



الوحدة الاستثمارية  
مؤسسة الضمان الاجتماعي  
**The Investment Unit**  
Social Security Corporation

# **Guide**

## **For Board Representation (in which SSC is a Shareholder)**

**T/1- 2007**

Portfolio Support Department

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- **Introduction:**

The concept of Governance has acquired a significant importance recently. Few are the issues which importance outweighs that of Corporate Governance with regards to business establishments, in a manner that maximizes returns and improves development programs. In light of the senior management's focus on emphasizing and applying this governance concept of SSIU, and in order to assist SSC board representatives to achieve these goals, SSIU has established a Portfolio Support Department, with a mandate to collect and classify data from the representatives. Such data will be transformed to serve in enhancing the quality of decision-making and offering suggestions on performance improvement.

To guarantee a distinctive board representation, SSC has taken into consideration the selection of highly qualified individuals to represent SSC/SSIU in the boards of companies in which SSC has seats. The selection criteria are based on experience, ability and scientific and technical knowledge. For this purpose, we have set foundations and principles to select board representatives, as well as another set of criteria to assess their performance. The new Department will be assigned a number of duties to follow up and implement, namely:

Follow-up with companies and assess their performance; activate the concept of feedback between the representative and the Department; manage the rewards fund for companies' board members; follow-up the collection of cash allocations and establish procedural transactions; and attend companies' ordinary and extraordinary general assembly meetings .

The Department, within its short life span, has been able to activate the role of SSC board representatives and increase their interaction with SSIU officials. It has acquired an almost daily presence in studying the status of companies through follow-up and communication with SSC representatives, thus placing SSIU within the companies decision making circle, especially the strategic ones.

In light of the senior management's belief in the importance of setting rules and foundations for Corporate Governance, which has become one of the most important issues on the agenda of the global economies, the Research and Portfolio Support Department/SSIU, drafted this guide its board representatives at the companies in which it is a shareholder, containing Corporate Governance rules.

This guide also aims to create a clear and advanced framework regulating the relationship between SSC and its board representatives, and identify the rights, duties and responsibilities to achieve SSC and the company's goals, and protect the stakeholders' rights. These rules are fundamentally based on a number of laws, including the Companies and Securities Laws and legislations issued pursuant thereto, as well as the instructions issued by SSC's Board of Directors, in accordance with the Social Security Law.

The guide addresses a number of Corporate Governance principles . Such principles refer to the rules, regulations and procedures that protect and balance the interests of the company managers, shareholders and other stakeholders. While these rules can be considered complementary to the provisions on companies provided for in various laws –specifically the Companies Law No 22 of 1997 and its amendments, besides other executive regulations and decisions issued pursuant thereto – yet what makes such rules distinctive and different from the legal contexts referred to, is that Corporate Governance rules neither represent mandatory legal provisions, nor are legally binding. They merely regulate and highlight good conduct in the companies' boards according to international criteria and practices that achieve a balance among the interests of the various parties. Therefore, these rules were drafted in a manner that confirms their guiding nature, and results in sufficient explanation for their provisions without being restricted to the method of legislative drafting, which is concise and based on general and abstract provisions.

I would like to congratulate every one of our board representatives for assuming this post, and I invite every one to benefit from this modest guide as well as suggest additions for the benefit of all, and in order to achieve the desired objectives. I would like to mention that the contents of this guide are not a substitute for the articles of laws on companies and securities, and other laws, regulations and instructions related to the issue of the companies in which SSC is a shareholder. The goal of this guide is to support board representatives by guidelines and the new circumstances that may arise on these companies' status, as well as assist them in performing their tasks ably.

**SSIU Chairman**

## **Introduction:**

There has been a need for Corporate Governance in many developed and developing economies over the past few decades, specially in the wake of the economic crashes and financial crises in several countries in East Asia, Latin America and Russia in 1990s, as well as the financial and accounting collapses experienced recently by U.S. economy during 2002. The importance of Corporate Governance increased as a result of the tendency of many countries around the world to shift to capitalistic economic systems, which depend heavily on private companies to achieve higher and sustained economic growth rates. The expanding extent of these projects resulted in the separation of ownership from management, and these projects started to seek financing sources that are less costly than banking finances.

Consequently, they turned to financial markets, helped by the liberalization of financial markets around the world. This led to increasing the transfer of capital across borders in an unprecedented manner. The expanding extent of companies and the separation of ownership from management resulted in weakness of control mechanisms over the directors' behaviors. It also resulted in many companies facing financial crises, notably in the countries of South East Asia during the late 1990s. Later on crises continued, and perhaps the most prominent of which were those of Enron and WorldCom Companies in the United States in 2001. This has prompted the world to focus more on Corporate Governance.

## **Corporate Governance Definition:**

Corporate Governance is a set of laws, regulations and decisions that aim at achieving quality and excellence in performance through the selection of appropriate and effective methods to accomplish the company's plans and goals.

In other words, Corporate Governance refers to the regulation, i.e. the existence of regulations governing the relations among the basic parties that affect the performance. It also includes components of strengthening the company in the long run and identifying persons in charge and their responsibilities.

## **Corporate Governance Objectives:**

Corporate Governance rules and controls aim at achieving transparency and justice, and granting accountability right to the company's management, thus protecting shareholders and all documents' holders, taking into consideration both business and workers interests. Corporate Governance also aim at limiting the exploitation of power against public interest. All this will lead to developing the investment and promoting its flow, increasing the savings, maximizing profitability and creating new job opportunities. These rules also emphasize the importance of abiding with the provisions of the law and ensure review of financial performance, and the existence of administrative structures that enable holding the management accountable before the shareholders, as well as forming an audit and review committee whose members are non-executive board members, and has many duties, specializations and authorities to ensure independent control on implementation.

## **Corporate Governance Determinants:**

### **1. External Determinants:**

Refer to the general investment environment in the country, which includes, for example, the laws regulating economic activity (such as financial market laws, companies, regulating competition, preventing monopolistic practices and bankruptcy). They also comprise the efficiency of the financial sector (banks and financial market) in providing the necessary financing for the projects, the competitiveness of commodity markets, production components, and the efficiency of regulatory bodies and commissions (Financial Market and Stock Exchange Commission, Central Bank, Insurance Sector Regulatory Commission) in monitoring companies. These also include some self-regulating companies that guarantee the market efficiency (including, for example, professional associations, such as auditors and accountants, lawyers, companies working in the securities market, etc).

### **2. Internal Determinants:**

Refer to the rules and foundations which determine decision making process and the authorities allocating within the company among the general assembly, the Board of Directors and the Executive Management, whose existence and application lead to reducing conflicts of interests among these three parties.

