

CORPORATE LEGAL FRAMEWORK IN JORDAN

Legal reference: The Companies Law No. 27 of 2002 and its amendments

Under the Jordanian different types of companies offer different advantages and have different requirements and conditions for both registration and operation.

Art. 4 Formation and registration of the Company

The formation and registration of companies in the Kingdom shall be realized in accordance with this Law. And every company formed and registered under this Law shall be considered a Jordanian corporate entity, with its Headquarters situated in the Kingdom.

Art. 6 Company Forms

Companies registered under this Law shall be divided into the following forms:

1. General Partnership
2. Limited Partnership
3. Limited Liability Company
4. Limited Partnership in Shares
5. Private Shareholding Company
6. Public Shareholding Company

Types of Company: Within each company —type||, the —class|| of company must also be specified. Each class of company has its own set of conditions. The classes of company permissible by law are as follows:

- ✓ Regular
- ✓ Civil
- ✓ Offshore
- ✓ Non-Profit

Partnership

- ✓ General Partnership
- ✓ Limited Partnership
- ✓ Limited Partnership in Shares

General Partnership

A General Partnership is formed by at least two and not more than twenty partners who are jointly and severally liable for the partnership's debts. Only the names of the actual partners may be included in the partnership's name. A partnership's interest may be transferred with the

approval of all partners or in accordance with conditions established in the partnership agreement. The

management of the partnership is vested with one or more managers who are individuals who may or may not be partners in the partnership. According to the Company Law, if the partnership consists of two partners, the withdrawal of one of the partners will not lead to the dissolution of the partnership. Instead, the remaining partner may seek to replace the absent partner with another. Failure to do so within three (3) months of the partner's withdrawal will result in the partnership's dissolution by virtue of law.

Formation of General partnership: All partners must be over 18; there must be not less than two partners, with a maximum number of 20 natural people unless the increase is due to inheritance.

Art. 16 Rights and Obligations of the Partners

a) Subject to the provisions of paragraph (b) of this Article, the Partnership Agreement shall determine the rights and obligations of the partners ensuing there from. However, if the Agreement does not stipulate the manner by which the profits and losses will be distributed, then same shall be distributed among the partners in proportion to the quota of each one of them in the capital of the Company.

b) The partners in a General Partnership may agree to change or modify their rights and obligations towards each other under the Partnership Agreement or any other document. This shall be governed by the provisions of registration and publication in the Official Gazette which are stipulated in this Law.

Art. 17 Management of the Company

a) Each partner shall have the right to take part in the management of the General Partnership and the Partnership Agreement shall specify the names of partners authorized to manage and sign on its behalf and their powers. The authorized person shall realize the operations of the Company in accordance with the provisions of this Law and the regulations issued in line therewith and within the authorities delegated to him and the rights given to him under the Partnership Agreement. The authorized person shall not have the right to receive any remuneration or wages in return for his work in the management of the Company except with the approval of the remaining partners.

b) Any partner authorized to manage the affairs of the General Partnership and to sign on its behalf shall be considered its legal representative and the Company shall be committed to the actions he undertakes on its behalf and to the results arising from the said actions. However, if the partner is not authorized and realized any work in the name of the Company, then it shall be responsible for his actions towards a bona fide third party and shall claim compensation from him for all the losses and damages that may have been incurred thereby as a result of his action.

Art 25 Partnership's responsibility towards Actions of Authorized Manager

a) The General Partnership shall be bound by any action undertaken by any person authorized to manage it or to realize such action and by any documents signed by him in the name of the Company whether such person is a partner in the Company or not.

b) The person authorized to manage the Company shall be considered authorized to file lawsuits in the name of the Company unless the Partnership's Agreement provides otherwise.

Limited Partnership

A limited partnership consists of two or more partners who are jointly and severally liable for its debts, and one or more partners whose liability for the partnership's debts is limited to their contribution to the partnership's capital. The limited partners of the limited partnership may not participate in the management of the partnership or act in its name

Art 41 Founding of a Limited Partnership

A Limited Partnership is formed of the two following categories of partners whose names should be listed in the Partnership Agreement.

a) General Partners:

They shall manage the Partnership and realize its operations. They are also jointly and severally liable for all the Partnership's debts and liabilities with their private properties.

b) Limited Partners:

They shall contribute to the capital of the Partnership without having the right to manage the Company or to realize its operations, and the liability of each one of them towards the Company debts and liabilities is limited to his share in the capital of the Company.

Limited Liability Company

A Limited Liability Company consists of a minimum number of two persons. Therefore, the company shall be considered independent from the liability of every shareholder in it. However, the controller may agree to register a limited liability company comprised of one person.

