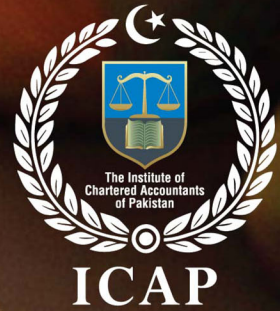


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BUSINESS LAW DYNAMICS

Study Text Vol. II



SHAPING FUTURE BUSINESS
AND FINANCE LEADERS

BUSINESS LAW DYNAMICS



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VOLUME - II

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COMPANY: INTRODUCTION, TYPES AND REGISTRATION

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 The Features of a Company
- 2 Definition and Types of Company
- 3 Authorities, Officials, Members and Resolutions
- 4 Association Not for Profit
- 5 Registration of a Company
- 6 Objective Based Q&A

STICKY NOTES

AT A GLANCE

A company is an artificial legal person owned by members / shareholders and managed by directors. It is entitled to enter in to contracts and own assets, with its own name. A company itself is liable for its debts out of its own assets rather than owners and directors provided the directors have acted within their powers and according to law.

Any legal person can hold shares in a company and the liability of members is limited up to their investments in the company. Perpetual succession means change in ownership or shareholding does not affect existence of company.

A company is defined as a company formed and registered under the company law. The term body corporate is broader and includes companies incorporated outside Pakistan and statutory bodies.

A company may be limited by shares, limited by guarantee or unlimited company. Further, it may be SMC private, other private, public listed, public unlisted, association not for profit or a public sector company.

Authorities relevant to companies are Securities and Exchange Commission of Pakistan and registrar. In case of listed companies, also the securities exchange (i.e. PSX).

The decisions of company are made in meetings through resolutions.

The Act allows certain associations not for profits to be registered as companies subject to certain conditions. These companies work with useful objects and for benefits of general public.

A business consisting of more than 20 persons is obligated to be registered as a company by filing the required documents with registrar with certain exceptions.

Private company (other than SMC) has minimum two members while public company has minimum three members.

1 THE FEATURES OF A COMPANY

1.1 Company as artificial legal person

A sole trader is an individual who owns and runs his or her own business. The law does not recognize the business: the law recognizes only the individual who runs it. The individual is liable for the debts of the business and is also personally liable for any breaches of the law by the business.

A partnership is a group of individuals who own and run their own business. Each partner usually contributes capital to the business. A partnership business is not recognised as a 'person' by the law. Individual partners are personally liable, jointly with the other partners, for the debts of the business.

Unlike sole traders and Partnerships, a company is a legal person, separate from its owners. This is called doctrine of corporate personality i.e. the law recognises a company as a person, with legal rights and obligations similar to those of individuals.

► Example 01:

Mr. Zahid set up a limited liability company ABC (SMC-PVT) Limited with 10,000 shares of Rs. 10 each. Mr. Zahid (the individual) and ABC (SMC-PVT) Limited (the company), for the purpose of the law, would be two separate persons – both would have separate legal existence.

A company is an 'artificial person', whereas individual people are 'natural persons'. Essentially, however, the law treats persons in the same way, whether they are artificial or natural. The following are characteristics of company as an artificial person:

Contractual rights and obligation

As a legal person, a company may enter into contracts in its own name with other persons – individuals or other companies.

Debts and liability

If a company incurs a debt, the company itself is liable and its owners (the shareholders) are not.

Ownership of assets / property

A company owns its own assets. Although the members (ordinary shareholders) own the company, they do not own the assets of the company. The shareholders are simply owners of the shares in the company. The company itself is the legal owner of its assets.

Right to receive from debtors

The debtor of the company owes the money to the company, and not to its owners.

Management by directors

Companies are managed by their directors, who should be members of the company as well (with a few exceptions). In small companies, the shareholders and directors may be the same individuals, but in large companies, the directors might hold a small proportion of the shares or even no shares at all.

Liability to pay tax

A company is personally liable to pay tax on its income (profits).

Legal obligations

If a company breaks the law, it is usually the company itself that is liable, although there are circumstances in which its owners or its 'officers' (mainly directors) may be personally liable.

1.2 Consequences of separate personality

The separate legal personality of companies has several consequences:

- limited liability of the owners of business
- separation of ownership from control i.e. members and directors
- transfer of ownership and perpetual succession/perpetual existence.

1.3 Transfer of ownership and perpetual succession

Share capital and members

The capital of a company is represented by shares, and the shareholders (members) are its owners. The term “member” and “shareholder” are used interchangeably, however, there are few differences that have been discussed later in this chapter.

Who can own shares?

Any legal person can own shares in a company. This includes other companies. It is very common in practice for some companies to own some or all of the shares of other companies.

Transfer of ownership

The shares can be transferred through a procedure by sale, gift, and inheritance. .

Share transfer

When shares are transferred, the rights associated with the shares, such as the right to receive any dividend paid by the company or the right to attend and vote at general meetings of the company, are transferred to the new owner.

Perpetual succession (perpetual existence)

The change in ownership or even the death or bankruptcy of owners does not affect the existence of company (as opposed to partnership).

1.4 The concept of limited liability

Liability of company

Limited liability applies to the shareholders of a company. It does not apply to the company itself. A company is fully liable for all its debts and other liabilities; just as any natural person is fully liable for the debts that he or she incurs.

Liability of directors

The directors and other officers of a company act on behalf of the company (as an agent), and provided that they act within their powers and in accordance with the law, they will not be personally liable for debts of the company.

Liability of members

The concept of limited liability applies to the owners (members) of a company. The liability of the owners of a company for the debts of the company is limited to the amount of their investment in the company and they don't have to pay any other amount in case of insolvency of the company.

Liability of members in case of partly paid shares

There is an exception to this rule of no further liability, but only when the shares issued by a company have not yet been fully paid up.

► *Example 02:*

Suppose that a company has issued 1,000,000 shares with a face value (nominal value) of Rs. 10 each, and Rs. 7.5 of the face value has been paid (subscribed) by the shareholders. If the company goes into liquidation, the holders of the 1,000,000 shares will be liable to subscribe the remaining Rs.2.5 per share, and this money can be used to pay the company's debts. This amount may be called by the directors of the company even during the life time of the company if they so decide.

Please note that at present companies are prohibited to issue partly paid shares.

How creditors are warned?

The word 'limited' in the name of the company draws the fact of limited liability to the attention of anyone dealing with it.

- This is why private limited companies in Pakistan are required to include the word "(Private) Limited" in their name.
- It is also why public companies in Pakistan are required to include the words "Limited" in their name.

1.5 Law and governance of a company

Relevant law

Companies are created by a process established by company law (i.e. Companies Act, 2017).

Memorandum of association

A company must also have a written constitution. The constitutional document that focuses on external stakeholders is called memorandum of association.

Articles of association

The bye-laws which focuses on internal procedures of a company are called articles of association.

2 DEFINITION AND TYPES OF COMPANY

2.1 Definitions

Definition: Company [Section 2(17)]

"company" means a company formed and registered under the Companies Act, 2017 or the company law.

Definition: Company law [Section 2(18)]

"company law" means the repealed Companies Act, 1913, Companies Ordinance, 1984, Companies Ordinance, 2016 and also includes Companies Act, 2017 unless the context provides otherwise.

Definition: Body corporate [Section 2(9)]

"Body corporate" or "corporation" includes

- a company incorporated under Companies Act, 2017 or company law;
- a company incorporated outside Pakistan, or
- a body corporate declared as body corporate in the relevant statute

but does not include

- A co-operative society registered under any law relating to the registration of co-operative societies; or
- Any other entity, not being a company as defined in Companies Act, 2017 or any other law for the time being, which the concerned Minister of the Federal Government may, by notification, specify in this behalf.

Analysis of above definitions

The literal meaning of 'body corporate' is artificial legal person and therefore, every company (as defined above) is also a body corporate.

However, the definition of body corporate is broader and in addition to companies registered in Pakistan it also includes companies registered in foreign countries and statutory body corporates, for example, State Bank of Pakistan constituted under State Bank of Pakistan Act, 1956.

However, for the purpose of Companies Act, 2017, a cooperative society shall not be considered a body corporate. Federal Government may also exclude a foreign company or statutory body from the definition of body corporate for the purposes of the Act.

► Example 03:

Orange Limited is a company incorporated in Pakistan and is operating branch offices around the globe. Orange Limited is a company and also a body corporate.

► Example 04:

Orange Inc. is a company incorporated in USA and is operating a branch office in Pakistan. It is a body corporate but not a company.

► Example 05:

XYZ Housing Cooperative society is generally a body corporate but for the purposes of Companies Act, it shall not be considered as a body corporate.

► Example 06:

Orange Inc. is a company incorporated in USA and is operating a branch office in Pakistan. It is a body corporate but not a company. The concerned minister of Federal Government notified that Orange Inc. shall not be considered a body corporate for the purposes of Companies Act, 2017. Orange Inc. shall not be a body corporate for application of provisions of Companies Act, 2017.

Definition: Foreign company [Section 2(35)]

“foreign company” means any company or body corporate incorporated outside Pakistan, which:

- a) has a place of business or liaison office in Pakistan whether by itself or through an agent, physically or through electronic mode; or
- b) conducts any business activity in Pakistan in any other manner as may be specified.

► **Example 07:**

Orange Inc. is a company incorporated in USA and is operating a branch office (a place of business) in Pakistan. It is a foreign company.

2.2 Types of company – according to members’ liability**2.2.1 Definition: Company limited by shares [Section 2(20)]**

“company limited by shares” means a company; having the liability of its members limited by the memorandum to the extent of amount, if any, remaining unpaid on the shares respectively held by them.

Most businesses that incorporate as companies are companies limited by shares. The great advantage of this form of company is that the company will be able, to raise additional capital by issuing new shares, subject to approval of directors.

2.2.2 Definition: Company limited by guarantee [Section 2(19)]

“company limited by guarantee” means a company having the liability of its members limited by the memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up.

A company limited by guarantee may or may not have share capital.

The liability of members of company limited by guarantee not having share capital is restricted to the amount of guarantee as mentioned in memorandum.

The liability of members of company limited by guarantee and having share capital is restricted to the amount of guarantee as mentioned in memorandum, in addition to unpaid amount on shares, if any.

2.2.3 Definition: Unlimited company [Section 2(71)]

“unlimited company” means a company not having any limit on the liability of its members.

This has all the advantages of a normal company except that the liability of its members is not limited although which can be called only in the event of winding up. In practice unlimited companies are fairly rare .

2.3 Types of company – private vs public**2.3.1 Definition: Single member company [Section 2(65)]**

“single member company” means a company which has only one member.

It is a company which consists of a single member who is also the director of the company. These companies are governed by special provisions. In these companies, “(SMC PVT) Limited” is added to the name of the company.

2.3.2 Definition: Private company (other than SMC) [Section 2(49)]

“private company” means a company which, by its articles:

- a) restricts the right to transfer its shares, save as otherwise provided in the Act;
- b) limits the number of its members to fifty not including persons who are in the employment of the company; and
- c) prohibits any invitation to the public to subscribe for the shares or debentures of the company;

Provided that, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member.

Private companies are usually small and medium sized family owned businesses.

2.3.3 Definition: Public company [Section 2(52)]

“public company” means a company which is not a private company.

A public company may (or may not) apply for listing on stock exchange.

2.3.4 Public listed company

Such form of public company whose securities are listed on securities exchange.

Securities are tradable financial instruments used to raise capital. It includes equity securities (shares) and debt securities (debentures/redeemable capital).

Definition: Listed company [Section 2(38)]

“listed company” means a public company, body corporate or any other entity whose securities are listed on securities exchange.

► Example 08:

The securities of EFG Fertilizers Limited are allowed to be traded on Pakistan Stock Exchange (PSX) i.e. people can buy and sell those securities using the mechanism provided by PSX. EFG Fertilizers Limited is a listed company.

2.3.5 Public unlisted company

Public unlisted companies have not made an offer of their shares to general public hence their shares are not traded on securities exchange.

A public unlisted company however is entitled to make an offer to the general public as and when it thinks fit unlike private companies which are forbidden to invite subscriptions from general public.

2.3.6 Public sector company [Section 2(54)]

It is also important to distinguish between a ‘public company’ and a ‘public sector company’. A public sector company has been defined as follows:

“public sector company” means a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty-one percent of the voting securities or voting power of which are held by the Government or any agency of the Government or a statutory body, or in respect of which the Government or any agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors and includes a public sector association not for profit, licenced by the Commission (SECP):

Provided that nomination of directors by the Commission on the board of the securities exchange or any other entity or operation of any other law shall not make it a public sector company.

► Example 09:

Pak Arab Refinery Company Limited (PARCO), a joint venture between Government of Pakistan and the Emirate of Abu Dhabi was incorporated as a public limited company in 1974. The Government of Pakistan holds 60% of the shareholding while 40% of the shares are held by Emirate of Abu Dhabi. PARCO is a public sector company.

► Example 10:

XYZ Limited is a public company registered under Companies Act, 2017 and also listed on Pakistan Stock Exchange. The Government has no direct or indirect investment in this company. XYZ Limited is a public company but not a public sector company.

2.4 Holding company and subsidiary company

Definition: Holding company [Section 2(37)]

“holding company”, means a company which is another company’s holding company if, but only if, that other company is its subsidiary.

Definition: Subsidiary company [Section 2(68)]

“subsidiary company” or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company:

- a) controls the composition of the board; or
- b) exercises or controls more than one-half of its voting securities either by itself or together with one or more of its subsidiary companies.

However, such class or classes of holding companies shall not have layers of subsidiaries beyond such numbers, as may be notified.

For the purpose of above meaning of subsidiary company:

- i. a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (a) or sub-clause (b) is of another subsidiary company of the holding company.
- ii. the composition of a company’s board shall be deemed to be controlled by another company if that other company by exercise of power exercisable by it at its discretion can appoint or remove all or a majority of the directors.
- iii. the expression “company” includes any body corporate.
- iv. “layer” in relation to a holding company means its subsidiary or subsidiaries.

► Example 11:

Hill Limited owns 40% voting securities in Stone Limited only but has the power to appoint or elect the majority of directors due to a contractual arrangements with other shareholders. Hill Limited is Holding company of Stone Limited.

Now if Stone Limited is a holding company of Stylish Stones Limited due to owning 80% voting securities therein, then being the holding company of Stone Limited the Hill Limited shall also be considered as holding company of Stylish Stones Limited.

Definition: Wholly owned subsidiary [Section 2(74)]

“wholly owned subsidiary” a company shall be deemed to be a wholly owned subsidiary of another company or the statutory body if all its shares are owned by that other company or the statutory body.

► Example 12:

ABC Limited owns 100% shares of XYZ Limited. XYZ Limited shall be deemed to be wholly owned subsidiary of ABC Limited.

► Practice Question 01:

Under the provisions of the Companies Act, 2017 explain the term ‘body corporate or corporation’.

► Solution:

“body corporate” or “corporation” includes a company incorporated under the Act or company law, or a company incorporated outside Pakistan, or a statutory body declared as body corporate in the relevant statute,

but does not include:

- i. a co-operative society registered under any law relating to cooperative societies; or
- ii. any other entity, not being a company as defined in the Act or any other law for the time being which the concerned Minister-in-Charge of the Federal Government may, by notification, specify in this behalf.

► *Practice Question 02:*

A Secretary has recently joined ABC (Pvt) Ltd. She informed the CEO that the membership of the company has crossed the maximum number provided under the Companies Act, 2017. The data she shared with the CEO was:

Corporate members	14
Individuals	34
Joint share-holding (3,000,000 shares held by 4 members jointly)	4
Total	52

Under the relevant provisions contained in the Companies Act, 2017, suggest the course of action in the given scenario.

► *Solution:*

The definition of a private limited company as contained in the Companies Act 2017, along with other conditions, limits the number of its members to fifty. In computing this number, those who are in the employment of the company would not be counted. Moreover, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member.

Therefore, in the given scenario, the total number of shareholders turns out to be 49 rather than 52. The total number of shareholders is thus not exceeding the limit as fixed by the Companies Act 2017 hence no action is required.

► *Practice Question 03:*

Kaghan Resham Limited (KRL) holds 60 percent shares out of total paid up capital of another public company named Naran Silk Limited (NSL). NSL further owns 14 percent shares of Thandiyani Ice-creams Limited (TIL). NSL has also entered into an agreement with other shareholders of TIL to appoint four out of seven directors on the board of directors of TIL.

Explain their relationships with each other under Companies Act 2017.

► *Solution:*

Kaghan Resham Limited (KRL) is the holding company of Naran Silk Limited (NSL) as KRL holds more than 50 percent shares of NSL.

NSL is the holding company of Thandiyani Ice-creams Limited (TIL) as NSL can appoint more than fifty percent directors of TIL and hence control the composition of its board.

So as per the definition of the holding and subsidiary company under the Act, KRL is also the holding company of TIL (indirectly).

► *Practice Question 04:*

Masters Limited (ML) has made equity investment in Abbas Limited (AL). In the light of Companies Act, 2017 state under what circumstances ML may classify AL as its subsidiary.

