

Companies Law





Companies Law

Part 1: General Provisions

Preliminary Chapter

Article 1: Definitions

1. In this Law, the following words and phrases shall have the meanings assigned thereto, unless the context requires otherwise:

Kingdom: Kingdom of Saudi Arabia.

Law: Companies Law.

Regulations: Regulations issued for the implementation of the provisions of this Law.

Ministry: Ministry of Commerce.

Minister: Minister of Commerce.

CMA: Capital Market Authority.

Competent Authority: The Ministry, except for joint-stock companies listed in the capital market, where the Competent Authority is the CMA.

Relatives:

- a) Parents and grandparents and their ascendants.
- b) Children and grandchildren and their descendants.
- c) Spouses.

Dav: A calendar day, whether a business day or not.

2. Without prejudice to the provisions of this Law, the Regulations shall include the definitions of other words and phrases provided for in this Law.

Article 2: Definition of a Company

A company is a legal entity incorporated in accordance with the provisions of this Law pursuant to articles of incorporation or articles of association under which two or more persons undertake to participate in a forprofit enterprise by contributing property or work, or both, to share any profit realized or loss incurred from such enterprise. As an exception, a company may, under this Law, be incorporated by a single person, and a non-profit company may be incorporated pursuant to the provisions of Part 7 of this Law.

Article 3: Nationality of a Company

A company incorporated in accordance with the provisions of this Law shall have the Saudi nationality, and its headquarters shall be in the Kingdom.

Chapter 1: Incorporation of a Company

Article 4: Forms of Companies

A company incorporated in accordance with the provisions of this Law shall take one of the following forms:

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a) General partnership.

b) Limited partnership.





- c) Joint-stock company.
- d) Simplified joint-stock company.
- e) Limited liability company.

Article 5: Name of a Company

- 1. A company shall have a tradename in Arabic or in any other language. The name may reflect the company's purpose or may be a distinctive name or the name of one or more of the company's current or former partners or shareholders, or a combination of the above. The name shall not be inconsistent with the Law of Tradenames and other laws and regulations applicable in the Kingdom.
- 2. If a company's tradename includes the name of a former partner or shareholder, the consent of such partner or shareholder must be obtained. If said partner or shareholder dies without providing his approval, the consent of his heirs must be obtained.
- 3. The form of a company must be included in its tradename.
- 4. A company's tradename may be amended in accordance with the conditions prescribed for amending articles of incorporation or articles of association. The amendment shall not affect the company's rights or obligations nor the validity of legal measures taken by the company or against it prior to such amendment.

Article 6: Application for Incorporation

- 1. A person who participates in the incorporation of a company and contributes to its capital with cash or inkind contributions shall be deemed an incorporator.
- 2. Incorporators shall file the company's application for incorporation and registration with the Commercial Register, along with the articles of incorporation or articles of association and any required information and documents.
- 3. The Commercial Register shall decide on applications that include the required information and documents in accordance with the provisions of this Law.
- 4. If an application is rejected, the rejection must be reasoned; incorporators may appeal the decision before the Ministry within 60 days from the date of notification of the rejection decision.
- 5. If the appeal is rejected or if no decision is rendered within 30 days from the filing date, incorporators may appeal before the competent judicial authority.

Article 7: Incorporation Documents

- 1. A company incorporated under this Law shall have articles of incorporation while a joint-stock company, simplified joint-stock company, and limited liability company owned by a single person shall have articles of association.
- 2. A company's articles of incorporation or articles of association shall include the terms, conditions, and information required under this Law, according to the form of the company.
- 3. A company's articles of incorporation or articles of association shall be in the Arabic language and may be accompanied by a translation into another language.
- 4. The Ministry shall prepare articles of incorporation and articles of association templates for all company forms.

Article 8: Registration of Incorporation Documents

- 1. A company's articles of incorporation or articles of association, and any amendments thereto, shall be made in writing; otherwise, they shall be deemed null and void. The incorporation of a company or the amendment of its articles of incorporation or articles of association shall be made upon satisfying the necessary requirements as provided for in this Law and its Regulations.
- 2. A company's incorporators, partners, managers, or board members, as the case may be, must register the company's articles of incorporation or articles of association and any amendments thereto with the





Commercial Register. The Commercial Register shall publish any necessary information or documents in accordance with this Law and its Regulations. If any of the aforementioned persons fail to register the documents with the Commercial Register, they shall be jointly and severally liable for any damage sustained by the company, partners, shareholders, or third parties as a result of non-registration.

- 3. The information and documents stipulated in paragraph (2) of this Article shall be made available to others. The information and documents retrieved from the Commercial Register shall be deemed evidence against the company and third parties.
- 4. A company's articles of incorporation or articles of association or any amendments thereto may not be used as evidence against third parties prior to registration with the Commercial Register. Any information not registered shall not be valid against third parties.

Article 9: Acquisition of Legal Personality

- 1. A company shall acquire a legal personality upon registration with the Commercial Register. However, a company during the incorporation period shall have a legal personality to the extent necessary for its incorporation, provided that said company completes the incorporation process.
- 2. Registration of a company with the Commercial Register shall entail the transfer of all contracts and transactions concluded on behalf of the company by the incorporators to the company, which shall bear all incorporation expenses incurred by the incorporators.
- 3. If a company fails to satisfy the incorporation procedures as prescribed in this Law, the persons who act or conclude transactions in the name of the company or on its behalf shall be jointly and personally liable vis-à-vis third parties for their acts and dispositions during the incorporation period.

Article 10: Purposes of a Company

A company shall conduct all operations necessary to realize its purposes upon registration with the Commercial Register and obtaining the necessary licenses, if any, from the relevant authorities.

Article 11: Partnership Agreement and Family Charter

- 1. Incorporators, partners, or shareholders may, whether during or after the company's incorporation period, carry out the following:
 - a) Conclude one or more agreements regulating their relationship with each other or with the company, including the manner in which their heirs join the company, whether personally or through a company incorporated for such purpose.
 - b) Conclude a family charter that includes the regulation of family ownership in the company; governance and management; work policy; employment policy of family members, distribution of dividends, and disposition of interests or shares; procedures for the settlement of disputes or disagreements; and other matters.
- 2. A partnership agreement or family charter shall be binding and may be part of a company's articles of incorporation or articles of association, provided it does not violate this Law nor the company's articles of incorporation or articles of association.

Article 12: Information Required in Company Documents

Contracts and clearances, as well as other documents issued by the company shall include the following information:

- a) Company's name, form, headquarters address, e-mail (if any), and commercial registration number.
- b) Company's capital and the amount of paid-up capital. This shall not apply to general partnerships and limited partnerships.
- c) The phrase "under liquidation", added to the company's name during the liquidation period.





Article 13: Contributions of Partners or Shareholders

- 1. The contribution of a partner or shareholder may be in cash or in-kind, or both.
- 2. With the exception of joint-stock companies and simplified joint-stock companies, the contribution of a partner may be in the form of work in return for a percentage of the profits determined in the company's articles of incorporation. A partner's reputation or influence shall not be considered a contribution.
- 3. A company's capital shall be composed only of cash and in-kind contributions.
- 4. Incorporators, partners, and shareholders may provide interests or shares in the company's capital to a person in return for work or services that benefit the company and help realize its purposes, without prejudice to the provisions of this Law.

Article 14: Provision of Contribution

- 1. If the contribution of a partner or shareholder is a right of ownership or usufruct or any other in-kind right, he shall, in accordance with the terms of the sales contract, be liable for his contribution in case of loss, defect, or shortage in the contribution, and in case the warranty of title and against infringement is breached. If the contribution is solely in the form of a personal usufruct right to a property, the terms of the lease contract shall apply, unless agreed otherwise.
- 2. If a partner's contribution is in the form of work, he must perform such work for the benefit of the company and not his own; any earnings arising therefrom shall belong to the company. However, he shall not be under any obligation to surrender to the company any intellectual property rights he may have obtained as a result of his work, unless agreed otherwise.

Article 15: Failure to Provide Contributions

- 1. A partner shall owe the company the contribution he pledges.
- 2. If a partner fails to provide his contribution in the company's capital within the specified period, the company may demand that he honors his pledge, or it may suspend the enforcement of rights related to his contribution, such as the right to receive dividends or the right to vote in the general assembly or on partner decisions. In all cases, the company shall have the right to seek compensation for any damage arising therefrom.

Chapter 2: Company Finances

Article 16: Fiscal Year

A company's fiscal year shall be 12 months to be specified in its articles of incorporation or articles of association. As an exception, the first fiscal year may cover a period not less than six months and not more than 18 months beginning from the date of the company's registration with the Commercial Register.

Article 17: Accounting Records and Financial Statements

- 1. A company shall maintain accounting records and supporting documents relating to its activities, contracts, and financial statements at the company's headquarters or at any other location designated by the company's manager or board of directors.
- 2. A company's financial statements shall be prepared by the end of each fiscal year in accordance with accounting standards approved in the Kingdom, and said statements shall be deposited as provided for in the Regulations within six months from the date on which the fiscal year ends, in accordance with the provisions of this Law.
- 3. If a company requires information from a company it controls or owns interests or shares therein in order to prepare its preliminary or annual financial statements, said company shall provide the information necessary for preparing such statements in accordance with accounting standards approved in the Kingdom.
- 4. The CMA may set the rules governing the provision of the information referred to in paragraph (3) of this Article by joint-stock companies listed in the capital market.





Article 18: Appointment, Removal, and Resignation of Company Auditor

- 1. A company shall have one auditor, or more, licensed to practice in the Kingdom. His appointment, fees, term, and scope of work shall be determined by the partners, general assembly, or shareholders, as the case may be, and he may be re-appointed. The Regulations shall determine the maximum term for an individual auditor or an auditing firm and the partner therein supervising the audit.
- 2. The partners, general assembly, or shareholders, as the case may be, may remove the auditor, without prejudice to his right to compensation for any damage he incurs, if justified. The manager or the chairman of the board of directors shall notify the Competent Authority of the removal decision and the grounds therefor within a period not exceeding five days from the decision date.
- 3. The auditor may resign pursuant to a written notice submitted to the company. His assignment shall terminate from the date of submitting the resignation notice or at a later date as specified therein, without prejudice to the company's right to compensation for any damage it incurs, if justified. The resigning auditor shall, upon submission of the notice, provide the company and the Competent Authority with the reasons for his resignation. The company's manager or board of directors shall call the partners or shareholders to meet or the general assembly to be held, as the case may be, to review said reasons and appoint another auditor.

Article 19: Inapplicability of Auditor Appointment Requirement

- 1. The provision stipulated in Article 18 of this Law relating to the appointment of an auditor shall not apply to micro and small companies, except in the following cases:
 - a) If the articles of incorporation or articles of association stipulate the appointment of an auditor.
 - b) If it is listed in the capital market.
 - c) If it issues debt instruments, traded financing sukuk, preferred stock, or redeemable stock.
 - d) If relevant laws require the appointment of an auditor.
 - e) If it is a foreign company.
 - f) If it owns another company or is a subsidiary of another company, unless the description of a micro or small company applies to all such companies.

For purposes of application of this paragraph, the Regulations shall set the criteria upon which a company is deemed a micro company or small company.

- 2. For the application of paragraph (1) of this Article, a company shall be deemed a micro company or small company during the first fiscal year of its registration with the Commercial Register, or for two consecutive fiscal years.
- 3. One or more partners or shareholders of a company to which paragraph (1) of this Article applies who represent at least 10% of its interests or voting shares may request in writing the appointment of an auditor in accordance with the rules specified in the Regulations.
- 4. The provision of Article 18 of this Law, which provides for the appointment of an auditor, shall not apply to a general partnership, except in the following cases:
 - a) If all of the partners in the company are companies in a form other than a general partnership.
 - b) If all of the partners in the company are companies in the form of a general partnership and the partners in such companies are companies in a form other than a general partnership.
 - c) If the company's articles of incorporation provide for the appointment of an auditor.

Article 20: Auditor Obligations

1. The company's auditor shall be independent, in accordance with professional standards approved in the





Kingdom.

- 2. The auditor may not, while serving as an auditor of a company, participate in its incorporation or management or serve as a member of its board of directors, nor may he purchase or sell interests or shares thereof. He may not be a partner, employee, or relative of any of the company's incorporators, managers, or board members.
- 3. The company's auditor may not carry out any technical, administrative, or advisory work in the company or for its benefit, except as provided for by the Regulations.
- 4. The auditor may, at any time, access the company's files, accounting records, and other supporting documents, and he may request any information and clarifications he deems necessary to verify the company's assets and liabilities as well as any other matters falling within his scope of work. The company's manager or its board of directors shall enable the auditor to carry out his assignment. If the auditor encounters any difficulty in carrying out his assignment, he shall submit a report to this effect to the manager or board of directors. If the manager or board of directors fails to facilitate the auditor's work, the auditor shall submit a request thereto to call for a meeting of the partners, shareholders, or general assembly, as the case may be, to review the matter. If the manager or board of directors fails to call for a meeting within 30 days from the date of the auditor's request, the auditor himself may call for a meeting.
- 5. The auditor shall submit to the partners or shareholders or to the general assembly at its annual assembly meeting a report on the company's financial statements to be prepared in accordance with auditing standards approved in the Kingdom. The auditor's report shall indicate the extent to which the company's management enabled him to obtain the information and clarifications he requested. The report shall include any violations of this Law or the company's articles of incorporation or articles of association that are within the scope of his work as well as his opinion on the integrity of the company's financial statements. The auditor shall present his report or a summary thereof at the annual general assembly meeting or present the report by circulation, as the case may be, in accordance with the provisions of this Law.
- 6. The auditor may not disclose to the partners or shareholders, except in the general assembly, or to third parties any confidential information he becomes privy to in the course of carrying out his assignment. If he fails to do so, he may be held liable for compensation and removed.
- 7. The auditor shall be held liable for the information included in his report and for any damage incurred by the company, partners, shareholders, or other parties arising from any mistake he makes in the course of carrying out his assignment. In case of multiple auditors, they shall be jointly and severally liable, except for those established not to have been involved in the commission of the mistake subject of the liability.

Article 21: Monitoring Company Accounts

Partners and shareholders may monitor company accounts in accordance with this Law and the company's articles of incorporation or articles of association.

Article 22: Distribution of Dividends

- 1. Annual or interim dividends may be distributed from distributable dividends to partners or shareholders in joint-stock companies, simplified joint-stock companies, and limited liability companies.
- 2. If dividends are distributed to partners or shareholders in violation of paragraph (1) of this Article, the company's creditors may demand repayment of their debts from the company, and the company may demand each partner or shareholder, including a bona fide partner or shareholder, to return any dividends he received.
- 3. A partner or shareholder shall not be obligated to return dividends he received pursuant to paragraph (1) of this Article, even if the company incurs losses in subsequent periods.
- 4. The Regulations shall determine the rules necessary for the implementation of this Article.

Article 23: Sharing Profits and Losses

1. All partners shall share profits and losses in proportion to their interests in the capital. If an agreement is made to deny any partner of profit or exempt him from losses, such agreement shall be deemed null and





void. However, the company's articles of incorporation may provide for a profit and loss sharing ratio.

2. A partner whose contribution is solely in the form of work may be exempted from sharing losses, provided that he is not paid a wage in exchange for such work.

Article 24: Partner's Interests in Profits and Losses

If a partner's contribution is limited to his work and the company's articles of incorporation do not provide for his inclusion in the profit and loss sharing ratio, the partner's interest in the profits and losses shall be equal to that of the partner who contributes the least to the company's capital. If a partner makes, in addition to work, cash or in-kind contributions, he shall have an interest in the profits or losses for his work contribution and an interest for his cash or in-kind contribution.

Article 25: Transfer of Interest Ownership and Trading of Shares

- 1. Ownership of interests in general partnerships, limited partnerships, and limited liability companies shall be transferred upon registration with the Commercial Register. Transfer of ownership of interests shall not be valid against the company or third parties except from the date of registration.
- 2. Shares of unlisted joint-stock companies and simplified joint-stock companies shall be traded upon registration with the shareholders' register stipulated in Article 112 of this Law. Transfer of ownership of shares shall not be deemed valid against the company or third parties except from the date of registration.
- 3. Shares of joint-stock companies listed in the capital market shall be traded in accordance with the Capital Market Law and its implementing regulations.

Chapter 3: Management of a Company

Article 26: Duty of Care and Duty of Loyalty

A company's manager or board member shall exercise duty of care and duty of loyalty, particularly in:

- a) carrying out his duties within the scope of his powers;
- b) acting in the interest of the company and promoting its success;
- c) making decisions or voting independently thereon;
- d) exercising reasonable and expected due diligence, skill, and care;
- e) avoiding conflict of interest;
- f) disclosing any direct or indirect interest he has in the transactions conducted and the contracts concluded for the company's account; and

g) not accepting any benefit granted thereto by third parties in relation to his role in the company.

The Regulations shall determine the provisions related to this Article.

Article 27: Conflict of Interest, Competition, and Exploitation of Assets

- 1. A company's manager or board member may not have any direct or indirect interest in the transactions conducted and contracts concluded for the company's account without the authorization of the partners, general assembly, or shareholders or their designees.
- 2. A company's manager or board member may not engage in any business that may compete with the company or with any of its activities without the authorization of the partners, general assembly, or shareholders or their designees.
- 3. A company's manager or board member may not exploit the company's assets or information or any investment opportunity offered to the company or to him in his capacity as a manager or board member for his benefit whether directly or indirectly.
- 4. The Regulations shall specify the rules necessary for the implementation of paragraphs (1), (2), and (3) of this Article.
- 5. Paragraph (1) of this Article shall not apply to the following:
 - a) Transactions conducted and contracts concluded pursuant to public tenders.
 - b) Transactions and contracts that aim to meet personal needs if they are carried out under the same terms





and conditions the company applies to all persons and contractors it deals with and are within the company's regular activities.

- c) Any other transactions or contracts specified by the Regulations which are not inconsistent with the company's interest.
- 6. If the company's manager or a board member violates paragraph (1) of this Article, the company may petition the competent judicial authority to invalidate the contract and order him to return any profit or benefits realized from such violation.
- 7. If the company's manager or a board member violates paragraph (2) of this Article, the company may petition the competent judicial authority for appropriate compensation

Article 28: Liability of Company Management

- 1. The company's manager and board members shall be jointly and severally liable for any damage incurred by the company, partners, shareholders, or third parties resulting from the violation of this Law or the company's articles of incorporation or articles of association or from a wrongful act, negligence, or omission in the performance of their duties. Any condition contrary to this provision shall be deemed null and void.
- 2. Liability of company managers or board members shall be either personal or joint. Joint liability shall be incurred by all managers or board members if the decision subject of the liability is unanimously voted thereon; if, however, the decision is passed by majority vote, objecting managers or board members shall not be held liable if their objection is explicitly recorded in the meeting minutes. Absence from the meeting at which the decision is issued shall not exempt the absentee from liability, unless it is established that he was not aware of the decision or was unable to object to it after becoming aware of it.
- 3. The company may provide liability insurance coverage for its manager or a board member during the term of service or membership against any claim made against him in his capacity as a manager or board member.

Article 29: Legal Action Initiated by Companies, Partners, or Shareholders

- 1. A company may initiate a derivative action against a manager or board members for any damage incurred by the company resulting from the violation of this Law or the company's articles of incorporation or articles of association or from a wrongful act, negligence, or omission in the performance of their duties. The decision to initiate the action and to designate a representative on behalf of the company to pursue such action shall be made by the partners, general assembly, or shareholders. If the company is under liquidation, the liquidator shall initiate the action. If any liquidation proceedings are initiated against the company under the Bankruptcy Law, the action shall be initiated by its legal representative.
- 2. A single partner or shareholder, or more, representing 5% of the company's capital, unless the company's articles of incorporation or articles of association stipulate a lower percentage, may initiate a derivative action on behalf of the company if such action is not initiated by the company, provided the action serves the interests of the company and is based on valid grounds, and the plaintiff is acting in good faith and is a partner or shareholder in the company at the time of initiating the action.
- 3. To initiate the action referred to in paragraph (2) of this Article, the company's manager or board members, as the case may be, shall be notified of the intent to initiate the action at least 14 days prior to the initiation date.
- 4. A partner or shareholder may initiate a private right of action against the manager or board members if the wrongful act attributed thereto results in a damage personally affecting him.

Article 30: Hearing of a Lawsuit

1. The approval of the partners, general assembly, or shareholders, as the case may be, to relieve the manager or board members from liability shall not preclude the initiation of the legal actions referred to in Article 29 of this Law.