Art 53 Founding of a Limited Liability Company

a) The Limited Liability Company is composed of two persons or more. The Company's liability shall be considered independent from the liability of every shareholder in it. The Company's assets and property shall be liable for its debts and obligations. The liability of any shareholder therein for these debts, obligations and losses is limited to its shares in the Company.

b) The Controller may agree to the registration of a Limited Liability Company composed of one person only or which may become owned by one person.

c) Upon the death of a shareholder in the Limited Liability Company, his share will be transferred to his heirs. This rule shall apply to the legatee of any share or shares in the Company.

Art 54 Company's Capital

a) The capital of the Limited Liability Company shall be fixed in Jordanian Dinars provided that the capital is not less than thirty thousand Dinars divided into indivisible shares of equal value of not less than one Dinar each. However, should more than one shareholder jointly own such shares, for whatever reason, the shareholders must select one person from amongst them to represent them before the Company. However, if the shareholders disagree or do not make that election within thirty days from the date they become holders of such share, then they shall be represented by the person elected from amongst them by the Company manager or its Management Committee.

b) A Limited Liability Company may not offer its shares for public subscription or increase its capital or borrow by subscription.

Art 57 Registration Procedures

(...)

c) The Memorandum of Association of the Limited Liability Company must include the information provided for in paragraph (b) of this Article in addition to the following information:

1. The manner of managing the Company, the number of members in the Management Committee, the Committee's powers including the limit and ceiling of borrowing, mortgaging the company assets and guaranteeing others in a manner that realizes the interest of the company and its objectives.

2. Conditions for transferring the shares in the Company and the procedures to be followed in that respect and the form of writing the transfer.
3. The manner of distributing the profits and losses to the shareholders.
4. Meetings of the Company's General Assembly and Management Committee, their legal quorum, and the quorum needed for taking decisions thereby, the procedures regarding the manner of holding the said meetings and the invitation procedures for attending same.
5. Rules and procedures pertaining to the liquidation of the Company.
6. Any other additional information furnished by the shareholders or requested by the Controller.

Art 60 Company Management

a) The Company shall be managed by a manager or Management Committee whose members shall not be less than two and not more than seven, whether they are shareholders or others, in accordance with the Company's Memorandum of Association for a period of four years. The Memorandum may provide for a shorter period. The Management Committee shall elect a chairman, a deputy chairman and those authorized to sign on behalf of the Company.

b) The manager of the Limited Liability Company or its Management Committee shall have full power to manage the Company within the limits specified by its Memorandum of Association. Transactions and actions realized or exercised by the manager or Management Committee in the name of the Company shall be binding on the Company before others dealing with the company in good faith, irrespective of any restriction stipulated in the Company's Articles or Memorandum of Association.

c) Others dealing with the Company shall be considered bona fide unless the contrary is proven. However, others shall not be obligated to ascertain that there is any restriction on the powers of the managers or the Management Committee in their power to bind the Company under its Articles or Memorandum of Association.

Art 61 Responsibility of the Manager of the Company

The manager of a Limited Liability Company, whether the sole manager thereof or any one of the members of its Management Committee, shall be responsible to the Company, the shareholders and others for any violation of the provisions of this Law, the regulations issued in pursuance, the Company's Articles and Memorandum of Association, and decisions issued by its General Assembly or Management Committee.

Art 62 Duties of the Manager of the Company

The manager of a Limited Liability Company or its Management Committee shall prepare the Company's annual balance sheet and final accounts including the profit and loss account, necessary clarifications and cash flow statement, fully audited by a licensed auditor in accordance with recognized and accredited international auditing principles, in addition to the annual report on the Company's activities. The manager shall then submit them to the Company General Assembly, during its annual ordinary meeting and shall present the Controller with a copy thereof accompanied with the appropriate recommendations. This should be done within the first three months of the Company's new fiscal year.

Art 63 Actions Prohibited to the Company's Manager

a) The manager of a Limited Liability Company – whether a sole manager or a manager appointed by the Management Committee – and any member of the Management Committee shall be prohibited from assuming any position in any other company with objectives similar to or competitive with the Company business and from realizing any work similar to the Company business, whether for his own account or for the account of others, with or without payment, or to participate in managing another company having objectives similar to or competitive with those of the Company except with approval of the General Assembly by a majority vote of not less than 75% of the shares forming the Company capital.

b) If any of the persons mentioned in paragraph (a) of this Article fails to obtain the approval of the General Assembly, and the Controller is notified of the offence by a written notice from one of the shareholders, the Controller shall request the offending shareholder to rectify his status and remove the offence within thirty days of the date of his notification thereof. Otherwise the person shall be considered as having lost his membership in the Management Committee or his position in the Company by the operation of Law. He shall also be punished with a fine of not less than one thousand Dinars and not more than ten thousand Dinars and shall be obligated with the damage sustained by the Company or the shareholders.