► *Solution:*

AL may be considered as a subsidiary company of ML if:

- ML controls composition of the board of AL. The composition shall be deemed to be controlled by ML if it can appoint or remove all or a majority of AL's directors; or
- ML exercises or controls more than one-half of its voting securities either by itself or together with one or more of its subsidiary companies.

► *Practice Question 05:*

Under the provisions of the Companies Act, 2017, describe the term 'private company'.

► *Solution:*

Private company means a company which, by its articles:

- i. restricts the right to transfer its shares, save as otherwise provided under the Companies Act, 2017;
- ii. limits the number of its members to fifty not including persons who are in the employment of the company; and
- iii. prohibits any invitation to the public to subscribe for the shares, if any, or debentures or redeemable capital of the company:

Provided that, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member.

3 AUTHORITIES, OFFICIALS, MEMBERS AND RESOLUTIONS

3.1 The Commission (SECP)

Definition: The Commission [Section 2(16)]

The Commission means the Securities and Exchange Commission of Pakistan constituted under Section 3 of Securities and Exchange Commission of Pakistan Act, 1997.

Organisation

Securities and Exchange Commission of Pakistan (SECP) established under the Securities and Exchange Commission of Pakistan Act 1997 was operationalized on 1st January 1999. SECP replaced Corporate Law Authority, the former corporate regulatory body. It has been vested with adequate operational, administrative and financial autonomy.

Offices

The SECP's head office is at the Federal Capital, Islamabad and it has eight regional offices (Company Registration Offices), one at Federal Capital, four at provincial capitals and three in other major cities i.e. Multan, Faisalabad and Sukkur.

Powers and Functions [Section 7]

The Commission shall exercise such powers and perform such functions as are conferred on it by or under Companies Act, 2017.

The powers and functions of the Commission under Companies Act, 2017 are in addition to the powers and functions of the Commission under the Securities and Exchange Commission of Pakistan Act, 1997.

SECP has been vested with lot of powers under the Companies Act 2017 and other relevant laws. SECP has got powers to regulate the affairs of all the companies including Insurance Companies, Banking Companies, and other companies.

Law has vested various powers to SECP and also federal government is empowered to vest its powers to the SECP to the extent it thinks fit.

3.2 Registrar

Definition: Registrar [Section 2(57)]

"Registrar" means a registrar, an additional registrar, an additional joint registrar, a joint registrar, a deputy registrar, an assistant registrar or such other officer as may be designated by the Commission, performing duties and functions under Companies Act, 2017.

Power and Duties

The powers and duties of registrar start from registration of companies to receiving various documents which the companies are required to submit to the authorities under Companies Act, 2017.

He keeps the record of mortgages and charges and also keeps track of company routine documents besides his powers to call the officers of the company including directors for information and explanations and he is also empowered to inspect the books and records of the company. He may seize the books and records if he believes that seizure is necessary to reach out certain facts by SECP.

3.3 Officials in a company

Definition: Officer [Section 2(45)]

"officer" includes any director, chief executive, chief financial officer, company secretary or other authorised officer of a company.

Definition: Board [Section 2(8)]

“board”, in relation to a company, means board of directors of the company.

The meetings of directors are called board meetings in which they make decisions on behalf of company.

3.4 Members of a company [Section 118]

The subscribers to the memorandum of association are deemed to have agreed to become members of the company and become members on its registration and every other person:

- a) to whom is allotted, or who becomes the holder of any class or kind of shares; or
- b) in relation to a company not having a share capital, any person who has agreed to become a member of the company;

and whose names are entered; in the register of members, are members of the company.

The terms ‘shareholder’ and ‘member’ is used interchangeably but from the above definition it is clear that ‘member’ is a broader term.

► **Example 13:**

Adeel is member of ABC (Guarantee) Limited which does not have share capital. Adeel has guaranteed to contribute an amount up to Rs. 1 million if needed in case of winding up of the company. Adeel is member of ABC (Guarantee) Limited but there are no shareholders in this company.

► **Example 14:**

Maria along with other members of her family subscribed a memorandum for registration of a company XYZ (Private) Limited. The company has been registered but shares certificates have not been printed and allotted yet. Maria is member of the company although she does not (technically) hold any shares yet.

3.5 Types of resolutions by members

The decisions of company are made in meetings through resolutions. A meeting of members is called general meeting.

Definition: Voting rights [Section 2(73)]

“voting right” means the right of a member of a company to vote on any matter in a meeting of the company either present in person or through video-link or by proxy or by means of postal ballot.

Provided that attending of meeting through video-link shall be subject to such facility arranged by the company and in the manner as may be specified, save as otherwise provided in the Act.

Definition: Ordinary resolution [Section 2(46)]

“ordinary resolution” means a resolution passed by a simple majority of such members of the company entitled to vote as are present in person or by proxy or exercise the option to vote through postal ballot, as provided in the articles or as may be specified, at a general meeting.

Definition: Special resolution [Section 2(66)]

“special resolution” means a resolution which has been passed by a majority of not less than three-fourths of such members of the company entitled to vote as are present in person or by proxy or vote through postal ballot at a general meeting of which not less than 21 days’ notice specifying the intention to propose the resolution as a special resolution has been duly given:

Provided that if all the members entitled to attend and vote at any such meeting so agree, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days’ notice has been given.

The special resolution requires more than just a simple majority and long notice of at least 21 days to take effect. This implies that this type of resolution is required for more important matters for members of the company and company itself.

► *Practice Question 06:*

Under the provisions of the Companies Act, 2017 discuss how a person may become a member of the company.

► *Solution:*

A person may become the member of the company in any of the following ways:

- The subscribers to the memorandum of association are deemed to have agreed to become members of the company and become members on its registration.

and in other cases:

- A person to whom shares of any kind are allotted, or who becomes the holder of any class or kind of shares; or
- in relation to a company not having a share capital, any person who has agreed to become a member of the company;

and whose names are entered; in the register of members, are members of the company.

► *Practice Question 07:*

Under the provisions of the Companies Act, 2017 briefly describe the term 'Special resolution'.

► *Solution:*

Special resolution is a resolution which is passed by a majority of not less than three-fourths of such members of the company entitled to vote as are present in person or by proxy or vote through postal ballot at a general meeting of which not less than 21 days' notice has been given specifying the intention to propose the resolution as a special resolution:

Provided that if all the members entitled to attend and vote at any such meeting so agree, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

4 ASSOCIATION NOT FOR PROFIT

4.1 Licencing of associations with not for profit objects [Section 42]

Concept

People working for useful objects of the society sometimes need protection of limited liability for such work. Companies Act allows the registration of companies as associations not for profit if they satisfy certain conditions to SECP.

Criteria for licence

Where it is proved to the satisfaction of the Commission that an association is to be formed as a limited company and meets the following criteria, the Commission may, by licence for a period to be specified, permit the association to be registered as a public limited company, without addition of the word "Limited" or the expression "(Guarantee) Limited", to its name:

- i. for promoting commerce, art, science, religion, health, education, research, sports, protection of environment, social welfare, charity or any other useful object;
- ii. such company:
 - intends to apply the company's profits and other income in promoting its objects; and
 - prohibits the payment of dividends to the company's members; and
- iii. such company's objects and activities are not and shall not, at any time, be against the laws, public order, security, sovereignty and national interests of Pakistan.

Conditions and regulations

The licence may be granted on such conditions and subject to such regulations as the Commission thinks fit and those conditions shall be inserted in and deemed part of the memorandum and articles, or in one of those documents.

Form of memorandum and articles

Memorandum and articles of association of a company, licenced as above, shall be in accordance with the form set out in Table F in the First Schedule and approved by the Commission.

Privileges and obligations

The association on registration as above shall enjoy all the privileges and be subject to all the obligations of a limited company.

4.2 Revocation of licence [Section 42]

Reasons for revocation

The Commission may at any time by order in writing, revoke a licence granted with such directions as it may deem fit, on being satisfied that:

- a) the company or its management has failed to comply with any of the terms or conditions subject to which a licence is granted; or
- b) any of the requirements specified or any relevant regulations are not met or complied with; or
- c) affairs of the company are conducted in a manner prejudicial to public interest; or
- d) the company has made a default in filing with the registrar its financial statements or annual returns for immediately preceding two consecutive financial years; or

- e) the company has acted against the interest, sovereignty and integrity of Pakistan, the security of the State and friendly relations with foreign States; or
- f) the number of members is reduced, below three; or
- g) the company is:
 - i. conceived or brought forth for, or is or has been carrying on, unlawful or fraudulent activities; or
 - ii. run and managed by persons who fail to maintain proper and true accounts or they commit fraud, misfeasance or malfeasance in relation to the company; or
 - iii. run and managed by persons who are involved in terrorist financing or money laundering; or
 - iv. managed by persons who refuse to act according to the requirements of the memorandum or articles or the provisions of Companies Act, 2017 or failed to carry out the directions or decisions of the Commission or the registrar given in exercise of the powers conferred by Companies Act, 2017; or
 - v. not carrying on its business or is not in operation for one year; or
- h) it is just and equitable that the licence should be revoked.

Opportunity of being heard

However, before a licence is so revoked, the Commission shall give to the company a notice, in writing of its intention to do so, and shall afford the company an opportunity to be heard.

4.3 Effect of revocation of licence [Section 43]

Requirements on revocation

On revocation of licence of a (not-for-profit) company by the Commission:

- a) the company shall stop all its activities except the recovery of money owed to it, if any;
- b) the company shall not solicit or receive donations from any source; and
- c) all the assets of the company after satisfaction of all debts and liabilities shall be transferred to another (not-for-profit) company, preferably having similar or identical objects to those of the company, within 90 days from the revocation of the licence or such extended period as may be allowed by the Commission.

However, a reasonable amount to meet the expenses of voluntary winding up or making an application to the registrar for striking the name of the company off the register may be retained by the company.

Report to Registrar

After compliance of the requirements mentioned above, the board of the company shall file within 15 days from the date of such compliance, a report to the registrar containing relevant information and documents.

Proceedings for winding up

Within 30 days of acceptance of the report by the registrar, submitted by the company, the board shall initiate necessary proceedings for winding up of the company voluntarily or where it has no assets and liabilities make an application to the registrar for striking the name of the company off the register.

Appointment of Administrator

In case of default, the Commission may appoint an administrator to manage affairs of the company and initiate necessary proceedings for winding up of the company.

Restriction on members and officers

Where any assets of the company are transferred, in consequence of revocation of licence, to another (not-for-profit) company, the members and officers of the first mentioned company or any of their family members shall not be eligible to hold any office in the later company for a period of 5 years from the date of transfer of such assets.

► *Example 15:*

The management of Shareer General Hospital (SGH) a company formed under section 42 of the Companies Act, 2017 received show cause notice from the Commission of its intention to revoke the licence because the Commission is satisfied that the affairs of SGH are conducted in a manner prejudicial to public interest. SGH management was unable to defend their position and finally the Commission revoked SGH licence on 13th January 2020 and ordered transfer of all its assets by 11th April 2020.

SGH management transferred all the assets to Good Eye Hospital (GEH) a company formed under section 42 of the Companies Act, 2017 on 3rd April 2020. In light of the provisions of Companies Act, 2017 the members and officers of SGH shall not be eligible to hold any office in GEH for a period of five years i.e. by 2nd April 2025.

► *Practice Question 08:*

Alfalah Associates is an association of persons. It wants to register itself as a limited company but does not wish to include the word "Limited" in its name.

In view of the provisions of the Companies Act, 2017 you are required to explain the conditions that need to be satisfied before the Commission may issue it a licence and allow it to dispense with the word "Limited" from its name.

► *Solution:*

The Commission may grant a licence for a period to be specified and direct that the Alfalah Associates be registered as a company with limited liability, without the addition of the words "Limited", to its name, if Alfalah Associates satisfies the following conditions:

- It should be capable of being formed as a public limited company.
- It should be formed for promoting commerce, art, science, religion, health, education, research, sports, protection of environment, social welfare, charity or any other useful object.
- It applies or intends to apply its profits/income in promoting its objects.
- It prohibits the payment of any dividend to its members.
- such company's objects and activities are not and shall not, at any time, be against the laws, public order, security, sovereignty and national interests of Pakistan.

► *Practice Question 09:*

The licence of Cancer Research Association (CRA), issued under section 42 of the Companies Act, 2017, was revoked by the Commission as the affairs of CRA were conducted in a manner prejudicial to public interest. Under the Companies Act, 2017 briefly discuss the effect of revocation of licence on CRA, its members and officers.

► *Solution:*

On revocation of licence of CRA issued under section 42, by the Commission:

- i. the company shall stop all its activities except the recovery of money owed to it, if any;
- ii. the company shall not solicit or receive donations from any source; and
- iii. all the assets of the company after satisfaction of all debts and liabilities shall be transferred to another company licensed under section 42, preferably having similar or identical objects to those of the company, within 90 days from the revocation of the licence or such extended period as may be allowed by the Commission:

Provided that a reasonable amount to meet the expenses of voluntary winding up or making an application to the registrar for striking the name of the company off the register may be retained by the company.

- iv. The members and officers of the first mentioned company (whose assets have been transferred) or any of their family members shall not be eligible to hold any office in the later company (the company to whom such assets have been transferred) for a period of five years from the date of transfer of such assets.

► *Practice Question 10:*

Identify any four criteria on the basis of which a company formed under section 42 of the Companies Act, 2017 differs from any other limited liability company.

► *Solution:*

A Company formed under section 42 of the Companies Act, 2017 i.e. association not for profit differs from any other limited liability company in following manner:

- It can only be formed as a public company.
- The promoters shall have to apply to the Commission for licence to permit the association to be registered with registrar.
- The licence granted as aforesaid shall be for a specified period only.
- The licence may be granted on such conditions and subject to such regulations as the Commission thinks fit, which shall be inserted in and deemed part of the memorandum and articles.

5 REGISTRATION OF A COMPANY

5.1 Obligation to register as company [Section 9]

No association, partnership or entity consisting of more than 20 persons shall be formed for the purpose of carrying on any business that has for its object the acquisition of gain by the association, partnership or entity, or by the individual members thereof, unless it is registered as a company under the Companies Act, 2017 and any violation shall be an offence punishable as mentioned below.

A person guilty of an offence under this section shall be liable to a penalty not exceeding of level 1 on the standard scale and also be personally liable for all the liabilities incurred in such business.

► **Example 16:**

In an MBA class, 28 class fellows decided to form a partnership firm to work collectively as marketing and advertisement advisors. The carrying on business under such partnership shall be a punishable offence. They should form a company under Companies Act, 2017.

Exceptions

The obligation to register as a company is not applicable in following circumstances:

- a) any society, body or association, other than a partnership, formed or incorporated under any law for the time being in force in Pakistan; or
- b) a joint family carrying on joint family business; or
- c) a partnership of two or more joint families where the total number of members of such families, excluding the minor members, does not exceed twenty; or
- d) a partnership formed to carry on practice as lawyers, accountants or any other profession where practice as a limited liability company is not permitted under the relevant laws or regulations for such practice.

► **Example 17:**

A group of 130 persons formed a housing co-operative society in Multan and got it registered under the Cooperative Societies Act, 1925. They are not required to be registered under the company law.

► **Example 18:**

A registered Hindu Undivided Family of 37 members is carrying on joint family business. They are not required to be registered under the company law.

► **Example 19:**

After qualifying CA, 28 Chartered Accountants decided to form a partnership firm to practice collectively as Chartered Accountants. The Chartered Accountants Ordinance, 1961 prohibits to practice as Chartered Accountants with limited liability. Such partnership is allowed under the law.

5.2 Mode of forming a company [Section 14]

Public, private or single member company

Any three or more persons associated for any lawful purpose may, by subscribing their names to a memorandum of association and complying with the requirements of the Act in respect of registration, form a public company.

Any two or more persons so associated may in the like manner form a private company.

Any one person may form a single member company by complying with the requirements in respect of registration of a private company and such other requirement as may be specified. The subscriber to the memorandum shall nominate a person who in the event of death of the sole member shall be responsible to:

- i. transfer the shares to the legal heirs of the deceased subject to succession to be determined under the Islamic law of inheritance and in case of a non-Muslim members, as per their respective law; and
- ii. manage the affairs of the company as a trustee, till such time the title of shares are transferred.

Provided that where such transfer is made to more than one legal heir, the company shall cease to be a single member company and it will be required to comply with the provisions relating to conversion to a private company.

Limited by shares or guarantee, or unlimited company

A company formed as above may be a company with or without limited liability, that is to say:

- a) a company limited by shares; or
- b) a company limited by guarantee; or
- c) an unlimited company.

5.3 Process of incorporation

The process of incorporation usually involves the following steps:

- Getting certificate of availability of name from the registrar of companies
- Preparing memorandum of association, articles of association of proposed company along with supportive documents.
- File the above documents with the registrar along with prescribed application form and payment of prescribed fee .
- Registrar shall issue the certificate of incorporation of company upon being satisfied that all the requirements have been complied with.