2. Except for cases of forgery and fraud, a derivative action shall not be heard upon the lapse of five years from the end of the fiscal year in which the act resulting in damage was committed, or upon the lapse of three years from the end of the manager's term of service or board member's term of membership, whichever is later.

Article 31: Business Judgment Rule

The company's manager or a board member shall be deemed to have fulfilled his duty in a decision he made or voted on in good faith if he:

- a) has no personal interest in the subject matter of the decision;
- b) understands and is familiar with the subject matter of the decision to an extent he deems reasonable according to the circumstances of the decision; and

c) believes firmly and rationally that the decision serves the company's interests.

The burden of proving otherwise shall rest with the plaintiff. For the purposes of this Article, a decision shall refer to an action or omission relating to the company's business.

Article 32: Expenses of Initiating Derivative Action

The competent judicial authority may, at the request of a partner or shareholder, order the company to pay the expenses he incurred in the initiation of a derivative action, regardless of its outcome, if he initiates the action in good faith and such action is in the interest of the company.

Article 33: Enforcement against Partners or Shareholders Profits

A personal creditor of a partner or shareholder may petition the competent judicial authority to satisfy the debt using the interests of the indebted partner or shareholder in the net profit distributed. Upon termination of the company, the creditor's claim shall be satisfied using the debtor's interests in the remainder of the company's assets after settling the company's debts.

Article 34: Enforcement against Interests and Shares

Subject to the Movable Property Security Law and other relevant laws, the personal creditor of a partner or shareholder may, in addition to the rights provided for in Article 33 of this Law, petition the competent judicial authority to:

- a) sell a sum of the partner's interests enough to satisfy his debt. The other partners may recover such interests in accordance with the provisions of this Law; and
- b) sell a sum of the shareholder's shares enough to satisfy his debt. The shareholders in an unlisted jointstock company and a simplified joint-stock company shall, if provided for in the company's articles of association, have a preemptive right to purchase the shares within 15 days from the date they are offered for sale.

Part 2: General Partnerships

Chapter 1: General Provisions

Article 35: Definition of a General Partnership

A general partnership is a company incorporated by two or more natural or legal persons who are jointly and personally liable for the company's debts and liabilities. A partner in such company shall acquire the capacity of a merchant.

Chapter 2: Incorporation of a General Partnership

Article 36: Articles of Incorporation Information

The following information shall be included in the articles of incorporation of a general partnership:





- a) Partners' names and particulars.
- b) Company's name.
- c) Company's headquarters.
- d) Company's purpose.
- e) Company's capital and its distribution among partners, together with sufficient details on the contribution pledged by each partner and its due date.
- f) Company's term, if any.
- g) Company's management.
- h) Issuance of partner decisions and the quorum required for their issuance.
- i) Distribution of profits and losses among partners.
- j) Dates on which the company's fiscal year commences and ends.
- k) Termination of the company.
- 1) Any other terms, conditions, or information the partners agree to include in the company's articles of incorporation that are not inconsistent with the provisions of this Law.

Chapter 3: General Partnership Management

Article 37: Management Powers

- 1. A general partnership shall be managed by its partners, and a partner of legal personality shall designate his representative in the management. The partners may, in the company's articles of incorporation or in a separate contract, agree to appoint one or more managers from among themselves or others.
- 2. In case of multiple managers, whether from among partners or others, each manager may solely undertake any act of management if the managers' powers are not specified and there is no stipulation denying any of them the sole management of the company. The other managers may object to any act of management prior to becoming valid against third parties; in such case, the majority vote of managers shall prevail. In case of a tie, the matter shall be referred to the partners to decide thereon in accordance with Article 38 of this Law.
- 3. The manager, or managers in case of multiple managers, shall manage the company in accordance with its purpose, and shall represent it before the judiciary, arbitration tribunals, and other parties, unless the company's articles of incorporation explicitly restrict his powers. In all cases, the company shall be bound by any act carried out by the manager on behalf of the company and within its purposes, unless the other party involved in such activity acts in bad faith.

Article 38: Decisions of Partners

Partner decisions shall be passed by the majority vote of partners, except for decisions relating to amendments to a company's articles of incorporation, which shall be passed by the unanimous vote of partners, unless the company's articles of incorporation stipulate otherwise.

Article 39: Prohibited Activities for Managers

A manager shall not engage in any activities beyond the company's purposes, except pursuant to a decision by the partners or an explicit stipulation in the company's articles of incorporation. Such prohibition shall specifically apply to the following activities:

- a) Setting up or shutting down company branches.
- b) Making donations, except for usual small donations.
- c) Binding the company to act as a guarantor to another party.
- d) Conciliating the company's rights.
- e) Selling or pledging the company's real property, unless the sale falls within the company's purposes.
- f) Selling or pledging the company's place of business (store).
- g) Obtaining loans on behalf of the company.





Article 40: Competing with the Company

A partner may not, without the approval of the other partners, engage for his own account or for the account of others in any activity similar to that of the company, nor may he be a partner, manager, or board member in a competing company or a controlling owner of interests or shares in another company engaged in the same activity. If the partner fails to comply with such provision, the company may petition the competent judicial authority to deem the activities carried out for his own account as having been carried out for the company's account, and the company may also seek compensation from him.

Article 41: Powers of Non-Managing Partners

A non-managing partner may not interfere in the company's management. However, said partner, or his designee, may, twice during the fiscal year, have access to the company's operations, examine its records and documents, obtain a summary of the company's financial status from such records and documents, and may offer his opinion to the company's manager. Any agreement to the contrary shall be deemed null and void.

Article 42: Removal of Manager

- 1. If the manager is appointed as a managing partner in the company's articles of incorporation, he may not be removed except pursuant to a unanimous decision issued by the other partners, and if he is appointed as such in a separate contract, he may be removed pursuant to a decision issued by the majority vote of partners, unless the company's articles of incorporation stipulate otherwise.
- 2. If the manager is not a partner, whether appointed in the company's articles of incorporation or in a separate contract, he may be removed pursuant to a decision issued by the majority vote of partners.
- 3. A manager appointed in the company's articles of incorporation or in a separate contract, whether a partner or otherwise, may be removed from his position pursuant to a final judgment rendered by the competent judicial authority.
- 4. The removal of the manager shall not result in the dissolution of the company, unless stipulated in the company's articles of incorporation.

Article 43: Resignation of Manager

- 1. A company's manager, whether a partner or otherwise, shall have the right to resign, provided that he notifies the partners in writing at least 60 days prior to the effective date of his resignation, unless stipulated otherwise in the company's articles of incorporation or in the appointment contract; otherwise, he shall be liable for any damage arising from his resignation.
- 2. The resignation of the manager shall not result in the dissolution of the company, unless stipulated in the company's articles of incorporation.

Chapter 4: Interests and Partners in General Partnerships

Article 44: Interests of Partners and Assignment Thereof

- 1. The interests of partners may not be in the form of tradable sukuk.
- 2. A partner may not wholly or partly assign his interests unless such assignment is carried out pursuant to the conditions provided for in the company's articles of incorporation or upon obtaining the approval of the other partners. Any assignment agreement concluded to the contrary shall be deemed null and void. Said assignment shall be registered with the Commercial Register and published therein.
- 3. A partner may assign to other parties the financial rights associated with his interests in the company, and the effect of such assignment shall be limited to the parties thereto.

Article 45: Partner's Joining, Withdrawal, Removal, or Assignment

1. If a new partner joins the company with a new contribution, he shall be personally and jointly liable with the other partners for the company's past and future debts. He may, however, be relieved from past debts





if the other partners unanimously agree thereto. Such agreement shall be valid against creditors from the date it is registered with the Commercial Register and published therein.

- 2. If a partner withdraws from the company or is removed therefrom, he shall not be liable for the debts incurred by the company following the registration of his withdrawal or removal with the Commercial Register and its publication therein. He shall, however, remain liable for any debts incurred prior thereto, unless the other partners and the company's creditors agree to relieve him from such debts.
- 3. If a partner assigns his interests, the assignee shall be liable to the company's creditors for any debts incurred prior to becoming a partner or thereafter. The assignor shall not be liable for the company's debts toward its creditors unless they object to his relief from liability within 30 days after being notified by the company of such assignment. In case of objection, the assignor shall be jointly and severally liable for the debts incurred prior to his assignment.

Article 46: Withdrawal and Removal Procedures

- 1. Unless the company's articles of incorporation stipulate otherwise, a partner may unilaterally withdraw from the company, provided that he notifies the other partners at least 60 days prior to the date set for withdrawal.
- 2. The company's articles of incorporation may provide for procedures for removal of partners. If the articles of incorporation do not provide for such procedures, the majority of partners may petition the competent judicial authority to remove a partner, or more, from the company if there are valid grounds therefor. In such case, the company shall continue to exist between the remaining partners.
- 3. A withdrawing partner, or the remaining partners in case a partner is removed from the company, shall register the withdrawal or removal with the Commercial Register and publish it therein. Said withdrawal or removal shall not be valid against third parties except upon its registration and publication.
- 4. The competent judicial authority may, upon a petition by a partner, or more, issue a decision to dissolve the company if its continuation between the partners is not feasible.

Article 47: Partner's Interests in Profits and Losses

- 1. Profits and losses and the interests of each partner therein shall be determined at the end of the company's fiscal year pursuant to financial statements prepared in accordance with accounting standards approved in the Kingdom. Upon determination of partners' interests in the profits, each partner shall be deemed a creditor of the company to the extent of his interests, unless the company's articles of incorporation provide otherwise.
- 2. Any decrease in the company's capital arising from losses shall be made up from the profits of subsequent years. In any other case, a partner shall not be obliged to make up for any decrease in his interests in the capital due to losses without his consent.

Article 48: Enforcement against a Partner's Property

- 1. A partner may not be required to use his property to satisfy a company's debt unless the debt is established pursuant to a final judgment or enforcement document and the company fails to satisfy the debt after a debt satisfaction notice is provided thereto.
- 2. A partner shall, upon satisfaction of the company's debt, have the right of recourse against the other partners for the amounts he pays on behalf of the partners in proportion to their respective interests.

Article 49: Valuation of a Partner's Interests

1. Absent a specific agreement relating to the value of interests or a specific valuation method therefor in the company's articles of incorporation, a partner's interests shall be valuated pursuant to a report prepared by one or more accredited valuers upon his withdrawal or removal from the company, the initiation of any liquidation proceedings against him under the Bankruptcy Law, or upon his death and the decision of his heirs not to join the company. Said report shall indicate the fair value of each partner's interests in the company's assets at the time of the event. The partner or his heirs shall not have an interest in any future





rights, unless such rights arise from transactions made prior to such event.

2. A partner's interests in case of assignment shall be valuated according to the value agreed upon with the assignee, unless the company's articles of incorporation provide otherwise.

Chapter 5: Termination of a General Partnership

Article 50: Cases of Termination

- 1. A general partnership shall not terminate upon a partner's death, interdiction, removal, or withdrawal, or upon the initiation of any liquidation proceedings under the Bankruptcy Law against such partner, unless the company's articles of incorporation stipulate otherwise. In such cases, the company shall continue to exist between the other partners and said partner or his heirs shall have only his interests in the company's assets. Said interests shall be determined pursuant to Article 49 of this Law.
- 2. The company's articles of incorporation may stipulate that, in case of the death of a partner, the company may continue to exist with heirs interested in joining the company as partners, even if they are minors or prohibited by law from engaging in commercial activities. If the company continues to exist, the partner's heirs who are minors or prohibited by law from engaging in commercial activities interests in the company's debts except to the extent of their respective inherited interests in the company's capital. In such case, the company shall, within a period not exceeding one year from the date of the partner's death, be converted into a limited partnership, whereby such heirs who are minors or prohibited by law from engaging in commercial activities become limited partners; otherwise, the company shall be deemed terminated by force of law upon the lapse of said period, unless the heirs reach the age of majority or cease to be prohibited from engaging in commercial activities during said period, and wish to become general partners.
- 3. If only one partner remains in the company upon the death, interdiction, withdrawal, or removal of the other partners or upon the initiation of any liquidation proceedings against them under the Bankruptcy Law, said partner shall be given a period of 90 days to rectify the company's status whether by the joining of another partner or the conversion of the company into another form of company provided for in this Law. Otherwise, the company shall be deemed terminated by force of law upon the lapse of such period.

Part 3: Limited Partnership

Chapter 1: General Provisions

Article 51: Definition of a Limited Partnership

- 1. A limited partnership is a company that comprises two groups of partners, one group shall include at least one partner of a natural or legal personality who shall be jointly and personally liable for the company's debts and liabilities, and the other group shall include at least one limited partner of a natural or legal personality who shall not be liable for the company's debts and liabilities except to the extent of his interests in the company's capital. A limited partner shall not acquire the capacity of a merchant.
- 2. General partners in a limited partnership shall be subject to the provisions applicable to partners in a general partnership.
- 3. Absent a specific provision in this Part, a limited partnership shall be subject to the provisions of a general partnership.

Chapter 2: Incorporation of a Limited Partnership

Article 52: Articles of Incorporation Information

The following information shall be included in the articles of incorporation of a limited partnership:

- a) Partners' names and particulars.
- b) Company's name.
- c) Company's headquarters.





- d) Company's purpose.
- e) Company's capital and its distribution among partners, together with sufficient details on the contribution pledged by each partner and its due date.
- f) Company's term, if any.
- g) Company's management.
- h) Issuance of partner decisions and the quorum required for their issuance.
- i) Distribution of profits and losses among partners.
- j) Dates on which the company's fiscal year commences and ends.
- k) Termination of the company.
- 1) Any other terms, conditions, or information the partners agree to include in the company's articles of incorporation that are not inconsistent with the provisions of this Law.

Chapter 3: Partners in a Limited Partnership

Article 53: Powers of Limited Partners

- 1. A limited partner, or his designee, may, twice during the fiscal year, have access to the company's operations, examine its records and documents, obtain a summary of the company's financial status from such records and documents.
- 2. A limited partner may not interfere in the management of the company's external activities, even with a power of attorney; otherwise, he shall be jointly and personally liable for the debts and liabilities the company incurs due to his interference. A limited partner may, however, participate in the management of the company's internal activities in accordance with its articles of incorporation. The partner shall not be deemed liable for such participation, unless it leads third parties to believe that he is a general partner; in such case, he shall be deemed jointly and personally liable to such parties for the company's debts and liabilities.

Article 54: General Assembly of a Limited Partnership

In a company's articles of incorporation, general and limited partners may agree to have a general assembly and shall determine its powers and meeting procedures.

Article 55: Decisions of Partners

- 1. Unless stipulated otherwise in the company's articles of incorporation, partner decisions shall be passed as follows:
 - a) Decisions amending the articles of incorporation shall be passed by the unanimous vote of general partners and the approval of limited partners owning majority interests in the capital.
 - b) Other decisions shall be passed by the majority vote of general partners.
- 2. A limited partner may not request the dissolution of the limited partnership nor may he vote on issues relating to the appointment or removal of its manager.

Article 56: Assignment of Interests

- 1. A limited partner may assign all or part of his interests to other partners in the company.
- 2. A limited partner may assign all or part of his interests to non-partners upon the approval of general partners and the limited partners owning majority interests in the capital, unless the company's articles of incorporation stipulate otherwise.
- 3. A general partner may assign all or part of his interests to a limited partner or non-partner in accordance with paragraph (2) of this Article.
- 4. If a limited partner fails to provide his interests in the company's capital on the due date prior to the assignment of said interests, the assignee shall be liable for providing the same.
- 5. General or limited partners may join a company upon the approval of all general partners; the approval of





limited partners shall not be required, unless the company's articles of incorporation stipulate otherwise.

Chapter 4: Termination of a Limited Partnership

Article 57: Cases of Termination

A limited partnership shall not terminate upon a limited partner's death, interdiction, withdrawal, insolvency, or upon the initiation of any liquidation proceedings under the Bankruptcy Law against such partner, unless the company's articles of incorporation stipulate otherwise.

Part 4: Joint-Stock Company

Chapter 1: General Provisions

Article 58: Definition of a Joint-Stock Company

A joint-stock company is a company incorporated by one, or more, natural or legal persons and its capital is divided into tradable shares. The company shall be solely liable for the debts and liabilities arising from its activities. The liability of shareholders shall be limited to paying the value of the subscribed shares.

Article 59: Capital of a Joint-Stock Company

The issued capital of a joint-stock company shall not be less than five hundred thousand riyals and its paidup capital upon incorporation shall not be less than a quarter of said capital.

Article 60: Issued and Authorized Capital

- 1. A joint-stock company shall have issued capital representing subscribed shares and the company's articles of association may provide for authorized capital.
- 2. The company's issued capital may, pursuant to a decision by the company's board of directors, be increased within the limits of its authorized capital, provided that the issued capital is paid in full.

Chapter 2: Incorporation of a Joint-Stock Company

Article 61: Articles of Association Information

- 1. The following information shall be included in the articles of association of a joint-stock company: a) Company's name.
 - b) Company's headquarters.
 - c) Company's purpose.
 - d) Company's authorized capital, if any, and its issued and paid-up capital.
 - e) Number of shares; their types and classes, if any; their nominal value; and the rights associated with each type or class.
 - f) Company's term, if any.
 - g) Company's management and number of board members.
 - h) Dates on which the company's fiscal year commences and ends.
 - i) Any other terms, conditions, or information the incorporators or shareholders agree to include in the company's articles of association that are not inconsistent with the provisions of this Law.
- 2. The following shall be enclosed with the company's articles of association upon submission of its incorporation application:





- a) Incorporators' names, addresses, and nationalities.
- b) Statement of projected works and expenses for incorporating the company.
- c) An acknowledgment by the incorporators that the company's issued shares are fully subscribed, and a statement of the value of paid-up shares.
- d) A certificate of the amount of paid-up capital issued by a bank licensed to operate in the Kingdom.
- e) Incorporators' decision appointing members of the first board of directors, stating their names, nationalities, addresses, and dates of birth, and the decision appointing the first auditor in cases where an auditor is required under this Law, if not appointed in the company's articles of association.
- f) An acknowledgment by the incorporators to satisfy all the requirements provided for in this Law which relate to the incorporation of the company.
- g) A report prepared by an accredited valuer, or more, indicating the fair value of in-kind contributions, if any, and an acknowledgment by incorporators of their approval of the consideration for such contributions.

Article 62: Share Subscription

If incorporators do not limit the subscription of all of the company's shares to themselves during the incorporation period, unsubscribed shares must be offered for subscription in accordance with the Capital Market Law.

Article 63: Subscription during the Incorporation Period

The Ministry and the CMA may determine the rules, procedures, documents, and approvals necessary for the incorporation of a joint-stock company the shares of which are offered for public subscription during the incorporation period or listed in the capital market.

Article 64: Depositing the Value of Shares

- 1. The paid-up value of subscribed shares shall be deposited with a bank licensed to operate in the Kingdom in an account in the name of the company under incorporation. Disposition of such account shall be entrusted only to the board of directors following the company's registration with the Commercial Register.
- 2. If the company is not registered with the Commercial Register, subscribers may recover the amounts they paid from the banks through which they subscribed. In such case, the banks shall promptly refund such amounts to the subscribers, and incorporators shall be jointly and severally liable against subscribers for such obligation and for any due compensation. Incorporators shall bear all of the expenses incurred in the incorporation of the company and shall be jointly and severally liable to third parties for their acts and dispositions during the incorporation period.

Article 65: Company Registration with the Commercial Register

A company shall be deemed duly incorporated upon its registration with the Commercial Register. Any lawsuit filed thereafter to invalidate the company for violation of the provisions of this Law or the provisions of the company's articles of association shall not be heard.

Article 66: Valuation of In-Kind Contributions

1. If in-kind contributions are provided upon the incorporation of a company or upon the increase of its capital, said contributions shall be valuated by an accredited valuer, or more, who shall prepare a report indicating the fair value of the contributions. Such report shall be presented to the incorporators or the extraordinary general assembly, as the case may be, for deliberation. Providers of in-kind contributions





may not vote on the decision related to said report. If the incorporators or general assembly decide to reduce the value of in-kind contributions stated in the report, such reduction must be approved by the providers of said contributions.

2. The period between the issuance of the accredited valuer's report on the fair value of in-kind contributions and the issuance of shares in exchange for said contributions shall not exceed the period specified in the Regulations.

Chapter 3: Joint-stock Company Management

Section 1: Board of Directors

Article 67: Nomination for Board Membership

- 1. A joint-stock company shall be managed by a board of directors comprising at least three members.
- 2. A shareholder may nominate himself or one or more shareholders for membership on the board of directors of a joint-stock company.

