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## **The importance of the one man's company under the new Saudi Companies Law 2015**

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### **Key Words**

New Saudi Company Law, One man's company, commercial companies, Persons Companies, the Joint-Stock Company, limited liability Company, partners, financial disclosure, founder, Board of Directors.

**Abstract:** The companies' role is highly significant in the economic and trade development. In this sense, countries are seeking to take into consideration to organize the companies' type, legal forms and the rules of their foundation procedure. In addition, the legal doctrine classified the type of commercial companies into: persons Company, the Joint-Stock Company and mixed companies (between persons and the joint-stock companies). However, due to the rapid commercial growth, economic sectors, and the vital need to cope with this growth, another type of companies differs from the traditional classification of commercial companies, which has become known as one man's company. In this context, the new Saudi Company Law 2015 emphasizes that one man's company should be established.

One man's company arises several questions that will be addressed in this paper: is it a necessity finding such a company under the new Saudi Companies Law 2015? Are the legal provisions appropriate and sufficient to handle this type of company? Is it important to impose regulations regarding this company in the absence of an independent legal regulation of this type of company?

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Therefore, this paper is going to shed light on the concept of the one man's company, its characteristics, its value, and its advantages and disadvantages. Furthermore, we will focus on the reason of the Saudi Company Law addressed the one man's company, and what distinguishes this type of company. In other words, this paper tries to study One Man's Company and its justifications and to explain the challenges encountered with such companies in the new Saudi Company Law; this paper recommends legal solutions to overcome such challenges.

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## Introduction

In principle, the new Saudi Companies Law 2015 builds the company on the contractual (See in this regards, *Le contrat de société existe-t-il encore ?* in *Le droit contemporain des contrats*, Claude. Champaud, p. 125; see also, *Traité de droit commercial, Les sociétés commerciales*, G. RIPERT et R. ROBLOT par M. GERMAIN, n° 1056-22; *La société, contrat ou institution*, ; J.-Cl. MAY, p. 124 et 125 ; *Droit des sociétés*, M. COZIAN, A. VIANDIER et Fl. DEBOISSY, n° 14; *Droit des sociétés*, Montchrestien, P. LE CANNU, n° 137; *La société est bien encore un contrat*, ; J. MESTRE, p. 130.)

idea which means that the company is considered as a contract between two or more parties. (See: *Trade companies in the Saudi Companies Law, General and private provisions*, Sami M. Alkharabsheh, p: 35; see also, *Saudi commercial law*, Mohammed Hassan Aljabor, p: 178 , 179; *Explication of Commercial law, Commercial Companies*, Aziz Alokily, p: 27, 28.) In this context, the article 2 of new Saudi Companies Law 2015 states “ a company is defined as a contract under which two or more persons undertake to participate in an enterprise for profit, by contributing a share in the form of money or work, with a view to dividing any profits (realized) or losses (incurred) as a result of such enterprise”. (See: *The disposition of commercial companies*, Abass Mostafa Almsry, p:26 and 27; see also, *Commercial Contacts and Companies*, Ibrahim Sayeed Ahmed, p: 116.)

In addition articles 53, 55 and 154 of the new Saudi Companies Law 2015 inserted a One Man’s Company in the limited liability Company and the Joint-stock company. Furthermore, One Man’s Company poses some legal and practical problems which

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abolished its value and justification. Thus, the purpose of this study is going to clarify the concept of the one man's company, the characteristics of the one man's company, the value of the one man's company, the advantages and disadvantages of this type of companies, and the reason of the new Saudi Companies Law 2015 lay down the one man's company.