5.4 Registration of memorandum and articles [Section 16]

Filing with Registrar

There shall be filed with the registrar an application on the specified form containing the following information and documents for incorporation of a company, namely:

- a) a declaration of compliance with all of the requirements of Companies Act, 2017 in respect of registration;
- b) memorandum of association of the proposed company signed by all subscribers, duly witnessed and dated;
- c) articles of association (optional for company limited by shares) signed by the subscribers duly witnessed and dated; and
- d) an address for correspondence till its registered office is established and notified.

Revised documents / Removal of defects

Where the registrar is of the opinion that any document or information contains any matter contrary to law or does not otherwise comply with the requirements or is not complete owing to any defect, error or omission or is not properly authenticated, the registrar may either require the company to file a revised document or remove the defects or deficiencies within the specified period.

Refusal by register

Where the applicant fails to remove the deficiencies conveyed within the specified period, the registrar may refuse registration of the company.

Appeal to Commission

The subscribers of the memorandum or any one of them authorised by them in writing may, within 30 days of the order of refusal, prefer an appeal to the Commission.

An order of the Commission shall be final and shall not be called in question before any court or other authority.

Criteria for registration

If the registrar is satisfied that all the requirements of Companies Act, 2017 and the rules or regulations made thereunder have been complied with, he shall register the memorandum and other documents delivered to him.

Certificate of incorporation

On registration, the registrar shall issue a certificate of incorporation that shall state:

- a) the name and registration number of the company;
- b) the date of its incorporation;
- c) whether it is a private or a public company;
- d) whether it is a limited or unlimited company; and
- e) if it is limited, whether it is limited by shares or limited by guarantee.

Certificate to be Conclusive evidence

The certificate shall be signed by the registrar or authenticated by the registrar's official seal.

The certificate shall be conclusive evidence that the requirements of Companies Act, 2017 as to registration have been complied with and that the company is duly registered under the Act.

5.5 Effect of registration [Section 18]

The registration of the company has the following effects, as from the date of incorporation:

- a) the subscribers to the memorandum, together with such other persons as may from time to time become members of the company, are a body corporate by the name stated in the certificate of incorporation;
- b) the body corporate is capable of exercising all the functions of an incorporated company and having perpetual succession;
- c) the status and registered office of the company are as stated in, or in connection with, the application for registration;
- d) in case of a company having share capital, the subscribers to the memorandum become holders of the initial shares; and
- e) the persons named in the articles of association as proposed directors, are deemed to have been appointed to that office.

5.6 Carrying on business with fewer than minimum number of members [Section 15]**Minimum number of members**

The minimum number of members in a company are:

- a) two, in case of private company other than single member company; and
- b) three, in case of public company.

Effect of carrying on business with fewer than minimum number of members

If at any time the company carries on business for more than 180 days while the number of members is reduced below the minimum as mentioned above, every person who is a member of the company during the time that it so carries on business after those 180 days and is cognizant of the fact that it is carrying on business with fewer than two members or three members, as the case may be, shall be severally liable for payment of whole debts of the company contracted during that time and may be sued therefor without joinder in the suit of any other member.

► *Example 20:*

Raheel and his father, Rashid are only members in RR (Private) Limited. Upon death of Rashid, all the estate (including shares in RR (Private) Limited) were transferred to Raheel being the only heir on 25th April 2020. Raheel carried on business alone till 14th December 2020, when he transferred some of the shares to two of his family members. Raheel shall be personally liable for the debts of the company contracted during the time from 22 October 2020 (i.e. 180 days from 25th April) to 14th December 2020 when the company carried on business with fewer than two members.

► *Practice Question 11:*

On 29 April 2012, a memorandum of association of AB Limited was filed for registration in the office of Registrar. However, on 25 May 2012, a letter from the registrar office was received by the subscribers to the memorandum in which the registration was refused on the ground that the principal line of business clause stated in the memorandum was inappropriate.

Describe what course of action is available to AB Limited in the above situation, according to the Companies Act, 2017.

► *Solution:*

The subscribers of the memorandum of association of AB Limited or any one of them, authorised by them in writing, may appeal to the Commission within 30 days of the order of refusal.

An order of the Commission shall be final and shall not be called in question before any Court or other authority.

► *Practice Question 12:*

The Registrar, after registering the memorandum and articles of association, has issued the certificate of incorporation to Shahbaz Limited, a company with an authorized share capital of Rs. 300 million. Under the Companies Act, 2017 briefly describe the effects of such registration.

► *Solution:*

The registration of Shahbaz Limited has the following effects as from the date of incorporation:

- The subscribers to the memorandum, together with such other persons as may from time to time become members of the company, are a body corporate by the name stated in certificate of incorporation;
- The body corporate is capable of exercising all the functions of an incorporated company having perpetual succession;
- The status and registered office of the company are as stated in, or in connection with, the application for registration;
- The subscribers to the memorandum become holders of the initial shares;
- The persons named in the articles of association as proposed directors, are deemed to have been appointed to that office.

► *Practice Question 13:*

Under the provisions of the Companies Act, 2017:

- a) identify when a business is mandatorily required to be registered as a company.
- b) list down any three exceptions to (a) above.

► *Solution:*

Part (a)

When more than 20 persons get together for the purpose of carrying on any business with the object of acquisition of gain such business is mandatorily required to be registered as a company under the Companies Act, 2017.

Part (b)

Following are the exceptions to the requirement when a business is mandatorily required to be registered as a company under the Companies Act, 2017:

- any society, body or association formed or incorporated under any law for the time being in force in Pakistan; however, this exception shall not apply to a partnership business.
- a joint family carrying on joint family business.
- a partnership of two or more joint families where the total number of members of such families, excluding the minor members, does not exceed twenty.
- a partnership formed to carry on practice as lawyers, accountants or any other profession where practice as a limited liability company is not permitted under the relevant laws or regulations for such practice.

6 OBJECTIVE BASED Q&A

1. Which type of business structure is created by a process of incorporation
 - a) Sole Proprietor
 - b) Partnership
 - c) Company
 - d) None of the above
2. Body corporate or corporation includes
 - a) A company incorporated under Companies Act, 2017 or company law
 - b) A company incorporated outside Pakistan
 - c) A body corporate declared as body corporate under relevant statute
 - d) All of the above
3. "Men may come and men may go but the company exists". This explains which characteristics of the company as per the Companies Act, 2017.
 - a) Separate legal entity
 - b) Perpetual Succession
 - c) Perpetual Liability
 - d) Capacity to Sue
4. What is separate legal personality
 - a) That the members in general meeting are regarded by law as a person.
 - b) That the board of directors is regarded by law as a person
 - c) That the company as an entity is regarded by law as a person
 - d) That the managing director of the company is regarded by law as a person.
5. The effects of separate legal personality are
 - a) Limited liability of the owners of the business
 - b) Separation of ownership from control
 - c) Transfer of ownership and perpetual succession.
 - d) All of the above
6. The concept of limited liability applies to
 - a) The directors of the company
 - b) To the creditors of the company
 - c) To the owners (Shareholders) of the company
 - d) To the Bankers of the company
7. If a limited company is unable to pay its debts, it may be forced into liquidations. The assets of the company will then be used to pay some of its unpaid liabilities and
 - a) The directors will be required to pay personally remaining unpaid debts of the company
 - b) The shareholders will be required to pay personally remaining unpaid debts of the company
 - c) The debenture holders will be required to pay personally remaining unpaid debts of the company
 - d) The shareholders will not be required to pay personally remaining unpaid debts of the company

8. Limited liability applies to
- All companies
 - All public companies
 - All limited companies
 - All unlimited companies
9. The directors and other officers of the company act on behalf of the company, and provided that they act within their powers,
- They will be personally liable for the debts of the company
 - They will not be personally liable for the debts of the company
 - They along with the shareholders will be personally liable for the debts of the company
 - They along with the other officers of the company will be personally liable for the debts of the company
10. Company law includes
- The Companies Act, 1913
 - The Companies Act, 2017
 - The Companies Ordinance, 1984
 - All of the above
11. Public listed company means
- Such form of public company whose securities are listed on an exchange
 - Such form of private company whose securities are listed on an exchange
 - Such form of public company whose name of the members are listed on an exchange
 - Such form of public company whose name of the directors are listed on an exchange
12. Private company other than single member company can be registered by
- At least 2 members and it restricts the maximum number of members to fifty (50)
 - At least 1 member and it restricts the maximum numbers of members to twenty-five (25)
 - At least 5 members and it restricts the maximum number of members to fifty (50)
 - At least 1 member and it restricts the maximum numbers of members to fifty (50)
13. A company or body corporate which exercises or controls more than one-half of the voting securities of any other company or controls the composition of the board of such other company is known as
- Subsidiary company
 - Co-operative company
 - Holding company
 - Listed company
14. License to association not for profit shall be granted by Commission on the fulfilment of certain conditions. Choose the incorrect one.
- It shall apply its profit, if any, in promoting its objects
 - They can pay profits to its members out of it.
 - The payments of any dividend to its members is prohibited
 - They will work only for useful objects of the society

15. SECP has been vested with lot of powers under the Companies Act, 2017 and it has got powers to regulate the affairs of
- All the companies and insurance company
 - Banking companies and modarabas
 - Non-banking finance companies
 - All of the above
16. Registration of company is actually the registration of its constitution i.e.
- Articles of association
 - Memorandum of association
 - Certificate of incorporation
 - Prospectus
17. Registration of memorandum and articles means the registration of the company. The registrar after registering the company, shall issue a certificate of incorporation, which shall state.
- CNIC number of the directors
 - Date of birth of CEO
 - Date of incorporation
 - Address of the directors
18. Which of the following is obligated to be registered under Companies Act, 2017:
- A co-operative society with 35 members already registered under relevant law.
 - A joint family of 27 members carrying on the joint family business.
 - A trading partnership firm with 22 partners
 - A law partnership firm with 22 partners
19. Any _____ persons associated for any lawful purpose may, by subscribing their names to a memorandum of association and complying with the requirements of the Act in respect of registration, form a public company.
- Two
 - Two or more
 - Three
 - Three or more
20. Under the provisions of the Companies Act, 2017, the composition of a company's board shall be deemed to be controlled by another company if that other company by exercise of power exercisable by it at its discretion can:
- Appoint all or a majority of the directors
 - Appoint or remove majority of the directors
 - Appoint or remove all or majority of the directors
 - Appoint majority of directors

21. Mega Stars Limited (MSL) shall be deemed to be the holding company of Little Stars (Private) Limited (LSPL) if:
- MSL owns 50% shares of LSPL and by virtue of such investment, MSL has nominated three directors out of six directors on board of LSPL
 - MSL and one of its associated companies own 45% and 10% voting shares of LSPL respectively
 - MSL and one of its associated companies own 30% and 35% voting securities of LSPL and by virtue of such investments, both companies have nominated two directors each out of six directors on the board of LSPL
 - MSL owns 5% voting shares in LSPL; however, LSPL's other shareholders having 60% voting shares have empowered MSL to appoint four directors out of six directors of LSPL
22. Which of the following information does NOT form part of 'Certificate of incorporation'?
- The name and registration number of the company
 - The date of commencement of business
 - Whether it is a private or a public company
 - Whether it is a limited or unlimited company
23. A company limited by guarantee means a company in which liability of members is limited, in the event of its being wound up, by the:
- articles of association, to such amount as the members may respectively thereby undertake to contribute to the liabilities of the company
 - articles of association, to such amount as the members may respectively thereby undertake to contribute to the assets of the company
 - memorandum of association, to such amount as the members may respectively thereby undertake to contribute to the liabilities of the company
 - memorandum of association, to such amount as the members may respectively thereby undertake to contribute to the assets of the company
24. Orange International Association (OIA) has been formed as a charitable organisation. However, due to non-compliance of the requirements of the Companies Act, 2017 the Commission revoked its licence. On 11 March 2022, OIA's board has completed all the compliances related to the revocation of the license. Which of the following dates would be the latest date of filing the compliance report to the registrar?
- 21 March 2022
 - 25 March 2022
 - 9 April 2022
 - 9 May 2022
25. Consider the following statements relating to companies incorporated for charitable purposes:
- It is mandatory for all such companies for not adding the word 'Limited' as the last word to their names.
 - On revocation of license, any such company shall not solicit or receive donations from any source.
- Under the provisions of the Companies Act, 2017, which of the above statements is/are correct?
- Only statement (I) is correct
 - Only statement (II) is correct
 - Both statements are correct
 - Both statements are incorrect

26. Which of the following is the determining factor for a person to be recognized as a Member of a company, under the Companies Act, 2017?
- The person's agreement to become a member and the allotment of shares to him
 - The person's presence at every general meeting of the company
 - The person's willingness to invest a significant amount in the company
 - The person's status as a shareholder in the company's most recent annual report
27. Jibraeel, who founded Quail (SMC-Pvt) Limited (QSL) in 2010, unfortunately passed away in a road accident on 2 March 2024. He is survived by his wife, three sons and two daughters.
- Under the provisions of the Companies Act, 2017, the transfer of QSL's shares to Jibraeel's legal heirs will be executed by the person nominated by:
- the subscriber to the memorandum
 - QSL itself
 - the legal heirs of the deceased
 - the Commission
28. Yousuf, Younus and Yasir have decided to become subscribers to the memorandum of association of Turkey (Pvt) Limited (TPL) and plan to submit the registration documents to the registrar.
- Which of the following statements about the proposed directors of TPL is correct after its registration?
- Only the persons proposed by the subscribers within 30 days can be appointed as directors
 - Only the persons proposed by the subscribers holding majority shares can be appointed as directors
 - The proposed directors named in the articles of association are deemed to have been appointed to that office
 - The proposed directors named in the application for registration automatically become the directors
29. Muhammad Ali, Shaukat Ali and Ahmad Ali submitted the memorandum and articles of association to the registrar for the formation of a company. After registration, the status and registered office of the aforesaid company will be as stated in:
- the memorandum of association
 - the articles of association
 - the statement in lieu of prospectus
 - the application for registration
30. Under the provisions of the Companies Act, 2017, on what date did Azam Ahmed become a member of Sea Robin Limited, a listed company, after acquiring 1,000 shares on 2 September 2024?
- On the date of payment for the shares
 - On the date of entering his name in the register of members
 - On the date of receiving confirmation of payment
 - On the date of allotment of shares to him

31. Under the provisions of the Companies Act, 2017, which of the following does NOT fall under the definition of a company?
- a) Trout Travels Inc., a multinational company incorporated in the USA, which has a subsidiary named Trout Travels Pakistan, incorporated in Pakistan
 - b) Haddock Insurance, an insurance company incorporated in Pakistan with shares traded on the Pakistan Stock Exchange
 - c) Betta Society, a non-profitable organisation formed and registered under the repealed Companies Ordinance, 1984
 - d) Drumfish Association, a fishermen's association, formed and registered under the repealed Companies Act, 1913
32. Rainbowfish Limited (RL) has just submitted its documents for registration with the registrar. Muhammad, one of the promoters, is interested in understanding the implications of the certificate of incorporation once it is issued for RL. Under the provisions of the Companies Act, 2017, which of the following statements is correct?
- a) The subscribers become the holders of the initial shares, and RL can immediately carry on business
 - b) The subscribers become the holders of the initial shares, and RL is immediately entitled to exercise borrowing powers
 - c) The subscribers become the holders of the initial shares, and RL can exercise all the functions of an incorporated company
 - d) The subscribers become the holders of the initial shares, and RL can identify persons who wish to act as directors

ANSWERS

1	c)	Companies are created by a process known as incorporation, established and governed by the companies Act 2017.
2	d)	The word company means a setup formed and registered under the company law and the body corporate can be regarded as any company registered under any law.
3	b)	It is common for a company to be in existence for many years, during which time its ownership has changed many times. This phenomenon is called perpetual succession or perpetual existence.
4	c)	Separate legal personality means that the law regards a company as a person, separate from its owners. A company is an artificial person.
5	d)	The consequences of separate legal personality includes limited liability of members, separation of ownership and transfer of ownership freely.
6	c)	The liability of the owners of a company for the debts of the company is limited to the amount of their investment in the company.
7	d)	The shareholders will lose what they have invested, but will not be required to pay anymore.
8	c)	The word limited in the name of the company draws the fact of limited liability to the attention of anyone dealing with it.
9	b)	The directors and other officers of a company act on behalf of the company and when they act within their powers, they will not be held personally liable.
10	d)	The repealed companies Act, 1913, Companies Ordinance, 1984, Companies Ordinance, 2016 & Companies Act, 2017 comes within the meaning of Company law.
11	a)	Public listed company is a company whose shares and debentures are listed on a stock exchange.
12	a)	Such type of company can be registered by at least 2 members and it restricts the maximum number of members to 50.
13	c)	Holding company can be defined as a company which holds more than 50% in the voting securities of any other company or control the composition of the board of such other company.
14	b)	Association not for profit shall prohibit the payment of any profit or dividend to its members.
15	d)	SECP is the corporate regulatory body which has been vested with adequate operational, administrative and financial autonomy.
16	b)	Memorandum of Association is the constitution of the company. It binds all the members of the company.
17	c)	The certificate of incorporation shall state name & registration of the company, date of incorporation, whether it's a private or public company and whether its liability is limited or not.
18	c)	A trading partnership firm with 22 partners. [Section 9]
19	d)	Three or more. [Section 14]
20	c)	Appoint or remove all or majority of the directors [Section 2(68)]
21	d)	MSL owns 5% voting shares in LSPL; however, LSPL's other shareholders having 60% voting shares have empowered MSL to appoint four directors out of six directors of LSPL
22	b)	The date of commencement of business
23	d)	memorandum of association, to such amount as the members may respectively thereby undertake to contribute to the assets of the company
24	b)	25 March 2022

25	b)	Only statement (II) is correct
26	a)	The person's agreement to become a member and the allotment of shares to him
27	a)	the subscriber to the memorandum
28	c)	The proposed directors named in the articles of association are deemed to have been appointed to that office
29	d)	the application for registration
30	b)	On the date of entering his name in the register of members
31	a)	Trout Travels Inc., a multinational company incorporated in the USA, which has a subsidiary named Trout Travels Pakistan, incorporated in Pakistan
32	c)	The subscribers become the holders of the initial shares, and RL can exercise all the functions of an incorporated company

STICKY NOTES**Consequences of separate personality**

1. Limited liability of the owners of the business
2. Separation of ownership from control i.e. members and directors
3. Transfer of ownership and perpetual succession

The concept of limited liability

1. Liability of company: Unlimited
2. Liability of directors: Not personally liable with certain exceptions
3. Liability of members: Limited
4. Liability of members in case of partly paid shares (upto the amount unpaid)
5. How creditors are warned? The word "limited" in the name of company.