Article 68: Election of Board Members

- 1. The ordinary general assembly shall elect the company's board members. In all cases, board members must be natural persons.
- 2. The Regulations shall specify the voting method for electing board members in a joint-stock company.
- 3. The company's articles of association may specify the method of forming the board of directors, subject to the rules set out in the Regulations.
- 4. The company's articles of association shall determine the term of the board of directors, provided it does not exceed four years. Board members may be re-elected, unless the company's articles of association provide otherwise.
- 5. The company's articles of association shall determine membership expiration or termination upon the board's request. The ordinary general assembly may, however, remove some or all board members even if the company's articles of association stipulate otherwise. In such case, the ordinary general assembly shall elect a new board of directors or a replacement for removed members, as the case may be, in accordance with the provisions of this Law. The Competent Authority may specify the rules governing the removal of board members by the ordinary general assembly.

Article 69: Expiration of the Term of Board of Directors or Resignation of its Members

- 1. The board of directors shall call the ordinary general assembly to convene in ample time prior to the expiration of the board's term to elect a board of directors for a new term. If the election cannot be held and the term of the current board expires, its members shall continue to carry out their duties until a board of directors is elected for a new term, provided that they do not continue to carry out their duties beyond the period specified in the Regulations.
- 2. If the chairman and members of the board of directors resign, they shall call for an ordinary general assembly meeting to elect a new board. The resignation shall not take effect until a new board is elected, provided that the resigning board does not continue to carry out its duties beyond the period specified in the Regulations.
- 3. A board member may resign pursuant to a written notice submitted to the chairman of the board of directors. If the chairman of the board resigns, the notice shall be submitted to the board members and the board's secretary. In both cases, the resignation shall take effect from the date specified in the notice.
- 4. Unless the company's articles of association stipulate otherwise, if the position of a board member of a joint-stock company becomes vacant due to his death or resignation, and if the minimum number of members required for the validity of board meetings as stipulated in this Law or the company's articles of association is not affected by such vacancy, the board may appoint a qualified person with relevant expertise to provisionally fill the vacancy. The appointment shall be reported to the Commercial Register, and to the CMA if the company is listed in the capital market, within 15 days from the date of such





appointment, and it shall be submitted to the ordinary general assembly in its first meeting. The appointed member shall complete the term of his predecessor.

- 5. If the number of board members falls below the minimum number required for the validity of board meetings as stipulated in this Law or the company's articles of association, the remaining members shall call for an ordinary general assembly meeting within 60 days to elect the required number of members.
- 6. If the board of directors is not elected for a new term or if the required number of board members is not satisfied, in accordance with paragraphs (1), (2), and (5) of this Article, any person with interest may petition the competent judicial authority to appoint qualified persons with expertise, in any number it deems appropriate, to supervise the management of the company and call on the general assembly to convene within 90 days to elect a new board of directors or appoint board members to satisfy the required number, as the case may be, or may petition the competent judicial authority to dissolve the company.

Article 70: Termination of Membership of Absentees

The general assembly may, upon the recommendation of the board of directors, terminate the membership of any member who fails to attend three consecutive meetings or five non-consecutive meetings during the course of his membership without an excuse acceptable to the board.

Article 71: Disclosure of Interest in Transactions and Contracts

- 1. Subject to the provision of Article 27 of this Law, a board member shall immediately disclose to the board of directors any direct or indirect interest he may have in company transactions or contracts. Such disclosure shall be recorded in the minutes of the board meeting. Said member may not vote on a decision by the board of directors and the general assemblies relating to such transactions and contracts. The board shall notify the general assembly, when it convenes, of the transactions and contracts in which such board member has direct or indirect interest; the notice shall be accompanied with a special report prepared by the company auditor in accordance with auditing standards approved in the Kingdom.
- 2. If a board member fails to disclose his interest as provided for in paragraph (1) of this Article, the company or any person with interest may petition the competent judicial authority to invalidate the contract or obligate the member to return any profit or benefit realized therefrom.
- 3. Liability for damages arising from the transactions and contracts referred to in paragraph (1) of this Article shall be borne by the board member having interest in such transactions or contracts; liability shall also be borne by other board members for their omission or negligence in the performance of their duties in violation of said paragraph, or if it is established that the transactions and contracts are unfair or involve a conflict of interest and shareholders sustain damage therefrom.
- 4. Board members who object to the decision shall not be liable if their objection is explicitly recorded in the meeting minutes. Absence from the meeting at which the decision is issued shall not exempt the absentee from liability, unless it is established that he was not aware of the decision or was unable to object to it after becoming aware thereof.

Article 72: Granting Loans

- 1. A joint-stock company may not grant any type of loan to its board members nor may it act as a guarantor or provide guarantees for any loans they conclude with a third party. This shall apply to any loan or guarantee provided to any of their relatives. Any contract concluded in violation of this provision shall be deemed null and void. The company may petition the competent judicial authority for compensation from the violator for any damage sustained thereby.
- 2. Paragraph (1) of this Article shall not apply to the following:
 - a) Banks and other financing companies, which may, within their purposes and subject to the terms and conditions applicable to their transactions with clients, grant loans or extend credit to their board members, or provide guarantees for loans they conclude with third parties.
 - b) Loans and guarantees granted by the company in accordance with its employee incentive programs which are approved in accordance with the company's articles of association or pursuant to a decision





by the general assembly.

3. The Competent Authority may determine the rules and cases in which the company is prohibited from granting a loan or guarantee to its shareholders.

Article 73: Monitoring the Board of Directors

A shareholder may monitor the board of directors in accordance with the provisions of this Law. However, he may not interfere with the work of the board of directors nor the work of the company's executive management, unless he is a member of its board of directors or is part of its executive management, or such interference is made through the general assembly in accordance with its powers.

Article 74: Conclusion of Loans and Disposition of Company Assets

The board of directors may conclude loans, regardless of their term; sell or pledge the company's assets or place of business; or relieve the company's debtors from their liabilities, unless its powers to carry out the same are restricted by the company's articles of association or a general assembly decision.

Article 75: Sale of Company Assets

The board of directors must obtain the approval of the general assembly for the sale of company assets the value of which exceeds 50% of the value of its total assets, whether the sale is made through one transaction, or more. In such case, the transaction which leads to the sale of more than 50% of the value of assets shall require the general assembly's approval. Said percentage shall be calculated from the date the first transaction is concluded within the previous 12 months. The Competent Authority may exclude certain acts and dispositions from the provisions of this Article.

Article 76: Remuneration of Board Members

- 1. The company's articles of association shall determine remuneration of board members. Such remuneration may be a fixed amount, an allowance for attending meetings, in-kind benefits, a percentage of the net profit, or a combination of two or more of the above. The company's articles of association may also set the maximum amount of remuneration, and the ordinary general assembly shall determine such amount, provided that it is fair, incentivizing, and commensurate with the performance of the member and the company. The Regulations shall specify the rules necessary for the implementation of this paragraph.
- 2. The report submitted by the board of directors to the ordinary general assembly at its annual meeting shall include a detailed account of all the amounts board members received or were entitled to receive during the fiscal year in the form of remuneration, meeting allowances, expense allowances, and other benefits. The report shall also include an account of the amounts received by board members in their capacity as employees or executives, or in exchange for technical, administrative, or consulting services as well as an account of the number of board meetings and the number of meetings attended by each member.

Article 77: Powers of Board of Directors

- 1. Without prejudice to the powers of the general assembly, the board of directors shall have all the powers necessary to manage the company and achieve its purposes, except for the acts or dispositions falling within the powers of the general assembly which are excluded pursuant to a special provision in this Law or the company's articles of association. The board of directors may also, within its powers, delegate one or more of its members or others to carry out certain acts.
- 2. The company shall be bound by all of the acts and dispositions performed in its name by the board of directors, even if said acts and dispositions are beyond the powers of the board, unless such acts and dispositions involve a party who acts in bad faith or a party who knows that such acts are beyond the powers of the board.





Article 78: Assignment of Powers within the Board of Directors

- 1. Subject to the company's articles of association, the board of directors of a joint-stock company shall, at its first meeting, appoint a chairman from among its members, and it may appoint a managing director or chief executive officer from among its members. The company's articles of association shall specify their powers and duties. If the articles of association do not provide for the assignment of powers, such powers shall be assigned by the board of directors.
- 2. The board of directors of a joint-stock company listed in the capital market shall, at its first meeting, appoint a vice-chairman from among its members. An unlisted joint-stock company may appoint a vice-chairman.
- 3. The board of directors of a joint-stock company shall appoint a chief executive officer from among its members or others. It shall determine his powers and remuneration if the company's articles of association do not provide therefor.
- 4. The board of directors of a joint-stock company shall appoint a board secretary from among its members or others. The board of directors shall determine his duties and remuneration if the company's articles of association do not provide therefor.
- 5. The board of directors may remove the chairman, vice-chairman, managing director, chief executive officer, and board secretary, or any of them, from their positions. However, this shall not result in the termination of their board membership.

Article 79: Company Representation

- 1. Without prejudice to the powers of the board of directors set forth in this Law and the company's articles of association, the chairman of the board of directors of a joint-stock company shall represent it before the judiciary, arbitration tribunals, and other parties. The company's articles of association may stipulate that the managing director or chief executive officer has the power to represent the company; either of them may delegate others to represent the company.
- 2. The chairman of the board of directors of a joint-stock company may, pursuant to a written decision, delegate certain powers to other board members or to others to carry out certain acts, unless the company's articles of association stipulate otherwise.
- 3. If the board of directors has a vice-chairman, he shall assume the chairman's duties in his absence.

Article 80: Meetings of Board of Directors

- 1. The board of directors of a joint-stock company shall convene at least four times a year upon a call by its chairman, as stipulated in the company's articles of association. The Competent Authority may amend the minimum number of meetings provided for in this paragraph. The chairman shall call for a board meeting to discuss one or more matters if requested in writing by a board member.
- 2. Board meetings shall only be valid if attended by at least half of the members, whether in person or by proxy, unless the company's articles of association stipulate a higher percentage.
- 3. Board decisions shall be passed by the majority vote of attending members, whether in person or by proxy, and the chairman of the meeting shall, in case of a tie, have the casting vote, unless the company's articles of association stipulate otherwise.
- 4. The board of directors shall determine the location of its meetings, and may hold its meetings through means of technology.

Article 81: Attending Meetings by Proxy and Effectiveness of Board Decisions

- 1. A member of the board of directors of a joint-stock company may not attend meetings nor vote on board decisions by proxy. As an exception, he may designate another board member to act as his proxy if stipulated in the company's articles of association, provided that the designated member does not act as proxy for more than one member.
- 2. A board decision shall become effective on the date of its issuance, unless the decision provides for a specific date or condition for its effectiveness.





Article 82: Issuing Decisions on Urgent Matters

The board of directors of a joint-stock company may issue decisions on urgent matters by circulation to all members, unless a member submits a written request for a board meeting to deliberate such matters. The decisions shall be passed by the majority vote of members, unless the company's articles of association stipulate a higher percentage or number. Such decisions shall be presented to the board of directors at its subsequent meeting to be recorded in the minutes of said meeting.

Article 83: Minutes of Board Meetings

- 1. Deliberations and decisions of the board of directors of a joint-stock company shall be recorded in minutes prepared by the board secretary and signed by the meeting chairman, attending board members, and board secretary.
- 2. The minutes shall be recorded in a special register signed by the chairman of the board and board secretary.
- 3. Means of technology may be used to obtain signatures, record deliberations and decisions, and prepare meeting minutes.

Section 2: Shareholder Assemblies

Article 84: Shareholder General Assembly Meetings

- 1. Shareholder general assembly meetings shall be chaired by the chairman of the board of directors, the vice-chairman in case of the chairman's absence, or any member designated by the board of directors in the absence of both the chairman and vice-chairman. If none of the above is possible, the shareholders shall vote to designate a board member or any other person to chair the general assembly meeting.
- 2. A shareholder shall have the right to attend general assembly meetings even if the company's articles of association stipulate otherwise. A shareholder may delegate a person other than a board member to attend such meetings on his behalf.
- 3. Means of technology may be used to hold general assembly meetings and enable shareholders to engage in deliberations and vote on decisions.

Article 85: Powers of the Extraordinary General Assembly

The extraordinary general assembly shall have the following powers:

- 1. Amending the company's articles of association, except for matters relating to the following:
 - a) Depriving a shareholder of his fundamental rights as a shareholder or making any amendments to such rights, taking into consideration the nature of the rights related to the type or class of shares owned by the shareholder, particularly the following:
 - i. Receiving dividends whether in the form of cash or bonus shares to other than the employees of the company or its subsidiaries.
 - ii. Receiving a share of the company's net assets upon liquidation.
 - iii. Attending general or special shareholder assembly meetings, participating in deliberations, and voting on decisions.
 - iv. Disposition of his shares, except in cases specified in this Law.
 - v. Requesting access to the company's records and documents, monitoring board activities, initiating derivative actions against board members, and challenging the validity of decisions issued by general or special assemblies.
 - b) Amendments which increase the financial burden of shareholders, unless unanimously approved by shareholders.
- 2. Deciding on the continuation or dissolution of the company.
- 3. Approving the company's purchase of its shares.

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Article 86: Decisions of the Ordinary General Assembly Issued by the Extraordinary General Assembly

The extraordinary general assembly may, in addition to the powers prescribed thereto in this Law, issue decisions on matters falling within the powers of the ordinary general assembly, subject to the same terms and conditions applicable to the ordinary general assembly.

Article 87: Powers of the Ordinary General Assembly

Except for matters falling within the powers of the extraordinary general assembly, the ordinary general assembly shall have the powers necessary over all other company matters, particularly the following:

- a) Electing and removing board members.
- b) Appointing a company auditor, or more, in accordance with this Law; determining his fees; and reappointing and removing him.
- c) Reviewing and discussing the board's report.
- d) Reviewing and discussing the company's financial statements.
- e) Reviewing the auditor's report, if any, and making a decision thereon.
- f) Deciding on board proposals relating to the manner of distributing dividends.
- g) Creating the company's reserves and determining their uses.

Article 88: Ordinary General Assembly Meetings

- 1. The ordinary general assembly shall hold its annual meeting at least once during the six-month period following the end of the company's fiscal year. Other ordinary general assembly meetings may be held as necessary.
- The agenda of the annual meeting of the ordinary general assembly shall include the following items:
 a) Reviewing and discussing the board of directors' report for the ending fiscal year.
 - b) Reviewing the financial statements of the ending fiscal year.
 - c) Reviewing the auditor's report for the ending fiscal year, if any, and making a decision thereon.
 - d) Deciding on board proposals relating to the distribution of dividends, if any.
- 3. The condition for holding the annual meeting of the ordinary general assembly shall be deemed satisfied if an extraordinary general assembly convenes during the six-month period following the end of the company's fiscal year if its agenda includes the items stated in paragraph (2) of this Article.

Article 89: Amending the Rights of Shareholder Classes

If a decision issued by the ordinary general assembly involves amending the rights of a certain class of shareholders, said decision shall not take effect unless approved by the shareholders of such class having voting rights at a special assembly meeting convened in accordance with the provisions applicable to the extraordinary general assembly and the issuance of its decisions.

Article 90: General and Special Assemblies

- 1. General and special assemblies shall convene upon a call by the board of directors, in accordance with the conditions stipulated in the company's articles of association. The board of directors shall call for an ordinary general assembly meeting within 30 days if requested by the auditor or by a shareholder, or more, representing at least 10% of the company's voting shares. If the board fails to call for a general assembly meeting within 30 days from the date of the auditor's request, the auditor may call for such meeting.
- 2. The request referred to in paragraph (1) of this Article shall indicate the items on which shareholders are required to vote.
- 3. The Competent Authority may call for an ordinary general assembly meeting in the following cases:





- a) If the period specified for the ordinary general assembly meeting, as provided for in Article 88(1), lapses without holding a meeting.
- b) If it is established that the provisions of this Law or the company's articles of association are violated or that there is a fault in the company's management, including cases in which the number of board members falls below the minimum number required for the validity of board meetings.
- c) If the board of directors fails to call for an ordinary general assembly meeting within the period specified in paragraph (1) of this Article from the date of the auditor's request or the request of a shareholder, or more, representing at least 10% of the company's voting shares.

The Competent Authority may take the measures necessary for holding the ordinary general assembly and it may chair the assembly meeting if the meeting cannot be chaired in accordance with Article 84(1) of this Law.

Article 91: Call for Assembly Meetings

- 1. The call for an assembly meeting shall be made at least 21 days prior to the date set for the meeting in accordance with the rules specified in the Regulations, provided that:
 - a) shareholders are notified of the meeting by registered mail sent to the addresses registered in the shareholders' register, or by an announcement using means of technology; and
 - b) a copy of the invitation and the meeting agenda are sent to the Commercial Register, and to the CMA if the company is listed in the capital market at the time of the announcement.
- 2. The invitation for the assembly meeting shall include at least the following:
 - a) A statement defining those with the right to attend the meeting and their right to designate persons other than board members to act as their proxy; a statement of a shareholder's right to discuss items on the meeting agenda and direct questions as well as the manner of exercising the right to vote.
 - b) Meeting venue, date, and time.
 - c) Type of assembly, whether general or special.
 - d) Meeting agenda, including the items on which shareholders are required to vote.
- 3. Shareholders of an unlisted joint-stock company representing all of the company's voting shares may hold a general assembly meeting without adhering to the conditions and periods prescribed for calling for meetings to review matters the decisions on which fall within the powers of the general assembly.

Article 92: Quorum of Ordinary General Assembly Meetings

- 1. An ordinary general assembly meeting shall be deemed valid only if attended by shareholders who represent at least a quarter of the company's voting shares, unless the company's articles of association stipulate a higher percentage, provided that such percentage does not exceed half of the voting shares.
- 2. If the quorum required for an ordinary general assembly meeting is not satisfied as stipulated in paragraph (1) of this Article, a call shall be made for a second meeting to be held under the same conditions stipulated in Article 91 of this Law within 30 days following the date set for the first meeting. The second meeting may be held one hour after the end of the period set for the first meeting, provided this is permitted by the company's articles of association and the invitation for the first meeting provides for the possibility of holding a second meeting. In all cases, the second meeting shall be deemed valid regardless of the number of voting shares represented therein.
- 3. Decisions of an ordinary general assembly meeting shall be passed by the majority vote of voting rights represented therein.





Article 93: Quorum of Extraordinary General Assembly Meetings

- 1. An extraordinary general assembly meeting shall be deemed valid only if attended by shareholders who represent at least half of the company's voting shares, unless the company's articles of association stipulate a higher percentage, provided that such percentage does not exceed two thirds of the voting shares.
- 2. If the quorum required for an extraordinary general assembly meeting is not satisfied as stipulated in paragraph (1) of this Article, a call shall be made for a second meeting to be held under the same conditions stipulated in Article 91 of this Law. The second meeting may be held one hour after the end of the period set for the first meeting, provided that the invitation for the first meeting provides for the possibility of holding a second meeting. In all cases, the second meeting shall be deemed valid if attended by shareholders who represent at least a quarter of the company's voting shares.
- 3. If the quorum required for the second meeting is not satisfied, a call shall be made for a third meeting to be held under the same conditions stipulated in Article 91 of this Law. The third meeting shall be deemed valid regardless of the number of voting shares represented therein.
- 4. Decisions of an extraordinary general assembly meeting shall be passed by the vote of two-thirds of the voting shares represented therein. Decisions relating to the increase or decrease of capital, extension of the company's term, dissolution of the company prior to the expiry of the term specified in its articles of association, merger of the company with another company, or division of the company into two companies or more shall be deemed valid only if made by the vote of three-quarters of the voting shares represented in the meeting.
- 5. Decisions of the extraordinary general assembly which are required to be registered with the Commercial Register as prescribed by the Regulations shall be registered therewith by the board of directors within 15 days from their issuance date.

Article 94: Effectiveness of General Assembly Decisions

Decisions of a joint-stock company's general assembly shall become effective from the date of their issuance, unless this Law, the company's articles of association, or said decisions stipulate a specific date or condition for their effectiveness.

Article 95: Voting in Shareholder Assemblies

- 1. The company's articles of association shall determine the voting method in shareholder assemblies.
- 2. Members of the board of directors may not vote on assembly decisions relating to transactions and contracts in which they have direct or indirect interest or which involve a conflict of interest.