## **Corporate Governance Criteria:**

Corporate Governance is applied according to five criteria, as follows:

1. Protecting the rights of all shareholders:

This includes the transfer of stock ownership, the selection of the board of directors, obtaining returns from profits, auditing financial statements, and the rights of shareholders to participate effectively in general assembly meetings.

2. Equality in dealings among all shareholders:

Equality among stock holders means their right to defend their legal rights and vote in general assembly meetings on key decisions, and review all transactions on an equal footing with members of the board of directors or the executive management.

3. The role of stakeholders or relevant parties in the company:

This includes respecting their legal rights and offering indemnities for any violation against those rights, besides their effective participation mechanism in monitoring the company. Stakeholders include banks, staff, document holders, suppliers and clients.

4. Disclosure and transparency:

This covers disclosure of important information, the role of the accounts auditor, the disclosure of ownership of the majority of shares and the disclosure related to board and executive management members. All this information is disclosed in an equitable manner among all shareholders and stakeholders, in timely manner.

5. Board of Directors Responsibilities:

This includes the structure of the Board of Directors and its legal duties, the method of member selection, its main duties and its role in supervising the Executive Management.

# SSC Board Representatives Duties, Responsibilities and Authorities, and Representation Criteria.

## **First: Terms of SSC Representation:**

SSC representative selection criteria are as follows:

- 1- Selecting of representatives as per criteria issued by the SSIU Commission which is adopted the SSC Board of Directors.
- 2- The representative shall sign the Compliance Form (appendix 2).

## **Second: Board of Directors Responsibilities and Duties**

These rules can be considered complementary to the provisions on companies provided for in various laws, specifically the Companies Law No. 22 of 1997 and its amendments, executive regulations and decisions issued by other monitoring bodies. These rules are:

1. Develop a comprehensive strategy, integrated work plans and a prudent risk management policy for the company and review and amend the same periodically.

2. Identify the optimal capital structure for the company, as well as its fiscal strategies and financial goals, and approve the annual budgets in timely manner.
3. Supervise assets and their disposal and the main capital expenditures of the company.
4. Establish performance goals and monitor the implementation in the company.
5. Adopt organizational and functional structures of the company, form committees and delegate authorities, as well as review these periodically.
6. Draft a written policy regulating and addressing possible cases of conflict of interest for all members of the boards, executive management and shareholders. This should include the manipulation of company assets and facilities.
7. Ensure that the executive management verifies the effectiveness and validity of the financial and accounting systems, including financial reports.
8. Verify the implementation of appropriate regulatory systems for risk management..
9. Conduct an annual review of the effectiveness of internal monitoring procedures in the company.
10. Review the reports submitted by the external auditor and follow-up violations and comments in the reports, and verify that the executive management takes the appropriate measures.
11. Assess the performance of the executive management, its compliance with the board's policies and its ability to achieve the goals as planned, as well as dealing with any deviations.
12. Develop a governance system for the company, monitor its efficiency and amend it when needed.
13. Develop clear and specific policies, criteria and procedures for membership in the board of directors, to be implemented upon approval by the general assembly.
14. Set a written policy that regulates the relationship with stakeholders, as well as mechanisms for monitoring the implementation of these policies and rules of compliance.
15. Set policies and procedures to guarantee full compliance with the laws and rules, and disclose regulations towards shareholders, creditors, and other stakeholders.
16. Outline the authorities delegated by the board to the executive management, including procedures of decision making and duration of delegation. The practice of authorities beyond those of the executive management.
17. Outline the responsibilities of the board clearly in the company's internal bylaws.

### **Third: SSC Board Representative's Duties with regard to the Relationship with SSIU:**

The board practises full authority to conduct all actions that ensure proper work flow pursuant to the applicable Companies Law, the executive instructions of boards' representatives and the requirements of following-up the performance of the companies, and preserve the true value of the assets. The representative shall undertake the following tasks:

1. Consult with the liaison officer appointed by the Research and Portfolio Support Department on the topics that require directions placed in advance.
2. Prepare a periodic (quarterly) report on the decisions with a positive or negative effect on the company's performance.
3. Prepare immediate reports (whenever the need arises) if the representative, or representatives, finds specific circumstances or difficulties that necessitate alerting the management along with the opinion of the representative .

In all cases, the reports are submitted to the Manager of the Research and Portfolio Support Department. Semi-annual and annual reports should include the following:

- Balance sheet and profit and loss statement.
  - Cash flow and necessary related notes.
  - Auditor's report.
  - Brief summary on the results of the company's activity during the period compared to the set future plan and this data analysis whenever possible. This should be accompanied by the representative's personal opinion on the company's performance and perception on the company's future status according to appendix 1.
4. In case of more than one SSC board representative, one report shall be prepared by the representatives for every meeting they attend jointly. In case of different viewpoints or differences among attending representative on the issue at hand, the prior approval of SSC shall be required, and the representatives shall consult among each other beforehand and take the appropriate stand.
  5. Attend the relevant company board meetings regularly and effectively, and provide the liaison officer with a copy of their agenda whenever possible, so that he would be provided with a technical opinion on some cases as required. In addition, the liaison officer must be provided with minutes of the meetings and notified in advance in case of having to be absent from any of these meetings.
  6. Maintain a file on the company with the minutes and board decisions and any other documents related to the company during his period of representation. This file must be handed over to the Research and Portfolio Support Department upon the end of representation period.

7. Place SSC interest at the top of his priorities when discussing the company affairs as a board member representing SSC, including procedures and decisions in which he participates.
8. Obtain the relevant body prior approval through the Research and Portfolio Support Department according to SSIU valid instructions, if there is sufficient time to obtain such approval, otherwise, SSC representative should request postponing the decision making to another session, taking into consideration giving sufficient time to examine the issue. Prior approval is restricted to the following primary issues:
  - a. Company liquidation.
  - b. Sale of the company or merge with another.
  - c. Change in the nature of the company's activity and main objectives.
  - d. Increase in SSC obligations in the company (shareholding/loan).
  - e. Placing restrictions on dividends distributions.
  - f. Restructuring the capital.
  - g. Large transactions by the company, and the cancellation of such transactions, which may affect the company's assets and liabilities, and the assessment by the board regarding the expected effect on the company's profits and financial standing.
  - h. Formation of a new board of directors or the resignation of any of its members or its general manager, the position of any of them and the reasons for this as soon as it takes place, and any changes that may affect stock ownership which may cause a change in the control on the company.
  - i. Any other issues which endorsement requires the extraordinary general assembly approval, pursuant to the company's by-laws and applicable laws and regulations.
9. Provide the Research and Portfolio Support Department with a fully detailed CV, and all matters related to disclosure, pursuant to article 35 of the Securities Commission Law.
10. Verify the payment of any financial dues to SSC by the company pursuant to the Social Security Law (employee and employer subscriptions).