Basic definitions

1. Definition: Company
2. Definition: Company law
3. Definition: Body corporate
4. Definition: Foreign company

Types of company – according to members' liability

1. Definition: Company limited by shares
2. Definition: Company limited by guarantee
3. Definition: Unlimited company

Types of company – private vs public

1. Definition: Single member company
2. Definition: Private company (other than SMC)
3. Definition: Public company
4. Public listed company
5. Public unlisted company
6. Public sector company

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AT A GLANCE

SPOTLIGHT

STICKY NOTES

MEMORANDUM AND ARTICLES

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Memorandum of Association
- 2 Name of Company
- 3 Registered Office and Principal Line of Business
- 4 Articles of Association
- 5 General Provisions as to Memorandum and Articles
- 6 Objective Based Q&A

STICKY NOTES

AT A GLANCE

Memorandum of association includes name clause, registered office clause, principal line of business clause, liability clause, authorized capital clause (for companies having share capital) and undertaking clause. It includes implied borrowing powers of company and should be printed, signed and dated.

According to the type of company word(s) "Limited", "(Private) Limited", (SMC - Private) Limited", "(Guarantee) Limited" or "Unlimited" will be added at end of the name of company.

The Act describes the types of names prohibited or need prior approval from SECP. On application, a desired name may be reserved. A company may change its name by passing special resolution and through approval from registrar. The name must be displayed at business place and should be printed on documents.

Every company shall have a registered office and should notify the registrar its address within 30 days of incorporation or a subsequent change thereof. A company may change its registered office by following the required procedures.

A company may by special resolution alter the provisions of its memorandum to change its principal line of business.

Articles are the byelaws of the company. A company limited by shares can adopt Table A as its articles. In case of unlimited company or company limited by guarantee, amount of share capital and, in case of company not having share capital, number of members shall be stated by its articles. In case of violation of articles company and its officers shall be liable to penalty. Articles should be printed, signed and dated.

In case of any alteration in articles, special resolution is required and where such alteration affects the substantive rights or liabilities of members of a class of members, the class resolution of affected class is also required. and the altered copy is to be filed with the registrar.

A company shall provide the copies of memorandum and articles to members on payment of fee. The memorandum and articles when registered, bind the company and the members thereof.

1 MEMORANDUM OF ASSOCIATION

1.1 Clauses of memorandum [Section 26 to 29]

Memorandum of association consists of various clauses which contain variety of information and it may vary from company to company on the basis of the type of the company or the business of the company. Following are essential clauses of the memorandum of association of any company.

1.1.1 Name clause

The name of the company with the addition of the following words at the end of the name in case of each of the following companies:

Public Company	"Limited"
Private Company	"(Private) Limited"
Single Member Company	"(SMC-Private) Limited"
Guarantee Limited Company	"(Guarantee) Limited"
Unlimited Company	"Unlimited"

1.1.2 Registered office clause

This clause shall state the Province or the part of Pakistan not forming part of a Province, as the case may be, in which the registered office of the company is to be situated.

► *Example 01:*

If the company proposes to have a registered office in Lahore, they will write in their memorandum that 'the registered office of the company shall be situated in province of Punjab', However if the company will have a registered office in Islamabad, it will write that 'the registered office of the company shall be situated in Islamabad' reason being that Islamabad is capital territory and it is a part of Pakistan that does not form part of any province.

1.1.3 Principal line of business clause

"Principal line of business" means the business in which substantial assets are held or likely to be held or substantial revenue is earned or likely to be earned by a company, whichever is higher.

► *Example 02:*

TSF Mills Limited is being proposed to be registered to carry on business involving manufacture and sale of textile, sugar and flour products. The extracts from financial projection are:

Business	Estimated Assets	Estimated (Average) Revenue		
	Rs. m	%	Rs. m	%
Textile	500	55.6%	2,200	29.3%
Sugar	300	33.3%	4,500	60%
Flour	100	11.1%	800	10.7%
Total	900		7,500	

The revenue is higher than assets and substantial revenue is being generated by Sugar business. Therefore, the principal line of business shall be manufacture and sale of sugar.

A company may carry on or undertake any lawful business or activity and do any act or enter into any transaction being incidental and ancillary thereto which is necessary in attaining its business activities. However, the principal line of business of the company shall be mentioned in the memorandum of association of the company which shall always commensurate with name of the company.

► **Example 03:**

A proposed company's principal line of business is manufacture and sale of textile products. One of the subscriber to memorandum has suggested name "TSF Consultancy Limited". The name is not appropriate since it does not commensurate with the principal line of business clause.

A company shall not engage in a business which is:

- prohibited by any law for the time being in force in Pakistan; or
- restricted by any law, rules or regulations, unless necessary licence, registration, permission or approval has been obtained or compliance with any other condition has been made.

The existing companies (those registered before Companies Act, 2017 was effective) may continue with their existing memorandum and the object clause be treated as the principal line of business.

1.1.4 Liability clause

In case of a company limited by shares and limited by guarantee, the liability clause states that 'the liability of the members is limited'.

In case of an unlimited company, the liability clause states that 'the liability of the members is unlimited'.

In case of a company limited by guarantee, an additional sentence is added to clarify the extent of liabilities of the members of that company in the event of its being wound up.

1.1.5 Authorised capital clause (only for companies having share capital)

This clause contains the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount. This is the maximum number of shares that can be subscribed.

► **Example 04:**

The authorised capital clause may be: "The authorised capital of the company shall be Rs. 10 million divided into 1 million ordinary shares of Rs. 10 each."

No subscriber of the memorandum shall take less than one share..

Each subscriber of the memorandum shall write opposite to his name the number of shares he agrees to take.

1.1.6 Undertaking / Subscription clause

The company shall add an undertaking, as may be specified by the SECP, in its memorandum.

All of the above clauses are undertaken to be abide by, by the subscribers of the memorandum, as they are the first members of the company, they write as follows:

"We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company, in pursuance of the memorandum of association, and we respectively agree to take the number of shares in the capital of the company set opposite our respective names."

1.2 Borrowing powers to be part of memorandum [Section 30]

The memorandum and articles of a company is deemed to include (implied) power to enter into any arrangement for obtaining loans, advances, finances or credit, and to issue other securities not based on interest for raising resources from a scheduled bank, a financial institution or general public.

1.3 Memorandum to be printed, signed and dated [Section 31]

The memorandum shall be:

- a) printed in the manner generally acceptable;
- b) divided into paragraphs numbered consecutively;
- c) signed by each subscriber, who shall add his present name in full, his occupation, nationality and his usual residential address and such other particulars as may be specified, in the presence of a witness who shall attest the signature and shall likewise add his particulars; and
- d) dated.

► *Practice Question 01:*

What are the main clauses of a Memorandum of Association of a company limited by guarantee and not having a share capital?

► *Solution:*

The memorandum of association of a company limited by guarantee shall include the following clauses:

Name clause: The first clause of the memorandum is the name clause of the company which contains the name of the company with the addition of the words Guarantee Limited in case of a company limited by guarantee.

Registered office clause: For registered office clause, the memorandum shall state the province or the part of Pakistan not forming part of a province, as the case may be, in which the registered office of the company is to be situated.

Principal line of business clause: The principal line of business means the business in which substantial assets are held or likely to be held or substantial revenue is earned or likely to be earned by a company, whichever is higher.

An **undertaking** as may be specified

Liability clause: In case of a company limited by guarantee, the liability clause states that 'the liability of the members is limited'. An additional sentence is added to clarify the extent of liabilities of the members of that company in the event of its being wound up.

2 NAME OF COMPANY

2.1 Prohibition of certain names [Section 10]

Prohibited names

A company shall not be registered by a name which contains such word or expression, as may be notified by the Commission or in the opinion of the registrar is:

- a) identical with or resemble or similar to the name of a company; or
- b) inappropriate; or
- c) undesirable; or
- d) deceptive; or
- e) designed to exploit or offend religious susceptibilities of people; or
- f) any other ground as may be specified.

► **Example 05:**

If a company named 'ABC Fertilisers Limited' is already registered, another company with the name 'ABC Fertilizers Limited' to be registered with this name shall not be allowed. Although the spelling are different but the name resembles so much that it cannot be allowed.

► **Example 06:**

A proposed company with the name 'Spread Violence (Private) Limited' may not be allowed on account of inappropriate name.

► **Example 07:**

A proposed business trading in industrial machinery may not be allowed name 'Industry Bank Limited' on account of deceptive name.

Names requiring prior approval of SECP

Prior approval in writing of the Commission shall be required if the proposed name contains any words suggesting:

- a) the patronage of any past or present Pakistani or foreign head of state;
- b) any connection with the Federal Government or a Provincial Government or any department or authority or statutory body of any such Government;
- c) any connection with any corporation set up by or under any Federal or Provincial law;
- d) the patronage of, or any connection with, any foreign Government or any international organisation;
- e) establishing a modaraba management company or to float a modaraba; or
- f) any other business requiring licence from the Commission.

► **Example 08:**

A proposed company running bus transport services with the name 'Pakistan Bus Transport Authority Limited' is not allowed unless it obtains prior approval of SECP in writing as the name suggest connection with Federal Government (or authority of such government).

Decision of Commission is final

Whenever a question arises as to whether or not the name of a company is in violation of the above provisions, decision of the Commission shall be final.

Reservation of name

A person may make an application to the registrar for reservation of a name set out in the application for a period not exceeding 60 days.

Where it is found that a name was reserved, by furnishing false or incorrect information, such reservation shall be cancelled and in case the company has been incorporated, it shall be directed to change its name. The person who made the application shall be liable to a penalty.

If the name applied for is refused by the registrar, the aggrieved person may within 30 days of the order of refusal prefer an appeal to the Commission.

An order of the Commission shall be final and shall not be called in question before any court or other authority.

2.2 Rectification of name of a company [Section 11]

Company on its own & on direction by registrar

A company which, through inadvertence or otherwise, is registered by a name in contravention of the Companies Act or the name was obtained by furnishing false or incorrect information:

- a) may, with approval of the registrar, change its name; and
- b) shall, if the registrar so directs, within 30 days of receipt of such direction, change its name with approval of the registrar.

However, the registrar shall, before issuing a direction for change of the name, afford the company an opportunity to make representation against the proposed direction.

Failure to comply with direction

If the company fails to report compliance with the direction issued within the specified period, the registrar may enter on the register a new name for the company selected by him, being a name under which the company may be registered under Companies Act, 2017 and issue a certificate of incorporation on change of name.

Penalty

If a company makes default in complying with the direction issued by the registrar or continue using previous name after the name has been changed by the registrar, it shall be liable to a penalty.

2.3 Change of name by a company [Section 12]

Procedure

A company may, by special resolution and with approval of the registrar signified in writing, change its name.

Approval not required

The permission of the registrar shall not be required if the only change is the addition or deletion of the word and parenthesis “(Private)” or “(SMC-Private)” or “Limited” or “(Guarantee) Limited” or “Unlimited” as the case may be upon the change in the status of a company.

2.4 Registration of change of name and effect thereof [Section 13]

New certificate of incorporation

Where a company changes its name the registrar shall enter the new name on the register in place of the former name, and shall issue a certificate of incorporation altered to meet the circumstances of the case and, on the issue of such a certificate, the change of name is complete.

Mentioning old name with new name

Where a company changes its name it shall, for a period of 90 days from the date of issue of a certificate by the registrar, continue to mention its former name along with its new name on the outside of every office or place in which its business is carried on and in every document or notice.

No effect on legal proceedings

The change of name shall not affect any rights or obligations of the company, or render defective any legal proceedings by or against the company and any legal proceedings that might have been continued or commenced against the company by its former name may be continued by or commenced against the company by its new name.

2.5 Publication of name by a company and penalty [Section 22 & 24]

Name on business places

Every company shall display in a conspicuous position, in letters easily legible in English or Urdu characters its name and incorporation number outside the registered office and every office or the place in which its business is carried on.

Certificate of incorporation

Every company shall display a certified copy of certificate of incorporation at every place of business of the company.

Name on documents

Every company shall have its name mentioned in legible English or Urdu characters, in all bills of exchange, promissory notes, endorsements, cheques and orders for money or goods purporting to be signed by or on behalf of the company and in all bills of parcels, invoices, receipts and letters of credit of the company.

Name and particulars on documents

Every company shall get its name, address of its registered office, telephone number, fax number, e-mail and website addresses, if any, printed on letter-head and all its documents, notices and other official publications.

Penalties

A penalty of level 1 be levied on company and its officers in default for not displaying its name in the manner provided for by Companies Act, 2017.

An officer shall be personally liable for debt or obligation for issuing / authorizing any document without mentioning the name of the company, unless duly paid or discharged by the company.

► Practice Question 02:

A group of persons intends to form a limited liability company, with the objective to provide research related services to pharmaceutical companies. In this respect, one of the promoters proposed 'Pharma Research Authority' as a name of the proposed company which was liked by all the promoters.

Under the provisions of the Companies Act, 2017 comment on the validity of the name proposed by the promoters and suggest how they can overcome the deficiencies, if any, in it.

► Solution:

The name proposed by the promoters is not valid under the provisions of the Companies Act, 2017 due to following two reasons:

- i. The word "Authority" cannot be used as it implies connection with a Government. According to the Companies Act, 2017 "no company shall be registered by a name which contains any word suggesting or calculated to suggest any connection with a Government."

However, in order to overcome this the promoters with the prior approval in writing of the Commission may be able to get the company registered with such word.

- ii. The word “Limited” is missing from the name of the company. According to the Companies Act, 2017 the word limited is required to be written at the end of the name of a company.

However, if the group of persons intend to form a limited liability company with charitable and not for profit objects then they have to apply to the Commission for a licence and the Commission, if satisfied, may allow them to be registered as a limited liability company without addition of the word “Limited” or “(guarantee) Limited” to its name.

Moreover, it should also be ensured that the proposed name is not identical with or resemble or similar to the name of already registered company or inappropriate or deceptive.

► *Practice Question 03:*

Printing (Pvt.) Limited (PL) wants to change its name to Printing and Marketing (Pvt.) Limited. Under the provisions of the Companies Act, 2017 describe the steps to be followed by PL for changing its name and matters to be complied with after the change of name.

► *Solution:*

The steps required for change of names are as follows:

- i. Pass special resolution and obtain written permission of the registrar for the new name
- ii. Obtain certificate of incorporation bearing the new name

After the change of its name PL shall for a period of 90 days from the date of issue of a certificate by the registrar continue to mention its former name along with its new name on the outside of every office or place in which its business is carried on and in every document or notice of the company.

3 REGISTERED OFFICE AND PRINCIPAL LINE OF BUSINESS

3.1 Registered office of a company [Section 21]

Purpose

Registered office is a place which is the address of the company for receiving all of its communications. . There may be more than one office for business of the company but registered office shall be only one.

Notify to registrar

A company shall have a registered office to which all communications and notices shall be addressed and such address shall be notified to the registrar within a period of 30 days of its incorporation.

Notice of change and special resolution

Notice of any change in situation of the registered office shall be given to the registrar within a period of 15 days after the date of change:

The change of registered office of a company shall also require approval of general meeting through special resolution if it is from:

- a) one city in a Province to another; or
- b) a city to another in any part of Pakistan not forming part of a Province.

3.2 Alteration of registered office clause in memorandum [Section 32 to 34]

Alteration

A company may by special resolution alter the provisions of its memorandum so as to change the place of its registered office from:

- a) one Province to another Province or Islamabad Capital Territory and vice versa; or
- b) one Province or Islamabad Capital Territory to a part of Pakistan not forming part of a Province and vice versa.