Article 96: Agenda of General Assembly

- 1. The board of directors shall, when preparing the agenda of the general assembly, take into consideration the matters that shareholders wish to include. A shareholder, or more, representing at least 10% of the company's voting shares may add an item, or more, to the agenda during its preparation; the Competent Authority may amend said percentage.
- 2. The board of directors shall list each matter included in the general assembly's agenda as an independent item. The board shall not combine fundamentally distinct matters under one item, nor shall it include under one item the transactions and contracts in which any board member has a direct or indirect interest for the purpose of voting on the whole item.
- 3. Any shareholder may discuss the items included on the agenda of the general assembly and direct related questions to board members and the auditor. Any provision to the contrary in the company's articles of association shall be deemed null and void. The board of directors or the auditor shall answer the questions of shareholders to the extent that does not undermine the company's interests. If a shareholder is not satisfied with the response to his question, he may request the general assembly to decide thereon and its decision shall be final.





Article 97: Assembly Meeting Minutes

Minutes of assembly meetings shall indicate the number of shareholders in attendance, whether in person or by proxy; the number of shares held by each attendee, whether personally or by proxy; the number of votes designated thereto; the decisions made; the number of consenting and dissenting votes; and a summary of meeting discussions. The minutes shall be recorded after every meeting in a special register and signed by the assembly's chairman and secretary and by the vote counters. The Competent Authority may set rules for the minutes of assembly meetings and the duties of assembly secretaries and vote counters.

Article 98: Single-Person Joint-Stock Company

If a joint-stock company is incorporated by a single person, or if all of its shares are transferred to a single person, said person shall have the powers and authorities of shareholder assemblies stipulated in this Part and his decisions shall be issued in writing without the need to call for a meeting of the general assembly. Such decisions shall be recorded in the special register referred to in Article 97 of this Law.

Article 99: Objection to Shareholder Assembly Decisions

- 1. Without prejudice to the rights of bona fide third parties, any shareholder may petition the competent judicial authority to invalidate a decision issued by the shareholder assembly in violation of the provisions of this Law or the company's articles of association if the shareholder objects to said decision during the meeting or if he does not attend the meeting for a valid reason. A lawsuit filed for invalidation shall not be heard after the lapse of 90 days from the date the decision is issued.
- 2. To file the lawsuit referred to in paragraph (1) of this Article, the plaintiff must be a shareholder in the company upon filing the lawsuit and throughout its proceedings.

Article 100: Issuing a Decision by Circulation

- 1. The articles of association of an unlisted joint-stock company may grant the chairman of the board of directors the power to propose the issuance of a general assembly decision by circulation among shareholders, unless shareholders request in writing that a meeting be held for deliberation. However, the general assembly must convene in accordance with relevant provisions in cases related to the election and removal of board members and the appointment and removal of an auditor, if any, as well as cases requiring the review of the financial statements of the ending fiscal year.
- 2. The decision proposed to be issued in accordance with paragraph (1) of this Article shall be deemed valid if the company sends to all shareholders said decision along with the relevant documents, the instructions to be followed to approve the decision, and the date set for its issuance.

Article 101: Quorum for Issuance of a Decision by Circulation

- 1. The issuance of general assembly decisions of unlisted joint-stock companies by circulation shall be as follows:
 - a) Decisions falling within the powers of the ordinary general assembly shall be passed if approved by one shareholder, or more, representing the majority of voting rights, unless the company's articles of association provide for a higher percentage.
 - b) Decisions falling within the powers of the extraordinary general assembly shall be passed if approved by one shareholder, or more, representing at least 75% of voting rights, unless the company's articles of association provide for a higher percentage.
- 2. General assembly decisions issued by circulation in accordance with paragraph (1) of this Article shall be recorded in minutes and entered in the special register referred to in Article 97 of this Law.





Article 102: Request for Inspection of the Company

- 1. A shareholder, or more, representing at least 5% of the company's capital may petition the competent judicial authority to order the inspection of the company if the conduct of the members of the board of directors or the auditor in relation to company affairs raises suspicion.
- 2. The competent judicial authority may, after hearing the statements of board members and the auditor, order the inspection of the company at the expense of the petitioner and may, if necessary, order the petitioner to provide a guarantee if requested by the company.
- 3. If the competent judicial authority determines the validity of the complaint, it may order any precautionary measures it deems fit and may call the general assembly to make the necessary decisions. It may also remove board members and the auditor, and appoint qualified persons with expertise in any number it deems appropriate to supervise the management of the company and to call for a general assembly meeting to elect a new board of directors. The competent judicial authority shall determine the powers and term of said persons.

Chapter 4: Shares, Debt Instruments, and Financing Sukuk Issued by Joint-Stock Companies

Section 1: Shares

Article 103: Company Shares

- 1. The shares of a joint-stock company shall be nominal and indivisible against the company. If a share is owned by several persons, they shall choose one person from among themselves to represent them in the use of rights related thereto. Said persons shall be jointly and severally liable for obligations arising from the ownership of such share.
- 2. The company's articles of association shall specify the nominal value of its shares; shares of the same type or class shall be of equal nominal value.
- 3. Subject to paragraph (2) of this Article, shares may be divided into shares of a lower nominal value or merged in order to become shares of a higher nominal value. The Competent Authority may set the rules necessary therefor.
- 4. An unlisted joint-stock company shall issue a paper or electronic certificate establishing the shareholder's ownership of the share.

Article 104: Effect of Share Subscription

Subscription in shares or ownership thereof shall imply that the shareholder accepts the company's articles of association and abides by the decisions issued by shareholder assemblies in accordance with the provisions of this Law and the company's articles of association, whether he is present or absent, and whether he approves or objects to such decisions.

Article 105: Issuance of Company Shares

- 1. Company shares shall be issued against cash or in-kind contributions.
- 2. The paid amount of the value of shares issued against cash contributions shall not be less than one quarter of the nominal value of said shares as specified in the company's articles of association. The paper or electronic share certificate of an unlisted joint-stock company shall indicate the paid amount of the value of shares. In all cases, the remaining amount shall be paid within five years from the date on which the shares are issued.
- 3. Shares representing in-kind contributions shall be issued upon payment of their full value; they may not be delivered to their holders until ownership of such contributions is transferred to the company in full.

Article 106: Nominal Value of Shares

Shares may not be issued for less than their nominal value. However, they may be issued for more than their nominal value if provided for in the company's articles of association or if approved by the extraordinary





general assembly; in such case, the difference in value shall be added in a separate item as part of the shareholders' rights, and the Regulations shall specify its terms of use.

Article 107: Share-Associated Rights

A shareholder shall, in accordance with the terms and conditions provided for in this Law or the company's articles of association, have all of the rights associated with shares, including disposition of shares; attending shareholder assemblies, participating in their deliberations, and voting on their decisions; receiving dividends; electing board members; having access to the company's records and documents without prejudice to the confidentiality of information; monitoring board activities; initiating derivative actions against board members; challenging the validity of shareholder assembly decisions; and receiving a share of the company's assets upon liquidation.

Article 108: Types and Classes of Shares

- 1. The types of shares that a company may issue shall be as follows: common, preferred, and redeemable. The company's articles of association may provide for different classes of share types and may grant certain rights or privileges to certain classes or set restrictions thereon.
- 2. Shares of the same type or class shall have equal rights and obligations. Each type or class of shares shall have the rights associated therewith as stipulated in the company's articles of association.
- 3. The Regulations shall specify rules for the types and classes of shares that may be issued.

Article 109: Conversion of Shares

- 1. If the company has shares of different types or classes, it may convert one type or class into another type or class if provided for in the company's articles of association.
- 2. To convert a type or class of shares into another type or class, the approval of the extraordinary general assembly must be obtained, except for cases in which the decision to issue shares stipulates that they are automatically converted into another type or class upon satisfying certain conditions or upon the lapse of a specified period.
- 3. The provisions provided for in Article 110 of this Law shall apply to cases in which the conversion of shares requires the amendment or cancellation of the rights or obligations associated with a type or class of shares.
- 4. Common and preferred shares and their classes may not be converted into redeemable shares or any classes thereof except with the approval of all shareholders of the company.
- 5. The Regulations shall determine the implementing rules of this Article and the manner in which the effects, rights, and obligations of shares are managed prior to conversion or thereafter.

Article 110: Amendment of Share-Associated Rights and Obligations

- 1. If company shares are of different types and classes or if the company's articles of association allow for the issuance of different types and classes of shares, the amendment or cancellation of any of the rights, obligations, or restrictions associated with said shares; the conversion of any type or class of shares into another type or class, if such conversion results in the amendment or cancellation of the rights or obligations associated with the type or class of shares to be converted; or the issuance of shares of a particular type or class that would prejudice the rights of another class of shareholders, shall require the approval of a special assembly composed, in accordance with Article 89 of this Law, of shareholders who are prejudiced by such amendment, cancellation, conversion, or issuance as well as the approval of the extraordinary general assembly.
- 2. If company shares include preferred or redeemable shares, new shares with priority over any of their classes may not be issued except with the approval of a special assembly composed, in accordance with Article 89 of this Law, of shareholders who are prejudiced by such issuance.





Article 111: Restrictions on Trading of Shares

- 1. The CMA may set restrictions on the trading of shares of joint-stock companies that intend to be listed in the capital market.
- 2. The company's articles of association may provide for restrictions on the trading of shares, including the right of shareholders to request redemption of shares, provided that such restrictions do not lead to a permanent ban on the trading of shares.

Article 112: Shareholder Register

- 1. An unlisted joint-stock company shall prepare a special register which includes shareholders' names, nationalities, particulars, places of residence, and occupations as well as the number of shares owned by each shareholder, their serial numbers, and the amount paid of their value. The company may outsource the preparation of the register; said register shall be maintained in the Kingdom.
- 2. The company shall provide the Commercial Register with the information referred to in paragraph (1) of this Article and any amendment thereto within 15 days from the date of the company's registration with the Commercial Register or from the date of the amendment, as the case may be.

Article 113: Drag-along and Tag-along Rights

Without prejudice to the Capital Market Law, the company's articles of association may, upon the approval of shareholders representing at least 90% of the company's voting shares, provide for the following:

- a) Majority shareholders shall have the right to obligate minority shareholders to accept an offer from a bona fide buyer to purchase all of the company's shares for the same price and under the same terms and conditions applicable to the purchase of majority shares.
- b) In cases where the majority sell their shares, minority shareholders shall have the right to obligate majority shareholders to guarantee the sale of minority shares for the same price and under the same terms and conditions applicable to the sale of majority shares.

Article 114: Purchase and Pledge of Shares

- 1. The company may purchase its own shares or accept them as a pledge if permitted under its articles of association. Shares purchased by the company shall have no voting rights in shareholder assemblies.
- 2. Shares may be pledged and the pledgee may receive dividends and exercise share-related rights, unless the pledge agreement stipulates otherwise. The pledgee may not attend shareholder assembly meetings nor vote therein.
- 3. The Regulations shall specify the rules necessary for the implementation of the provisions of this Article.

Article 115: Non-Payment

- 1. A shareholder shall pay the remaining amount of the value of the share on the designated dates. In case of non-payment, the board of directors may, after notifying the shareholder in the manner prescribed in the company's articles of association or by registered mail or through any means of technology, sell the share at a public auction or in the capital market, as the case may be. The company's articles of association may grant other shareholders a preemptive right to purchase the shares of the non-paying shareholder.
- 2. The company shall receive the amounts due thereto from the sale proceeds and shall return any remaining amount to the shareholder. If the sale proceeds are not sufficient to satisfy the due amounts, the company may satisfy such amounts from the shareholder's property.
- 3. Rights associated with shares the value of which is not paid by the due date shall be suspended until such shares are sold or the due amount is paid in accordance with the provision of paragraph (1) of this Article; such rights include the right to receive dividends and attend shareholder assemblies and vote on their decisions. However, the non-paying shareholder may, up to the date of sale, pay the due amount, in addition to any related expenses incurred by the company; in such case, he shall have the right to demand





payment of dividends.

4. The company shall cancel the certificate of the share sold in accordance with the provisions of this Article and shall provide the buyer with a new certificate bearing the serial number of the canceled certificate. The sale shall be recorded in the shareholders register along with the particulars of the new holder.

Article 116: Demanding a Shareholder to Pay Amounts in Excess of his Obligations

The company may not demand a shareholder to pay any amount other than the amount determined upon the issuance of the share, even if provided for in the company's articles of association.

Section 2: Debt Instruments and Financing Sukuk

Article 117: Issuance of Debt Instruments and Financing Sukuk

- 1. A joint-stock company may, in accordance with the Capital Market Law, issue negotiable debt instruments or financing sukuk.
- 2. For a company to issue debt instruments or financing sukuk that are convertible into shares, the extraordinary general assembly must issue a decision to determine the maximum number of shares that may be issued against such instruments or sukuk, whether they are issued at the same time, consecutively, or under one or more issuing schemes. The board of directors shall, without the need for a new approval from the assembly, issue new shares against such instruments or sukuk upon the satisfaction of the conditions for their conversion into shares or the lapse of the period set for such conversion, or, in case of instruments or sukuk the conversion of which requires the submission of a conversion request by their holders, upon the lapse of the period specified for such request. The board of directors shall take the necessary measures to amend the company's articles of association with regard to the number of issued shares and the company's capital.
- 3. The board of directors must register the completion of procedures of each capital increase with the Commercial Register.

Article 118: Conversion of Debt Instruments and Financing Sukuk

The company may convert debt instruments or financing sukuk into shares in accordance with the Capital Market Law upon the approval of their holders, whether such approval is provided as part of the issuance conditions or pursuant to a subsequent agreement.

Article 119: Compensation for Damage

A person with interest may petition the competent judicial authority to invalidate any action in violation of the provisions of Articles 117 or 118 of this Law, and to compensate the holders of debt instruments or financing sukuk for any sustained damage.

Article 120: Applicability of Shareholder Assembly Decisions

Decisions of shareholder assemblies shall apply to holders of debt instruments and financing sukuk. However, said assemblies may not amend the rights established for such holders unless they approve the amendments in a special assembly held thereby in accordance with the provisions of Article 89 of this Law.

Chapter 5: Joint-Stock Company Finances

Article 121: Financial Statements and Report on Company Activities

1. The board of directors shall, at the end of the company's fiscal year, prepare the company's financial statements as well as a report on its activities and financial position for the ending fiscal year. Said report shall include a proposal on the manner of distributing dividends. The board shall make such documents available to the auditor, if any, at least 45 days prior to the date set for the annual ordinary general assembly meeting.





2. The documents referred to in paragraph (1) of this Article shall be signed by the chairman of the company's board of directors and its chief executive officer as well as by its chief financial officer, if any. Copies of such documents shall be maintained at the company's headquarters and made available to shareholders.

Article 122: Providing Shareholders with Financial Statements and Deposit Thereof

The chairman of the board of directors shall provide shareholders with the company's financial statements and the board's report after signing the same, as well as the auditor's report, if any, unless they are published using any means of technology, at least 21 days prior to the date set for the annual ordinary general assembly meeting. The chairman of the board shall also deposit such documents in accordance with the Regulations.

Article 123: Creation of Reserves

- 1. The company's articles of association may provide for setting aside a certain percentage of the net profit to create a reserve allocated for purposes specified in the articles of association. The Competent Authority may set rules for creating such reserves.
- 2. The ordinary general assembly may, when determining dividends from the net profit, decide to create other reserves to serve the company's interest or ensure the distribution of fixed dividends, as feasible, to the shareholders. Said assembly may allocate amounts from the net profit for social objectives that benefit the company's staff.

Article 124: Use of Reserves

- 1. The reserve allocated for specific purposes in the company's articles of association may not be used except pursuant to a decision by the extraordinary general assembly. If such reserve is not allocated for a specific purpose, the ordinary general assembly may, upon a recommendation by the board of directors, decide to use the reserve for the benefit of the company or the shareholders. The Competent Authority may set the rules for using such reserves.
- 2. The ordinary general assembly may use retained earnings and distributable reserves to pay the remaining value of the share or part thereof, provided fairness among shareholders is observed in accordance with the provisions of this Law.

Article 125: Distribution of Dividends

- 1. The general assembly shall determine the percentage of the net profit to be distributed to the shareholders after deducting the reserves, if any.
- 2. A shareholder shall be entitled to dividends pursuant to a decision issued by the general assembly. The decision shall indicate eligibility and distribution dates. Shareholders registered in the shareholders' register by the end of the eligibility date shall be eligible to receive dividends. The Regulations shall determine the maximum period during which the board of directors shall implement the general assembly's decision regarding the distribution of dividends to shareholders.

Chapter 6: Amending the Capital of a Joint-Stock Company

Section 1: Capital Increase

Article 126: Methods of Capital Increase

Capital shall be increased by any of the following methods:

- a) Issuing new shares against cash or in-kind contributions.
- b) Issuing new shares against company debts which are due and of a specific amount, subject to the consent of relevant creditors. The issuance of such shares shall be made at the value determined by the extraordinary general assembly after obtaining the opinion of one or more experts or accredited valuers





and after the issuance of a statement by the board of directors indicating the origin and amount of company debts. Such statement shall be signed by the members of the board of directors who shall be liable for its accuracy. The statement shall be accompanied with a report on the matter prepared by the company's auditor.

- c) Issuing new shares equal to the amount of the reserve which the extraordinary general assembly decides to include in the capital. Such shares shall be issued in the same form and under the same conditions of issued shares of the same type or class. The shares shall be distributed to shareholders for no consideration, in proportion to their original shares.
- d) Issuing new shares against debt instruments or financing sukuk.

Article 127: Increase of Issued or Authorized Capital

- 1. The extraordinary general assembly may decide to increase the company's issued capital or its authorized capital, if any, provided that the issued capital has been paid in full. The full payment of capital shall not be required if the unpaid portion of said capital relates to shares issued against the conversion of debt instruments or financing sukuk into shares and the period set for conversion has not yet expired.
- 2. In all cases, the extraordinary general assembly may, upon increasing the capital of the company, allocate issued shares or part thereof to the employees of the company or any of its subsidiaries. Shareholders may not exercise their preemptive rights on issued shares allocated for employees. The Competent Authority may set the rules and procedures for allocating shares to the employees of the company or any of its subsidiaries.
- 3. In all cases, the nominal value of the new shares shall be equal to the nominal value of the original shares of the same type or class.

Article 128: Preemptive Subscription Rights to New Shares

A shareholder who owns the share on the date of issuance of the extraordinary general assembly's decision approving the increase of issued capital or the date of issuance of the board of directors' decision approving the increase of issued capital within the limit of the authorized capital shall have a preemptive right to subscribe to new shares issued against cash contributions. A shareholder shall be notified of such right, if any, by registered mail sent to the address stated in the shareholders' register or by any means of technology. The shareholder shall also be notified of the capital increase decision, the conditions and method of subscription, and the dates on which said subscription begins and ends, subject to the type and class of shares owned by him.

Article 129: Suspension of Preemptive Rights

The extraordinary general assembly may, if provided for in the company's articles of association, suspend the preemptive rights of shareholders to subscribe to the capital increase against cash contributions or may grant such rights to non-shareholders in cases it deems beneficial to the company.

Article 130: Sale or Assignment of Preemptive Rights

A shareholder in a joint-stock company may, subject to the Regulations, sell or assign his preemptive rights with or without financial consideration.

Article 131: Distribution of New Shares

Newly issued shares shall be distributed to the holders of preemptive rights requesting subscription in proportion to the preemptive rights they have against the total preemptive rights resulting from the capital increase, provided that the number of newly issued shares they receive does not exceed the number of shares they request, taking into consideration the type and class of their shares. The remaining new shares shall be distributed to the holders of the preemptive rights who request more than their share in proportion to the preemptive rights they have against the total preemptive rights resulting from the capital increase, provided that the number of newly issued shares they request more than their share in proportion to the preemptive rights they have against the total preemptive rights resulting from the capital increase, provided that the number of newly issued shares they receive does not exceed the number of shares they request. Any





remaining shares shall be offered to other than the holders of preemptive rights, unless the extraordinary general assembly or the Capital Market Law stipulates otherwise.

Article 132: Company Losses

If the losses of a joint-stock company amount to half of the issued capital, the board of directors shall, within 60 days from the date of its knowledge thereof, announce the losses and the recommendations relating thereto, and shall, within 180 days from said date, call for an extraordinary general assembly meeting to consider the continuation of the company by taking measures necessary to resolve such losses or the dissolution of the company.

Section 2: Capital Decrease

Article 133: Methods of Capital Decrease

Capital shall be decreased by any of the following methods:

- a) Cancellation of a number of shares equal to the amount to be decreased.
- b) Reduction of the nominal value of a share by canceling a part thereof equal to the amount of losses incurred by the company.
- c) Reduction of the nominal value of a share by returning a part thereof to the shareholder or relieving him from all or part of the unpaid amount of the share's value.
- d) The company's purchase of a number of its shares equal to the amount to be decreased, and the cancellation of such shares thereafter.