## **Fourth: Authorities of the Representative:**

1. Practice all authorities delegated to the board member as specified in the company's bylaws, and in accordance with the applicable laws, including refraining from making any decisions that may affect SSC share in the capital of the relevant company, increasing its liabilities in it, changing the nature of the company's business activity, or any matter for which SSC has already taken a stand.
2. Seek the assistance of the expertise available in any of the specialized bodies in SSC to study the relevant company's situation (if this is deemed necessary).
3. Upon the formation of committees emerged from the board, ask – if this is deemed appropriate –to be appointed a member in such board committees, taking the following into consideration:

### **a. Committees that may be formed and their work mechanism:**

Many boards delegate some of their authorities and responsibilities to committees consisting of a smaller number of members to increase the efficiency of the board through supervising important issues, meeting separately, and submitting periodic reports to the board in the form of meeting minutes.

The most important board committees are the Management Financial Committee, the Audit Committee, the Executive Committee, the Investment Committee, the Tenders and Corporate Governance Committee, besides others.

In light of the importance of the Audit Committee, these are some of the details related to its formation, duties, authorities and system of meetings:

### **Audit Committee, its Formation and System of Meetings:**

This is the only committee provided for in the Companies Law, and is formed by every company pursuant to a decision by its board. Such committee consists of a chairman and two other members elected by the company's board from among the members not mandated with executive work within the company. The committee meets periodically and whenever the need arises, provided that its meetings are no less than four times a year.

### **Duties and Authorities of the Audit Committee Formed by the Company's Board of Directors:**

The committee shall assume the following duties and authorities:

1. Monitor the comprehensiveness of the external audit for the company's operations and verify that there is coordination between external auditors, in case of more than one auditor.
2. Review the notes included in the auditor's report and follow-up the measures taken in their regard.
3. Study the annual internal audit plan, review the notes included in the internal audit committee reports, and follow-up the measures taken in their regard.
4. Review the financial statements before submission to the board, in terms of the sufficiency of allocations for doubtful debts, and the allocations for the securities portfolios.
5. Express opinions on the company's inoperative debts or the proposal to consider them bad debts. Specially, the SCC representatives in boards of commercial banks must take into consideration the instructions and orders of the Central Bank in this regard.
  
6. Verify the accuracy of the accounting and monitoring procedures, their validity and compliance with them.
7. Verify complete compliance with laws, regulations and orders that the company's business activity is subject to.
8. Study any issue submitted to it by the board, or any other matter the committee deems necessary to discuss and express an opinion on.

**b. Committee Meeting Minutes:**

Meeting minutes are important for companies, shareholders and regulatory authorities as they are deemed official and permanent record of the work undertaken by the committees throughout the history of the company's operations. They are also considered the legal proof of procedures carried out by the committee.

**Thus it is important to take the following into consideration:**

- Accuracy in writing these minutes and verifying that they reflect all items discussed in the meetings and the decisions taken at the time.
- They include an accurate record of any voting process cast during these meetings, including opposition votes and abstained members.

**Fifth: End of Representation:**

The representative's membership ends in the following cases:

- If the representative submits a written resignation from membership to SSC, and it is accepted.

- If a decision to end the representation period is issued by the SSC management for any reason it deems appropriate.
- The duration of representation adopted at SSC (four years) is exceeded, except in exceptional cases approved by SSIU Commission.
- The violation of any of the duties entrusted to him with pursuant to the provisions of the Companies Law and the executive regulations for the SSC board representatives.
- If it is proved that the representative failed to perform or neglected to implement any of the delegated duties, to the detriment of SSC interest, or in case he fails to comply with SSC stand.
- Based on the results of the representative's annual assessment.

**Relationship of SSC Board  
Representative with the Research and  
Portfolio Support Department**

## **Relationship of SSC Representative with the Research and Portfolio Support Department :**

The relationship aspects between the Department and the representatives are represented by the duties below, which necessitate a direct relationship between the liaison officer and the representative to provide feedback on the information between the representative and Department. This ensures close and persistent follow-up of the companies' performance and restricting this process to one body which facilitates access to it by the representative. At the same time, this body is ready to coordinate with all relevant parties within SSC and SSIU.

The form of communication and information exchange can be summarized, for example, by the cooperation with the representatives to provide the Department with the results of the companies work; submitting the periodic report prepared by the representatives on time, including the required information; the strategies to be adopted in light of the results of the analysis prepared; and the representative's request for any information he would like to have and requires the liaison officer to provide for him.

Following is an explanation of the duties of the Research and Portfolio Support Department, and its employees, who are the liaison officers with boards representatives, as well as the requirements of performing their work with it in terms of preparing quarterly and periodic reports.

### **First: Duties and Responsibilities of the Department of Research and Portfolio Support:**

The Department was founded to coordinate and consult with boards representatives to achieve SSIU goals of maintaining and developing the true value of the assets. Therefore, the Department duties are:

1. Follow-up the performance of the companies in which SSC is a shareholder through boards representatives, and collect information and data on those companies.
2. Prepare economic and financial researches and studies.
3. Conduct financial analysis for the financial statements of the companies in which SSC is a shareholder to ascertain points of weaknesses and strengths, identify defaulting companies and those on the verge of defaulting, and offer proposals to develop the companies performance.
4. Support our boards representatives with the necessary information to ensure distinguished representation in the boards of companies in which SSC is a shareholder.

5. Support the decision maker at SSIU with information on the performance of companies in which SSC is a shareholder and coordinate with him to identify the trends to be adopted by the companies representatives.
6. Manage the board members' remuneration fund for the companies in which SSC is a shareholder, pursuant to the applicable accrual basis, allocating of monthly allowances and bonuses.
7. Follow-up the collection of cash dividends and establish procedural transactions with regard to the following: (free stock, increasing and decreasing company capital, mergers, private and public subscriptions).
8. Attend ordinary and extraordinary general assembly meetings of the companies, implementing SSIU directions, and prepare the necessary reports.
9. Follow-up, with the relevant bodies, SSC representation in the companies (Ministry of Industry and Trade, Securities Commission, relevant companies... etc) and complete the necessary procedures in this regard.
10. Any other duties mandated to the relevant department.

For the purposes of carrying out the duties related to the performance of companies in which SSC is a shareholder, the Department employees were called liaison officers who work with our representatives in the companies boards. The Department also assigns experienced and specialized employees (as liaison officers) among the companies in which SSC has board representatives. along with identifying their duties and notifying the representatives, each in his company, of the liaison officer's name who will follow-up the representative's work and support him. The telephone numbers of every liaison officer shall be attached in the memorandum of notification to facilitate contact with him. Following are the duties and responsibilities of the liaison officer:

## **Second: Liaison Officer Basic Duties and Responsibilities:**

1. Receive the company's board sessions agendas from the representatives to review and make notes, inform the relevant representative of these notes and follow-up on their implementation.
2. Receive board meetings minutes from the representatives to review and study, and submit reports to SSIU, if necessary.
3. Receive the quarterly report from the company representatives to review, make notes, and submit to the SSIU Chairman in order to receive his directives on them.