Confirmation from SECP

The alteration shall not take effect until it is confirmed by the Commission on petition.

The Commission may make an order confirming the alteration on such terms and conditions and make such order as to costs as it thinks proper.

The Commission shall in exercising its discretion have regard to the rights and interests of the members of the company or of any class of them, as well as to the rights and interests of the creditors and may, if it thinks fit, give such directions and make such orders as it may think expedient for facilitating or carrying into effect any such arrangement.

Copy of order to company and registrar

A copy of the order confirming the alteration duly certified by an authorised officer of the Commission shall be forwarded to the company and to the registrar within 7 days from the date of the order.

Conclusive evidence of alteration

An altered copy of the memorandum shall within 30 days from the date of the order be filed by the company with the registrar, who shall register the same and issue a certificate which shall be conclusive evidence that all the requirements of the alteration and the confirmation thereof have been complied with.

Extension in time limit

The Commission may by order, at any time on an application by the company, on sufficient cause shown extend the time for the filing of memorandum with the registrar.

Transfer of record

Where the alteration involves a transfer of registered office from the jurisdiction of one company registration office to another, physical record of the company shall be transferred to the registrar concerned of the company registration office in whose jurisdiction the registered office of the company has been shifted.

3.3 Alteration of principal line of business clause [26 & 32]**Alteration**

A company may by special resolution alter the provisions of its memorandum to change its principal line of business.

Approval from Commission not required

An alteration so as to change its principal line of business shall not require confirmation by the Commission.

Filing of amended memorandum

Where the alteration involves change in principal line of business, the company shall file the amended memorandum of association with the registrar within 30 days, which shall be recorded.

Change of name may be directed by registrar

Any change in the principal line of business shall be reported to the registrar within 30 days from the date of change, on the form as may be specified and registrar may give direction of change of name if name does not commensurate with principal line of business of the company.

3.4 Adoption of business activity subject to approval under any law [Section 32 to 34]**Alteration**

A company may by special resolution alter the provisions of its memorandum to adopt any business activity or any change therein which is subject to licence, registration, permission or approval under any law.

Confirmation from SECP

The alteration shall not take effect until it is confirmed by the Commission on petition.

The Commission may make an order confirming the alteration on such terms and conditions and make such order as to costs as it thinks proper.

The Commission shall in exercising its discretion have regard to the rights and interests of the members of the company or of any class of them, as well as to the rights and interests of the creditors and may, if it thinks fit, give such directions and make such orders as it may think expedient for facilitating or carrying into effect any such arrangement.

Copy of order to company and registrar

A copy of the order confirming the alteration duly certified by an authorised officer of the Commission shall be forwarded to the company and to the registrar within 7 days from the date of the order.

Conclusive evidence of alteration

An altered copy of the memorandum shall within 30 days from the date of the order be filed by the company with the registrar, who shall register the same and issue a certificate which shall be conclusive evidence that all the requirements of the alteration and the confirmation thereof have been complied with.

Extension in time limit

The Commission may by order, at any time on an application by the company, on sufficient cause shown extend the time for the filing of memorandum with the registrar.

► **Practice Question 04:**

In the annual general meeting of Paramount Limited, a shareholder objected to the shifting of the registered office from Multan to Lahore without obtaining confirmation from the Commission. Explain whether the objection is valid.

► **Solution:**

The shareholder's objection is not valid, because an alteration to change the place of registered office of a company from one city or town to another in the same province does not require confirmation by the Commission.

► **Practice Question 05:**

The Directors of Muntaqil Limited are considering to re-locate company's registered office from Karachi to Islamabad to carry on business more economically.

Advise Company Secretary about the steps which must be taken to re-locate the registered office under the provisions of the Companies Act, 2017.

► **Solution:**

For alteration in the registered office, Muntaqil Limited shall:

- Pass a special resolution.
- Obtain confirmation from Commission
- Submit altered copy of memorandum to registrar within 30 days of passing the special resolution.
- When Muntaqil Limited actually shifts its registered office, it shall inform the registrar within 15 days of the date of such change.

► **Practice Question 06:**

Describe the provisions contained in the Companies Act, 2017 relating to 'principal line of business' of a company.

► **Solution:**

Principal line of business means the business in which substantial assets are held or likely to be held or substantial revenue is earned or likely to be earned by a company, whichever is higher.

Principal line of business of the company shall be mentioned in the memorandum of association of the company which shall always commensurate with name of the company.

Any change in the principal line of business shall be reported to the registrar within 30 days from the date of change, on the form as may be specified and registrar may give direction of change of name if the name does not commensurate with the principle line of business of the company.

► **Practice Question 07:**

Mackerel Limited (ML) is a listed company engaged in the business of fish farming. As part of its expansion plan, ML's board has decided to invest in poultry and dairy businesses for which the principal line of business is required to be changed.

Under the provisions of the Companies Act, 2017 describe the prescribed procedure for changing ML's principal line of business.

► *Solution:*

The prescribed procedure for changing ML's principal line of business are as follows:

- ML shall alter the provisions of its memorandum of association through special resolution.
- ML shall file duly authenticated special resolution with the registrar within 15 days from passing of special resolution.
- ML shall report to the registrar within 30 days from the date of change, on the specified form and file the amended memorandum of association.
- Registrar may give direction of change of name if the name of ML does not commensurate with the principal line of business.

4 ARTICLES OF ASSOCIATION

4.1 Registration of articles [Section 36]

Articles are the byelaws of the company, subordinate to the constitution of the company and further subordinate to the Companies Act. The articles may be stricter than the Companies Act but not vice versa.

► *Example 09:*

The Companies Act requires that a public company which is not listed shall have at least three directors. Law requires minimum three directors; hence company may write in its articles that the company shall always have not less than five directors if the members of the company want to do so. Further the company may make various classes of its shares, the exact rights and liabilities of each class of shareholders shall be stated in the articles of association.

Registration of articles

The articles of association signed by the subscribers to the memorandum and setting out regulations for the company may/shall be registered with the memorandum.

- Optional for company limited by shares
- Compulsory for company limited by guarantee or unlimited company

Adopting Table A

Articles of association of a company limited by shares may adopt all or any of the regulations contained in Table A in the First Schedule to the Companies Act.

Amount of share capital

In the case of an unlimited company or a company limited by guarantee, the articles, if the company has a share capital, shall state the amount of share capital with which the company proposes to be registered.

Number of members

In the case of an unlimited company or a company limited by guarantee, if the company has no share capital, the articles shall state the number of members with which the company proposes to be registered.

Applicability of Table A

- Table A is applicable in full if articles are not registered.
- Table A is applicable to the extent not modified or excluded by articles filed by a company.
- Table A not applicable at all, if specifically excluded by articles filed by a company.

Clarity and voting rights

The articles of every company shall be explicit and without ambiguity and shall list and enumerate the voting and other rights attached to the different classes of shares and other securities.

Penalty

If a company contravenes the provisions of its articles of association, the company and every officer of the company shall be liable to a penalty.

4.2 Contents of articles – Table A

The following is list of contents of Table A:

- Business
- Shares
- Transfer and Transmission of Shares
- Form for Transfer of Shares
- Bank Account Details of Transferee for Payment of Cash Dividend
- Transmission of Shares
- Alteration of Capital
- General Meetings
- Notice and Proceedings of General Meetings
- Votes of Members
- Instrument of Proxy
- Directors
- Powers and Duties of Directors
- Minute Books
- The Seal
- Disqualification of Directors
- Proceedings of Directors
- Filling of Vacancies
- Dividends and Reserve
- Accounts
- Notices
- Winding Up
- Indemnity

4.3 Articles to be printed, signed and dated [Section 37]

The articles shall be:

- a) printed in the manner generally acceptable;
- b) divided into paragraphs numbered consecutively;
- c) signed by each subscriber, who shall add his present name in full, his occupation, nationality and his usual residential address and such other particulars as may be specified, in the presence of a witness who shall attest the signature and shall likewise add his particulars; and
- d) dated.

4.4 Alteration of articles [Section 38]

Alteration by special resolution

Subject to Companies Act and memorandum, a company may, by special resolution, alter its articles and any alteration so made shall be as valid as if originally contained in the articles and be subject in like manner to alteration by special resolution.

Restriction on alteration

When alteration in articles affects the substantive rights or liabilities of members or of a class of members, it shall be carried out only if a majority of at least three-fourths of the members or of the class of members affected by such alteration, as the case may be, exercise the option through vote personally or through proxy vote for such alteration.

Filing to registrar

A copy of the articles of association as altered shall, within 30 days from the date of passing of the resolution, be filed by the company with the registrar and he shall register the same and the articles so filed shall be the articles of the company.

► Practice Question 08:

A team of young engineers is planning to incorporate a private limited company which would provide machine maintenance services to large companies. The company would initially be incorporated with a share capital of Rs. 20 million. However, the engineers are not certain about “Registration and signing of articles of association”. Advise the team of engineers in respect of the above matters in the light of the Companies Act, 2017.

► Solution:

The company limited by shares has the option to set out its own regulations for the company and get it registered with the memorandum of association, or adopt Table A as its Article of association.

If articles are not registered, or, if articles are registered, in so far as the articles do not exclude or modify the regulations in Table A in the First Schedule to the Companies Act, those regulations shall, so far as applicable, be the regulations of the company in the same manner and to the same extent as if they were contained in duly registered articles.

The article shall be signed by each subscriber, in the presence of a witness who shall attest the signature of the subscriber.

► Practice Question 09:

In light of the provisions of the Companies Act, 2017, briefly discuss the significance of articles of association of a company. Also, discuss whether all companies are required to register their articles of association.

► Solution:

Significance of Articles of Association (AoA) of a company:

The AoA serve as the byelaws of the company, subordinate to both the company’s memorandum of association and the Companies Act, 2017 (the Act). Collectively, these documents form the company’s constitution, playing a vital role in governing the internal affairs of the company.

Requirement of registration of AoA:

Based on the provisions of the Act, the registration requirements are as follows:

- i. **For companies limited by shares:** For these companies, the registration of AoA is not mandatory. Instead, the regulations contained in Table A of the First Schedule to the Act are automatically applicable as the AoA. Companies have the option to adopt some or all of these regulations to govern their internal affairs.
- ii. **For companies limited by guarantee and unlimited companies:** These companies are required to register their AoA along with the memorandum of association. They also have the choice to adopt some or all of the regulations from Table A of the First Schedule to the Act to manage their internal affairs.

5 GENERAL PROVISIONS AS TO MEMORANDUM AND ARTICLES

5.1 Act to override [Section 4]

Unless otherwise expressly mentioned in the Companies Act, 2017, the provisions of the Act shall have effect notwithstanding:

- anything contained in any other law; or
- the memorandum; or
- articles of a company; or
- in any contract or agreement executed by it; or
- in any resolution passed by the company in general meeting or by its directors,

whether the same be registered, executed or passed, as the case may be, before or after the coming into force of the said provisions of the Act.

Any provision contained in the memorandum, articles, contract, agreement, arrangement or resolution, to the extent to which it is repugnant to the provisions of the Act, shall be void.

5.2 Copies of memorandum and articles to be given to members [Section 39]

Each company shall send to every member, at his request and within 14 days on payment of fee fixed by the company, a copy of the memorandum and the articles.

5.3 Effect of memorandum and articles [Section 17]

Binding on Company and members

The memorandum and articles, when registered, bind the company and the members of the company as if they had been signed by the members and, his heirs and legal representatives that they shall observe and be bound by the memorandum and articles, unless in conflict with the Companies Act.

Money payable to be debt

All moneys payable by a subscriber in pursuance of his undertaking in the memorandum of association shall be a debt due from him and be payable in such time, manner and condition as may be notified by the Commission.

Penalty

Any violation of direction given by registrar shall be an offence liable to a penalty of level 1 on the standard scale.

5.4 Effect of alteration in memorandum or articles [Section 35]

If the memorandum of association or articles of association are altered and such alteration requires the member(s) to take or subscribe more shares in the company than they already have or in any way increases his liability to contribute to the share capital of or otherwise to pay money to the company, such alteration shall be applicable to a member only if he gives his consent in writing either before or after the alteration.

5.5 Alteration to be noted in every copy [Section 40]

Where an alteration is made in the memorandum or articles of a company, every copy of the memorandum or articles issued after the date of the alteration shall conform to the memorandum or articles as so altered.

For each copy issued in contravention of above, the company and every officer of the company who is in default shall be liable to the penalty.

5.6 Form of memorandum and articles [Section 41]

The form of memorandum and articles of following companies shall be in accordance with Table of First Schedule mentioned:

Type of company	Document	Form
Company limited by shares	Articles	Table A
	Memorandum	Table B
Company limited by guarantee and not having a share capital	Articles & Memorandum	Table C
Company limited by guarantee and having a share capital	Articles & Memorandum	Table D
Unlimited company having a share capital	Articles & Memorandum	Table E
A company licensed under section 42 i.e. <i>Association not for profit</i>	Articles & Memorandum	Table F

► **Practice Question 10:**

Mr. Zouk is an employee in a brokerage house and he wants to prepare some reports on request of some potential investors for a company named as “Arizona Grill Limited”. For the preparation of the report he requires Memorandum & Articles of association of the company.

State whether he can obtain such copies of Memorandum & Articles of Association from “Arizona Grill Limited” and explain why.

► **Solution:**

The Companies Act 2017 requires the company to forward a copy of Memorandum of Association and Articles of Association on the request of a member only on payment of certain fixed fee. Any unconcerned person cannot demand such copies from the company. So “Arizona Grill Limited” is not bound to provide such copies to Mr Zouk.

► **Practice Question 11:**

Ahmed, Ahmer and Akbar being the founder members of M/s Excellent (Pvt) Limited got the certificate of incorporation of the company on 1st March 2026. They have given the undertaking to subscribe 10,000 shares each of Rs. 10/- per share of the company. Discuss.

► **Solution:**

The amount of Rs. 100,000 shall be considered debt payable to company from Ahmed, Ahmer and Akbar each. This amount must be paid in such time, manner and condition as may be notified by the Commission.

► **Practice Question 12:**

Platinum Limited (PL) was formed with an authorized capital of 20 million shares of Rs. 10 each. At the time of formation, Anas, Asad, and Ameen acquired 1 million shares, 2.5 million shares, and 6.5 million shares, respectively. Together, these represent PL's total paid-up capital.

On 2 August 2025, Asad sold 0.5 million shares to Arqam.

On 6 September 2025, PL convened an extraordinary general meeting and passed a special resolution to increase its paid-up capital and resolved an alteration in its articles of association, setting the minimum shareholding requirement for each of its shareholders to 2 million shares.

Analyse the effect of the alteration on the shareholders in light of the provisions of the Companies Act, 2017.

► *Solution:*

The alteration made by PL in its AoA has potential implications on the existing shareholders. Let's analyse the effect of this alteration in light of the relevant provisions of the Act:

- i. Among the existing shareholders, Asad and Ameen currently hold 2 million or more shares and meet the requirement of PL's AoA. However, Anas and Arqam holds 1 million shares and 0.5 million shares respectively, which is below the newly altered minimum requirement in the AoA.
- ii. The Act states that no member shall be obligated by an alteration that requires them to take or subscribe to more shares than they held at the date of the alteration. This obligation only applies if the member agrees in writing, either before or after the alteration is implemented.
- iii. In this context, Anas and Arqam are not required to subscribe for additional shares to meet the new minimum requirement, unless each of them have given the consent in writing either before or after the alteration is made to be bound thereby.
- iv. If Anas and Arqam decide to subscribe for additional shares, Asad's and Ameen's shareholding will decrease from 20% and 65% to 16% and 52% respectively. Concurrently, the shareholding of the remaining shareholders will increase from 15 % to 32%.

Based on the above analysis, the alteration made in the AoA may not compel any shareholders without the respective consent of each of the member effected to acquire additional shares to fulfil the new minimum threshold.