#### **1. Concept and characteristics of the one man's company under the new Saudi Companies Law 2015**

One Man's Company is an exception (See in this regard, Moroccan and comparative Commercial Law, The Companies, Shokry Ahmed Alsabay, p:35, 138; see also, Abbreviation in commercial law, Mostafa Kamal Taha, p: 145, 146.) of the contractual idea of the companies' foundations. (See, Le consentement sans l'échange : le contrat de société : P. DIDIER, p. 74 ; La théorie contractualiste de la société : P. DIDIER, p. 95.) In principal, company constitutes from multiple partners.(See in this sense, Droit Commercial, Michel de Juglort, p: 97-99 ; See also, *commercial companies, Kuwait commercial law*, Ali Hassan Youniss,p: 36, 37.) In other words, the idea of the company assumes the existence of more than one partner (See:*Commercial Companies*, Safwat Najy Bhnsawy, p: 24; see also, Cors. Civ, juin,1958, 704.) which shares a common goal: to make a profit, the interest of partners in any company is assumed to be homogeneous and not contradictory. The minimum numbers are two partners for any company. (See in this regard, Explanation of the Saudi Commercial Law, Commercial Activities, Traders, Commercial Companies, Commercial Contacts, Banks Operations, Msaeed Sauod Algobiry, p: 164, 165.) In addition, the multiple partners (See in the context, *Commercial law*, Mahmoud Sameer Alsharkawi, p: 188; see also, *The brief in*

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*commercial law, introduction, commercial activities, merchants, general principles in commercial companies* Sameer Alyah, P: 181.) supported by legal texts of the new Saudi Companies Law 2015 for each form of commercial companies, (See in details about commercial companies, *Traité élémentaire de droit commercial*, Ripert Georges et Roblot. R, No 655.) such as: article 17 of the new Saudi Companies Law 2015 defines the general partnership (Solidarity Company) as “an enterprise of two or more partners...”; article 38/1 considers the Limited partnership “consists of two teams of partners...etc”; article 45 States” the contract of a joint venture shall specify its object, the rights and liabilities of the partners...etc” ; article 46 “No new partner shall have the right to participate in the same operations of the venture except with the consent of all the partners...etc”; article 58 ,regarding Joint-Stock Corporation, states “If the founders do not limit subscription in all stocks to themselves...etc” and article 151 confirms that” A limited liability company is a company that the new Saudi Companies Law 2015 consists of two or more partners...etc”. (See in this sense, *Commercial Law, general theory of the company*, Mohammed Fareed Alareeny, p: 31.)

We can observe from the previous articles that in principle the new Saudi Companies Law 2015 required multiple partners ( See in this context, *Commercial law, Commercial Activities, Traders, Commercial Companies*, Mohammad Fareed Alorayni, Mohammad Alsayed Alfiky, p: 267-269.) of commercial companies. (See: *Business Law, Mohammed Fareed Alareeny, Jalal Wafaa Albadry Mohammadeen, p: 181, 182.*) Conversely, the new Saudi Companies Law 2015, as an exception, introduced a new idea of companies, it's called “One Man's Company”, (Compare with, *Essai sur l'acte juridique collectif*, G. ROUJOU de BOUBÉE, 1961; see also, *Liberté contractuelle et*

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societies, Essai d'une théorie du juste milieu en droit des sociétés, , J.-P. BERTREL, p. 595, spéc. n° 29 ; Le débat sur la nature de la société, p. 131.) so we try to clarify the definition and the characteristics of One Man's Company.

### 1.1 The One man's company definition under the new Saudi Companies Law 2015

The one man' company is a company made up of a natural or moral single partner. In this company, the founder's financial disclosure is independent of the company itself. (See in the context, *Caractetes disinctifs de la Société à de limitee responsabilite, Comparative study* Samiha Alkalyobi, p:20.) This company may be established preliminary from only one partner directly, or it may devolve indirectly to a single partner under certain circumstances.

In this sense, article 53 of the new Saudi Companies Law 2015 authorizes that the Joint-Stock Corporation could be owned by one person. In addition, article 55 states that'' An exception to article 2 of this law, the state and morally public people of legal status and companies wholly owned by the state and the companies that capital is not less than five million riyals, are allowed to found a Joint-Stock Corporation by of one-man company...etc''. Furthermore, under the article 154/1 '' an exception to article 2 of this law, the limited liability Company could be founded by one person or the shares may move out to one person...etc''. (See in same context, *Abbreviation in Commercial Companies under Saudi Legislations and Commercial Laws*, Adnan S. Alomar, p: 43.)