4. Receive the periodic financial reports including the balance sheets and their drafts as of the end of the fiscal periods, pursuant to the Companies Law (6/30 and 12/31), and, in particular, provide the following documents: (session agendas, meeting minutes and the quarterly report).
5. Maintain a file for the company at the Department in terms of all the company's incoming data and correspondences, for reference by the Department's employees when necessary.
6. Follow the performance of the companies in which SSC is a shareholder through the collection of financial and administrative data and information on them from (the representatives, the Securities Commission, and the company itself).
7. Provide any information and data related to the company's activities for the representative, should he request it, including follow-up on the company's stock at the Amman Stock Exchange.
8. Convey SSC viewpoint on some issues and decisions related to the company's management to the representatives and follow-up its implementation.
9. Follow-up the board representatives work through the follow-up of performance in the companies that they represent, express technical opinions on their performance, identify the extent of their communication with SSIU and draft an annual assessment report on the performance of the representative to be submitted to the SSIU Chairman.
10. Analyze the data and information available on the companies to identify points of weakness and strength, point out the growth potentials of the company's activities and the relevant possible risks associated with this, deduce financial indicators and ratios and offer appropriate recommendations and proposals to develop the representatives and companies performance.
11. Coordinate with boards representatives on the files of the companies in their possession to transfer them among themselves for historic follow-up (from the representative whose representation in the company has terminated to the representative who will succeed him in the board of directors).
12. Consult and coordinate with the relevant departments at SSIU to implement the strategic plan on activating the role of SSC boards representatives in the companies in which SSC is a shareholder.
13. Attend ordinary and extraordinary general assembly meetings, as well as the boards sessions in the event of failure to name a permanent representative or the absence of SSC representative from that session, when necessary, in the companies he follows-up, in case strategic decisions are expected to be taken, pursuant to the recommendation of the original board member.

14. Any other tasks and duties he is mandated with within his specialization.

### **Third: Importance of Periodic Report-writing by SSC Boards Representatives**

The importance of the periodic report for following-up the companies, in which SSC is a shareholder on continuous basis, is evident by the relationship aspects between the Department and the representatives. It is also important to cognize the results of their work periodically.

**Following are the items that must be covered in the periodic report:**

**A. Overview of the Company**

**B. The Board of Directors**

**C. The Executive Management**

**D. Senior Shareholders in the Company**

**E. Financial Performance**

It should include a brief analysis of the periodic financial indicators relevant to the diagnosis of the performance features and variables, as well as the relationship between the sub-sections of the financial statement (the balance sheet or income statement) and the total of those sections for that period.

**F. Extent of Commitment to Corporate Governance:**

Identify the company's commitment to the rules of Corporate Governance through its regulations and instructions.

**G. The Board Decisions with Future effect on the Company:**

Refer and focus on the most important decisions that may affect the company's progress, taken in the period preceding the report drafting.

**H. Extent of the Company's Success in Implementing its Annual Plan (Budget):**

- Compare the performance periodically with reference indicators to cognize:
- The effect of the investment strategies and the soundness of the decisions
- The relationship of the actual performance with the annual and monthly plan (if any), in order to get feedback information of the performance that must be compared with the set plan to point out deviations and correct them before the end of the Fiscal Year. The aim is to preserve and maintain SSC rights and protect the company from the deviations that may pull it away from being safe, especially with regard to returns and risks.

**I. Future Expectations Related to the Company's Activity or Performance (SWOT):**

Review the operational performance of the company and point out strengths, weaknesses and future expectations, as well as verify the efficiency of the staff. At the top of this list comes the monitoring and planning that are considered basic elements for its success, specially for identifying its ability to provide accurate predictions about all appropriate opportunities in the market and using the best methods of prediction, taking into consideration the relationship between returns and risks and the company's ability to face investment risks and expected benefits. It is also necessary to provide the opinion of the representative on this issue.

**J. Summary and Recommendation:**

- Sample attached

## **Fourth: Assessing the SSC Board Representatives Performance**

The SSIU/SSC pays special attention to assessing its board representatives in the companies, in which SSC is a shareholder, to identify their performance level and efficiency, and the extent of their influence on the performance of the companies in which they represent SSC. This process is conducted through an assessment form accredited by SSIU, and is divided into three main parts:

Part One: The representative's background.

Part Two: Basic requirements for representation and their rating.

Part Three: Elements of the assessment and their rating.

The comprehensive assessment depends on the results of the second part containing the basic requirements of assessment. So, moving to the assessment elements in the third part should not be done unless the assessed representative achieves a minimum result of 75%, and the total, in all cases, must not be less than 150 points out of 200.

**A. Concept of Assessment for SSC Boards Representatives Performance:**

The assessment is a strategic process whose main goal is to make decisions in light of the assessment results. It is a three-party course:

1. SSC/SSIU, to control its policy and develop its work methodologies.
2. The liaison officer, to provide information and data, continuously.
3. SSC representatives, through improving the representation level and ensure distinguished performance

**B. Assessment Controls:**

1. Objectivity: The assessment will be conducted objectively and not formally, and will include a methodology for writing notes in order to ensure transparency, neutrality and excellence.
2. Positivity: The assessment will be aimed at improving representation.
3. Content: Assessment criteria were adopted out of the representation executive instructions in the boards of the companies in which SSC is a shareholder.
4. Timing: The assessment will be conducted at the end of every year.
5. Area and Assessment results: The detailed and total results on the representatives performance will be submitted to SSIU board, taking into consideration performance strengths and weaknesses.

### **C. Assessment Elements:**

#### **1. Commitment Principle:**

This criterion focuses on the degree of the representative's cooperation with the Department and his positive attitude in dealing and cooperating with the liaison officer. It also focuses on the degree of the representative's compliance with the regulations of SSC/SSIU, attendance of sessions and attainment of prior approvals on important matters.

#### **2. Performance and Accomplishment:**

This criterion focuses on the representative's performance and professional achievements.,This includes the accuracy and clarity of information, reflecting the volume and quality of performance, and the nature of the accomplishments, including timely reporting .

#### **3. Corporate Governance:**

This criterion focuses on the extent of compliance with the regulations and criteria that direct and control the companies work, identify the rights and duties of the various parties, enabling SSC to achieve its goals.

#### **4. Communication:**

This criterion focuses on the representative's commitment to participating in the activities organized by the company, and his contribution to the efforts sponsored by the Department, as well as the representative's assumption of his responsibilities, especially in non-routine cases, and the interaction with the activities conducted by the Department or the company. There are also other communication skills applied by the representative while performing his job duties.