6 OBJECTIVE BASED Q&A

1. Under the Companies Act, 2017 in which document would you find the principal line of business clause?
 - a) Statutory declarations
 - b) Articles of association
 - c) Memorandum of association
 - d) Prospectus
2. A person may make an application in specified form and manner with a specified fee to the registrar for reservation of any name. If the application is refused by registrar, aggrieved person may prefer an appeal to Commission with in
 - a) 60 days
 - b) 30 days
 - c) 15 days
 - d) 90 days
3. Companies Act, 2017 allows the alteration of various clauses of the memorandum of association of the company however there is difference as to the procedure or requirement of law. Which clause cannot be altered in the lifetime of the company?
 - a) Name clause
 - b) Subscription clause
 - c) Liability clause
 - d) Registered office clause
4. Toys & Toys Limited (TTL) resolved to shift its registered office from Gujranwala to Lahore i.e. within the province of Punjab. For this purpose, TTL must:
 - a) Obtain consent of creditors who are entitled to object and obtain prior approval of the Commission
 - b) Give notice of change to the Commission within a period of fifteen days after the change
 - c) Obtain approval of the registrar prior to shifting of its registered office
 - d) Give notice of change in situation of the registered office to the registrar within a period of fifteen days after the date of change
5. For registered office clause the province or the part of Pakistan not forming part of a province shall be mentioned. e.g. if the company proposes to have a registered office in Islamabad, they will write in their memorandum that
 - a) The registered office will be situated in province of Sindh
 - b) The registered office will be situated in province of Punjab
 - c) The registered office will be situated in Islamabad
 - d) None of the above
6. The first clause of the memorandum is the name clause of the company which contains the name of the company with the addition of appropriate parenthesis. Choose the incorrect parenthesis
 - a) Abdullah (Private) Limited is a private company
 - b) Rahim (Guarantee) Limited is a guarantee limited company
 - c) The Lawyer (PLC) is a public limited company
 - d) Khan (SMC-Private) Limited is a single member company

7. Every company shall supply within a period of 14 days, a copy of the memorandum and articles of the company, upon the request and payment of a prescribed amount, to its
- Creditor
 - Auditor
 - Director
 - Member
8. What type of resolution is required to change company's name?
- Special resolution
 - Ordinary resolution
 - Ordinary resolution with 14 days' notice
 - Special resolution with 14 days' notice
9. In relation to a company's articles of association, which of the following is incorrect?
- The articles of association set down the internal regulations of a company
 - Promoters may or may not submit their own form of articles when submitting the forms necessary to form a company limited by shares.
 - The articles of association form a contract between the members and the company and the members among themselves.
 - Articles of association may be changed by ordinary resolution.
10. If a company changes its name, then former name is required to be mentioned along with the new name for a period of
- 90 days from the date of issue of the new certificate of incorporation.
 - 120 days from the date of issue of the new certificate of incorporation.
 - One year from the date of issue of the new certificate of incorporation.
 - None of the above is correct
11. A company has been incorporated with a name in contravention of the relevant provisions of the Companies Act, 2017. Now the directors have received an order from the Registrar to rectify the name after providing an opportunity of being heard. The name is required to be rectified/change within a period of
- 15 days
 - 30 days
 - 120 days
 - None of the above is correct
12. Which of the following clauses is not covered in Table A of the First Schedule?
- Proceedings of directors
 - Votes of members
 - Instrument of proxy
 - Annual return

13. A company is changing its registered office from Gulgasht Colony to Bukhari Colony within the city of Multan. Which of the following requirements are applicable:
- Notify to registrar.
 - Pass a special resolution.
 - Get confirmation from the Commission on petition.
- (i) only
 - (i) and (ii) only
 - (i) to (iii) all
 - (ii) and (iii) only
14. A company is changing its registered office from Lahore (Punjab Province) to Multan (Punjab Province). Which of the following requirements are applicable:
- Notify to registrar.
 - Pass a special resolution.
 - Get confirmation from the Commission on petition.
- (i) only
 - (i) and (ii) only
 - (i) to (iii) all
 - (ii) and (iii) only
15. A company is changing its registered office from Mardan (Khyber Pakhtunkhwa Province) to Quetta (Baluchistan Province). Which of the following requirements are applicable:
- Notify to registrar.
 - Pass a special resolution.
 - Get confirmation from the Commission on petition.
- (i) only
 - (i) and (ii) only
 - (i) to (iii) all
 - (ii) and (iii) only
16. Any change in principal line of business shall be reported by the company from the date of change to:
- the Commission within thirty days
 - both the Commission and the registrar within thirty days
 - the registrar within thirty days
 - both the Commission and the registrar within fifteen days
17. Approval of the shareholders at the general meeting is NOT required when shifting the registered office of a company from:
- one city in a Province to another
 - one place to another place within the same city
 - one city to another in any part of Pakistan not forming part of a Province
 - Islamabad to any city of Pakistan

18. Zahid is planning to incorporate a company under the Companies Act, 2017 with the name and style 'Herring', with his own capital. He shall be the sole member and director in the company.

In this regard, which of the following names is in compliance with the Companies Act, 2017?

- a) Herring (SMC) Limited
 - b) Herring (SMC-Private) Limited
 - c) Herring (Private) Limited
 - d) Herring Limited
19. Asadullah and Anas are in the process of forming a company and they have selected the name "Green Foods (Private) Limited" as the name of the proposed company. On 1 March 2026, they applied to the registrar for reservation of the said name.

The proposed name can be reserved with the registrar maximum up to _____.

- a) 15 March 2026
 - b) 30 March 2026
 - c) 29 April 2026
 - d) 29 May 2026
20. If alteration in shareholding structure affects the substantive rights of a class of members, it shall be carried out only if it is approved by:
- a) members having 3/4th majority in general meeting present in person or through proxy
 - b) board of directors and then ratified by at least 50% of affected class of members in general meeting
 - c) at least 3/4th majority of the class of members affected by such alteration
 - d) class of members not affected by such alteration representing not less than 10% voting power

21. On 11 July 2026, Plum Limited (PL) changed its business activity by altering its memorandum of association (MOA). On 1 August 2026, PL has made a petition to the Commission for the confirmation of alteration.

On 26 August 2026, the Commission confirmed the alteration in MOA and on 31 August 2026, PL received the copy of the order confirming the alteration. Identify the last date on which PL shall file the altered copy of its MOA with the registrar.

- a) 10 September 2026
 - b) 15 September 2026
 - c) 24 September 2026
 - d) 25 September 2026
22. Which of the following is the scope of the Companies Act, 2017 (the Act) in terms of its effect on other laws and agreements?
- a) The Act will have effect only on those laws and agreements, enacted and executed, subsequent to its commencement
 - b) The Act will have effect on all laws and agreements, passed and executed, before or after its coming into force
 - c) The Act will have effect only on those laws and agreements, enacted and executed, before its commencement
 - d) The Act's effect on other laws and agreements will depend on the discretion of the Commission

23. Upon reviewing the available evidence, the registrar determined that Crow (Pvt) Limited (CPL) had registered its name by furnishing inaccurate information.

If the representations made by CPL in response to this inquiry confirmed the registrar's findings, then under the provisions of the Companies Act, 2017, the correct action of the registrar would be to:

- a) cancel the registration of CPL through an order issued within thirty days
 - b) direct CPL to change its name within thirty days of such direction
 - c) direct CPL to change its name to a new name selected by the registrar, within thirty days of such direction
 - d) direct CPL to change its name, subject to the approval of the registrar, within thirty days of such direction
24. Under the provisions of the Companies Act, 2017, which of the following statements is correct regarding the minimum authorized share capital for a company?
- a) The minimum authorized share capital for a private limited company is not specified in the Companies Act, 2017
 - b) The minimum authorized share capital for a public limited company varies by industry as specified by the Commission
 - c) The minimum authorized share capital for both private and public limited liability companies is as specified in the Companies Act, 2017
 - d) The minimum authorized share capital for registration with the registrar is the same for both private and public limited liability companies

ANSWERS

1	c)	The principal line of business clause is the part and parcel of MOA.
2	b)	An aggrieved person may within 30 days of the order of refusal prefer an appeal to commission.
3	b)	Subscription clause of the memorandum of association of the company cannot be altered in the lifetime of the company.
4	d)	Give notice of change in situation of the registered office to the registrar within a period of fifteen days after the date of change. [Section 21]
5	c)	The company is required to write only the province or part of Pakistan not forming part of the province in its memorandum of association.
6	c)	The public company must only use "Limited" at the end of the name.
7	d)	Every company, upon the request and payment of a prescribed amount by its member, shall supply a copy of the memorandum and articles of the company.
8	a)	The company can change its name by passing a special resolution and obtaining written permission of the registrar.
9	d)	The articles of association can be altered only by passing special resolution in the general meeting.
10	a)	After the change of name, the former name shall also be mentioned for 90 days from the date of issue of the new certificate of incorporation.
11	b)	The registrar may also direct the company to change its name within 30 days of the receipt of such directions.
12	d)	Annual return. [Table A]
13	a)	Only notice to registrar is required. [Section 21]
14	b)	Special resolution and notice to registrar is required. [Section 21]
15	c)	Special resolution, confirmation order from the Commission and notice to registrar is required. [Section 32]
16	c)	the registrar within thirty days
17	b)	one place to another place within the same city
18	b)	Herring (SMC-Private) Limited
19	c)	29 April 2026
20	c)	at least 3/4th majority of the class of members affected by such alteration
21	c)	24 September 2026
22	b)	The Act will have effect on all laws and agreements, passed and executed, before or after its coming into force
23	d)	direct CPL to change its name, subject to the approval of the registrar, within thirty days of such direction
24	a)	The minimum authorized share capital for a private limited company is not specified in the Companies Act, 2017

STICKY NOTES

Memorandum of Association**Clauses of memorandum**

1. Name clause
2. Registered office clause
3. Principal line of business clause
4. Liability clause
5. Authorised capital clause (only for companies having share capital)
6. Undertaking / Subscription clause

Borrowing powers to be part of memorandum (impliedly)**Memorandum to be printed, signed and dated****Name of Company**

1. Certain names are prohibited
2. Certain names require prior approval of SECP
3. Decision of Commission is final in relation to name of a company
4. Reservation of name (for 60 days)
5. A company may rectify its name on its own or on direction by registrar
6. Change of name by company (special resolution & registrar's approval)
7. Registration of change of name (new certificate; mentioning old name with new name; no effect on legal proceedings)
7. Publication of name by a company (on business places, certificate of incorporation, on documents)

Registered office of a company

1. Notify to registrar (within 30 days of incorporation)
2. Notice of change (within 15 days) and special resolution (if change in city)

Alteration of registered office clause in memorandum

1. Alteration (change in province etc)
2. Confirmation from SECP
3. Copy of order to company and registrar (within 7 days)
4. Conclusive evidence of alteration
5. Extension in time limit (by the Commission)
6. Transfer of record (when jurisdiction changes)

Alteration of principal line of business clause

1. Alteration (special resolution)
2. Approval from Commission not required
3. Filing of amended memorandum (within 30 days)
4. Change of name may be directed by registrar (to commensurate with principal line of business)

Adoption/change of business activity subject to approval under any law

1. Alteration (special resolution)
2. Confirmation from SECP
3. Copy of order to company and registrar (within 7 days)
4. Conclusive evidence of alteration
5. Extension in time limit (by the Commission)

Registration of articles

1. Registration of articles (optional for company limited by shares)
2. Adopting Table A
3. Amount of share capital (unlimited company and company limited by guarantee if having share capital)
4. Number of members (unlimited company and company limited by guarantee if not having share capital)
5. Applicability of Table A
6. Clarity and voting rights
7. Articles to be printed, signed and dated
8. Alteration (by special resolution)
9. Variation in class rights (by 3/4th of affected class voting in favour)

Effect of memorandum and articles

1. Binding on Company and members
2. Money payable to be debt
3. Penalty

General Provisions as to Memorandum and Articles

1. The Companies Act to override other laws, memorandum, articles, contracts and resolutions.
2. Copies of memorandum and articles to be given to members (within 14 days)
3. Effect of alteration in memorandum or articles (applicable to member only if he gives consent, in case his obligation is increased)
4. Alteration to be noted in every copy issued after the alteration
5. Form of memorandum and articles of different type of companies are given in Table A to F of the Act

AT A GLANCE

SPOTLIGHT

STICKY NOTES

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Introduction and Eligibility
- 2 Election, Nomination and Casual Vacancy
- 3 Vacation of Office and Removal
- 4 Powers and Duties
- 5 Proceedings
- 6 Restrictions, Prohibitions and Limitations
- 7 Objective Based Q&A

STICKY NOTES

AT A GLANCE

Only natural person can become a director. Subject to certain exceptions director must be member of the company. All directors have equal authority and decide matters in the board meeting. The Act also describes the persons ineligible to become directors.

First directors are named in incorporation document and they hold office until first AGM. Term of subsequent elected directors is three years.

Subsequent directors are elected in general meeting by following the specified procedure of election.

In case a person acquires requisite shareholding in a company; he may demand fresh election of directors.

In case of any dispute members holding at least 10% voting rights may apply to court for rendering the election invalid.

Actions of directors are valid even if a defect in appointment is subsequently discovered. A casual vacancy is filled by the directors themselves.

On certain grounds office of directors may be considered vacated or directors can be removed by members.

Certain powers of directors are to be exercised by resolution in their meeting and certain other powers are subject to approval of members.

The record of resolutions and minutes of meetings of directors is required to be maintained.

Directors are not allowed to assign their office and any such appointment shall be void,. However, alternate directors may be appointed in case of absence from Pakistan for a period not less than 90 days.

All cash transactions with directors are to be through banking channels and there are certain restrictions on loan to directors as well.

Companies are not allowed to make any political contribution or distribute gifts to members in general meetings.

1 INTRODUCTION AND ELIGIBILITY

1.1 Introduction

Definition: Director [Section 2(25)]

“Director” includes any person occupying the position of a director, by whatever name called.

The definition above focuses on function and position and not on specific designation and the word ‘director’ in a job title does not necessarily mean that a person is legally a director.

► Example 01:

Faisal is senior employee of ABC Limited and his designation is Human Resource Director. However, he is not appointed to board of directors and does not participate in board of directors’ decision making. He is not a director of ABC Limited.

► Example 02:

Naveed is senior employee of ABC Limited and his designation is General Manager Operations. He is also appointed to board of directors and participates in board of directors’ decision making. He is director of ABC Limited.

Natural person [Section 154]

Only natural persons shall be directors of a company. A company or body corporate (even if it is subscriber to the memorandum or becomes member) shall not be a director of another company.

► Example 03:

ABC Limited is holding company and owner of 80% shares of XYZ Limited. ABC Limited cannot become director of XYZ Limited as it is not a natural person. However, using its voting power it may appoint/elect natural persons of its choice as directors of XYZ Limited by following the procedures given in Companies Act, 2017.

Not to be variable representative

A director cannot claim to be variable representative of the company. It means that a director cannot claim relief from his responsibility as a director on the basis that he is not concerned with any particular decision of the company’s business. When he is a director, he is a director in entirety.

To be member

Directors must be member of the company except where law specifically allows the non-members as directors. In the board of directors meeting, every director shall have one vote but the same persons while sitting in a general meeting as members may have different voting rights based on the number of shares they hold.

Authority

Directors act collectively or by majority, every decision by the directors is made in a board meeting of the directors or by passing a resolution by circulation and every director shall have one vote in decision making. It means when appointed as a director, every director is an equal director and there is no difference in their authority.

Fiduciary relationship

Directors of the company may well be said as agents of the company whom members have given the right to make decisions on their behalf. They are supposed to make decisions in the best interest of the company and its stakeholders. They must be vigilant and not be negligent in performance of their duties.

Directors have fiduciary relationship with the company. A fiduciary relationship is generally established only when the confidence given by one person is accepted by the other person.

No director can hold office of a director for a period of 5 years if he has been declared as lacking fiduciary behaviour by the court.

Consent to act as director [Section 167]

No person shall be appointed or nominated as a director or chief executive unless such person has given his consent in writing to the company for such appointment or nomination. The company shall file such consent with the registrar within 15 days of appointment or nomination.

Number of directorships [Section 155]

No person shall hold office as a director, including as an alternate director at the same time in more than such number of companies as may be specified, however, this limit shall not include the directorships in a listed subsidiary.

Minimum number of directors [Section 154]

A company may require a larger number of directors by its articles.

Type of company	Minimum number of directors
Single member company	One
Other private company	Two
Public unlisted company	Three
Public listed company	Seven

1.2 Eligibility / ineligibility of certain persons to become director

The company may by its articles fix any conditions to become the director of the company including holding a specific number of shares as a minimum (qualification shares) to become a director or may be specific educational requirements.

Ineligibility [Section 153]

No person shall be appointed as a director of a company if he:

- is a minor;
- is of unsound mind;
- has applied to be adjudicated as an insolvent and his application is pending;
- is an undischarged insolvent;
- has been convicted by a court of law for an offense involving moral turpitude (conduct that is believed to be contrary to community standards of honesty, good morals, or justice, e.g. murder, kidnapping, etc.);
- has been debarred from holding such office under Companies Act;
- is lacking fiduciary behaviour and a declaration to this effect has been made by the Court at any time during the preceding 5 years;

► Example 04:

Last year, the court declared Sami as lacking fiduciary behaviour as he did not disclose his interest in transactions with the company. He cannot be appointed as a director. He may be appointed as director once five years have elapsed after the court order.

- does not hold National Tax Number. The Commission may grant exemption from this requirement;
- is not a member. However, this shall not apply in the case of:
 - a person representing a member who is not a natural person;
 - a whole-time director who is an employee of the company;
 - a chief executive; or
 - a person representing a creditor or other special interests through contractual arrangements.

► *Example 05:*

Babar is senior employee of the company and because of his experience, he was appointed as director and is now also involved in board of directors' decision making. He would be termed as whole-time director (or executive director).

Further for listed companies only, a person shall not be appointed as a director if he:

- a) has been declared by a court as defaulter in repayment of loan to a financial institution;
- b) is engaged in the business of brokerage or is a spouse of such person or is a sponsor, director or officer of a corporate brokerage house.