Article 134: Issuance of a Capital Decrease Decision

The extraordinary general assembly may decide to decrease the capital if it exceeds the company's needs or if the company incurs losses. In case of losses, the capital may be decreased below the limit specified in Article 59 of this Law. The decision to decrease the capital shall not be issued until a statement prepared by the board of directors stating the grounds for such decrease, the company's liabilities, and the effect of the decrease on satisfying such liabilities is presented at the general assembly. Said statement shall include the report of the company's auditor, and may be presented to shareholders in cases where the general assembly decision is passed by circulation.

Article 135: Capital Decrease Procedures

- 1. If the decision to decrease the capital is because it exceeds the company's needs, the creditors shall be invited to submit their objections to the decrease, if any, at least 45 days prior to the date set for the extraordinary general assembly meeting to decide on the decrease. The invitation shall include a statement indicating the amount of capital prior to and after the decrease, the date of the meeting, and the date the decrease becomes effective. If a creditor objects to the decrease and submits supporting documents to the company within the specified period, the company shall pay the debt owed to him if it is due or provide him with a sufficient guarantee if it is not due. If a creditor notifies the company of his objection to the decrease and the company fails to pay his due debt or to provide him with a sufficient guarantee if his debt is not due, he may petition the competent judicial authority prior to the date set for deciding on the decrease in the extraordinary general assembly meeting. The competent judicial authority may, in such case, order the payment of the debt, the provision of a sufficient guarantee, or the adjournment of the extraordinary general assembly meeting.
- 2. Capital decrease shall not be invoked against a creditor who has submitted his application on the date stipulated in paragraph (1) of this Article, unless his due debt is paid or he is provided with a sufficient guarantee for undue amounts.





Article 136: Equality among Shareholders

Equality among holders of shares of the same type and class shall be observed upon the decrease of capital.

Article 137: Capital Decrease by Purchasing Company Shares

- 1. If the company's capital is decreased by purchasing a number of its shares for the purpose of canceling them, shareholders shall be invited to offer their shares for sale. They shall be notified of the company's intent to purchase shares by registered mail sent to the addresses registered in the shareholders' register or by announcing such invitation through means of technology.
- 2. If the number of shares offered for sale exceeds the number of shares the company decides to purchase, the sale orders shall be reduced in proportion to such increase.
- 3. The purchase price of the shares of unlisted joint-stock companies shall be estimated at fair value. However, the shares of listed joint-stock companies shall be purchased in accordance with the Capital Market Law.

Part 5: Simplified Joint-Stock Company

Chapter 1: General Provisions

Article 138: Definition of a Simplified Joint-Stock Company

- 1. Absent a specific provision in this Part, a simplified joint-stock company shall, according to its nature, be subject to the provisions of a joint-stock company, excluding Articles 61, 63, 67-71, 74-88, 90-94, 95(1), 96-98, 100, 101, 111(2), 121, and 122.
- 2. The shareholders of a simplified joint-stock company may, in the company's articles of association, regulate the company's structure and work procedures.
- 3. Shareholders shall, with regards to provisions applicable to simplified joint-stock companies, assume the legal capacity of the ordinary and extraordinary general assemblies of joint-stock companies. Absent a specific provision in this Part, shareholders may, in the company's articles of association, designate a person to assume the powers of the general assembly.
- 4. Absent a specific provision in this Part, a simplified joint-stock company's president, manager, or board of directors, as the case may be, shall exercise all the powers assigned to the chairman and members of the board of directors of a joint-stock company and assume their legal capacity.

Article 139: Capital of a Simplified Joint-Stock Company

- 1. The company's articles of association shall specify its issued and paid-up capital; it may stipulate that the company has authorized capital.
- 2. The minimum capital requirement of a joint-stock company shall not apply to a simplified joint-stock company.

Chapter 2: Incorporation of a Simplified Joint-stock Company

Article 140: Articles of Association Information

- 1. The following information shall be included in the articles of association of a simplified joint-stock company:
 - a) Company's name.
 - b) Company's headquarters.
 - c) Company's purpose.
 - d) Company's authorized capital, if any, and its issued and paid-up capital.
 - e) Number of shares; their types and classes, if any; their nominal value; and the rights associated with each type or class.





- f) Company's term, if any.
- g) Company's management and provisions related thereto.
- h) Assignment of shares.
- i) Shareholder meetings and the quorum required for their validity.
- j) Issuance of shareholder decisions and the quorum required for their issuance.
- k) Dates on which the company's fiscal year commences and ends.
- 1) Any other terms, conditions, or information the incorporators or shareholders agree to include in the company's articles of association that are not inconsistent with the provisions of this Law.
- 2. The following shall be enclosed with the company's articles of association upon submission of its incorporation application:
 - a) Incorporators' names, addresses, and nationalities.
 - b) Statement of projected works and expenses for incorporating the company.
 - c) An acknowledgment by the incorporators that the company's shares are fully subscribed, and a statement of the value of paid-up shares.
 - d) A certificate of the amount of paid-up capital issued by a bank licensed to operate in the Kingdom.
 - e) Incorporators' decision appointing the company's president, manager, or board of directors, as the case may be, stating their names, nationalities, addresses, and dates of birth.
 - f) An acknowledgment by the incorporators to satisfy all the requirements provided for in this Law which relate to the incorporation of the company.
 - g) A statement or report prepared by an accredited valuer or more indicating the fair value of in-kind contributions, if any, and a statement by the incorporators approving the consideration for such contributions.

Article 141: Valuation of In-Kind Contributions

- 1. If the total value of in-kind contributions provided upon the incorporation of the company or upon the increase of its capital does not exceed half of the company's capital, the valuation of said contributions by an accredited valuer shall not be required, unless the incorporators or shareholders agree otherwise.
- 2. If the value of in-kind contributions provided upon the incorporation of the company or upon the increase of its capital exceeds half of the company's capital, said contributions must be valuated by an accredited valuer, or more, who shall prepare a report indicating the fair value of the contributions. Such report shall be presented to the incorporators or shareholders for deliberation. Providers of in-kind contributions may not vote on the decision relating to said report. If the incorporators or shareholders decide to reduce the value of in-kind contributions specified in the report, such reduction must be approved by the providers of said contributions.
- 3. The period between the issuance of the accredited valuer's report on the fair value of in-kind contributions and the issuance of shares in exchange for said contributions shall not exceed the period prescribed by the Regulations.
- 4. If the in-kind contributions are not valuated by an accredited valuer as provided for in this Article, or if said contributions are valuated at a value other than the value provided by the appointed accredited valuer, the incorporators or shareholders shall be personally liable against third parties for the fairness of the valuation of the in-kind contributions, and they shall pay the difference in cash to the company. In such case, a derivative action shall not be heard after the lapse of five years from the date of the company's registration with the Commercial Register or from the date of its capital increase, as the case may be.





Chapter 3: Simplified Joint-Stock Company Management

Article 142: Method of Company Management

- 1. The method of managing a simplified joint-stock company shall be specified in its articles of association. The company may be managed by one or more presidents or managers or by a board of directors or any other form of management. The company's articles of association shall specify the manner of appointing and removing whomever is tasked with managing the company as well as the powers, authorities, and work procedures thereof. If the company's articles of association do not provide for any provisions in this regard, such provisions shall be determined by shareholders.
- 2. A simplified joint-stock company's president, manager, or board of directors, as the case may be, shall have all the powers necessary to manage the company in a manner that achieves its purposes, excluding acts and dispositions entrusted to shareholders pursuant to a special provision in this Law or the company's articles of association. The company's president or manager may, within his powers, delegate others to perform certain acts. The board of directors may, within its powers, authorize one or more of its members or others to perform certain acts.
- 3. A simplified joint-stock company's president, manager, or chairman of the board of directors, as the case may be, shall represent the company before the judiciary, arbitration tribunals, and other parties; he may, however, delegate others to represent the company if the company's articles of association provide therefor.
- 4. A simplified joint-stock company shall be bound by all the acts and dispositions performed in its name by its president, manager, or board of directors, as the case may be, even if said acts and dispositions are beyond the powers thereof, unless such acts and dispositions involve a party who acts in bad faith or a party who knows that such acts and dispositions are beyond the powers of the same.

Article 143: Management Liabilities

Provisions relating to the liability of the board of directors of a joint-stock company shall apply to a simplified joint-stock company's president, manager, or board of directors, as the case may be.

Article 144: Granting Loans

The provision of Article 72 of this Law shall apply to a simplified joint-stock company's president, manager, or board of directors, as the case may be.

Chapter 4: Shareholders

Article 145: Shareholder Meetings

- 1. The articles of association of a simplified joint-stock company shall specify the matters to be decided by shareholders and the manner and conditions for deciding on such matters. However, shareholders shall decide matters that fall within the powers of a joint-stock company's ordinary or extraordinary general assembly, which relate to the increase or decrease of capital; conversion of the company into another form of company, or the merger, division, or dissolution thereof; appointment of an auditor; discussion of financial statements; distribution of dividends; or amendment of the company's articles of association.
- 2. The company's articles of association shall specify the quorum necessary for the validity of shareholder meetings and decisions.
- 3. The company's articles of association may specify different quorums for presenting matters to shareholders and for deciding on such matters.
- 4. The company's articles of association shall specify the matters which require the unanimous approval of shareholders.

Article 146: Call for Shareholder Meetings

1. Subject to the company's articles of association, shareholder meetings of a simplified joint-stock company





shall be held upon a call by its president, manager, or board of directors, as the case may be, in accordance with the conditions specified in the company's articles of association. A shareholder meeting may be called for if requested by the auditor, if any, or by a shareholder, or more, representing at least 10% of the company's voting shares.

- 2. The meeting invitation shall be sent to all shareholders at least five days prior to the date set for the meeting. The invitation shall specify the meeting venue, date, and time and shall include the meeting agenda and the items that require a vote by shareholders. The invitation may specify the venue, date, and time for a second meeting if the quorum required for holding the first meeting is not met.
- 3. Shareholders shall be notified of the meeting by registered mail sent to the addresses provided for in the shareholders' register, or through means of technology, unless the company's articles of association stipulate otherwise.
- 4. If shareholders are called for a meeting to consider matters provided for in Article 145(1) of this Law, each shareholder shall have the right to access and review the information and documents related to such matters at any time during the five days prior to the date set for the meeting, unless the company's articles of association specify a longer period.
- 5. Shareholder meetings shall be held at the company's headquarters or at any other location determined by the shareholders; such meetings may be held remotely.
- 6. Shareholders representing all of the company's voting shares may hold their meetings without observing the conditions and periods prescribed for the call.

Article 147: Financial Statements and Report on Company Activities

At the end of the company's fiscal year, a simplified joint-stock company's president, manager, or board of directors, as the case may be, shall prepare the company's financial statements as well as a report on its activities and financial position for the ending fiscal year. The report shall include a proposal on the manner of distributing dividends, if any. Such documents and the auditor's report, if any, shall be presented to the shareholders within six months from the date on which the company's fiscal year ends. The president, manager, or board of directors, as the case may be, shall deposit said documents as determined by the Regulations.

Article 148: Shareholder Meeting Minutes

- 1. Deliberations and decisions of shareholder meetings as well as decisions issued by circulation shall be recorded in minutes and entered into a special register signed by the company's president, manager, or board of directors, as the case may be. The company may use means of technology to document and record such deliberations and decisions.
- 2. Shareholder decisions which the Regulations require to be registered with the Commercial Register shall be registered therewith by the company's president, manager, or board of directors, as the case may be, within 15 days from their issuance date.

Article 149: Issuing Decisions by Circulation

- 1. The company's articles of association may provide for the issuance of shareholder decisions by circulation. In such case, the company's president, manager, or board of directors, as the case may be, shall send to all shareholders the proposed decision along with the relevant documents, the instructions to be followed to approve the decision, and the date set for its issuance.
- 2. Unless the company's articles of association provide for other means of notification, the proposed decision and the relevant documents may be sent to shareholders using any of the following means:a) Registered mail.
 - b) Personal delivery to the shareholders or their legal representatives.
 - c) E-mail or other means of technology.
- 3. The company's articles of association shall specify the quorum required for the validity of issuing





shareholder decisions by circulation.

Article 150: Single-Person Simplified Joint-Stock Company

The incorporation of a simplified joint-stock company by a single person or the transfer of all its shares to a single person shall entail the following:

- a) The liability of such person shall be limited to what he allocates as capital.
- b) Said person shall have the powers and authorities of shareholders provided for in this Part; his decisions shall be issued in writing and recorded in a special register kept at the company.

Article 151: Restrictions on Disposition of Shares

The company's articles of association may provide for restrictions on the disposition of shares, as follows:

- a) Restricting the disposition of shares for a period not exceeding 10 years from their issuance date. Such period may be extended if unanimously approved by shareholders.
- b) Requiring the approval of the company or shareholders prior to the disposition of shares.

Any disposition of shares in violation of such restrictions shall be deemed null and void.

Article 152: Obligatory Assignment of Shares

The company's articles of association may provide for the conditions under which a shareholder is obligated to assign his shares. The purchase price of such shares shall be determined on the basis of their fair value, unless the company's articles of association stipulate otherwise. The company's articles of association may provide for the suspension of the rights associated with his shares, excluding financial rights, until assignment of his shares is completed.

Article 153: Settlement of Disputes

Except for criminal acts, the company's articles of association may provide for the settlement of disputes of any nature which may arise among the shareholders or between the company and its president, manager, or any of its board members, as the case may be, by resorting to arbitration or alternative means of settlement.

Article 154: Unanimous Approval of Shareholders

The unanimous approval of shareholders shall be required to include in the company's articles of association the provisions of Articles 151, 152, and 153 of this Law and any amendments thereto.

Article 155: Implementation of this Part

The Regulations shall specify the provisions necessary for the implementation of the provisions of this Part.

Part 6: Limited Liability Company

Chapter 1: General Provisions

Article 156: Definition of Limited Liability Company

A limited liability company is a company incorporated by one or more natural or legal persons. The company's assets and liabilities shall be deemed separate from those of its partners or owner; the company shall be solely liable for its incurred debts and liabilities as well as any debts and liabilities arising from its activities. The company's owner and partners shall not be liable for such debts and liabilities except in proportion to their interests in the capital.

Article 157: Single-Person Limited Liability Company

1. The incorporation of a limited liability company by a single person or the transfer of all of its interests to





a single person shall entail the following:

- a) Said person shall have the powers and authorities of the manager, board of managers, and general assembly of partners stipulated in this Part; his decisions shall be issued in writing and recorded in a special register kept at the company.
- b) Said person may appoint a manager, or more, to represent the company before the judiciary, arbitration tribunals, and other parties, and to be responsible before him for its management.
- 2. A single-person limited liability company shall have articles of association; any reference to the articles of incorporation in the provisions applicable to a limited liability company shall mean the articles of association.

Chapter 2: Incorporation of Limited Liability Company

Article 158: Articles of Incorporation Information

- 1. The following information shall be included in the articles of incorporation of a limited liability company: a) Partners' names and particulars.
 - b) Company's name.
 - c) Company's headquarters.
 - d) Company's purpose.
 - e) Company's capital and its distribution among partners.
 - f) An acknowledgment by the partners that their contributions are fully paid.
 - g) Company's term, if any.
 - h) Company's management.
 - i) Assignment of interests.
 - j) Means of sending notifications to partners.
 - k) Issuance of partner decisions.
 - 1) Manner of distributing profits and losses among partners.
 - m) Dates on which the company's fiscal year commences and ends.
 - n) Termination of the company.
 - o) Any other terms, conditions, or information the partners agree to include in the company's articles of incorporation that are not inconsistent with the provisions of this Law.
- 2. The following shall be enclosed with the company's articles of incorporation upon submission of its incorporation application:
 - a) An acknowledgment by the incorporators to satisfy all the requirements provided for in this Law which relate to the incorporation of the company.
 - b) A statement or report prepared by an accredited valuer, or more, indicating the fair value of in-kind contributions, if any, and an acknowledgment by the incorporators approving the consideration for such contributions.





Article 159: Valuation of In-Kind Contributions

In-kind contributions shall be valuated in accordance with the provisions of Article 141 of this Law.

Chapter 3: Management of Limited Liability Company

Article 160: Appointment of Company Manager

A limited liability company shall be managed by one manager, or more, appointed from among the partners or others. The partners shall appoint said manager or managers in the company's articles of incorporation or in a separate contract for a specified or unspecified period. In case of multiple managers, a board of managers may be formed pursuant to a decision by the partners.

Article 161: Method of Company Management

The company's articles of incorporation or a decision issued by the partners shall specify the method of managing the company and the majority required for issuing decisions if the company has multiple managers or a board of managers.

Article 162: Company Representation and Responsibility for Manager's Acts

- 1. The manager shall represent the limited liability company before the judiciary, arbitration tribunals, and other parties. He may delegate some of his powers to others to perform certain acts.
- 2. A decision appointing or replacing a manager or restricting his powers shall not be valid against third parties except after its registration with the Commercial Register.
- 3. The company shall be bound by the acts of the manager which are within the company's purposes.

Article 163: Vacancy of Manager's Position

If a limited liability company has a single manager and his position becomes vacant, the partners shall appoint a new manager within 15 days from the date they become aware thereof. The company's auditor, if any, or any of the partners may call for a general assembly meeting to appoint a new manager.

Article 164: Removal of Manager

- 1. The partners may remove the manager, or managers in case of multiple managers, whether appointed in the company's articles of incorporation or in a separate contract; in such case, the partners shall appoint a new manager to replace the removed manager. If the manager is a partner in the company, he may not vote on the decision relating to his removal.
- 2. A partner, or more, representing at least one fourth of the company's capital may petition the competent judicial authority to remove the manager or managers, as the case may be.

Article 165: General Assembly

- 1. A limited liability company shall have a general assembly comprising all the partners of the company.
- 2. The general assembly of partners shall convene upon a call by the manager or managers, as the case may be, in accordance with the conditions specified in the company's articles of incorporation, provided that it is held at least once a year during the six-month period following the end of the company's fiscal year.
- 3. The general assembly of partners may be held at any time upon the request of the managers, auditor, or a partner, or more, representing at least 10% of the capital. The invitation for the general assembly meeting shall be sent to all partners by registered mail, means of technology, or any other means stipulated in the articles of incorporation at least 21 days prior to the date set for said meeting.
- 4. Partners who represent all of the interests in the company's capital may hold a general assembly meeting without observing the conditions and periods stipulated for the call.
- 5. Deliberations of the general assembly of partners as well as its decisions and partner decisions issued by circulation shall be recorded in minutes and entered into a special register prepared by the company for





such purpose. The company may use means of technology to record and enter such deliberations and decisions.

6. Meetings of the general assembly of partners may be held and partners may participate in deliberations and vote on decisions using means of technology.

Article 166: Issuance of Partner Decisions

- 1. Decisions of partners shall be issued at the general assembly. However, such decisions may be issued by circulation; in such case, the company's manager shall send the proposed decisions along with the relevant documents to each partner to vote thereon in writing.
- 2. Unless the company's articles of incorporation provide for other means of notification, the proposed decisions and the relevant documents may be sent using any of the following means:
 - a) Registered mail.
 - b) Personal delivery to the partners or their legal representatives.
 - c) E-mail or other means of technology.
- 3. In all cases, decisions shall be deemed valid only if approved by a partner, or more, representing at least more than half of the capital, unless the company's articles of incorporation provide for a greater majority.
- 4. If the majority stipulated in paragraph (3) of this Article is not achieved in the first deliberation or consultation, the partners shall be called for a meeting. In such case, decisions shall be issued by the approval of the majority interests represented in the meeting regardless of the percentage said interests represent in the capital, unless the company's articles of incorporation stipulate otherwise.
- 5. The company's articles of incorporation may provide for any other means to call for meetings or communicate decisions.

Article 167: Financial Statements and Report on Company Activities

- 1. The company's manager shall, for each fiscal year, prepare the company's financial statements, a report on its activities and financial position for the ending fiscal year, and a proposal for the distribution of dividends, if any. The manager shall make such documents available to the auditor, if any, at least 45 days prior to the date set for the annual general assembly meeting.
- 2. The company's manager shall provide the partners with the company's financial statements and the report on its activities, as well as the auditor's report, if any, whether by means of technology or by any other means provided for in the company's articles of incorporation, at least 21 days prior to the date set for the annual general assembly meeting. He shall also deposit such documents in accordance with the Regulations.