**5. Added Value:**

This criterion focuses on the added value by the representative through: ideas, proposals, studies or distinctive and creative work methods that help develop the performance and enhance productivity at the concerned company, and the representative's ability to provide a future vision on the company's status. Added to this are the academic qualifications, expertise, specialization, the representative's understanding of the nature of the work required of him and his suitability for the job. This criterion also focuses on the degree of creativity, initiative, distinction and individuality in the ideas, proposals and accomplishments of the representative, as well as his participation in the committees stemming from the board.

**6. Skill "Special for New Representatives Category":**

This criterion focuses on the "New Representatives" category and refers to the the new representative's desire and ability to learn the skills related to his job duties and the extent he benefits from the expertise of his more experienced and knowledgeable colleagues. It also refers to the representative's efforts in acquiring any new knowledge or information related to his work and which contributes to the development of his performance.

# **Issues to be Focused On in Financial Statements**

## **Issues to be Focused on in the Financial Statements:**

Financial statements serve as the window which enables us to overlook the company's activity from various aspects. Among those concerned with these statements are: Investors, creditors, the company itself and any other relevant or interested bodies.

Each party is concerned in a different aspect. However, all parties agree on achieving financial profits and high growth rates.

For example, the company's management is more interested in the success of its investments and financing policies, while creditors are interested in studying the company's solvency and liquidity.

### **A. Requirements that must be taken into consideration when examining financial statements by a board member:**

There are some requirements without which the analysis process cannot be valid. A board member, when reviewing the financial statements to cognize the company's status, or when preparing a company status report, must review the following well:

1. Relevant articles provided for in the Companies Law, the Income Tax Law and the Securities Commission Law.
2. Careful reading of the annual reports issued, or will be issued, by the company .
3. Good knowledge of the market in which the company operates (sector).
4. Good knowledge of the board chairman and members, and the company's manager from a historic viewpoint, as well as their performance and financial or moral associations.
5. Good knowledge of the auditor, his performance level, and how he conducts his duties.
6. Follow-up the financial and cash policies of the government to address economic imbalance or develop economic performance.

### **B. Financial Statements:**

The financial statements include the balance sheet, profit and loss and cash flow statements. Following are details on each:

#### **1. Balance Sheet:**

The balance sheet provides useful information about the strength of the company's financial position and is considered the main means

for giving a clear and fair image of the company's financial position at a specific moment in time, usually at the end of the Fiscal Year.

The balance sheet reflects the company's financial status at a point in time by the following equation:

Assets = liabilities + shareholder's equities.

### **2. Profit and Loss Statement:**

This statement clarifies the results of the company's activity (profit or loss) achieved during the fiscal period, according to accrual basis and revenues against expenditures comparison principle.

### **3. Cash Flow Statement:**

This includes the incoming and outgoing flow of cash, for the project, establishment or company, in order to assess the company's ability to fulfill its liabilities.

## **C. Considerations that must be taken into account when preparing financial statements to be fit for financial analysis purposes:**

1. Fulfillment of the formal conditions for these statements, and clarifying the name of the company, its legal form, date of the statement and the financial period it covers.
2. Ensure the statement is prepared pursuant to the agreed upon accounting principles and concepts.
3. Classify and present the information in these statements according to reasonable principles that make it easy for the analyst to deduce and explain the indicators. For example, on the income statement level, the information is classified in a manner that highlights the results of the company's work (profit or loss).
4. It should be objective, credible, sound, comprehensive, timely and sufficiently clear.

## **D. Entries to Analyzing Financial Statements:**

In light of the different bodies using financial analysis, there are different entries to analyzing the financial statements, as follows:

1. Analysis based on focal points, in terms of:

- Focus on the investment perspective to help make investment decisions

**(Investment analysis —————> Investment decision)**

- Or focus on the credit perspective to help make loan decisions

**(Credit analysis —————> Loan decision)**

- Or focus on the performance analysis perspective to help assess a certain activity in the company

**(Performance analysis —————> Company performance Assessment in a certain activity)**

## **2. Analysis based on the different purposes on which the analysis is conducted, including:**

- Profit Analysis to assess company's profitability.
- Liquidity Analysis to assess the company's ability to meet its short-term liabilities.
- Solvency Analysis to assess the company's ability to meet its long-term liabilities.
- Efficiency or Activity Analysis to assess the company's executive management efficiency in terms of asset and liability management.

### **E. Goals and Objectives of Financial Analysis:**

The goals of financial analysis for all stakeholders (company, board of directors/ shareholders, those wanting to own stock, or any other parties) are summarized in achieving the following objectives:

1. The company's management identifies its level of performance.
2. The board of directors identifies the company's management level of performance.
3. The shareholder (stock owner) identifies the level of the company's performance, or its returns.
4. The person wanting to own stock identifies the status of the company, future performance expectations and expected returns.
5. Analysis for audit purposes and Company Control requirements and Securities Commission.

### **F. Methods of Financial Statements Analyzing:**

As the entries and purposes of financial analysis vary, so do its methods and tools. The method of analysis depends on the purposes of the analyzer, on one hand, and on the nature of the data, on the other.

The common methods of financial analysis are four main methods, as follows:

#### **1. Comparative Analysis of Financial Statements:**

This is conducted through comparing two or more financial statements, side by side, covering the project's activity in two or more consecutive fiscal periods, and by comparing budgets to cognize the company's strengths and weaknesses, especially with regard to the working capital, profitability and the changes to the financial aspects of the company.

Thus it is an aid means to making financial decisions to predict the difficulties the company may face financially (planning), in addition to drafting a list of changes in the financial status which may help reach important answers and questions such as:

- Why did the company take a loan?

- What are the areas in which the borrowed money was used?
- How was the company able to allocate cash dividends among shareholders, and can it continue to allocate such dividends in the future?
- How are expansions in equipment and buildings financed?
- How is the increase in working capital financed?

The classification of the budget may differ according to the nature of the project. This method is characterized by simplicity; however, there are some notes that must be taken into consideration:

- When the value of the item in the base year is negative and then it turns into a positive, or vice versa, the significant ratios of change cannot be deduced, as the comparison is conducted by showing the change in the absolute values only.
- The same applies if the item does not have a value in the base year and then shows a value in the next year. In this case the ratio of change cannot be calculated for the value of this item.

## **2. Horizontal analysis:**

This analysis is called the Trends Analysis, and is similar to the Statements Analysis, except that the fiscal period extends to several periods. The change in the assessment of a specific item in these statements extends throughout the entire period, and is usually calculated in the form of fiscal ratios rather than absolute values, as the first period in the timeline is the base year, and thus the course or trend can be identified downwards, upwards or varying.