It can be concluded from the previous articles the following points:

-Article 53 did not specify that the one person who founds the company whether is a morally or natural person. Contrarily, article 55 restricted that the state and morally

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public people of legal status and companies as a whole owned by the state and the companies with a capital is not less than five million riyals, could establish a one man's company. In addition, article 55 required a minimum capital, five million riyals, to found a Joint-Stock Corporation of single person.

- Article 154/1 permits directly one person to found a limited liability Company (See in this sense, *Droit des affaires*, Guyon Yves, p: 91; see also, *Traité de droit commercial*, G.Ripert/ R. Roblot, n 1056.) or indirectly this company may become owned by one person with a liability limited upon his share in the company' capital. On the other hand, this paragraph did not fix that the foundation of the limited liability company is established by a person morally or naturally. In addition, article 154/2 prevents clearly the natural or moral person to found or own another limited liability Company. In other terms, one person cannot found or own more than one man's company as a limited liability Company.

- As mentioned above, the founder's liability is limited in the one man's company to his share in the company' capital, which means that the founder's financial disclosure is independent of the company itself so the founder has two separate financial disclosures: first the commercial financial disclosure which is attached to the company, and the second is related to the founder's personal financial disclosure. (See: *Commercial Companies*, Mohammad Fareed Alorayni, Mohammad Alsayed Alfiky, p: 30.) Consequently, the founder has multiple financial disclosures, one part is allocated from his financial disclosure to his commercial life and the other part is allocated to his civil life. In other words, the founder can separate or multiply his financial disclosure depending on the aim of each financial disclosure and his liability is restricted to every

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financial disclosure. (See in this sense, *Commercial law, the commercial activities, merchant, Commercial Companies*, Abdulhadi Mohammed Algamdi, Bnyounis Mohammed Hosseeny,p: 153.)

### **1.2 The One Man's Company Characteristics Under New Saudi Companies Law 2015**

There are several characteristics of the one man's company. In this respect, some characteristics of the one man's company are the following:

**A)** Limited liability of the founder: jurisprudence and judicial and legislative aim to determine the founder's responsibility in the one man's company. As mentioned above, the most important characteristic of the one man's company is that the liability of the founder is restricted upon his share in the company's capital. In other words, the founder's liability does not extend to all his money. However, this liability is only attached to the founder's share in the company. (Compare with,

*Company Law for Accountants*, C. D. Thomas, p:5 ) Consequently, the founder avoids personal liability of all debts and obligations.

**B)** The one man's company has a trade name and this name is taken from the company's purpose. The founder's name does not appear on the company's name to protect the third party who deals with the company on rely to the fiscal consideration of the company.

**C)** The foundation of the one man's company is acquired by one person only. (See in this sense, *Company law*, Geoffrey Morse , Charlesworth John, p: 33.) As a result, this company owned a legal status of an artificial person (See in this context, personnalité



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moral des société, Guyon Yves, n 3, 93; Aspects juridique du capitalisme modern, Ripert Georges, No 46.) and a separate financial disclosure of the founder's financial disclosure.

**D)** The easiness of decision-making into the one man's company. Especially that the founder holds the power and authorities of the Board of Directors, the Ordinary General Assembly and the extraordinary General Assembly. Hence, it is effortless to integrate and transform (Compare with, Société Unipersonnelle et Patrimoine D'affection, Aussedat. Jacques , 221.) this company because the founder does not need to get the approval of anyone. ( See in this context, Individual projects with limited liability, Fayz Naim Radwan, p. 37.)

**E)** The company's credit is not stable; because the founder's liability is limited on his share in the company' capital.

## **2. Evaluation Of One Man's Company Under New Saudi Companies Law 2015**

The One Man's Company is a new idea under new Saudi Companies Law 2015. This company presents some advantages. On the other hand, this company has some disadvantages especially such a company faces legal and practical difficulties. In this sense, it is significant to explain these advantages and disadvantages of One Man's Company.