Ineligibility of bankrupt [Section 177]

If any person being an undischarged insolvent acts as chief executive or director of a company, he shall be liable to imprisonment for a term not exceeding two years or to a fine, or to both.

1.3 Term of directors [Section 157, 158 & 161]

At incorporation

The names and number of first directors shall be decided by the subscribers of memorandum, and their specified particulars shall be submitted along with the documents for incorporation.

Additional directors

Number of first directors may be increased by appointing additional directors in general meeting.

Retirement of first directors

The first directors shall hold office until the election of directors in the first annual general meeting of the company.

Term of office of subsequent directors

An elected director shall hold office for a period of three years unless he earlier resigns or otherwise ceases to hold office.

However, the term of office of directors of a company limited by guarantee and not having share capital may be a period of less than three years as provided in the articles.

The retiring directors shall continue to perform their functions until their successors are elected.

Duty of retired directors

The directors so continuing to perform their functions shall:

- take immediate steps to hold the election of directors; and
- in case of any impediment, report such circumstances to the registrar within 45 days before the due date of the annual general meeting or extra-ordinary general meeting, as the case may be, in which elections are to be held.

Such AGM or EGM shall not be delayed for more than 90 days from the due date of the meeting or such extended time as may be allowed by the registrar, for reasons to be recorded, only in case of exceptional circumstances beyond the control of the directors or in compliance of any order of the court.

Direction by registrar

The registrar, may on expiry of period (for election), either:

- a) on its own motion; or
- b) on the representation of the members holding at least 10% of total voting powers in a company having share capital; or
- c) on the representation of the members holding at least 10% of total members of the company not having share capital of the company,

directs the company to hold annual general meeting or extra-ordinary general meeting for the election of directors on such date and time as may be specified in the order.

► Practice Question 01:

Zafar was recently appointed as a Director of HP Limited, a listed company. In March 2026 the board of directors came to know that Zafar had been declared a defaulter by the High Court. Discuss his appointment.

► Solution:

Zafar will be ineligible from being a director only if he had defaulted in repayment of a loan to financial institution. If he has been declared a defaulter for any other reason, he would still be eligible for appointment as director.

► Practice Question 02:

Sajid was recently appointed as a director of SE Limited, a public unlisted company. In July 2025, the board of directors came to know that Mrs. Sajid is engaged in business of brokerage on Pakistan Stock Exchange. Discuss the appointment of Sajid as director.

► Solution:

Sajid is not ineligible for the reason that his wife is engaged in brokerage business because SE Limited is unlisted company.

► Practice Question 03:

Ali, Sabra, Ubaid and Amir were the subscribers of Nance Limited (NL) which was incorporated on 1 January 2026 to carry on the business of trading of leather jackets. In the first annual general meeting, they were elected as NL's directors.

On 1 March 2026, Ali and Sabra had a road accident and both of them died on spot. After their death, Amir and Ubaid were the only members remained in the company.

Under the provisions of the Companies Act, 2017, discuss the duties of Ubaid and Amir in the above situation.

► Solution:

Since NL is a public unlisted company, the minimum number of members and directors should not be less than three. However, after the death of Ali and Sabra, NL's total number of members and directors have been reduced to two.

Considering the situation, Ubaid and Amir were obliged with respect to:

- **Minimum number of members:** To induct at least one member so that NL's minimum number of members should reach to minimum limit. This action shall have to be taken by Ubaid and Amir within a period of 180 days of Ali and Sabra's death i.e. on or before 28 August 2026.
- **Minimum number of directors:** To fill the casual vacancy in the office of the directors at the earliest, however, the Companies Act, 2017 has not specified any time limit for other than listed companies.

► *Practice Question 04:*

Under the provisions of the Companies Act, 2017, it is mandatory for a director to be a member of the company. List the exceptions to this rule.

► *Solution:*

The rule that all directors must be members of the company has the following exceptions:

- i. A person representing a member which is not a natural person
- ii. A whole-time director who is an employee of the company
- iii. A chief executive
- iv. A person representing a creditor or other special interests by virtue of contractual arrangements

2 ELECTION, NOMINATION AND CASUAL VACANCY

2.1 Procedure for election of subsequent directors [Section 159]

Fixing the number of directors

The existing directors of a company shall fix the number of directors to be elected in the general meeting, not later than 35 days before convening of such meeting. Such number once fixed shall not be changed except with the prior approval of the general meeting in which election is to be held.

The notice of the meeting shall expressly state, among other matters, the number of directors fixed as above and the names of retiring directors.

Notice of contesting the election

Any member (including retiring director) who seeks to contest the election of directors shall file the notice of his intention to the company, at least 14 days before the date of meeting at which election is to be held. However, any such person may withdraw such notice at any time before the election.

The company shall transmit such notices (of intention to contest the election of directors) to the members not later than 7 days before the date of the meeting, in the same manner as a notice of general meeting is given to the shareholders. In case of a listed company, it shall also be published in at least one issue of a daily newspaper in English and Urdu language having wide circulation.

Elected unopposed

If the number of persons offering themselves to be elected as director is not more than the number of directors fixed for election by the directors, the directors shall stand elected unopposed.

► Example 06:

Existing directors fixed the number of directors at eight for the next term and only eight persons have sent notices of interest to contest the election of directors, all applicants shall stand elected unopposed. If more than eight persons send notice of interest to become a director, poll shall be taken for election.

Number of votes

During a poll for election of directors every member is entitled to cast the number of votes equal to the product of number of voting shares or securities held and the number of directors to be elected.

A member can give all his votes to any one candidate or he may divide them between more than one candidate as he deems appropriate.

► Example 07:

Ali has got 10,000 voting shares of Rs. 10 each and he is entitled to cast vote for the purpose of election of directors and the company has to elect eight directors for the term, he shall have 80,000 votes to cast. He may cast all the votes in favour of any one person or may so distribute as he may like.

Result of polling

The candidate getting the highest number of votes shall be declared elected as a director then the candidate who gets the next highest number of votes shall be so declared and so on until the total number of directors to be elected has been so elected.

► Example 08:

ABC Limited held voting for election of directors. Five candidates contested the election for three seats of directors. Adeel, Babar, Chandio, Dawood and Ehsan got 75000, 44000, 12000, 57000 and 17000 votes respectively. Adeel, Dawood and Babar shall be declared to be elected directors.

All directors are equal

After election as a director, every director shall have equal authority and they shall not be superior or inferior on the basis of number of votes they got in election or on any other grounds.

► **Example 09:**

ABC Limited held voting for election of directors. Five candidates contested the election for three seats of directors. Adeel, Babar, Chandio, Dawood and Ehsan got 75000, 44000, 12000, 57000 and 17000 votes respectively. Adeel, Dawood and Babar were declared to be elected directors. Although Adeel had got much more votes as compared to Dawood and Babar, he has no superiority over other directors. Adeel, Dawood and Babar shall have one vote each in board meetings.

Procedure for company limited by guarantee not having share capital

In case of a company limited by guarantee and not having share capital, the procedure for election of directors shall be mentioned in its articles.

2.2 Nominee directors [Section 164 & 165]

Nominated by creditors

In addition to directors elected, a company may have directors nominated by the company's creditors or other special interests by virtue of contractual arrangements.

Nominated by Government or body corporate

The directors may be nominated by a body corporate or a company or Federal Government or Provincial Government if they have made investment in the company. . Such nominated director shall hold office during the pleasure of the nominating body.

The number of votes as are proportionate to the number of votes required to elect the director if they had offered themselves for election, shall stand excluded from the total number of votes available to the nominating body at an election of director.

2.3 Fresh election of directors [Section 162]

Criteria

Where a person acquires the requisite shareholding to get him elected as a director on the board of a company, he may require the company to hold fresh election. However, the number of directors fixed in the preceding election shall not be decreased.

Time limit and procedure

The board shall, upon receipt of such requisition, as soon as practicable but not later than 30 days, proceed to hold fresh election of directors of the company.

A listed company for the purpose of fresh election of directors shall follow such procedure as may be specified by the Commission.

2.4 Powers of the court to declare election invalid [Section 160]

Appeal criteria

Members holding at least 10% of the voting power in the company may apply to the court to declare the election of all directors or any one or more of them invalid.

Time limit

Such appeal may be made within 30 days of the date of election.

Decision of court

The court shall declare the elections invalid if it is satisfied that there has been material irregularity in the holding of the elections and incidental or relating matters.

2.5 Validity of acts of directors [Section 168]

Validity of acts already done

The acts of a person acting as a director are valid even if it is afterwards discovered that there was a defect in his appointment; or he was disqualified from holding office; or he had ceased to hold such office.

When defect is noticed

However, as soon as any such defect has come to notice, the director shall not exercise the right of his office till the defect has been removed.

2.6 Casual vacancy [Section 161 & 155]

Term of office

Any casual vacancy occurring among the directors may be filled up by the directors and the person so appointed shall hold office for the remainder of the term of the director in whose place he is appointed.

Appointment not necessary

If the number of directors of the company is equal or above the minimum number of directors required for that company, even after the casual vacancy, such directors may not fill in the casual vacancy and complete the term without filling such vacancy.

Time limit (listed company)

Any casual vacancy on the board of a listed company shall be filled up by the directors at the earliest but not later than 90 days from the date of vacancy. There is no time limit specified in Companies Act for other companies.

► Practice Question 05:

Explain whether or not the following statement is in accordance with the provisions of the Companies Act, 2017.

“A company may change the number of directors to be elected at least 21 days before the date of general meeting at which the election is to be held.”

► Solution:

The statement is not in accordance with the provisions of the Companies Act 2017 because the directors shall fix the number of directors to be elected not later than 35 days before the convening of the general meeting at which directors are to be elected, and the number so fixed shall not be changed except with the prior approval of a general meeting of the company.

► Practice Question 06:

ABC Limited, a public unlisted company, has 10 million ordinary shares and five directors. Shahid acquired 2.5 million ordinary shares. Can he require the company to hold fresh elections?

► Solution:

Yes. The total number of votes are 50 million (i.e. 10 million shares x 5 directors), the requisite votes are 10 million (i.e. 50 million votes / 5 directors). Shahid has requisite shareholding which gives him 12.5 million votes (i.e. 2.5 million shares x 5 directors).

► Practice Question 07:

Recently, the company secretary of Al-Falah Sugar Mill Limited (ASML) has received a letter from Ghalib, a shareholder whose holdings in the company's shares has increased to 14% during the year, seeking appointment on ASML's board of directors. The company secretary has informed him that he cannot be admitted on the board till the next elections become due.

Not being satisfied with the response, Ghalib has asked you to advise on the above matter and explain the course of action available to him under the Companies Act, 2017.

► *Solution:*

Under the Companies Act, 2017 the tenure of the board of directors is 3 years and before expiry of the term a person can only be admitted to fill in the casual vacancy. However, as per the requirements of Companies Act 2017, where a person acquires requisite shareholding to get him elected as a director, he may require the company to hold fresh election of directors.

Listed company shall follow such procedure as may be specified by the SECP. The board shall, as soon as practicable but not later than 30 days from receipt of such requisition, proceed to hold fresh election of directors of the company. It is important to note that the number of directors fixed in the preceding election shall not be decreased.

► *Practice Question 08:*

Junaid was elected as a director of Abid Limited in its last annual general meeting. After a few months, it was found that Junaid's appointment was not valid as votes by certain members were counted twice due to an error. Few directors have challenged the validity of all meetings attended by him and the actions taken therein. Advise.

► *Solution:*

Any act of a director or a meeting of a director cannot be considered invalid merely on the ground of any defect subsequently discovered in his appointment. Therefore, all the acts of Junaid during this period are valid. However, he should not exercise right of his office with immediate effect and any act after this cannot be considered valid.

► *Practice Question 09:*

Abid, Qasim and Tariq were the only members of Alpha Securities Limited (ASL), a public company and were elected as directors on 30 October 2018. Qasim expired on 2 February 2019 in a road accident. Advise Alpha Securities Limited.

► *Solution:*

ASL is a public company and is required to have at least three members as well as three directors. On the death of Qasim, the number of directors of ASL has been reduced to two which is in contravention of the provisions of the Companies Act. The casual vacancy arising due to the death of Qasim may be filled up by Abid and Tariq and the person so appointed would hold office for the remainder of the term (till 30th October 2021) of Qasim in whose place he is appointed.

► *Practice Question 10:*

Lalazar Limited, a public unlisted company has a paid up capital of Rs 100 million consisting of shares having face value of Rs 10 each. Last election of its Board of Directors was held on April 15, 20X3 in which eight directors were elected. Four of the directors belonged to the same family. The remaining directors were Javed, Bader, Qasim and Dawood. They secured 600,000, 350,000, 480,000 and 220,000 votes respectively. The remaining votes were equally distributed among the four directors of the family. Javed died on May 30, 20X3 and Aslam was appointed as a director on June 15, 20X3 to fill in the casual vacancy.

Explain the following in the light of the provisions of the Companies Act, 2017:

- Is Lalazar Limited in compliance with the requirements of minimum number of directors?
- Who is responsible to fill the casual vacancy in the Board and when would Aslam's term of office be completed?

► *Solution:***Part (a)**

Every public company other than a listed company shall not have less than three directors. As Lalazar Limited has eight directors on their board, therefore they are in compliance with the requirements of law.

Part (b)

Any casual vacancy occurring among the directors may be filled up by the directors. Aslam shall hold office for the remainder of the term of the director Javed in whose place he has been appointed.

► **Practice Question 11:**

Goldfish Limited (GL) is a public unlisted company with paid-up share capital of Rs. 200 million divided into 20 million ordinary shares of Rs. 10 each.

Following directors were elected in GL's annual general meeting held on 25 October 2020:

Name	Votes casted in favour
Tariq Ali	42 million
Munim Ahmed	28 million
Areeb Khan	21 million
Siddique Ghani	14 million
Gia Ghouri	14 million
Rahim Zaheer	14 million
Fawad Zia	7 million

Zakir Hussain, an existing shareholder of GL, purchased additional 1.5 million shares in GL on 3 September 2021 due to which his shareholding percentage increased to 15%. Zakir Hussain now demands to have a suitable position on GL's board.

Under the provisions of the Companies Act, 2017:

- discuss the validity of Zakir Hussain's demand. Also list the grounds under which he may not be elected on GL's board.
- Assuming that Zakir Hussain is eligible to be appointed on GL's board, state the procedure to be followed by GL for his appointment.

► **Solution:****Part (a) Conditions to be met for appointment of Zakir Hussain on GL's board****Validity of Zakir Hussain's demand**

Under the Companies Act, 2017 the requisite shareholding to demand fresh elections of GL is 14.28% (i.e. $100\% \div 7$ directors).

Considering this, Zakir Hussain's demand seeking a position on GL's board is valid as he now holds 3 million shares in GL equal to 15% which is more than the requisite shareholding.

Grounds under which Zakir Hussain may not be elected

Following are the grounds under which Zakir Hussain might not be eligible to become a director on GL's board i.e. if he:

- is a minor;
- is of unsound mind;
- has been convicted by a court of law for an offence involving moral turpitude;
- has been debarred from holding office of director under the Companies Act, 2017;
- is lacking fiduciary behaviour and a declaration to this effect have been made by the Court under Companies Act, 2017 at any time during preceding five years;
- does not hold National Tax Number as per the provisions of Income Tax Ordinance, 2001 unless the Commission has granted an exemption;
- holds office as a director, including as an alternate director at the same time in more than such number of companies as may be specified.

Part (b) Procedure to be followed for appointment of Zakir Hussain on GL's board

- i. GL shall call the board meeting forthwith to consider the requisition made by Zakir Hussain.
- ii. Board, upon receipt of requisition shall as soon as practicable but not later than 30 days from the receipt of such requisition, proceed to hold fresh election of directors by calling general meeting. [It could be AGM if to be held within 30 days of request otherwise by calling extraordinary general meeting].

GL shall send notice of general meeting not less than 21 days before the said general meeting for holding election of directors to all the members of GL specifying the number of directors to be elected (this shall be same as was fixed in immediately preceding election, unless members in general meeting increase the same).

- iii. All notices received by GL from persons seeking to contest election of directors shall be transmitted to the members not later than 7 days before the date of the meeting, in the same manner in which notice of said general meeting has been sent.
- iv. If the number of persons who offer themselves to be elected are more than the number of directors required to be elected in the said general meeting then each member of GL shall be given such number of votes as is equal to the product of the number of voting shares held by him and the number of directors to be elected.

If the number of persons who offer themselves to be elected are equal to the number of directors to be elected then directors shall stand elected unopposed in the general meeting.

Zakir Hussain may also be appointed if there occurs a casual vacancy on board through resignation of a director. In this case, with mutual consent of GL's directors, he is appointed on board since casual vacancy on board of a company may also be filled up by directors themselves.

3 VACATION OF OFFICE AND REMOVAL

3.1 Vacation of office [Section 171]

A director shall be treated to have vacated the office of director if:

- he becomes ineligible to be appointed as director;
- he absents himself from three consecutive meetings of the board without seeking leave of absence;
- he, his partnership firm in which he is a partner or any private company in which he is a director, accepts any loan or guarantee from the company in contravention of Companies Act; or
- accepts any office of profit (other than that of chief executive or a legal or technical adviser) without sanction of the company in a general meeting.