- For example, see tables 1 and 2 which show the comparative analysis of the financial statements (horizontally/vertically).

## **3. Vertical analysis:**

The vertical analysis is called the analysis of components. In this analysis, some main figures in the statement are taken as a basis to attribute to them the other figures in the statement.

For example, the total assets figure is considered a basis to which the remaining figures of the financial status statement are attributed on the assets side; the sales are considered a basis figure to which the figures of the income statement are attributed.

This type of analysis provides information that is very important in the proportional allocation of the budget items and the income statement.

- For example, see tables 1 and 2 which show the comparative analysis of the financial statements (horizontally/vertically).

## **4. Financial Indicators:**

### **Ratio Analysis:**

The ratio analysis method is a prevalent financial analysis tool due to the multiple purposes it serves for the users of financial statements in decision making. These ratios are calculated by identifying the relationship between one item and another of the financial report items to yield the required indicators.

**The following financial ratios can be focused on:**

**a. Liquidity Ratios:**

Current ratio

$$= \frac{\text{total current assets}}{\text{total current liabilities}} = \text{Result}$$

- The standard current ratio is 2:1 and this standard ratio differs from one company to another. If the percentage of exchange is much higher than the standard, this does not necessarily indicate efficiency. It might be an indicator of weakness in the company's management, because it is not capable of tapping into available liquidity, which reflects negatively on the company's profitability.

$$\text{Quick liquidity ratio} = \frac{\text{current assets} - \text{reserve}}{\text{current liabilities}} = \text{Result}$$

- The standard quick liquidity ratio generally accepted is 1:1.

**b. Solvency Ratios:**

This means measuring the company's ability to fulfill its long-term liabilities. These ratios are used to assess the funds invested in fixed assets, so that they are proportionate to the level and nature of the company and show the relative weight of the sources for financing these assets, as well as the reliance of the company's financing on outside debts or shareholders equities.

- Debt Ratio =  $\frac{\text{Total debts (liabilities)}}{\text{Total assets}} = \text{Result}$

It is in the interest of creditors for the debt ratio to be low, as it indicates that the company relies on self-financing more than outside financing.

- Ownership Ratio =  $\frac{\text{Total shareholder equities}}{\text{Total assets}} = \text{Result}$

The higher ownership ratio is a positive indicator for the company's interest.

**c. Profitability Ratio:**

This measures the company's ability to make profits.

- Total profit Ratio =  $\frac{\text{Total profit}}{\text{Net Sales}} = \text{Result}$

It is a good indication when this ratio is higher, and it may also indicate low operational expenses and an increase in annual sales.

$$\text{Profit margin} = \frac{\text{Net profit}}{\text{Sales}} = \text{Result}$$

This ratio measures the profit achieved by the company for every JD of sales.

$$\text{Single share return} = \frac{\text{Net profit}}{\text{Number of shares}} = \text{Result}$$

This indicator is one of the overall performance measures for the company.

$$\text{Return on assets} = \frac{\text{Net profit after tax}}{\text{Total assets}} = \text{Result}$$

When this rate is high, it is considered a sign of health of the company's funds.

#### **d. Efficiency or Activity Ratios:**

This percentage measures the ability of the company's senior management and executive administrations to use assets.

$$\text{Turnover of working capital} = \frac{\text{Net sales}}{\text{Working capital}} = \text{Number of times}$$

(Working capital = Current assets = Current liabilities)

- The increase in this rate means a high liquidity in the company.
- For example, see table 3 which shows the analysis of the financial ratios for the example in tables 1 and 2.

#### **G. Issues that must be Focused on in Other Financial Statements:**

There are many financial statements the representative can view and use as a guide to continue the assessment of the company's performance in the estimated budget, which indicates the future financial plans, as well as the company's records, when necessary. In this context, the estimated budget will be discussed as an example only.

### **Estimated Budget: (Future Financial Plan).**

The estimated budget is an effective method of planning, based on future prediction and estimation. It covers a specific period of time in the future, and aims to translate the company's goals into figures and quantities. It then estimates its future needs to provide them through the best available options, after a comprehensive assessment for all internal and external factors affecting the company and making all the necessary preparations to address them, meet their requirements and take them into consideration, if they cannot be avoided or overcome.

Among the most important duties of company management is to harmonize between the goals of profitability and liquidity and the principles of security and guarantees. This balance is achieved when all operational efforts of the establishment work cohesively to achieve its goals. The use of estimated budgets helps to achieve the following:

- Early readiness to address various changes that may face work (such as inflation, interest rates, etc.)
- Ideal use of resources available to the company by studying the composition of clients (for example, clients of a good reputation, clients who delay payments, clients whose location is distant which requires more shipping costs. The same applies to suppliers, etc.).
- Closely monitoring the work of the company by following-up the implementation of the estimated budget and comparing the actual results with the plans, and studying the deviations to correct the course.

# **Introduction to the Companies and their Types**

## Introducing the Companies and their Types:

The Jordanian legislator created in the Companies Law a framework in which the main elements that specify the types of companies were listed, which are: capital, number of partners, financial liability, goals and objectives, management and number of its members, registration procedures, licensing, and the end of the company through mergers or liquidation.

**Following is an overview of the types of companies:**

- A. Commercial companies.
- B. Other companies registered in a special register.

### **A. Commercial Companies:**

Commercial companies are of many types: public shareholding companies, limited liability companies, joint liability companies, limited partnership companies with stocks, limited partnership companies, private shareholding and particular partnership companies, registered pursuant to the provisions of the Jordanian Companies Law.

**Following is an overview of each:**

#### **1. Public Shareholding Companies:**

- **Number of Shareholders:** Consists of two or more shareholders who underwrite in it, covering the full value of the underwritten stocks, with the exception of banks and financial companies, where the number of shareholders may not be less than fifty persons, and no less than 50% of the value of the stated capital must be covered.
- **Capital:** Not less than 500 thousand JD stated, and no less than 100 thousand JD underwritten, or 20% of the stated capital, whichever is more. The capital may be increased through loans or underwriting.
- **Stocks:** Can be listed and traded in the stock markets.
- **Management:** Board of no less than 3 persons and no more than 13 persons.
- **Financial Liabilities of the Company:** Separate from the shareholder financial liability. The liability of the shareholder for the debts, obligations and losses equals the value of the stocks owned in the company.

## **2. Limited Liability Companies:**

- **Number of Shareholders:** Consists of two or more persons, and the Company Controller may approve the company consisting of one person or may approve its ownership by one person. If any partner in the company passes away, his share is transferred to his heirs. This provision applies to those who are left any share or shares in the company in a will.
- **Capital:** Not less than 30,000 JD. The company may not offer its stocks or increase its capital with loans or through underwriting.
- **Stocks:** Not subject to listing and trading in financial markets.
- **Management:** Contains a board of directors with no less than 2 persons and no more than 7 persons.
- **Financial liability of the Company:** Independent from the financial liability of every partner in the amount of the shares owned in the company.