Article 168: Agenda of General Assembly of Partners

The agenda of the annual meeting of the general assembly of partners shall include the following items:

- a) Reviewing the manager's report on the company's activities and financial position for the ending fiscal year.
- b) Reviewing and discussing the financial statements of the ending fiscal year.
- c) Discussing the auditor's report for the ending fiscal year, if any, and making a decision thereon.
- d) Deciding on the manager's proposal on the distribution of dividends, if any.

Article 169: Agenda Items

1. The general assembly of partners may not deliberate matters other than those included in the agenda, unless new developments requiring deliberation thereof arise during the meeting. If a partner requests the inclusion of an item in the agenda, the company's manager shall grant such request; if the request is not granted, said partner may resort to the assembly.





2. Each partner is entitled to discuss items on the agenda of the general assembly of partners and the company's manager must respond to the partners' questions. If the partner is not satisfied with the response, he may resort to the assembly.

Article 170: Objection to General Assembly Decisions

- 1. Without prejudice to the rights of bona fide third parties, any partner may petition the competent judicial authority to invalidate a decision issued by the general assembly of partners in violation of the provisions of this Law or the company's articles of incorporation. Such petition may be filed only by partners who object to said decision in writing or partners who could not object to the decision after becoming aware thereof. The invalidation of the decision by the competent judicial authority shall render it null and void for all partners.
- 2. A lawsuit filed for invalidation shall not be heard after the lapse of 90 days from the date the decision referred to in paragraph (1) of this Article is issued.
- 3. To file the lawsuit referred to in paragraph (1) of this Article, the plaintiff must be a partner in the company upon filing the lawsuit and throughout its proceedings.

Article 171: Partners' Rights and Obligations

- 1. A partner shall have the right to participate in deliberations and vote on decisions, and shall be entitled to a number of votes equal to the number of interests he owns. Any agreement to the contrary may not be concluded.
- 2. A partner may designate in writing another partner to act as his proxy to attend partner meetings and vote therein, unless the company's articles of incorporation stipulate otherwise. A stipulation may be included in the articles of incorporation permitting a partner to designate in writing a non-partner to act as his proxy to attend partner meetings and vote therein.
- 3. A non-managing partner may present his opinion to the manager. Said partner, or his designee, may request access to the company's operations and examine its records and documents at the company's headquarters twice during the company's fiscal year. The company must respond to his request within 15 days from the date of submission thereof. Any condition to the contrary shall be deemed null and void.
- 4. A person who becomes privy to any information, pursuant to this Article, shall maintain the confidentiality of said information and shall not use it for any purpose which may cause harm to the company or any of its partners. In case of non-compliance, said person shall be liable for any damage arising therefrom.

Article 172: Amendment of Articles of Incorporation

- 1. The company's articles of incorporation including any increase or decrease to the capital may be amended upon the approval of one or more partners, representing at least three-quarters of the capital, unless the articles of incorporation provide for a higher percentage.
- 2. A partner shall, upon the approval of a capital increase through the issuance of new interests, have preemptive rights to acquire the interests issued against cash contributions in proportion to said partner's interest in the company's capital, as specified by the Regulations.
- 3. The company's capital may not be increased by raising the nominal value of the partners' interests nor may preemptive rights be suspended, without the unanimous agreement of the partners.

Article 173: Settlement of Disputes

Except for criminal acts, the company's articles of incorporation may provide for the settlement of disputes of any nature which may arise among the partners or between the company and its managers by resorting to arbitration or alternative means of settlement.





Chapter 4: Capital and Interests

Article 174: Amount of Capital

Partners shall determine the capital of the company in its articles of incorporation. Such capital shall be divided into indivisible and untradeable interests of equal value. If an interest is owned by multiple persons, the company may suspend the use of rights associated therewith until the owners of such interest select one person from among themselves to act as the sole owner of such interest against the company. The company may set a deadline for the owners to make the selection. If the owners fail to make the selection before such deadline, the company may sell the interest on behalf of its owners. In such case, the interest shall be offered to the other partners and then to non-partners in accordance with Article 178 of this Law, unless the company's articles of incorporation stipulate otherwise.

Article 175: Distribution of Dividends

- 1. Interests shall entail equal rights to net profit and liquidation surplus, unless the company's articles of incorporation stipulate otherwise.
- 2. The general assembly shall determine the percentage of the net profit to be distributed to the partners after deducting reserves, if any.
- 3. A partner shall be entitled to his share of the profits pursuant to a decision issued by the general assembly or the partners in this regard. Such decision shall determine the eligibility and distribution dates.

Article 176: Capital Decrease

- 1. The general assembly of partners may decide to decrease the capital if it exceeds the company's needs or if the company incurs losses. In case of losses, the decision to decrease the capital shall not be issued until a statement prepared by the company manager stating the grounds for such decrease, the company's liabilities, and the effect of the decrease on such liabilities is presented at the general assembly of partners; said statement shall include the report of the company's auditor. If partner decisions are passed by circulation, it may suffice to present the statement to the partners.
- 2. If the decision to decrease the capital is because it exceeds the company's needs, each of the company's managers shall prepare a statement of the company's financial solvency stating that:
 - a) upon reviewing the company's position, he affirms that, as of the date of the statement, there is nothing that would render the company incapable of paying its debts and liabilities; and
 - b) the company is able to pay its debts and liabilities due within the 12 months following the date of the statement.
- 3. Each of the company's managers shall sign the statement referred to in paragraph (2) of this Article, indicating the date thereof. The partners shall be provided with said statement at least 15 days prior to the date set for making the capital decrease decision.
- 4. The partners shall submit a draft amendment of the company's articles of incorporation which includes the capital decrease to the Commercial Register within 15 days from the date on which the capital decrease decision is issued. The documents referred to in paragraphs (1) and (2) of this Article, as the case may be, shall be enclosed with the draft. The capital decrease decision shall take effect upon its registration and publication with the Commercial Register.

Article 177: Creation of Reserves

- 1. The company's articles of incorporation may provide for setting aside a certain percentage of the net profit to create a reserve allocated for purposes specified in the articles of incorporation.
- 2. The partners may, when determining dividends from net profit at the annual general assembly meeting, decide to create reserves to serve the company's interest or ensure the distribution of fixed dividends, as feasible, to the partners. Said assembly may allocate amounts from the net profit for social objectives that benefit company staff.





Article 178: Assignment of Interests

- 1. A partner may assign his interest to any of the partners in accordance with the conditions stipulated in the company's articles of incorporation.
- 2. If a partner intends to assign his interest, with or without consideration, to a non-partner, he must notify the other partners, through the company's manager, of the name of the assignee or purchaser and the conditions of the assignment or sale, and the manager must notify the partners upon receipt of such notification. Each partner may exercise the right of first refusal and request to purchase said interest and pay its value or the company may purchase said interest within 30 days from the date the manager is notified of the agreed upon price. If multiple partners decide to exercise their right to purchase said interest, the interest shall be divided among them in proportion to their interest in the capital. If a disagreement arises over the value of the interest, an accredited valuer, or more, shall valuate said interest at the expense of the partner exercising said right, or the company, as the case may be, and prepare a report indicating the fair value of the assignor's interest. If the period prescribed for the right of first refusal expires and the partner does not invoke such right or does not pay the value of the interest, or the company does not purchase the interest, the partner owning the interest may assign such interest to a third party.
- 3. The company's articles of incorporation may stipulate a different notification method for the assignment of interests, a different method for their valuation, or a longer period for exercising the right of first refusal regarding such interests and for payment of their value or a longer period for their purchase by the company.
- 4. The right of first refusal provided for in this Article shall not apply to the transfer of the ownership of interests by way of inheritance or bequest or pursuant to a judgment rendered by the competent judicial authority.

Article 179: Issuance of Debt Instruments and Sukuk

- 1. A limited liability company may, in accordance with the Capital Market Law, issue negotiable debt instruments or financing sukuk.
- 2. Debt instruments or financing sukuk shall be issued with the approval of the partners in accordance with the conditions prescribed for amending the company's articles of incorporation.

Article 180: Purchase and Pledge of Interests

- 1. The company may purchase its own interests or accept them as a pledge if permitted under its articles of incorporation. Interests purchased by the company shall have no voting rights in the general assembly.
- 2. Interests may be pledged and the pledgee may receive dividends, unless the pledge agreement stipulates otherwise.
- 3. The Regulations shall specify the rules necessary for the implementation of the provisions of this Article.

Article 181: Drag-along and Tag-along Rights

The company's articles of incorporation may, upon the approval of one or more partners representing at least 90% of the company's capital, provide for the following:

- a) Majority partners shall have the right to obligate minority partners to accept an offer from a bona fide buyer to purchase all the company's interests for the same price and under the same terms and conditions applicable to the purchase of majority interests.
- b) In cases in which the majority sell their interests, minority partners shall have the right to obligate majority partners to guarantee the sale of minority interests for the same price and under the same terms and conditions applicable to the sale of majority interests.

Article 182: Company losses

If the losses of a company amount to half of its capital, the company's manager shall, within 60 days from





the date of his knowledge thereof, call for a meeting of the general assembly of partners to consider the continuation of the company by taking measures necessary to resolve such losses, or the dissolution of the company.

Chapter 5: Termination of Limited Liability Company

Article 183: Extension of Company Term

- 1. If the company is incorporated for a fixed term, said term may be extended prior to its termination for another term pursuant to a decision issued by the general assembly of partners which comprises any number of partners owning half of the represented capital interests, unless the company's articles of incorporation provide for a greater majority.
- 2. If a decision to extend the company's term is not issued and the company continues to operate, its term shall be extended for a similar term subject to the same conditions stipulated in its articles of incorporation.
- 3. A partner who does not want to continue with the company may withdraw therefrom, and his interests shall be valuated in accordance with the provisions of Article 178 of this Law. An extension shall not take effect until the interests of said partner are sold to the other partners or to others, as the case may be, and their value is paid to said partner, unless the withdrawing partner and the remaining partners agree otherwise.
- 4. A party with an interest in non-extension may object thereto and request non-enforcement of such extension against him.

Article 184: Cases of Termination

A limited liability company shall not terminate upon a partner's death, interdiction, withdrawal, insolvency, or upon the initiation of any liquidation proceedings under the Bankruptcy Law against such partner, unless provided for in the company's articles of incorporation.

Part 7: Non-Profit Company

Article 185: Definition of Non-Profit Company

- 1. A public non-profit company shall take the form of a joint-stock company and it may not take any other form. The profits realized from carrying out its activities shall be used in non-profit areas of spending that exclusively serve the community. The Ministry shall, in coordination with the National Center for Non-Profit Sector, designate such areas.
- 2. A private non-profit company shall take the form of a limited liability company, joint-stock company, or simplified joint-stock company, and it may not take any other form. The profits realized from carrying out its activities shall be used in non-profit areas of spending.
- 3. A non-profit company shall not offer its shares for public subscription.
- 4. Absent a specific provision in this Part, a non-profit company shall be subject to the provisions relating to its form in a manner not inconsistent with its nature.

Article 186: Areas of Spending of Non-Profit Company

- 1. Incorporation of a public non-profit company requires that its articles of association designate the non-profit areas of spending. A private non-profit company may designate the non-profit areas of spending in its articles of incorporation or articles of association.
- 2. Subject to relevant laws, a non-profit company may collect cash or in-kind consideration for its activities, products, and services. It may also engage in any legitimate activity to gain profits to be used in the areas of spending designated in its articles of incorporation or articles of association.

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Article 187: Effectiveness of Decision Amending Articles of Association of Public Non-Profit Company

If the decision amending the articles of association of a public non-profit company includes amending the provisions for the disposition of assets, the powers of the board of directors, or the company's areas of spending, said amendment shall not become effective until the Ministry's approval is obtained.

Article 188: Membership in Company

- 1. A partner or shareholder in a non-profit company shall be deemed a member in said company.
- 2. The articles of incorporation or articles of association of a non-profit company may provide for the following:
 - a) Determining categories of membership as well as the terms and conditions thereof.
 - b) Determining the powers of membership categories and the matters requiring the approval of the members' assembly as well as the required quorum therefor, including the right to monitor the manager or board of directors and to ensure that the company's profits are used to achieve its objectives in the areas of spending designated in its articles of incorporation or articles of association.
 - c) Granting a certain category of members the right to vote on company decisions in a special assembly.
 - d) Granting a certain category of members the right to appoint one or more company managers or board members. In such case, the appointee may not be removed from his position except by the category of members that appointed him.
 - e) Issuing membership certificates that are not negotiable. As an exception, a provision may be made for a private non-profit company member to assign his membership.
 - f) Imposing the payment of annual fees or cash or in-kind contributions on one or more membership categories.
 - g) Stipulating the provision of work or service to the company in exchange for membership therein.
- 3. The Ministry may regulate matters relating to membership in non-profit companies.

Article 189: Member Rights and Obligations

Each category of membership shall have equal rights and obligations. A member shall have all the rights associated with his membership, including the right to participate in the deliberations of member assemblies and the right to access the company's records and documents.

Article 190: Termination of Membership

Subject to the provisions of this Law and the articles of incorporation or articles of association of a non-profit company, membership of a non-profit company shall terminate in the following cases:

- a) Death of a natural person or termination of legal personality.
- b) Assignment of the membership of a private non-profit company to a third party.
- c) Cancellation in accordance with the provisions of the company's articles of incorporation or articles of association.
- d) Expiration of membership term without renewal.
- e) Termination of the company.

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Article 191: Requesting Membership Termination

A member may request the termination of his membership, provided that he compensates the company if such termination results in a breach of his obligations.

Article 192: Company Register and Provision of Information to Commercial Register

- 1. The information of members shall be recorded in a special register prepared by the non-profit company for such purpose.
- 2. The company shall provide the Commercial Register with the information referred to in paragraph (1) of this Article and any amendment thereto within 15 days from the date of the company's registration with the Commercial Register or from the date of the amendment, as the case may be.

Article 193: Accepting Gifts, Bequests, and Endowments

Subject to the provisions of relevant laws and the company's articles of association, a public non-profit company may accept, manage, or invest cash and in-kind gifts, bequests, and endowments, and disburse from their proceeds in accordance with the conditions, if any, of the donor, testator, or endower. If the company wishes to amend or be relieved from such conditions, and cannot obtain the approval of the donor, testator, or endower due to his death, disability, or absence, it may petition the competent judicial authority, which shall decide on the request as it deems appropriate to fulfill the conditions of the donor, testator, or endower.

Article 194: Company Profits

- 1. A non-profit company shall use the profits realized from its activities in the areas of spending designated in its articles of incorporation or articles of association. The company may allocate some of its profits to maximize its investments and expand its operations as specified by the Regulations.
- 2. A non-profit company may not distribute any of its profits to the company's members, managers, board members, or employees, unless such distribution of profits is included in its areas of spending. The Regulations shall specify the maximum percentage of profits distributed in accordance with this paragraph.
- 3. A non-profit company may pay remuneration or any other reasonable benefits to its managers, board members, or employees in exchange for the services and work they provide to the company.
- 4. A non-profit company member may file a lawsuit with the competent judicial authority on behalf of the company to request the redemption of any profits distributed or disbursed in violation of the provisions of this Article.
- 5. A personal creditor of a member of a public non-profit company may not seek enforcement against the shares of such member or the rights associated therewith.

Article 195: Incorporation of Non-Profit Companies by Public Entities and their Employees

- 1. Subject to relevant laws and decisions, non-profit companies may be incorporated by government agencies, public bodies and institutions, universities, and other public legal persons permitted to incorporate such companies.
- 2. Public sector employees may incorporate or participate in the incorporation of public non-profit companies.

Article 196: Exemptions

Notwithstanding relevant laws, the Zakat, Tax, and Customs Authority shall, in coordination with the Ministry, set the necessary rules for exempting non-profit companies from the provisions of levying zakat and taxes and for deducting donations made to such companies upon determining the tax base of the taxpayer.





Part 8: Professional Company

Article 197: Definition of Professional Company

A professional company is a company incorporated by one or more persons licensed to practice one or more professions, or by a combination of licensed professionals and others; its purpose is to practice such professions.

Article 198: Form of Professional Company

A professional company shall take any of the forms of companies stated in Article 4 of this Law.

Article 199: Applicability of Provisions Relating to Company Form

- 1. Absent a specific provision in this Part, a professional company shall be subject to the provisions governing its form in a manner not inconsistent with its nature.
- 2. A partner or shareholder in a professional company, of any form, shall not acquire the capacity of a merchant by virtue of his partnership or ownership of interests or shares in the company.

Article 200: Incorporation of Professional Company

- 1. Persons licensed to practice a single profession may incorporate a professional company which may take any of the forms stated in Article 4 of this Law.
- 2. A person licensed to practice a single profession may incorporate a professional joint-stock company, simplified joint-stock company, or single-person limited liability company to practice his profession. If said person is licensed to practice multiple professions, he may practice all or some of his professions through the company, upon satisfying the conditions and rules specified in the Regulations.
- 3. A professional company may be incorporated by persons licensed to practice multiple professions, and it may be jointly incorporated by persons licensed to practice one or more professions and a non-Saudi professional company. The Regulations shall specify the conditions for the incorporation of such companies and the rules regulating their activities.
- 4. A legal person or a natural person who is not licensed to practice any of the professions for which a professional company is incorporated may be a partner or shareholder in a professional company, but may not be a general partner in a general partnership or a limited partnership. The Regulations shall determine the conditions and rules therefor as well as the general rules for managing this form of professional company to maintain the independence of the professional partners or shareholders in practicing their professions.

Article 201: Being a Partner or Shareholder in More than One Company

A partner or shareholder in a professional company who practices a profession may not be a partner or shareholder in another professional company practicing the same profession, unless permitted under the company's articles of incorporation or articles of association and without prejudice to relevant laws. The Regulations shall specify the provisions and rules permitting a licensed partner or shareholder to be a partner or shareholder in another professional company.

Article 202: Incorporation and Dissolution of Professional Companies

- 1. A professional company shall be incorporated in accordance with the incorporation procedures prescribed for the form it takes.
- 2. Partners or shareholders in a professional company may not dissolve such company except after the dissolution is announced and the parties dealing with the company are notified thereof in writing, in accordance with the procedures specified by the Regulations.





Article 203: Practicing the Profession

A professional company may not practice the professions for which it is incorporated except through its licensed partners or shareholders. However, it may seek the assistance of other persons licensed in such professions, provided that said persons operate under the company's supervision and responsibility.

Article 204: Company Activities

- 1. A professional company may only practice the professions for which it is incorporated.
- 2. A professional company may not engage in commercial activities. It may, however, own real property assets and invest its funds in real estate, commercial papers, or any other type of investment to serve its purposes. The Regulations shall specify the necessary rules therefor.

Article 205: Supervision of Company

- 1. A professional company shall, in practicing the professions for which it is incorporated, be subject to the supervision of the relevant supervisory authorities.
- 2. A professional company shall comply with the laws and regulations set by the relevant authorities within their powers.
- 3. The relevant authority may, within its powers, inspect a professional company and review its records and documents to ensure its compliance with the laws related to the profession for which it is incorporated. The professional company must provide any documents required therefrom.

Article 206: Partner or Shareholder's Practice of his Profession

- 1. A partner or shareholder in a professional company may only practice his profession through the company, unless it is owned by a single person.
- 2. Notwithstanding paragraph (1) of this Article, a partner or shareholder may practice his profession separately from the company if the other partners agree thereto in writing or upon obtaining the approval of the general assembly, as the case may be.
- 3. If a partner or shareholder violates the provisions of paragraphs (1) and (2) of this Article, the company shall be entitled to the fees and other financial benefits he receives.

Article 207: Company Management

- 1. Without prejudice to paragraph (2) of this Article, a professional company shall be managed by one person, or more, from among its partners or others. If it is managed by one person, said person must be a licensed partner. If it is managed by more than one person, the number of licensed partners shall not be less than the number specified by the Regulations. The company's articles of incorporation or articles of association shall determine the conditions for appointing the manager as well as his powers, remuneration, term, and the manner of his removal.
- 2. A professional joint-stock company shall be managed by a board of directors comprising its shareholders or others. The Regulations shall specify the number of board members who must be licensed shareholders. The company's articles of association shall determine the board's powers and the provisions relating to its formation.

Article 208: Independence of Partners or Shareholders

The powers of the manager or board of directors of a professional company owned by more than one person may not prejudice the independence of partners or shareholders in practicing their professions.

