerce and Industry with the result of the capital increase and putting the company's shares to amend the capital in the commercial registration at the Ministry of Commerce and Industry.

### 3: Transformation of Companies:

In case there is an application to transform into a public joint stock company; the procedures and steps in (first) above shall be conducted.

Second / This decree shall be published in the Official Gazette.

Minister of Commerce and Industry

Abdullah bin Ahmed Zainal Ali Reza

**Ministerial Decree No. (5712) 16/05/1429 AH**

The Minister of Commerce and Industry,

Within the authorities assigned to him,

After reviewing the competence system of the Ministry issued by the decree of the Council of Ministers No. (66) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH,

After examining Article (164) of the Companies' Regulation,

And based on the requirements of the public interest,

Decree the following:

First: The ministry publishes a summary foundation contract of the limited liability company on its website and the website of the General Authority for Investment, in addition to publishing it in the Official Gazette, and then provides the invoice of publishing and completes the registration procedures.

Second: This decree shall be notified to whom it may concern for implementation.

Third: This decree shall be published in the Official Gazette, and shall take effect from the date of publication on the ministry's website.

Minister of Commerce and Industry

Abdullah bin Ahmed Zainal Ali Reza

**Ministerial Decree No. (5714) dated 16/05/1429 AH**

The Minister of Commerce and Industry,

Within the authorities assigned to him,

After reviewing the competence system of the Ministry issued by the decree of the Council of Ministers No. (66) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. M/6 and 22/03/1385 AH,

After examining Article (233) and Article (78) of the Companies' Regulation,



And based on the requirements of the public interest,

Decree the following:

First: The members of the Board of Directors who had committed a mistake that harmed the interests of the shareholders and which resulted in a profit to them, shall return to the company all the profits they have gained from this mistake.

Second: This decree shall be notified to whom it may concern for implementation.

Third: This decision shall be published in the Official Gazette, and shall take effect from the date of publication on the Ministry's website.

Minister of Commerce and Industry

Abdullah bin Ahmed Zainal Ali Reza

### Ministerial Decree No. (5715) and 16/5/1429 AH

The Minister of Commerce and Industry,  
Within the authorities assigned to him,

After reviewing the competence system of the Ministry issued by the decree of the Council of Ministers No. (66) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH,

After examining Article (233) and Article (69) of the Companies' Regulation,

After reviewing the Ministry of Commerce Circular No. 422/205/8300 dated 26/12/1420 AH,

And based on the requirements of the public interest,

Decree the following:

First: It is not permissible for the member of the Board of Directors to have any interest directly or indirectly in the businesses conducted for the company only after obtaining a license from the General Assembly. With the exception of the businesses conducted through public tender if the member of the Board of Directors submitted the best bid.

Second: It is not permissible for the member of the Board of Directors, with direct or indirect interest in the businesses and contracts that are conducted for the company, to vote on the General Assembly decision issued in this regard.

Third: The member shall inform the Board of Directors with his personal interest in the businesses and contracts that are conducted for the company and he shall record this in the minutes of the meeting of the Board of Directors.

Fourth: The President of the Board of Directors shall inform the Ordinary General Assembly, when convening, with the businesses and contracts that a member of the Board of Directors has a personal interest in them.

Fifth: The auditor shall issue a special report on the businesses and contracts that a member of the Board of Directors has a personal interest in them.

Sixth: This decree shall be notified to whom it may concern for implementation.

Seventh: This decision shall be published in the Official Gazette and shall take effect from the date of publication on the ministry's website.