## **3. Joint Liability Companies:**

The joint liability company consists of a number of natural persons no less than 2 and no more than 20, unless this amount is exceeded due to inheritance. No person is accepted as partner unless he is at least 18 years of age, and the partner acquires the status of merchant as a result of this. The financial liability is not independent in joint liability, and transfer to the inheritors within the limits of the inheritance.

## **4. Limited Partnership Companies:**

The limited partnership company consists of the following groups of partners, and the names of the partners must be listed in each case in the company contract:

- a. **Acting Partners:** These are the partners who manage and perform the work of the company, and are responsible jointly for the company's debts and liabilities from their private funds.
- b. **Silent Partners:** These are the partners who contribute to the company's capital without the right to manage the company or perform its work. Each is responsible for the company's debts and liabilities according to their share in the capital.

### **5.Limited Partnership Companies with Stocks:**

The limited partnership company consists of two groups of partners, which are:

- a. **Acting Partners:** Not less than 2, responsible for the company's debts and liabilities from their own funds.
- b. **Shareholding Partners:** May not be less than 3, and each partner is responsible in the amount of the shares owned.

**Management:** This is the right of the acting partners, and if the silent partner participates in the management, he is responsible for all liabilities incurred during the period of his participation in management.

**Capital:** Not less than 100 thousand JD, divided into exchangeable stocks of equal amounts.

### **6.Private Shareholding Companies:**

The private shareholding company consists of two or more persons. The Minister, based on a justified recommendation of the Company Controller, may approve the registration of a private shareholding company consisting of one person. The financial liabilities of the private shareholding company are separate from the financial liabilities of every shareholder in it, provided that the duration of the private partnership is not limited and the capital is no less than 50 thousand JD. The company may decide to list its stocks in the stock market.

### **7.Particular Partnership Companies:**

The particular partnership company is a commercial partnership between two or more persons, whose work is undertaken by an active partner who deals with others, so that the partnership is restricted to the special relationship between the partners. However, it is possible to prove the partnership among the partners in all methods of proof.

The company does not have a legal personality, and is not subject to the provisions and procedures of registration and licensing. The financial liabilities are not independent – joint liability – if one of the partners recognizes the existence of the company or issues what indicates to others its existence among the partners it may be considered an established company and the partners are responsible towards the others jointly.

**Companies in which SSC is a shareholder:**

Pursuant to its directives of the investment policy, SSC is a shareholder in two types of companies, the public shareholding companies and the limited liability companies, to protect SSC rights and refrain from entering into individual or joint shareholding that may lead to significant risks beyond the limits of shareholding in case they falter.

Otherwise, SSIU has the authority to make the appropriate decision to contribute to any other type of company.

**b. Companies Registered in a Special Register by the Company Controller:**

There are other types of companies registered in a special register allocated for this purpose by the Company Controller. There is no room to delve in the details here, but some are provided here merely as an example:

- Companies established pursuant to agreements signed by the government with other countries, such as those formed by the Arab League or its organizations.
- Free zone companies.
- Civil companies.
- Non-profit organizations.
- Transforming public institutions into public shareholding companies.

# **Companies Management and the Circumstances Facing Them**

## **Companies Management and the Circumstances Facing Them**

The companies acquire a legal personality as of the date of their registration with the name listed in the establishment contract in the Company Controller record, and may start their work and cover stocks or underwrite them as of that date.

### **Authorities Assigned to Company Management:**

Companies are managed by three authorities, the general assembly of the company, the board of directors and the general manager and the executive body. Following are details on each of them:

#### **A. General Assembly of the Company:**

This is a commission consisting of all company shareholders, who participate in its ordinary and extraordinary meetings. It is the highest management authority in the company, and is of three types:

##### **Foundation Assembly:**

This is a group of main individuals who initiated the establishment of the company, and who decided to announce its establishment.

##### **Ordinary General Assembly:**

This represents the shareholders in the company or their representatives. It meets at least once a year, at the request of the board of directors. It has the authority to elect members of the board, discuss reports by the board and the accounts auditor, discuss and approve the company's budget, specify profit allocation ratio and make decisions on loans, mortgages or guarantees.

##### **Extraordinary General Assembly:**

They represent the shareholders in the company or their representatives, and meet at the invitation of the board, based on a written request submitted to the board by shareholders with no less than a quarter of the company's underwritten stock, or based on a written request by the company's accounts auditor or Company Controller, if this is requested by shareholders with no less than 15% of the company's underwritten stock.

It meets when necessary to look into extraordinary issues, including: amending the company's by-laws or articles of association, merging with another company, liquidating the company, the removal of a board member, transferring the company's headquarters, increasing or decreasing capital, selling the company or its acquisition of another company and issuing transferrable loan commitments. Its decisions are issued with a majority (75%) of the total stocks represented at the meeting, and its decisions are subject to approval, registration and publication procedures as stipulated by law.

**b. Board of Directors:**

The management of the company is undertaken by a board of no less than 3 persons and no more than 13 persons with the status stipulated in the company's by-law. The board elects a chairman and vice chairman from among the elected members, or those elected by the general assembly. The board has full authority to undertake all work that guarantees the flow of work at the company through periodic meetings. It executes the decisions and recommendations of the company's general assembly, and its decisions are taken with an absolute majority. This also applies to the boards in limited liability companies.

**c. General Manager and Executive Body:**

The board appoints a general manager for the company and mandates him with managing its work in cooperation with the board. He has the authorities and responsibilities stipulated in the company's by-laws or pursuant to the decisions of the board. The general manager heads an executive body (of employees, administrators, technicians, accountants, staff and others) to execute the work, duties and various activities of the company.

**Changes in the Company's Capital:**

Taking into consideration the valid laws, there are a number of changes that may change the circumstances of the companies, including: capital increase or decrease, restructuring, merger or liquidation.

**Following are details of each:**

**a. Increase in Capital:**

Companies go through various phases, including expanding their activities. They may need liquidity to do so and this requires an increase in capital. Legislators allowed public shareholding companies to increase their stated capital with the approval of their extraordinary general assembly, provided that the approval includes a method of covering the increase. This is achieved in a number of ways, forms and methods, including:

- Issuing new stock in the nominal value for underwriting by the shareholders or others.
- Issuing new stock with an offering bonus to protect the rights of the old investors and ensure equality among all shareholders.
- Combining the elective reserve or accumulated carried over profit, or both, with the company capital.
- Reassessing the assets (in cases of mergers and transformation).
- Increasing the capital with additional underwriting.
- Capitalizing debts by turning creditors to shareholders, on condition the by-laws approve this, and with the written approval of the creditors.
- Transferring the transferrable corporate bonds into stocks pursuant to the provisions of the Companies Law.