Article 209: Malpractice Liability

1. A partner or shareholder in a professional company shall be personally liable to the company and other partners or shareholders, as the case may be, for his malpractice.





2. A professional company shall be liable for any damage incurred by a third party due to malpractice committed by its partners or shareholders, as the case may be, or committed by its employees.

Article 210: Malpractice Insurance

The Minister may, in coordination with the relevant supervisory authorities, issue a decision requiring professional companies to obtain malpractice insurance for performing certain activities or transactions.

Article 211: Loss of Professional License

- 1. If a partner or shareholder in a professional company temporarily loses his professional license, he shall immediately cease to work at the company until the license is restored. If he is the sole practitioner of such profession among partners or shareholders, or if he is the sole owner of the professional company, the company shall cease to practice the profession until the license is restored. If such cases occur in a professional company owned by more than one person, the company's articles of incorporation or articles of association shall specify the manner of distributing the company's profits or losses.
- 2. If a partner or shareholder in a professional company permanently loses his professional license, he shall be deemed to have withdrawn from the company, unless the company's articles of incorporation or articles of association provide for his continuation as an unlicensed partner or shareholder, subject to the terms, conditions, and rules referred to in Article 200(4) of this Law.
- 3. A professional company shall cease to practice its profession if a partner or shareholder in such company who is the sole practitioner of said profession from among the partners or shareholders permanently loses his professional license or the company is solely owned thereby; or if the sole practitioner of said profession dies or assigns his interests or shares. In such case, the company shall be granted a grace period of six months to rectify the situation in accordance with the provisions of this Law. The Minister may extend said period for a similar period if he deems it in the interest of the company. The company shall terminate upon the lapse of said period without rectifying the situation.

Article 212: Death of Partner or Shareholder

- 1. In case of the death of a partner in a professional limited liability company or a shareholder in a professional joint-stock company or a professional simplified joint-stock company, his interests or shares, as the case may be, shall be transferred to his heirs, unless the company's articles of incorporation or articles of association stipulate otherwise.
- 2. In case of the death of a partner in a professional general partnership, the company shall continue to exist, and his share shall be transferred to his heirs. The deceased partner's interest shall be valuated by an accredited valuer, or more, who shall prepare a report indicating the fair value of each partner's share in the company's funds on the date of the partner's death. The heirs shall not have a share in any subsequent rights, unless such rights arise from transactions made prior to the death of said partner.
- 3. It may be stipulated in the articles of incorporation of a professional general partnership or in a special agreement between the heirs of the deceased partner and the other partners in the company that the heirs of the deceased partner replace him as partners in the company by converting the company into a limited partnership, joint-stock company, simplified joint-stock company, or limited liability company. If the company is converted into a limited partnership, the heirs shall have the capacity of a limited partner.
- 4. In case of the death of a partner in a professional limited partnership, his interests shall be transferred to his heirs, unless the company's articles of incorporation stipulate otherwise. If the heirs decide to participate in the company, they shall have the capacity of a limited partner.

Article 213: Transfer of Interests or Shares to Heirs

- 1. Interests or shares transferred from the deceased partners or shareholders of a professional company to their heirs shall be subject to the terms, conditions, and rules referred to in Article 200(4) of this Law.
- 2. If an heir is licensed to practice any of the professions for which a company is incorporated, such heir may become a partner or shareholder practicing his profession through the company subject to the approval of





the majority of partners or the approval of the general assembly. If such approval is not granted, the heir shall be a non-practicing partner or shareholder, in which case he may, as an exception to the provision of Article 206 of this Law, practice his profession separately from the company.

3. Notwithstanding Article 201 of this Law, if an heir is a practicing partner or shareholder in another professional company which practices the same profession, such heir may own the interests or shares bequeathed to him in his capacity as a non-practicing partner or shareholder.

Article 214: Interdiction, Insolvency, or Initiation of Liquidation Proceedings against a General Partner

The articles of incorporation of a professional general partnership and a professional limited partnership shall specify the consequences of the interdiction or insolvency of a general partner, or the initiation of any liquidation proceedings against such partner under the Bankruptcy Law.

Article 215: Conversion of Professional Company

Partners or shareholders of a professional company may convert the company into any of the forms provided for in Article 4 of this Law upon satisfaction of the terms and conditions provided for in this Law and the Regulations.

Part 9: Holding Company and Subsidiary Company

Article 216: Holding Company

A holding company is a joint-stock company, simplified joint-stock company, or limited liability company which incorporates companies or owns interests or shares in existing companies that become subsidiaries thereof.

Article 217: Subsidiary Company

A company shall be deemed a subsidiary of a holding company in any of the following cases:

- a) If the holding company is a partner or shareholder in the subsidiary company and owns interests or shares in its capital that grants it the majority of voting rights therein.
- b) If the holding company is a partner or shareholder solely controlling the appointment of the manager or the majority of board members, or if it has the power to remove the manager or the majority of board members.
- c) If the holding company is a partner or shareholder solely controlling the majority of voting rights pursuant to an agreement with the other partners or shareholders.
- d) If the subsidiary company is affiliated with a subsidiary of the holding company.

Article 218: Acquiring Interests or Shares in Holding Companies

- 1. A subsidiary company may not acquire interests or shares in a holding company. Any action resulting in the transfer of the ownership of interests or shares from a holding company to a subsidiary company shall be deemed null and void.
- 2. If a subsidiary company owns interests or shares in a holding company prior to becoming a subsidiary thereof, the following shall be observed:
 - a) The subsidiary company may not make decisions in the holding company or vote on such decisions.
 - b) The subsidiary company shall dispose of such interests or shares within 12 months from the date it becomes a subsidiary to the holding company. The Competent Authority may extend such period.
- 3. The provisions of paragraphs (1) and (2) of this Article shall not apply to persons licensed under the Capital Market Law and its Implementing Regulations if their ownership of interests or shares in a holding company falls within the scope of their regular activities. The Competent Authority may specify other cases that are excluded from the provision of this Article.





Article 219: Implementation of this Part

The Regulations shall specify the provisions necessary for the implementation of this Part.

Part 10: Conversion, Merger, and Division of Companies

Chapter 1: Conversion of Companies

Article 220: Conversion of Companies into other Forms

- 1. A company may be converted to another form of company pursuant to a decision issued in accordance with the conditions prescribed for amending the company's articles of incorporation or articles of association, and after it meets the conditions of incorporation, registration, and publication prescribed for the form of company into which it is converted.
- 2. The conversion of a company into a simplified joint-stock company requires the unanimous approval of the partners or shareholders.
- 3. Owners of sole proprietorships may transfer the assets of such proprietorships to any form of company incorporated in accordance with the provisions of this Law. The incorporation shall not entail relieving the owners from liability for the debts and obligations of the sole proprietorships incurred prior to the incorporation of the company, unless the creditors explicitly agree thereto.
- 4. Without prejudice to the right of a company to convert pursuant to paragraph (1) of this Article and to the conditions of incorporation, registration, and publication of a joint-stock company, a general partnership, limited partnership, and limited liability company may be converted into a joint-stock company if requested by the partners owning more than half of the capital unless the articles of incorporation provide for a lower percentage, provided that all of the company's interests are owned by persons related by consanguinity or affinity, or include interests owned by an endowment or interests arising from a partner's bequest. Any condition in violation of this paragraph shall be deemed null and void.

Article 221: Conversion from and into Non-Profit Company

- 1. Subject to the provision of Article 220(1) of this Law, a private non-profit company may be converted into any form of company unless the company's articles of incorporation or articles of association stipulate otherwise, provided that any profits, reserves, gifts, or other funds in excess of the capital upon incorporation are spent in the non-profit areas of spending provided for in the company's articles of incorporation or articles of association, and that any exemptions granted to the company are paid back. The Regulations shall specify the necessary provisions.
- 2. The conversion of a company into a public or private non-profit company requires the unanimous approval of the partners or shareholders.

Article 222: Objection to Conversion Decision

Without prejudice to the provisions of assignment of interests or shares prescribed in accordance with the form of the company, partners or shareholders objecting to the conversion decision may withdraw from the company pursuant to a written request submitted to the company within 15 days from the issuance date of said decision. In such case, the value of their interests or shares shall be paid in accordance with the agreed-upon value or pursuant to a report prepared by an accredited valuer, or more, indicating the fair value of such interests or shares on the date of conversion, unless the company's articles of incorporation or articles of association stipulate otherwise. The objecting person may, in case of dispute, resort to the competent judicial authority.

Article 223: Company Personality after Conversion

Conversion of a company shall not result in the creation of a new legal person, and the company shall have the rights and obligations existing prior to conversion.





Article 224: Relieving General Partners from Liability

Conversion of a general partnership or limited partnership shall not relieve the general partners from liability for company debts incurred prior to conversion, unless explicitly agreed to by the creditors, or if no creditor objects to the conversion within 30 days from the date of being notified thereof by registered mail or by means of technology.

Chapter 2: Merger of Companies

Article 225: Merger Proposal

- 1. A merger involves combining one or more companies with another existing company or combining two or more companies to form a new company.
- 2. A merger proposal shall be prepared for approval by each company party to the merger in accordance with the conditions prescribed for amending its articles of incorporation or articles of association. The merger proposal shall specify the terms of the merger as well as the nature and value of the consideration, including the number of interests or shares the merged company shall have in the capital of the merging company or the company resulting from the merger. Such proposal shall indicate the ability of each company party to the merger to pay its debts.
- 3. Subject to the provisions of relevant laws, a company may, even if under liquidation pursuant to the provisions of this Law, merge with another company of the same form or of a different form.
- 4. A merger shall not be valid except after the valuation of the assets of the companies party thereto.
- 5. The consideration for a merger shall be in the form of interests or shares in the merging company or the company resulting from the merger.
- 6. The Competent Authority may set the rules and procedures for implementing the provisions of this Article, including the cash consideration for purchasing fractions of interests or shares or for compensating partners or shareholders who object to the merger decision. It may also set the voting rules for a partner or shareholder who has an interest other than that arising from his capacity as a partner or shareholder in the company.

Article 226: Merger of Subsidiary with its Holding Company

The Regulations shall set the rules for the merger of a subsidiary, or more, with a holding company in full ownership thereof, or the merger of two companies, or more, wholly owned by the same partners or shareholders. The Regulations may exclude such cases from the application of certain provisions provided for in this Part.

Article 227: Objection to Merger Decision

- 1. Each company party to a merger shall announce said merger at least 30 days prior to the date set for deciding and voting on the merger proposal.
- 2. Any creditor of a merged company may object to the merger by registered mail addressed to the company or by any other means specified in the announcement referred to in paragraph (1) of this Article within 15 days from the announcement date. The company shall pay the debt owed to the objecting creditor if it is due or provide said creditor with a sufficient guarantee if it is not due.
- 3. If a creditor notifies the company of his objection to the merger in accordance with paragraph (2) of this Article and the company fails to pay his due debt or to provide him with a sufficient guarantee if his debt is not due, said creditor may petition the competent judicial authority at least 10 days prior to the date set for deciding on the merger. In such case, the competent judicial authority may order the payment of the debt or the provision of a sufficient guarantee. If the competent judicial authority finds that the merger may result in serious damage to the objecting creditor without the merged or merging company being able to pay his debt or provide him with a guarantee, it may order the suspension or postponement of the merger, provided that its decision is issued prior to the effective date of the merger decision. If the competent judicial authority of his claim, it may issue a decision to





compensate said creditor for damages incurred as a result of the merger.

Article 228: Effectiveness of Merger Decision

A merger decision shall become effective as of the date of registering the merged company's information in the merging company's register with the Commercial Register. Otherwise, the merger decision shall become effective from the date of registration of the company resulting from the merger with the Commercial Register.

Article 229: Rights, Liabilities, Assets, and Contracts of Merged Companies

All the rights, liabilities, assets, and contracts of the merged company or companies shall, upon the effectiveness of the merger decision, be transferred to the merging company or the company resulting from the merger. The merging company or the company resulting from the merger shall be deemed a successor company of the merged company or companies.

Article 230: Obligation to Purchase and Sell Shares

- 1. Without prejudice to the Capital Market Law, a person, or more than one person acting in agreement, who increase their ownership to the extent that their share, individually or collectively, amounts directly or indirectly to 90% or more of the shares of a joint-stock company with voting rights, or who contract to unconditionally purchase such percentage, shall disclose the same to the company's shareholders. A shareholder of the company may, within 90 days from the date of disclosure, request the owner or buyer to make an offer to purchase his shares, in which case the owner or buyer shall make such offer to any person requesting to purchase such shares.
- 2. Without prejudice to the Capital Market Law, a shareholder who directly or indirectly owns 90% of the shares of a joint-stock company with voting rights and a person who, pursuant to a contract, unconditionally purchases such percentage may submit a request to the Competent Authority within at least 60 days from the date on which his share reaches such percentage or from the date on which he made the unconditional contract to purchase such percentage to obtain approval to submit a mandatory offer to obligate the other shareholders to sell him their shares.
- 3. A shareholder of a joint-stock company may, within 60 days from the submission date of an offer for the purchase of his shares in the company in accordance with paragraph (1) of this Article, or from the submission date of a mandatory offer for the purchase of his shares in the company in accordance with paragraph (2) of this Article, file an objection to the purchase price with the competent judicial authority. A mandatory offer made in accordance with paragraph (2) of this Article may only be suspended pursuant to a decision by the Competent Authority. Such mandatory offer shall be settled within seven days from the expiration date of the objection period, unless the competent judicial authority decides otherwise.
- 4. The Regulations shall set the rules necessary for implementing the provisions of this Article, including the rules related to disclosure, purchase price, and periods for the cases set out in paragraphs (1) and (2) of this Article.

Chapter 3: Division of Companies

Article 231: Form of Company Resulting from Division

A company may be divided into two or more companies, even if it is under liquidation. The company or companies resulting from the division may take any form of company provided for in Article 4 of this Law.

Article 232: Division Decision

The decision to divide a company shall be issued in accordance with the conditions prescribed for amending its articles of incorporation or articles of association. The division decision shall include a statement of the number of partners or shareholders, the share of each partner or shareholder in the company or companies resulting from the division and the company subject to division, the rights and obligations of such companies, and the manner of distributing the assets, rights, and obligations among said companies.





Article 233: Debts and Obligations of Company Subject to Division

A company resulting from the division shall be a successor to the company subject to division to the extent prescribed in the division decision. However, creditors of the company subject to division may request the two companies or the companies resulting from the division to satisfy the debts and obligations of the company subject to division. The two companies or the companies resulting from the division shall be jointly and severally liable for satisfying such debts and obligations, except in cases where an agreement is concluded with such creditors to transfer their rights of claim to the company resulting from the division to which such debts and obligations are transferred.

Article 234: Division Rules

The Regulations shall specify the rules related to the division of companies, including the procedures, conditions, and terms of division, according to the form of the company.

Part 11: Foreign Companies

Article 235: Foreign Companies Subject to this Law

Without prejudice to special agreements concluded between the Kingdom and certain foreign countries or companies and to the laws applicable in the Kingdom, the provisions of this Law shall apply to foreign companies operating within the Kingdom, excluding the provisions relating to the incorporation of companies.

Article 236: Operating within the Kingdom

A foreign company shall operate within the Kingdom through a branch or representative office, or any other form, in accordance with the Foreign Investment Law and other relevant statutory provisions.

Article 237: Information Included in Company Documents

Each branch or representative office of a foreign company shall include its address in the Kingdom as well as the company's full name, address, and headquarters in all its papers, documents, and publications.

Article 238: Finances of Company Branch

- 1. An application to register the branch of a foreign company shall include the date on which the branch's fiscal year commences and ends.
- 2. With the exception of representative offices, a branch of a foreign company shall prepare the financial statements related to its activities within the Kingdom in accordance with accounting standards approved in the Kingdom, and shall deposit such documents as well as the auditor's report thereon within six months from the date on which the branch's fiscal year ends, subject to the Regulations.
- 3. The appointment of an auditor may be made pursuant to a decision issued by the manager of the foreign company's branch upon the authorization of the foreign company.

Article 239: Domicile of Foreign Company

A foreign company's branch or representative office within the Kingdom shall be deemed its domicile with regard to its activities and business in the Kingdom, and shall be subject to the laws applicable in the Kingdom.

Article 240: Liability for Violations

If a foreign company commences its activities and business prior to the completion of licensing procedures, if any, and prior to its registration with the Commercial Register, or if it engages in activities not covered by its license, such company and the persons involved in such activities and business shall be held jointly and severally liable.





Article 241: Temporary Registration

If the presence of a foreign company in the Kingdom is to perform certain activities during a specific period, such company shall be temporarily registered with the Commercial Register. Such registration shall expire upon completion of such activities and the company shall be stricken from the Register following the settlement of its rights and obligations, in accordance with this Law and other applicable laws. Said company may, however, continue to exist upon satisfaction of statutory requirements. The Ministry may, in coordination with the Ministry of Investment, set the rules necessary for the implementation of this Article.

Part 12: Company Termination and Liquidation

Article 242: Examination of Company's Financial Position

- 1. The company's managers or members of the board of directors shall, prior to the issuance of a decision to dissolve the company by the partners, general assembly, or shareholders, prepare a statement indicating that they have conducted an examination of the company's status. Such statement shall confirm that the company's assets are sufficient to pay its debts at the end of the proposed liquidation period and that the company is not distressed under the Bankruptcy Law. Said statement shall be presented within 30 days of its preparation to the partners, general assembly, or shareholders to decide on the dissolution of the company.
- 2. If the statement referred to in paragraph (1) of this Article indicates that the company's assets are not sufficient to pay its debts or that the company is distressed under the Bankruptcy Law, the partners, general assembly, or shareholders may not decide on the dissolution of the company; otherwise, they shall be jointly and severally liable for any remaining debts owed thereby.

Article 243: General Reasons for Termination of Company

Notwithstanding the reasons prescribed for the termination of each form of company, a company shall be terminated for any of the following reasons:

- a) Expiration of its term if it is incorporated for a specified period, unless the term is extended in accordance with the provisions of this Law.
- b) Agreement of the partners or shareholders to dissolve the company.
- c) Issuance of a final judgment to dissolve or annul the company.

Article 244: Liquidation of Company

- 1. Upon termination, a company shall enter into liquidation in accordance with the provisions of this Law. The partners, general assembly, or shareholders shall initiate liquidation proceedings and the company shall retain its legal personality to the extent necessary for liquidation.
- 2. If a company is terminated for any of the reasons stipulated in this Law, the company's partners, shareholders, managers, or board of directors, as the case may be, must prepare the statement referred to in Article 242(1) of this Law, unless such statement was prepared prior to the company's termination and the date on which it was prepared does not exceed 30 days.
- 3. If a company is terminated and its assets are not sufficient to pay its debts, or if it is distressed under the Bankruptcy Law, it shall petition the competent judicial authority to initiate any liquidation proceedings under the Bankruptcy Law.
- 4. If a company is liquidated in violation of the provisions of this Article, the company's partners, shareholders, manager, or board members, as the case may be, shall be jointly and severally liable for any remaining debt owed thereby.
- 5. A public non-profit company may not be liquidated without obtaining the approval of the Ministry.

Article 245: Manner of Liquidation

A company shall be liquidated in accordance with the provisions of this Law, unless the manner of liquidation





is provided for in the company's articles of incorporation or articles of association, or is agreed upon by the partners, general assembly, or shareholders, as the case may be.

Article 246: Managing the Company during Liquidation

- 1. The powers of the company's manager or board of directors shall end upon its termination. However, they shall remain in charge of managing the company and shall be deemed liquidators vis-à-vis third parties pending appointment of a liquidator.
- 2. The company's assemblies shall remain valid during the liquidation period, and their role shall be limited to exercising their powers that are not inconsistent with those of the liquidator.
- 3. During the liquidation period, a partner or shareholder shall continue to have access to company documents, as permitted in this Law or the company's articles of incorporation or articles of association.

Article 247: Number of Liquidators and Period of Liquidation

- 1. Liquidation shall be carried out by one liquidator, or more, from among the partners, shareholders, or others.
- 2. The period of liquidation under this Law shall not exceed three years and may not be extended except pursuant to an order by the competent judicial authority.