Limited Partnership in Shares

This form of business entity consists of two or more general partners who are jointly and severally liable for its debts and three or more partners whose liability for the partnership's debts is limited to their respective share of the partnership's equity. Partners are not required to be individuals, and the name of the partnership should include the name of one or more of the general partners and the words, "Limited Partnership in Shares."

Art 77 Founding of a Limited Partnership in Shares

a) General Partners: Their number shall not be less than two and they shall be liable for the Company's debts and obligations in their personal property.

b) Limited Partners: Their number shall not be less than three, and each partner shall be liable for the Company's debts and obligations in proportion to his shareholding.

Art 78 Capital of the Limited Partnership in shares

a) The capital of the Limited Partnership in share shall not be less than one hundred thousand Jordanian Dinars divided into negotiable shares of equal value. The value of each indivisible share is one Jordanian Dinars, provided that the Partnership's capital offered for subscription shall not exceed double the shares subscribed for by the general partners in the Partnership. (...)

Art 81 Management of the Limited Partnership

a) The Limited Partnership in Shares shall be managed by one or more general partner(s), whose number, authorities and duties are indicated in the Partnership's Memorandum of Association. Their powers, responsibilities and dismissal shall be subject to the provisions applied to authorized partners in the General Partnership.

b) If the position of the manager of the Limited Partnership in Shares becomes vacant at any time and for any reason whatsoever, the general partners shall appoint a manager from amongst them. In the event they fail to do so, the Supervisory Council provided for in Article (84) of this Law shall appoint a temporary manager to undertake the management of the Company, provided that the Partnership's General Assembly shall be called upon to convene within thirty days from the date of the appointment of the temporary manager to elect a manager from amongst the general partners.

Art 83 The Partnership's General Assembly

a) The General Assembly of a Limited Partnership in Shares shall consist of all the general and the limited partners. Each one of the partners shall have the right to attend the Partnership's General Assembly meetings, whether ordinary or extraordinary meetings of the General Assembly, to discuss the issues presented before it and to vote on any decisions made. Each partner shall have a number of votes in the General Assembly equal to the number of his shares in the Partnership's capital.

b) The provisions for ordinary and extraordinary meetings of the General Assembly of Public Shareholding Companies which are stipulated in this Law shall apply to the meetings of General Assemblies of Limited Partnerships in Shares.

Art 84 The Supervisory Council

Each Limited Partnership in Shares shall have a supervisory council composed of at least three members who shall be elected annually by the limited partners from amongst them

for one year in accordance with the procedures stipulated in the Partnership's Memorandum of Association.

Art 85 Duties and Responsibilities of the Supervisory Council

The supervisory council of the Limited Partnership in Shares shall assume the following duties and responsibilities:

- a) To supervise the progress of the Partnership's operations, to verify the accuracy of the founding procedures thereof, and to request the Partnership's manager to furnish the council with a detailed report on the said operations and procedures.
- b) To examine the Partnership's records, registers and contracts and to prepare an inventory of the Partnership's properties and assets.
- c) To give advice on issues that the council deems important to the Partnership or on issues submitted thereto by the manager(s).
- d) To approve any actions and business which the Memorandum of Association of the Partnership states that the execution thereof requires the approval of the council.
- e) To invite the Partnership's General Assembly to an extraordinary meeting should it become evident to it that violations have been committed in the course of managing the Limited Partnership. The violations shall be presented to the General Assembly.

Private Shareholding Company

Art 65 bis Founding a Private Shareholding Company

- a) A Private Shareholding Company is comprised of two or more persons. The Minister may, upon a justified recommendation of the Controller, agree to the registration of a Private Shareholding Company formed of one person, or that the number of its shareholders may become one.
- b) The financial liability of a Private Shareholding Company is considered independent of that of its shareholders. The Company with its property and assets shall be exclusively liable for its debts and obligations. A shareholder shall be liable to the Company for such debts and obligations only in the value of his shares in its capital.
- c) The Company name shall not conflict with its objectives provided that it shall be followed by the term (Private Shareholding Company LTD), wherever it may be mentioned. The Company name may be that of a natural person if its objective is to invest a patent duly registered in the name of such person.

d) The duration of a Private Shareholding Company is unlimited unless its Articles and Memorandum of Association specify otherwise. Then, its period shall end by the conclusion of the period or business specified thereto.