### **2.1 Advantages of the One Man's Company**

The One Man's Company provides many advantages. In this context, we give some examples of these advantages:

**A)** The One Man's Company reduces the presence of bogus companies. (Compare with, Legal status of an artificial person for commercial compay, Mahmoud Mouktar

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Ahmed Barbari, p: 38.) In this context, the one Man's Company eliminates the phantom companies. (See: *Sur la nature juridique du contrat de Société*, Claude DoulouxFavard,1960.) The bogus company appears as a real company, but in fact it is an individual enterprise because the main key partner acquires the company and conducts its business, while the other partner's role is imaginary, so the existence of the other partners is only to fulfill the legal form required for the foundation of the company. (Compare with, *Un abus de la pratique commercial, la Société d'une personne*, Fabia, p: 69.)

Hence, the existence of a company made up of one partner will contribute to the elimination of obstacles that resulted from previous forms of commercial companies, including bogus companies. (See, Cois. Com, 3.01.1961, Recueil Dalloz ,1961, 292; Revue Trimestriell de droit civil, Rev, Tr. Slr. Com 1974, Ob Carnu; Rouen, 06.01.1973, Gaz Pal, 1973, 910) In addition, the One Man's Company allows the founder or one partner to manage the company independently and to take decisions easily and flexibly.

**B) The One Man's Company** gives the founder the chance to allocate part of the financial disclosure for the purposes of direct business under the company, (Compare with a contrary view, Abbreviation of the Saudi Commercial law, Saeed Yahya, p: 147.) therefore the death of the founder will not lead to end the company's business but the company passes on to heirs, and this requires changing the company's system and contract constitutive without the need to modify the company form, as it is easily transmitted from one man's company to multiple partners as the company becomes a joint-stock corporation. As there are no restrictions for the founder to abdicate on the

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One Man's Company for the limited liability company composed it personally, unlike the limited liability company composed of two partners.

C) As mentioned above, the founder's liability is limited in the One Man's Company on his share in the company' capital. (See in this context, Change the legal form of the limited liability companies, Mohammed Tawfik Saady, p:23, 24; see also, Samiha Alkalyobi, Ibid, 20) In this respect, this form of company encourages the founder to achieve the best management possible which minimizes the trade' risks. Consequently, the founder keeps control on all aspects of the Board of Directors, the Ordinary General Assembly and the extraordinary General Assembly which means the founder is the sole decision maker and independent in this company.

D) The One Man's Company is supple with the nature of the business, the developments that take place, the multiple interactions that occur every day, it gives more legal protection, and it guarantees the business and multiple investment activities. As a result this kind of companies contributes positively to support the business. In this context, lenders and founders prefer, in most cases, dealing with legal status of an artificial person and legal persons, such as companies, not with natural persons because the financial disclosure of the companies are specified, well-known, reviewed and audited in accordance with the accounting standards. This fact and privileged status may be difficult to determine when dealing with natural persons.

In addition, One Man's Company allows the foundation by one person so this abolishes his legal responsibility to the legal person. It is also easy to deal with this kind of companies as it is known to have systems and established institute to adjust work and transactions, this is often not available when dealing with many of the natural persons

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because they judge the work according to their vision of personal or individual aspirations.

### 2.2 Disadvantages of the One Man's Company

Although the One Man's Company presents several advantages, but on the other hand, this type of company has some disadvantages. Herein we give some examples:

**A)** The definition of the One Man's Company under the new Saudi Companies Law 2015 is a contract by which two or more persons each contribute to the project, contributing financially or by providing a work share. In this respect, the article 2 states "A company is defined as a contract under which two or more persons undertake to participate in an enterprise for profit, by contributing a share in the form of money or work, with a view to dividing any profits (realized) or losses (incurred) as a result of such enterprise." This definition comes from the traditional definition of the company. (See: Commercial law, Aziz Alokaily, p:179; see also, Commercial law, Olyan Alshareef, Mostafa Houseen Salman, Rashad Alassar, p: 89.) In contrary, the One Man's Company founded by one sole partner, so the definition of the company should be changed to the unilateral will of founder, this also requires an amendment to the definition of certain types of companies, such as the Limited liability company in line with the new concept of the company. And it is necessary to modify the objective conditions of the company, such as multiple partners and their intention to participate in the company. *(In addition, the partner's intention to participate in the One Man's Company is not available because this condition assumes the existence of more than one partner in the company and this is not available in this type of company, see in this context, Mohammed Fareed Alareeny, Jalal Wafaa Albadry Mohammadeen, Ibid,*