**b. Decrease in Capital:**

The decrease could be for various reasons, including the company's desire to reduce its activities, the capital may exceed its needs or the losses have accumulated, prompting it to decrease its capital. The Controller must publish an advertisement in a daily newspaper for three consecutive days declaring the decision of the general assembly to decrease its capital.

The capital is decreased on condition that the company's creditors do not object to it, and that it takes into consideration the rights of the others as stipulated in Article 115 of the Companies Law, which include the board submitting the decrease request to the Controller with necessitating reasons, after the general assembly decides this in an extraordinary meeting with a majority no less than 75% of the shares represented in its extraordinary meeting convened for this purpose. The request should also include a list of the company's creditors, the amount of the debt of each and their address and a statement on the company's assets and its liabilities, certified by the accounts auditor. This is achieved in one of the following forms:

- Nullify the commitment to pay undue installments, or the company cancels any underwritten stocks it purchased again or recovered.
- Cancel the losses and reduce the capital in the amount of the loss or any part of it.
- Return the amounts to the shareholders, to reduce the nominal value of the stock as the company does not need these funds.

### **c. Restructuring the Capital:**

The company's management may decrease or increase its capital at the extraordinary general assembly meeting, provided that procedures of reduction or increase are in line with the provisions stipulated in the law, should the invitation to the meeting include the reasons for restructuring and the purpose of this procedure.

### **Changes of the Company's Structure:**

The company may reach a stage in which it cannot continue its activities.

This necessitates the following:

- Its merger with another company.
- Its sale to another company.
- Its elective or mandatory liquidation to protect whatever shareholder equities can be protected, after settling the rights and liabilities of the company. The company activities depend on:

#### **1. Case of Merger:**

Mergers take place between two companies of similar goals, objectives and activities, so that all rights and liabilities of the merged company are transferred to the merging company. This merger may produce a new company pursuant to the provisions of the Jordanian Companies Law No. 40 of 2002, as follows:

- The merging company: this is the merger of several companies, where the merged companies disappear and the rights and liabilities of the merged company are transferred to the merging company.
- The merger of two or more companies to establish a new company. The companies that were merged into the new company disappear, and the legal personality of each no longer exists.

- The merger of branches and agencies of foreign companies working in the Kingdom in an existing Jordanian company or a new company established for this purpose, thus putting an end to those branches and agencies as well as the legal status of each.

## **2. Case of Takeover:**

The company has the right to takeover the ownership of another company, pursuant to the provisions of the law, by following the following procedures:

- Issuing a decision by the extraordinary general assembly of the company wanting to purchase, approving ownership of the stock of shareholders in another company.
- Issuing a decision by the extraordinary general assembly of the company wanting to sell its shareholders' stock to another company.
- Complete the procedures for the approval decision. This does not come into effect until after it is registered and documented pursuant to the provisions of the valid laws (Companies Law and Securities Law).
- The two companies are exempted from the merger fees pursuant to the provisions of the law.

## **3. Case of Liquidation:**

Public shareholding companies and limited liability companies are liquidated electively by a decision of their extraordinary general assemblies or obligatorily by a final decision of the court. The company is not dissolved until after all its liquidation procedures are completed pursuant to the provisions of the law, and the liquidator represents it with the legal personality of the company still in effect.

Liquidation procedures start from the date the decision to liquidate is passed. A liquidator is appointed and the liquidator practices the authorities delegated to him by the law in the obligatory liquidation to settle the rights and liabilities of the company and liquidate its assets. Prior to this he should publish a liquidation advertisement within thirty days of the date of the liquidation decision in two local daily newspapers.

The elective liquidation is no different than the obligatory liquidation, except in the following necessitating reasons:

### **A. Cases of Obligatory Liquidation:**

The obligatory liquidation request is submitted to the court in one of the following cases:

1. If the company gravely violates the law or its bylaws.
2. If the company cannot meet its obligations.
3. If the total losses of the company exceed 75% of its underwritten capital, unless its general assembly decides to increase its capital.
4. If the company stops working for a year without a justified or legitimate reason.

\* The Minister of Industry and Trade may ask the Company Controller or the “Civil Prosecutor” to stop the company’s liquidation if it rectifies its situation before the decision to liquidate is issued.

\* The court may, at the request of the liquidator, seize all funds and assets of the company and hand them over to the liquidator.

**B. Cases of Elective Liquidation:** Public shareholding companies and private shareholding companies are liquidated electively by the decision of its extraordinary general assembly, should the purpose for which it was established come to end or become null, unless the general assembly decides to extend it.

The elective liquidation may turn into an obligatory one if the liquidator, the Company Controller or the Civil Public Prosecutor submits a request to the court, on condition it is conducted under its supervision pursuant to the terms and restrictions it imposes.

### **C. Liquidation Results:**

With the completion of the legal procedures and requirements for liquidation, the company ceases the practice of its activities, as of the date of the decision by the extraordinary general assembly. The responsibility of the liquidator covers all works and actions undertaken by the company under liquidation pursuant to (Article 254/a, c) of the Companies Law.

The legal personality of the company remains in effect, represented by the liquidator appointed by the assembly or the Company Controller until the liquidation work is completed, provided that the liquidator adds the term “under liquidation” to the company’s name on all its documents and correspondence.

### **3. Binding Agreements**

- a. Every agreement between the liquidator and the creditors of the public shareholding company is considered binding if coupled with the approval of its general assembly.
- b. It is also binding for the company's creditors if it is accepted by a number of them whose total debt constitutes three quarters of the debts due by the company.
- c. The creditors whose debts are guaranteed with a mortgage or privilege may not participate, nor can voting on this decision be guaranteed.
- d. The announcement of this agreement made pursuant to this paragraph must be in two daily newspapers, within no more than seven days of the agreement.

### **D. Upon completion of the liquidation procedures, the liquidator must submit the following:**

1. An acquaintance from the relevant official authorities, and a statement by the partners on their approval of the final liquidation decision and their receipt of all their rights, along with an acquaintance for the liquidator.
2. Pledge to pay any future dues incurred by the liquidated company should they arise, provided that they are included within the financial and legal statements submitted by the company or the partners, or if it is the results of a mistake, negligence or shortcoming by the liquidator.
3. Statement for the Controller with the details of the liquidation, if the liquidation does not conclude within one year from the start of its procedures, as follows:
  1. The liquidator must send to the Controller a statement with the details related to the liquidation and the phase it has reached.
  2. In all cases, the liquidation period should not exceed three years, except in exceptional cases at the discretion of the Controller in cases of elective liquidation, and the court in cases of obligatory liquidation.

# **Tables and Appendices**