Art 66 bis Company Capital

a) The capital of a Private Shareholding Company shall be the total nominal values of the Company shares provided that the subscribed capital shall not be less than JD50,000.

b) The capital of a Private Shareholding Company shall be specified in Jordanian Dinars.

c) Subject to the Securities Law, a Private Shareholding Company may issue shares, corporate bonds, and other securities. The Company may decide to list its securities at the Stock Market and to negotiate same in accordance with the regulations and instructions issued by the Securities Commission.

Art 72 bis Board of Directors

a) The management of a Private Shareholding Company shall be carried out by a Board of Directors. The Company Memorandum of Association will determine the number of the Board of Directors' members, its membership qualifications, means of filling vacancies, its powers and remunerations, the method of its appointment or election, the means of convening its meetings and decision taking, and its term which should not exceed four years. The Board of Directors shall elect a chairman and a vice-chairman from amongst its members. It shall also appoint a secretary from amongst its members or others. The chairman shall have a casting vote in the case of a tie in votes, unless the Memorandum of Association provides otherwise.

b) The Board of Directors shall designate the Company authorized signatories in conformity with the Company Articles and Memorandum of Association at the first meeting it holds after it is elected, provided that this is completed in a period that does not exceed a week from the date of the Board's election. The Board may re-elect the chairman and vice-chairman, replace the secretary and adjust the powers of the authorized signatories at any time and in a manner that does not conflict with this Part and provisions of the Articles and Memorandum of Association.

c) Any minutes or certificate issued by the chairman or vice-chairman, in the former's absence, which are authenticated by the secretary and related to the Board of Directors or the Company General Assembly decisions, shall be considered evidence of the precision of these decisions. The chairman, vice-chairman and secretary shall be held responsible for any certificate issued by them in this respect.

d) A Private Shareholding Company Board of Directors may hold its meetings by telephone or any other means of communication if this is permitted by the Company Memorandum of Association, provided that all members participating in the meetings are able to hear and debate one another regarding the meeting's agenda, and that the Board's chairman and secretary authenticate the minutes and attest that the meeting was convened legitimately.

Art 73 bis Responsibilities of the Board of Directors

a) The Chairman and members of a Private Shareholding Company Board of Directors shall be held responsible towards the Company, its shareholders and others for every violation of the laws and regulations in effect, the Company Memorandum of Association, and any error in the Company management, whether committed by any of them or all of them. The General Assembly's absolution of the Board of Directors shall not prevent legal prosecution of the chairman and directors.

b) The responsibility provided for in paragraph (a) herein shall be either personal falling on one or more member of the Company Board of Directors or joint between the chairman and the Board members in which case they are all jointly and severally responsible for compensating the damage resulting from such a violation or error. This responsibility however will not fall on any member who verified his objection in writing in the meeting's minutes during which the decision containing the violation or error was taken. In all events, no case may be heard regarding such responsibility after the lapse of five years from the date of the General Assembly's meeting that approved the annual balance sheet and the closing accounts of the Company for the fiscal year in which the error or violation occurred.

Public Shareholding Companies

Art 90 The Founding of the Public Shareholding Company, its Address and Duration

a) A Public Shareholding Company shall consist of a number of founders not less than two who subscribe for shares that can be listed on the Stock Exchange and may be negotiated and transferred in accordance with the provisions of this Law and any other legislation in force.

b) Subject to the provisions of Article (99) of this Law, the Minister may, upon a justifiable recommendation by the Controller, approve that the Limited Public Shareholding Company be established by one person, or that the Company ownership devolves to one person in the event he purchases all its shares.

c) The name of the Public Shareholding Company is derived from its objectives provided that wherever the name appears it shall be followed by the words "Limited Public Shareholding Company". The Company shall not be registered in the name of a natural person unless the objective thereof is the exploitation of a patent duly registered in the name of the said person.

d) The term of the Public Shareholding Company shall be indefinite unless the objectives thereof is to realize a certain business, in which case, the duration thereof shall end upon the completion of that business.

Foreign Companies

1 Foreign companies operating in the kingdom (Artt. 240 -244)

Definition of foreign operating company: An operating foreign company is a non-Jordanian entity registered outside Jordan, and with headquarters in another country.

Types of operating company:

- ✓ Foreign companies operating for a limited period, whereupon such companies are awarded tenders and carry out their business in Jordan for a period limited to the duration of a contract. The registration of such companies shall cease upon completion of their business operations in Jordan.
- ✓ Companies operating permanently in Jordan under a license granted by the appropriate authorities.

2- Non-operating foreign companies in the Kingdom

Definition of non-operating foreign companies: A non-operating foreign company is entity which has a regional office or a representative office in Jordan for its operations, which are conducted outside Jordan, or representative office to manage and coordinate its operations with its headquarters. A non-operating foreign company is prohibited from carrying out any business or commercial activities in Jordan