Article 248: Liquidator Appointment Decision

- 1. A liquidator shall be appointed pursuant to a decision by the partners, general assembly, or shareholders subject to the conditions prescribed for amending the company's articles of incorporation or articles of association as per the company form, within a period not exceeding 60 days from the termination date of the company. If a liquidator is not appointed during said period, the competent judicial authority shall, upon a petition filed by any of the partners, shareholders, or persons with interest, appoint a liquidator.
- 2. Notwithstanding paragraph (1) of this Article, if the termination of the company is due to its dissolution or annulment pursuant to a final judgment, the liquidator shall be appointed by the judicial authority which rendered said judgment.
- 3. The competent judicial authority shall, prior to issuing the decision to appoint a liquidator in accordance with the provisions of paragraphs (1) and (2) of this Article, request the company's partners, shareholders, managers, or board of directors, as the case may be, to submit, within a period not exceeding 30 days from the date of such request, the statement referred to in Article 242(1) of this Law or the necessary accounting data and records, or financial statements, if any, which establish that the company's assets are sufficient to pay its debts by the end of the liquidation period as stipulated in this Part, and that the company's assets are not sufficient to pay its debts, it shall take the measures necessary to initiate any liquidation proceedings under the Bankruptcy Law.
- 4. In all cases, the decision to appoint a liquidator shall determine the liquidator's powers, remuneration, and any imposed restrictions, as well as the period of liquidation.

Article 249: Registration and Publication of Liquidator Appointment Decision

A liquidator shall register and publish his appointment decision with the Commercial Register. His appointment or the liquidation proceedings shall not be invoked against third parties except from the date of registration and publication.

Article 250: Removal of Liquidator

- 1. A liquidator shall be removed in the same manner in which he was appointed. In all cases, the competent judicial authority may, upon a petition filed by any of the company's partners, shareholders, or creditors based on acceptable grounds, order his removal.
- 2. The decision or judgment to remove a liquidator shall appoint a replacement and determine his powers and remuneration.





Article 251: Multiple Liquidators

In case of multiple liquidators, their duties shall be carried out collectively and their acts shall be deemed valid only if unanimously approved thereby, unless their appointment decision or the authority which appointed them stipulates otherwise.

Article 252: Liquidator Powers

- 1. Subject to the restrictions included in the liquidator's appointment decision, the liquidator shall represent the company before the judiciary, arbitration tribunals, and other parties, and shall carry out all the activities necessary for the liquidation. He shall, in particular, convert the company's assets into cash, including the sale of movables or real property through an auction or any other method ensuring the best price.
- 2. The liquidator may, if authorized by the authority appointing him, sell all company assets in a single transaction or offer such assets as a share in another company.
- 3. The liquidator may not start new business activities for the company unless required for the completion of previous activities.
- 4. The company shall be bound by the liquidator's acts falling within his powers.
- 5. The liquidator's powers shall terminate upon the completion of the liquidation or upon the expiration of the liquidation period, whichever is earlier, unless such period is extended in accordance with the provisions of this Law.

Article 253: Inventory of Assets and Liabilities

- 1. The company's manager or board members shall provide the liquidator upon his appointment with the company's records and documents as well as any clarifications and data requested thereby.
- 2. The liquidator shall, within 90 days from the date of assuming his duties, prepare an inventory of the company's assets, rights, and liabilities, and shall request the company's auditor, if any, to issue a report on said inventory. The authority appointing the liquidator may extend such period, if necessary.
- 3. At the end of each fiscal year, the liquidator shall prepare financial statements and a liquidation report which shall include his remarks and reservations concerning the liquidation proceedings, the causes of obstruction or delay of such proceedings, if any, and his recommendations regarding the extension of the liquidation period. The liquidator shall provide the Commercial Register with a copy of said documents and shall present them to the partners, general assembly, or shareholders for approval, in accordance with the company's articles of incorporation or articles of association.

Article 254: Insufficiency of Assets

If the liquidator finds at any time during the liquidation that the company's assets are not sufficient to pay its debts, he shall immediately notify the company's partners or shareholders and its creditors of such insufficiency and petition the competent judicial authority for the initiation of any liquidation proceedings under the Bankruptcy Law.

Article 255: Payment of Debts

- 1. The liquidator shall pay the company's due debts based on priority, and shall set aside the funds necessary for the payment of deferred or disputed debts.
- 2. Debts arising from liquidation shall have priority over other debts.
- 3. After the payment of debts, the liquidator shall return to the partners or shareholders the value of their interests or shares in the capital, and shall distribute any surplus among them in accordance with the provisions of the company's articles of incorporation or articles of association. Absent a specific provision in the articles of incorporation or articles of association on such matter, the surplus shall be distributed among the partners or shareholders in proportion to their interests or shares in the capital.
- 4. If the company's net assets are not sufficient to pay the value of interests of partners or shares of shareholders, the loss shall be distributed among them as per the percentage prescribed for the distribution





of losses.

Article 256: Disposition of Non-profit Company Assets

- 1. The net assets of a non-profit company shall, upon liquidation, be transferred to the non-profit entities or persons specified in its articles of incorporation or articles of association.
- 2. If the net assets of a non-profit company arise from gifts, bequests, or endowments, such assets shall be transferred to the non-profit entities or persons specified by the donor, testator, or endower.
- 3. If the company's articles of incorporation or articles of association do not specify the non-profit entities or persons to which its assets are transferred, and if the donor, testator, or endower does not specify the same, such assets shall, upon obtaining the approval of the Ministry, be transferred to non-profit entities or persons with the aim to disburse such assets in areas of spending similar to the areas of spending specified for such assets.
- 4. Non-profit entities to which or persons to whom assets are transferred shall use them in the areas of spending specified therefor.

Article 257: End of Liquidation

- 1. At the end of liquidation, the liquidator shall submit a detailed financial report of all the activities he carried out during liquidation. The liquidation shall end upon the approval of such report by the authority which appointed the liquidator.
- 2. The liquidator shall register the end of liquidation with the Commercial Register and publish it therein. The end of liquidation shall not be valid vis-à-vis third parties except from the date on which the company is stricken from the Commercial Register.

Article 258: Liability of Liquidator

- 1. The liquidator shall be liable for any damage sustained by the company, partners, shareholders, or third parties as a result of exceeding the limits of his powers or any damage arising from mistakes he makes in the course of performing his duties.
- 2. Liability shall be personal in case of a single liquidator and shall be joint in case of multiple liquidators and the decision of whom is issued unanimously, unless each liquidator is entitled to work separately in accordance with Article 251 of this Law.

Article 259: Statute of Limitations of Initiating Derivative Action

Except for cases of forgery and fraud, a derivative action may not be heard against a liquidator upon the lapse of five years from the date on which the company is stricken from the Commercial Register.

Part 13: Penalties

Article 260: Penalties for Serious Offenses

Without prejudice to any harsher penalty under any other law, the following persons shall be subject to imprisonment for a period not exceeding three years and a fine not exceeding five million riyals, or to either penalty:

- a) Any manager, officer, board member, auditor, or liquidator who intentionally provides misleading information or data in the company's financial statements, the reports prepared thereby, the statements relating to the capital decrease of a company or the sufficiency of its assets to pay its debts upon liquidation, and any other report or statement presented to the partners, general assembly, or shareholders in accordance with the provisions of this Law, or who intentionally omits material facts from the aforementioned statements and reports with the intention of misrepresenting the company's financial position.
- b) Any manager, officer, or board member who knowingly uses the company's funds, or his authority or voting power in a manner that is against the company's interests to achieve personal gain, favor a company





or person, or benefit from a project or transaction in which he has a direct or indirect interest.

c) Any liquidator who knowingly uses the company's funds or assets, or its claims against third parties in a manner that is against the company's interests or intentionally causes damage to the partners, shareholders, or creditors to achieve personal gain, favor a company or person, benefit from a project or transaction in which he has a direct or indirect interest, or favor a creditor over another in satisfying his dues without a legitimate reason.

Article 261: Penalties for Less Serious Offenses

Without prejudice to any harsher penalty under any other law, the following persons shall be subject to imprisonment for a period not exceeding one year and a fine not exceeding one million riyals, or to either penalty:

- a) Any auditor who fails to notify the company, whether through the bodies or persons in charge of its management, of any violations he discovers during the course of his duties that he suspects to be of criminal nature.
- b) Any person who obtains or is guaranteed or promised a benefit to vote in a particular way or abstain from voting with the intent of harming the company's interests, and any person who grants, guarantees, or promises such benefit.
- c) Any person who, by any means, deceptively announces, publishes, or declares that the company has completed its registration with the Commercial Register prior to the completion of registration.
- d) Any public servant who discloses to other than the competent authorities the company's classified information which he becomes privy to by virtue of his position.
- e) Any person who, for the purpose of collecting the values of contributions or soliciting subscriptions, publishes the names of persons to falsely suggest their affiliation or potential affiliation with the company in any manner.
- f) Any person who, in bad faith, decides to distribute, distributes, or collects dividends or returns in violation of the provisions of this Law or the company's articles of incorporation or articles of association, as well as any auditor who becomes aware of such violation and fails to report it.
- g) Any partner, shareholder, or others who knowingly inflate or provide false statements or information regarding the valuation of in-kind contributions, or the distribution of interests among partners or shares among shareholders or the full payment of their value, whether upon the incorporation of the company, increase of its capital, or redistribution of interests among partners or shares among shareholders.
- h) Any manager, officer, board member, or auditor who fails to call for a meeting of the general assembly of partners or shareholders, or who fails to take necessary action therefor, as the case may be, upon becoming aware that losses have reached the limits provided for in Articles 132 and 182 of this Law.
- i) Any manager, officer, board member, auditor, or liquidator who exploits or discloses the company's classified information with the intention of harming its interests.
- j) Any person who intentionally obstructs, directly or indirectly, persons entitled under this Law to access the company's papers, accounts, records, and documents, or any person who refuses to enable them to perform their duties.
- k) Any person assigned to inspect the company who, in the reports he prepares, intentionally includes false information or omits material facts that may affect the outcome of the inspection.





Article 262: Penalties for Violations

Without prejudice to any harsher penalty under any other law, the following persons shall be subject to a fine not exceeding five hundred thousand riyals:

- a) Any person who impedes the call for a meeting of the general assembly of partners or shareholders or the holding thereof, and any person who prevents a partner or shareholder from participating in an assembly of shareholders or partners or prevents him from exercising the voting rights associated with his interests or shares in the company, in violation of the provisions of this Law.
- b) Any person who fails to perform his duty to call for a meeting of the general assembly of partners or shareholders within the prescribed period as provided for in this Law.
- c) Any person who, in violation of the provisions of this Law, agrees to being appointed as a member of the board of directors of a joint-stock company or retains such membership, as well as any board member of a company in which such violations occur who is aware of the same without objecting thereto as specified in the provisions of this Law.
- d) Any board member of a joint-stock company who obtains a guarantee or loan from the company in violation of the provisions of this Law, as well as any board member of a company in which such violation occurs who is aware of the same without objecting thereto as specified in the provisions of this Law.
- e) Any person who fails to perform his duty to maintain the company's accounting records and supporting documents relating to its activities and contracts; to prepare financial statements in accordance with accounting standards approved in the Kingdom; or to deposit the same as provided for in this Law.
- f) Any person who neglects his duty to provide the Competent Authority with the documents stipulated in this Law.
- g) Any person who neglects his duty to make necessary documents available to a partner or shareholder as provided for in this Law.
- h) Any person who neglects his duty to record deliberations and prepare meeting minutes as provided for in this Law.
- i) Any person who neglects his duty to include any of the information provided for in Article 12 of this Law.
- j) Any person who agrees to or continues to work as an auditor with his knowledge of the existence of the reasons preventing him from performing such duty as provided for in this Law.
- k) Any person who neglects his duty to register a company or any amendments to its articles of incorporation or articles of association with the Commercial Register as provided for in this Law.
- Any person who intentionally records false information or information which violates the provisions of this Law in the company's articles of incorporation or articles of association, other company documents, or the company's incorporation application or the documents enclosed therewith, as well as any person who knowingly signs such documents or registers them with the Commercial Register.
- m) Any manager or board member of a professional company who violates the rules governing the activity of professional companies or the terms, conditions, and general rules referred to in Article 200 of this Law.
- n) Any person who violates the provision of Article 202(2) of this Law, and any manager or board member of a professional company who violates the provision of Article 204 of this Law.
- o) Any manager, board member, or single owner of a professional company which practices a profession without having a partner or shareholder who is licensed to practice such profession.





- p) Any liquidator who fails to perform his duty to register his appointment decision or to register the end of liquidation with the Commercial Register and publish it therein as provided for in this Law.
- q) Any person who neglects to take the measures necessary to rectify a violation upon his notification thereof as provided for in this Law.
- r) Any auditor who fails to perform his duties as provided for in this Law.
- s) Any company or officer therein who unjustifiably fails to comply with the provisions of this Law and its Regulations or with the rules and decisions issued by the Competent Authority.

Article 263: Determination of Penalty

- 1. The gravity, circumstances, and effects of an offense or violation shall be taken into consideration upon determining its penalty.
- 2. If an offense is repeated, the penalties stipulated in Articles 260 and 261 of this Law shall be doubled. Under this Law, a repeat offender is any person who commits the same offense for which a final judgment or decision is issued within three years from the date of issuance of such judgment or decision.

Article 264: Alternative Penalties

- 1. The competent judicial authority may, in addition to or in place of the penalties provided for in Articles 260 and 261 of this Law, impose any of the following penalties:
 - a) Warning the relevant person.
 - b) Ordering the relevant person to take the measures necessary to avoid the offense or to rectify its effects.
 - c) Ordering the relevant person to stop or refrain from carrying out the activity subject of the lawsuit.
 - d) Banning the relevant person from membership of the board of directors of a joint-stock company listed in the capital market.
- 2. The Competent Authority may, in addition to or in place of the penalties provided for in Article 262 of this Law, impose either of the penalties provided for in paragraphs 1(a and b) of this Article with regard to violations.

Article 265: Jurisdiction to Investigate and Prosecute

The Public Prosecution shall have the jurisdiction to investigate and prosecute the offenses stipulated in Articles 260 and 261 of this Law.

Article 266: Competent Judicial Authority

- 1. The competent court shall consider and decide all civil and criminal lawsuits and disputes arising from the application of the provisions of this Law and its Regulations, and shall impose the penalties prescribed for violating the provisions thereof, with the exception of matters relating to joint-stock companies listed in the capital market.
- 2. With regard to joint-stock companies listed in the capital market, the Committee for Resolution of Securities Disputes shall review and decide appeals against CMA decisions and all civil and criminal lawsuits and disputes arising from the application of the provisions of this Law and its Regulations, and shall also impose the penalties prescribed for violating such provisions. The Committee shall be subject to the rules and procedures prescribed by the Capital Market Law regarding lawsuits falling within its jurisdiction in accordance with the provisions of this Law.

Article 267: Violation Review Committee

1. Pursuant to a decision by the Minister, a committee shall be formed at the Ministry; such committee shall





comprise at least three members and be headed by a person with legal qualifications. The committee shall review the violations stipulated in Article 262 of this Law and impose penalties, with the exception of violations related to joint-stock companies listed in the capital market. The Minister may determine the violations for which penalties may be imposed without presenting them before the committee. A person against whom a penalty decision is issued may appeal such decision before the competent court within 30 days from the date of notification thereof through the means of notification specified in the Regulations. The committee's work procedures and the remuneration of its chairman, members, and secretariat shall be determined pursuant to a decision by the Minister.

2. The CMA Board shall impose the penalties prescribed for the violations stipulated in Article 262 of this Law which relate to joint-stock companies listed in the capital market. A person against whom a penalty decision is issued by the Board may appeal such decision before the Committee for Resolution of Securities Disputes in accordance with the Capital Market Law.

Article 268: Criminal Detection Officers

- 1. Officers assigned to detect and record the acts stipulated in Articles 260, 261, and 262 of this Law shall, pursuant to a decision by the Competent Authority, have the capacity of criminal detection officers in recording the offenses and violations provided for in this Law, and may, for such purpose, seize any records or documents they deem related to the offense or violation.
- 2. The Minister or the CMA Board, as the case may be, may issue rules governing the work and duties of the officers referred to in paragraph (1) of this Article, as well as rules for granting financial rewards to employees who detect the offenses and violations stipulated in this Law.

Article 269: Claim for Compensation

Imposing the penalties provided for in this Part shall not prejudice the right of any person to claim compensation from any party causing damage thereto due to the commission of any of the offenses and violations stipulated in this Law.

Article 270: Monitoring Companies

The Competent Authority shall have the right to monitor the compliance of companies with this Law and the company's articles of incorporation or articles of association, including the right to inspect the company and its accounts and request any information, records, documents, and meeting minutes from the company's managers, board of directors, or executive management through one or more representatives from among the Competent Authority's personnel or from among experts selected for such purpose. The Competent Authority may also send a representative, or more, in the capacity of an observer, to attend general assembly meetings to verify company compliance with the provisions of this Law.

Article 271: Access to Company Records and Documents

Company officers shall, each according to his competences, provide representatives of the Ministry, or the CMA in case of a joint-stock company listed or seeking to be listed in the capital market, access to company records and documents requested thereby regarding the activities provided for in Article 270 of this Law, and shall provide such representatives with any relevant information and clarifications.

Part 14: Concluding Provisions

Article 272: Request for Exemption from Provisions of this Law

If the application for the incorporation of a company wholly or partially owned by the State or a public legal person authorized to incorporate a company requires exemption from certain provisions of this Law, the incorporation application and the required exemption, along with the grounds for such exemption, shall be submitted to the Council of Ministers for approval.





Article 273: Interests and Shares Owned by Endowments

The provisions of this Law shall apply to interests or shares owned by an endowment.

Article 274: Powers of the Competent Authority

- 1. The CMA shall be the Competent Authority to supervise and monitor joint-stock companies listed in the capital market, and shall issue rules to regulate their operations, including the regulation of mergers if a party thereto is a company listed in the capital market.
- 2. The Competent Authority shall set regulations for the governance of joint-stock companies including rules for company leadership and management. Such regulations shall govern relationships between the board of directors, executive management, shareholders, and stakeholders; ensure that company shareholders carry out their roles and exercise their rights; ensure that the board of directors, board committees, and company committees carry out their roles and enhance their efficiency; set rules for the formation of boards of directors and the nomination for membership therein including rules and procedures to facilitate the decision-making process and promote transparency and credibility to protect the rights of shareholders and stakeholders and achieve competitiveness and transparency in the market and business environment; and set rules and procedures for the governance of general assemblies and determination of their powers. The Ministry may set regulations for the governance of other companies which include the items provided for in this paragraph in a manner not inconsistent with their nature.
- 3. The Ministry may set the rules and procedures necessary to ensure that it obtains the information of the actual beneficiaries of companies subject to the provisions of this Law, except with regard to joint-stock companies listed in the capital market.
- 4. The Minister and CMA Board shall, each within its powers, issue the rules and decisions necessary for the implementation of the provisions of this Law.

Article 275: Seeking the Assistance of Public or Private Entities

The Competent Authority may seek the assistance of public or private entities to perform the duties assigned thereto under this Law, and it may delegate certain duties to such entities.

Article 276: Reporting Violations

The Competent Authority may regulate the reporting of violations of the provisions of this Law and its Regulations, including determining financial rewards for persons reporting such violations and setting rules for their disbursement and eligibility as well as setting measures to protect said persons.

Article 277: Issuance of Regulations

- 1. The Minister and CMA Board shall, each within their powers, issue the Regulations within a period not exceeding 180 days from the date of publication of this Law. The Regulations shall set the rules, periods, and procedures, and shall specify the documents or information necessary for the implementation of the provisions of this Law. The Regulations shall also set the rules for using means of technology to call for partner meetings, shareholder meetings, or public and private shareholder assemblies; the rules for the participation of partners or shareholders in deliberations and voting on decisions; and the eligibility criteria for attending partner meetings, shareholder meetings, or shareholder assemblies, and voting therein.
- 2. Any of the procedures specified in this Law or its Regulations may be carried out electronically, including submitting applications for incorporating companies or amending their articles of incorporation or articles of association; registration and publication procedures with the Commercial Register; signing incorporation applications and company documents and records; depositing financial statements; and any other procedures.

Article 278: Corporate Social Responsibility

The Competent Authority may propose rules to encourage the engagement of companies in social





responsibility and determine the phases of implementation thereof. Such rules shall be issued pursuant to a resolution by the Council of Ministers.

Article 279: Service Fees

The Regulations shall determine the fees for services rendered by the Competent Authority in implementation of the provisions of this Law.

Article 280: Repealing Conflicting Provisions

This Law shall supersede the Companies Law promulgated by Royal Decree No. (M/3), dated 28/1/1437H and the Law of Professional Companies promulgated by Royal Decree No. (M/17), dated 26/1/1441H, and shall repeal any provisions conflicting therewith.

Article 281: Entry into Force

This Law shall enter into force 180 days from the date of its publication in the Official Gazette.