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*p:175.*) In other words, the One Man's Company is a legal act unilaterally which means there is only one partner in this company. Since this company also founded under this act, the private objective conditions in this company should be available. In regard to the condition of the multiple partners, (See *Commercial law*, Noury Tlbany, Kamil.A. Albldawy, Hashim Aljazary, p: 196.) this condition does not exist in the One Man's Company because it is based mainly on the presence of one partner.

**B)** The One Man's Company may lead to the risk of confusion between the financial disclosure of the owner of the company and the financial disclosure of the company itself; (See in this context, *Le sort de la société commercial qui n'a plus qu'un seule associate*, J. Derrupé, p: 57.) due to the difficulty of separation between each partner own funds and the funds allocated by the company or the project. (See: *Provide share in the company*, AbdEllah Lahkeem Bnnany, p: 182.)

**C)** The possibility for a One Man's Company to finance a loan from banks or investment funds may be more difficult than the other types of companies, because in a One Man's Company the owner or his designee is the only authorized company management. Regardless of the fact that this will accelerate the speed of decision-making, as noted above, but it might lead to abuse of the right or the use of company funds.

**D)** The One Man's Company faces a difficulty regarding the lack of legal regulations to handle all aspects related to this company. Because the legal provisions treats the limited liability company and the join-stock corporation to have two or more partners. And it cannot cover all the issues of a limited liability company or the join-stock corporation founded by one partner or one sole shareholder.

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### **Conclusion:**

In this paper we have discussed the concept of the one man's company, the characteristics of the one man's company, the value of the one man's company, the advantages and disadvantages of this type of companies, and the reason of the new Saudi Companies Law 2015 lay down the one man's company. In conclusion, we came out with some results and recommendations

### **Results**

- The One Man's Company is an exception of the contractual idea of the companies' foundations. In principal, a company constitutes from multiple partners. ( See: Droit des affaires et des societies, Saeed. Y. Albustani, p: 258, 259; see also, Commercial Law, Mohammed Fareed Alareeny, p: 24.)

In this context, the new Saudi Companies Law 2015 assumed multiple partners of commercial companies. On the other hand, the new Saudi Companies Law 2015 ,as an exception, introduced as well new type of companies, it's called "One Man's Company".

- The One man' company is a company founded of a sole physical or moral partner. This company established preliminary from one partner only, or may devolve indirectly to one partner. In this sense, articles 53 and 55 of the new Saudi Companies Law 2015 authorize the Joint-Stock Corporation could be owned by one person. In addition, article 154/1 states " an exception to article 2 of this law, the limited liability Company could be founded by one person or the shares may move out to one person...etc".

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- Article 53 did not specify that the one person who established the company whether is a morally or natural person. On opposite, article 55 restricted that the state and morally public people of legal status and companies entirely owned by the state and the companies that capital is not less than five million riyals, could found a one man's company. In addition, article 55 required a minimum capital, five million riyals, to found a Joint-Stock Corporation by one person.

- Article 154/1 allows one person to found a limited liability Company, or ultimately this company may be owned by one person whose his liability is limited upon to his share in the company's capital.

- Unfortunately It is a critic that article 154/2 prevents explicitly the physical and moral person to found or own another limited liability Company which means that one person cannot found or own more than one man's company as a limited liability Company.

- The One man's company has many characteristics, for examples, limited liability of the founder, trade name and this name is taken from the company's purpose, the easiness of decision-making and the weakness of this company's credit.

- The One Man's Company presents several advantages , this company decreases the founding of bogus companies, gives the founder the possibility to allocate part of his financial disclosure for the purposes of direct business under this company, leads the founder to achieve the best project management and reduces the trade's risks, the founder controls all aspects of the company, gives more legal protection, guarantees the business and multiple investment activities and contributes positively to support the business.