Minister of Commerce and Industry

Abdullah bin Ahmed Zainal Ali Reza

**Ministerial Decree No. 266/q dated 08/08/1429 AH**

The Minister of Commerce and Industry,

Within the authorities assigned to him,

After reviewing the companies' regulation issued by Royal Decree No. (M/6) dated 22/03/1385 AH,

After reviewing the regulation of Chartered Accountants issued by the Royal Decree No. M/12 dated 13/05/1412 AH,

After examining the Ministerial Decree No. (903) dated 12/08/1414 AH,

After reviewing the Resolution of the Board of Directors of the Saudi Authority of Chartered Accountants No. (7/2), dated 05/05/1429 AH,

And based on the requirements of the public interest,

Decree the following:

First: The amendment to paragraph (8) of the rules attached to the Ministerial Decree No. (903) dated 12/08/1414 AH, so that it reads as follows:

"The period of auditing the joint stock companies by the auditing office shall not exceed five consecutive years. A two-year- period shall pass before re-auditing."

Second: This decree shall be published in the Official Gazette, and shall take effect from the date of issuance.

May Allah bless us all,

Minister of Commerce and Industry

Abdullah bin Ahmed Zainal Ali Reza

## The regulations organizing power of attorney in attending the general assemblies of shareholders

Council of Ministers Decree No.: (294) dated: 13/02/1422 AH,

The Minister of Commerce,

Within the authorities assigned to him,

After reviewing the competence system of the Ministry issued by the decree of the Council of Ministers No. (66) dated 06/04/1374 AH,

And after reviewing the companies' regulation issued by Royal Decree No. M/6 dated 22/03/1385 AH, and its amendments,

And based on the requirements of the public interest,

Decree the following:

Article (1) (All the joint stock companies shall, at holding their general assemblies, commit to the regulations organizing the power of attorney in attending the General Assemblies of shareholders, attached to this decree.

Article (2) (This decree shall be published in the Official Gazette (Umm al Qura) and shall be effective from the date of its publication.

May Allah bless us all

Minister of Commerce

The Regulations Organizing the Power of Attorney in attending the General Assemblies of shareholders

First- The power of attorney shall include the following basic information:

1. The quadruple name of the shareholder, the name of the company or organization name according to what is written in the commercial registration.
2. Number of shares.
3. Number of the civil registry/ commercial registration of the shareholder.
4. The quadruple representative's name.
5. Civil registry number of the representative.
6. Name and capacity of the signer of the power of attorney - a copy of the legitimate power of attorney shall be attached in the event that the signer of the power of attorney is a legitimate representative.

Date of issuing the power of attorney.

Second- To accept the power of attorney, the following elements shall be provided:

1. It shall be stipulated explicitly in the legitimate power of attorneys for the right of the representative to attend the general assemblies of the joint stock companies and vote on the items of the agenda, provided that the representative is one of the shareholders of the company, and not of its employees or members of the Board of Directors.

2. The power of attorney shall be issued by the shareholder or his legitimate representative, to another shareholder, not of the company's employees or members of the Board of Directors, and the power of attorney shall be certified by one of the following:

- The Chambers of Commerce and Industry as soon as the shareholder is associated to one of them, as well as the case if the shareholder is a company or a legal institution.
- The Saudi banks provided that the principal has an account in the certifying bank.
- The authority where the shareholder works and who wants to issue the power of attorney.
- One of the competent government authorities.

Third- The value of the shares in the power of attorneys issued to one shareholder shall not exceed (5%) of the capital of the company unless the power of attorney is issued by one shareholder and the members of his family.

Fourth- The power of attorney shall be for a specific meeting.

Fifth- The power of attorney shall not be issued for the members of the board of directors or employees of the company or those who are permanently assigned to do work technically or administratively for it.

Sixth— The company shall not set a specific shareholder to receive the power of attorneys.

Seventh- The origin of the certified power of attorney shall be submitted, and the copy shall not be accepted.

Eighth- The power of attorneys shall reach the company three days at least before the Assembly meeting, a committee of the company's employees with the participation of the representative of the Ministry of Commerce at the meeting shall be formed to sort the provided power of attorneys and check their validity and the completeness of their data one day at least prior to the Assembly meeting.

Ninth- Any power of attorneys violating these rules shall be excluded.