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- There are some disadvantages of the One Man's Company. For instance, it should modify the company's definition under the unilateral will of founder, which requires a revision of the definition of certain types of companies, such as the company Limited liability in line with the new concept of the company and it needs to change the objectivity conditions of the company.

- The One Man's Company is confusing the financial disclosure of the owner of the company and the financial disclosure of the company itself. (See in this sense, Individual project (*The One Man's company*) in the Iraqi Companies Law No. 36 of 1983, Monther Abd Alhouseen Alfadel, p: 199 and following.) The new Saudi Companies Law 2015 doesn't clarify the founder's responsibility in case of the combination between his civil financial discloser and the company's financial discloser. In this case, this law doesn't protect the third party and company's creditors.

- The One Man's Company faces a difficulty about the lack of legal regulations handles all matters aspects relating to this company.

### **Recommendations**

- Article 2 should be abolished from the new Saudi Companies Law 2015 regarding the Company's definition.

- An independent law should be added to address the One Man's Company, as it is not sufficient to handle this company with short legal provisions.

- The doors should be open to found the One Man's Company, especially this company encourages the investment and it gives more legal protection, it guarantees the business and multiple investment activities.



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- The capital of the One Man's Company should be increased and the capital should be paid in full at the moment of registration this company.
- The personal and commercial financial disclosure should be separated, if not it should disable the principle of limitation liability if it is proved that there is combined between personal financial disclosure and the financial disclosure of the company.
- In case of fraud or bad faith in the use of the company, or it is canceled prior to achieving its objectives, the owner of the company shall be liable for obligations.
- The foundation of the One Man's Company should be on small projects and set a minimum capital requirement of these projects.

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### الملخص:

تلعب الشركات دورًا هامًا في تطوير الحياة الاقتصادية والتجارية للدول. وبهذا الاتجاه فإن الدول تسعى جاهدة لتنظيم أنواع الشركات، أشكالها القانونية، قواعد وإجراءات تأسيسها. بالإضافة لما سبق، فإن الفقه القانوني يصنف أشكال الشركات التجارية إلى: شركات أشخاص، شركات أموال وشركات مختلطة (تقوم على الاعتبار المالي والاعتبار الشخصي). من جانب آخر، وبالنظر إلى النمو الاقتصادي والتجاري المتسارعين وما يتطلبه ذلك من التعامل مع هذا النمو، ظهرت الحاجة لوجود شركات تختلف عن التصنيف التقليدي للشركات التجارية، وهي ما يطلق عليها شركات الشخص الواحد التي تمتاز ببعض الخصوصية في بعض أحكامها؛ وهذا النوع من الشركات تم النص عليه في قانون الشركات السعودي الجديد لسنة 2015م.

تطرح شركة الشخص الواحد العديد من التساؤلات التي سوف تشكل محورًا لهذا البحث، كالاتي: هل من الضروري تضمين قانون الشركات السعودي نصوص تتعلق بشركة الشخص الواحد؟ هل تعتبر نصوص قانون الشركات السعودي كافية لمعالجة كافة الأحكام الخاصة بشركة الشخص الواحد؟ ما مدى أهمية النصوص القانونية المتعلقة بشركة الشخص الواحد وما أوجه القصور التي تعترض هذه النصوص؟ كذلك فإن هذا البحث يلقي الضوء على ماهية شركة الشخص الواحد، وبيان خصائصها والجوانب الإيجابية والسلبية لمثل هذا النوع من الشركات. بعبارة أخرى، فالبحث يهدف إلى تناول شركة الشخص الواحد، مبرراتها، وبيان الصعوبات التي تعترضها وفقًا لقانون الشركات السعودي الجديد لسنة 2015؛ وقد تضمن هذا البحث خاتمة لأهم النتائج والتوصيات التي تم التوصل إليها.

**الكلمات الافتتاحية:** قانون الشركات السعودي الجديد، شركة الشخص الواحد، الشركات التجارية، شركات الأشخاص، شركات

الأموال، الشركة ذات المسؤولية المحدودة، الشركاء، الذمة المالية، مؤسس شركة، مجلس إدارة شركة.

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