A company may include additional grounds for vacation of office in its articles.

3.2 Removal of directors [Section 163]

A director may be removed from the office by the members of the company by passing a resolution. The director shall not be considered to have been removed if votes against removal equal or exceed as follows:

Type of director to be removed	Not removed if votes against removal equal to or exceed
Elected director	Minimum number of votes through which a person was elected as a director at the immediately preceding election of directors.
Elected unopposed, Elected in fresh election First directors Casual vacancy	Average votes i.e. $= \frac{\text{number of directors for the term} \times \text{number of voting shares}}{\text{number of directors for the time being}}$

► **Practice Question 12:**

Kalim is a director of Behaal Limited. On 1 October 2025 Kalim went abroad on a personal trip and returned back on 15 February 2026. He was unable to attend five board meetings which were held during this period. Advise Kalim.

► **Solution:**

Kalim shall ipso facto cease to hold office if he was absent for at least three consecutive board meetings unless he has sought leave of absence.

► **Practice Question 13:**

Aslam was elected as a director in ABC Limited one year ago; company has 2 million shares and seven directors. He was the last one to become director by securing 1.5 million votes. A resolution has been moved in the general meeting to remove Aslam from his position. How much votes Aslam require to save his seat?

► **Solution:**

At least 1.5 million votes which is the least number of votes sufficient to make a person director in last election of directors.

► **Practice Question 14:**

A public unlisted company has four directors namely Adeel, Babar, Chand and Dawood and in the last election they were elected by securing 80,000, 70,000, 68,000 and 63,000 votes respectively. Ehsan who also contested election secured 57,000 votes and could not be elected as director. One of the majority shareholders has indicated to remove Babar in coming AGM. How much votes Babar require to save his seat?

► *Solution:*

Babar being an elected director needs 63,000 votes against his removal which is the least number of votes sufficient to make a person director in last election of directors.

► *Practice Question 15:*

Aslam was elected as a director to fill in a casual vacancy; company has 2 million shares and seven directors. The last one to become director had secured 1.5 million votes in last election of directors. A resolution has been moved in the general meeting to remove Aslam from his position. How much votes Aslam require to save his seat?

► *Solution:*

He shall not be removed from his office if the number of votes casted against the resolution equals or exceeds the number of votes calculated as per the following formula:

$(\text{Number of directors for the term} \times \text{Number of shares}) \div \text{Number of directors for the time being}$

$7 \times 2,000,000 \div 7 = 2,000,000 \text{ votes}$

► *Practice Question 16:*

Due to a dispute among the directors of Sun Limited, a listed company, all the directors want to remove Hameed from the directorship of the company prior to the completion of his term. State the procedure and the conditions to be complied with if the company wants to remove Hameed from the directorship of the company, under each of the following assumptions:

- He was elected as a director of the company.
- He became the director of the company by subscribing to the memorandum of association of the company.

► *Solution:*

In either case, the company may remove Hameed from the directorship by passing a resolution in general meeting.

If Hameed was appointed by the election of directors of the company.

Hameed shall be removed if votes cast against the resolution for removal are less than the minimum number of votes that were cast for the election of director at the immediately preceding election of directors. However, if Hameed was elected unopposed then he shall be removed if votes cast against the resolution for removal are less than the total number of votes for the time being computed as a product of number of shares held by voter and number of director elected at the time of his appointment divided by the number of directors for the time being.

If Hameed was appointed by the subscribers to the memorandum of association of the company.

Hameed shall be removed if votes cast against the resolution for removal are less than the total number of votes for the time being computed as a product of number of shares held by voter and number of director elected at the time of his appointment divided by the number of directors for the time being.

► *Practice Question 17:*

Baalbek Limited is an unlisted public company and has eight directors. Its paid-up capital is Rs. 50,000,000 divided into ordinary shares of Rs. 500 each. The directors have decided to remove Aga Kirmani from the board due to his dismal performance. Aga Kirmani was elected unopposed on the board.

In the light of the provisions of the Companies Act, 2017 briefly describe how Aga Kirmani can be removed from the board.

► **Solution:**

Aga Kirmani may be removed from the board by passing a resolution in a general meeting. However, since he was appointed unopposed, he shall not be removed from his office if the number of votes casted against the resolution equals or exceeds the number of votes calculated as per the following formula:

$(\text{Number of directors for the term} \times \text{Number of shares}) \div \text{Number of directors for the time being}$

i.e. $8 \times (50,000,000 \div 500) \div 8 = 100,000$ votes

Therefore, Aga Kirmani would be removed from the board if less than 100,000 votes are casted against the resolution.

► **Practice Question 18:**

Lalazar Limited, a public unlisted company has a paid up capital of Rs 100 million consisting of shares having face value of Rs 10 each. Last election of its Board of Directors was held on April 15, 20X3 in which eight directors were elected. Four of the directors belonged to the same family. The remaining directors were Javed, Bader, Qasim and Dawood. They secured 600,000, 350,000, 480,000 and 220,000 votes respectively. The remaining votes were equally distributed among the four directors of the family. Javed died on May 30, 20X3 and Aslam was appointed as a director on June 15, 20X3 to fill in the casual vacancy.

Explain the following in the light of the provisions of the Companies Act, 2017.

The conditions required to be fulfilled if a person desires to remove the following directors:

- i. Aslam
- ii. Bader

► **Solution:**

A company may by resolution in a general meeting remove a director appointed to fill in the casual vacancy or a director appointed by members in a general meeting of the company.

- i. Aslam

The situation relates to the removal of director appointed to fill in the casual vacancy. Therefore, the number of votes cast against the resolution should not be equal to or exceed the total number of votes for the time being computed in a manner similar to the method used for directors' election divided by the number of directors, which in this case would be $10,000,000 \times 8 \div 8 = 10,000,000$.

- ii. Bader

Bader can be removed from his office only when the votes cast against the resolution are less than 220,000 i.e. the minimum number of votes through which the director was elected in the immediately preceding election of directors.

► **Practice Question 19:**

Cartier Metal Limited (CML), a public unlisted company, has a paid-up capital of Rs. 500 million ordinary shares of Rs. 100 each. On 1 February 2025, the election of the board of directors of CML was held in the general meeting. Following were the result of the election of directors:

Candidates contested	Adnan	Abdullah	Armughan	Tehami
No. of votes casted in favour	5.5 million	2.5 million	2 million	5 million
Result of election	Elected	Elected	Not elected	Elected

On 1 March 2026, CML's board decided to remove Adnan due to his involvement in fraudulent activities.

Under the provisions of the Companies Act, 2017:

- i. discuss the number of votes required by Adnan to retain his directorship in CML.
- ii. what would be your answer in (i) above, if Adnan was elected unopposed in the election of directors.

► *Solution:***Part (i)**

Since Adnan was elected in CML's election of directors, he would need at least 2.5 million votes to retain his directorship against any resolution passed for his removal in a general meeting. This is equivalent to the least number of votes secured by Abdullah in CML's said election of directors.

Part (ii)

If Adnan was elected unopposed in the election of directors, he would have required at least 5 million votes (i.e. $3 \times 5,000,000 \div 3 = 5,000,000$) against the resolution to be passed in a general meeting for his removal.

(Number of directors for the term $\times$ Number of shares) $\div$ Number of directors for the time being

► *Practice Question 20:*

Rail Holding (Private) Limited (RHL) has three subsidiary companies: Gannet Leaf Limited (GLL), which is unlisted, and Budgerigar Sea Limited (BSL) and Vulture Bird Limited (VBL), which are listed.

The group compliance department has brought attention to the following matters concerning group directors:

- i. Wasim Yasin, an elected director in GLL, survived a car accident on 2 March 2024, but is mentally incapacitated due to serious head injuries.
- ii. Aziz Bahadur, a non-executive director in BSL, suffered a stroke in August 2023, and has not attended any board meeting since then.
- iii. Faraz Ghani, a director in VBL, was granted a loan of Rs. 2 million by the board in February 2024, repayable within a period of six months.
- iv. The following names are selected from the data bank of the Commission's notified entities, as potential independent directors for the upcoming May 2024 elections:
 - Haseeb Ijaz on the board of VBL. He served as the chief executive of BSL from 2018 to 2021.
 - Bahram Hasan on the board of VBL. He served as a director in VBL from 2013 to 2022.
 - Daniyal Ehtisham on the board of BSL. He served as a director in BSL, nominated by a creditor, from January 2023 to February 2024.

Under the provisions of the Companies Act, 2017, advise on the following:

- a) Implication(s) of the matters referred in (i), (ii) and (iii) above, on the board of respective companies.
- b) Suitability of each of the selected persons referred in (iv) above, to contest the upcoming elections of respective companies as an independent director.

► *Solution:***Part (a)**

Following are the implications of the matters on the board of respective companies brought-up by the group compliance department:

Wasim Yasin

Wasim Yasin, who has become mentally incapacitated due to serious head injuries, may, by virtue of the Companies Act, 2017 (the Act) provisions, cease to hold the office of director effective from 2 March 2024, if his condition renders him ineligible to be appointed as a director.

Aziz Bahadur

As BSL is a listed company and Aziz Bahadur, a non-executive director, has not attended any board meeting since August 2023. If only two quarterly board meetings have occurred since then, his absence has no immediate consequence. However, if three or more board meetings have held since August 2023 and Aziz Bahadur did not seek a leave of absence, he shall ipso facto cease to hold the office of the director at the conclusion of the third consecutive board meeting he failed to attend, as provided by the Act.

Faraz Ghani

Considering VBL is a listed company and Faraz Ghani is one of its directors, any loan to him must be approved by a resolution of VBL's members and receive the Commission's approval prior to grant.

Faraz Ghani's act of taking a Rs. 2 million loan without adhering to these requirements means he shall ipso facto cease to hold office of director due to this contravention.

Part (b) Evaluation of suitability of independent directors positions:**Haseeb Ijaz**

Since BSL and VBL are subsidiaries of RHL, they are deemed associated companies of each other. If Haseeb Ijaz's role as the chief executive of BSL ended before May 2021, he will be considered an independent director under the provisions of the Act. Otherwise, he is not eligible to be appointed as VBL's independent director.

Bahram Hasan

- Bahram Hasan has served on VBL's board till 2022 disqualifies him as an independent director if he received remuneration as an executive director in the preceding three years.
- Furthermore, if he served for three consecutive terms on VBL's board as an independent director, then he is disqualified from being reappointed for a fourth term.

Daniyal Ehtisham

Daniyal Ehtisham, having been nominated as a director by BSL's creditor from January 2023 to February 2024, and no longer associated with BSL, potentially qualifies as an independent director under the Act. However, his suitability is contingent upon establishing that he does not hold a partnership, significant shareholding, or directorship, nor has he had a material business relationship with BSL through the creditor organisation in the last three years. If such a relationship exists, he cannot be appointed as BSL's independent director.

4 POWERS AND DUTIES

4.1 Powers of board [Section 183]

The business of a company shall be managed by the board, who may exercise all such powers of the company as are not by Companies Act, or by the articles, or by a special resolution, required to be exercised by the company in general meeting.

Power to be exercised by passing a board resolution

The board shall exercise the following powers by 'passing a resolution' in board meetings:

- to issue shares, debentures or other redeemable capital or to otherwise borrow money or invest the funds of the company;
- to make loans. This restriction of passing a board resolution does not apply to banking company advancing loans in ordinary course of its business;
- to approve annual and periodical accounts and to approve bonus for employees;
- to incur capital expenditure on any single item or dispose of a fixed asset in accordance with the limit as may be specified;
- to undertake obligations under leasing contracts exceeding such amount as may be notified;
- to declare interim dividend;
- to authorize the following to enter into any contract with the company for making sale, purchase or supply of goods or rendering services with the company:
 - a director;
 - the firm of which a director is a partner or any partner of such firm; or
 - a private company of which such director is a member or director;
- if the amount is material as per Generally Accepted Accounting Principles:
 - to write off bad debts, advances and receivables;
 - to write off inventories and other assets; and
- to determine the terms of and the circumstances in which a law suit may be compromised and a claim or right in favour of a company may be released, extinguished or relinquished.
- to take over a company or acquiring a controlling or substantial stake in another company;
- any other specified matter.

Authorisation of general meeting

The board of a company shall not except with the consent of the general meeting either specifically or by way of an authorisation, do any of the following things, namely:

- sell, lease or otherwise dispose of the undertakings or a sizeable part thereof unless the main business of the company comprises of such selling or leasing; and
- sell or otherwise dispose of the subsidiary of the company;
- remit, give any relief or give extension of time for the repayment of any debt outstanding against any director of the company or of its holding company; or to any of its relatives.

A listed company is not entitled to sell or otherwise dispose of the undertaking, which results in or may lead to closure of business operation or winding up of the company, without there being a viable alternate business plan duly authenticated by the board.

Any resolution passed (authorisation of general meeting) if not implemented within one year from the date of passing shall stand lapsed.

4.2 Duties of directors [Section 204]

Duties

The Companies Act mentions following duties of directors:

- a director of a company shall act in accordance with the articles of the company.
- a director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment.
- a director of a company shall discharge his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- a director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- a director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.
- a director of a company shall not assign his office and any assignment so made shall be void.
- In addition to above, the Commission may provide for the extent of duties and the role of directors as may be specified.

Breach and ratification

Any breach of duty, default or negligence by a director in contravention of the articles of the company or any of its policy or decision of the board may be ratified by the company through a special resolution and the Commission may impose any restriction as may be specified.

4.3 Compliance with the code of corporate governance [Section 156]

Power of Commission

The Commission may provide for framework to ensure good corporate governance practices, compliance and matters incidental and auxiliary for companies or class of companies in a manner as may be specified.

Duty of directors

The above would require duty of directors to act in line with good corporate governance practices.

4.4 Liabilities of directors and officers [Section 180]

Restriction on indemnification

Any provision, whether contained in the articles of a company or in any contract with a company or otherwise, for exempting any officer or auditor of the company, from, or indemnifying him against, any liability which by virtue of any law would otherwise attach to him in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the company, shall be void except as specified below.

Exception

However, a company is not prohibited from indemnifying any of its director, chief executive or officer against any liability incurred by any of them in defending any proceedings against him, in which judgement is given by the court in his favour or in which any of them is acquitted; irrespective of the fact that whether the proceedings against any of them were in respect of any civil or criminal nature.

4.5 Protection to Independent and Non-executive directors [Section 181]

Notwithstanding anything contained in this Act-

- a) An independent director; and
- b) A non-executive director;

shall be held liable, only in respect of such acts of omission or commission by a listed company or a public sector company which had occurred with his knowledge, attributable through board processes, and with his consent or connivance or where he had not acted diligently.

For the purpose of this section, a non-executive director means, a person on the board of the company who:

- is not from among the executive management team and may or may not be independent;
- is expected to lend an outside viewpoint to the board of a company;
- does not undertake to devote his whole working time to the company and is not involved in managing the affairs of the company;
- is not a beneficial owner of the company or any of its associated companies or undertakings;
- does not draw any remuneration from the company except the meeting fee.

4.6 Independent director [Section 166]

Definition

An independent director means a director who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the company, its associated companies, subsidiaries, holding company or directors; and he can be reasonably perceived as being able to exercise independent business judgment without being subservient to any form of conflict of interest. In essence, an executive director can never be an independent director.

Criteria

Without affecting the generality of the above definition, no director shall be considered independent if one or more of the following circumstances exist:

- a) he has been an employee of the company, any of its subsidiaries or holding company within the last 3 years (last 2 years in respect of public sector companies);
- b) he is or has been the chief executive officer of subsidiaries, associated company, associated undertaking or holding company in the last 3 years (last 2 years in respect of public sector companies);
- c) he has, or has had within the last 3 years (last 2 years in respect of public sector companies), a material business relationship with the company either directly, or indirectly as a partner, major shareholder or director of a body that has such a relationship with the company. *Explanation:* The major shareholder means a person who, individually or in concert with his family or as part of a group, holds 10% or more shares having voting rights in the paid-up capital of the company;
- d) he has received remuneration in the 3 years preceding his/her appointment as a director or receives additional remuneration, excluding retirement benefits from the company apart from a director's fee or has participated in the company's stock option or a performance-related pay scheme;
- e) he is a close relative of the company's promoters, directors or major shareholders. *Explanation:* "close relative" means spouse(s), lineal ascendants and descendants and siblings;

- f) he holds cross-directorships or has significant links with other directors through involvement in other companies or bodies not being the associations licenced as not for profit;
- g) he has served on the board for more than 3 consecutive terms (2 consecutive terms in case of public sector company) from the date of his first appointment. However, such person shall be deemed “independent director” after a lapse of one term;
- h) a person nominated as a director by creditors, Government or body corporate.

Further, an independent director in case of a public sector company shall not be in the service of Pakistan or of any statutory body or any body or institution owned or controlled by the Government.

Manner of selection and maintenance of data bank

An independent director to be appointed under any law, rules, regulations or code, shall be selected from a data bank containing names, addresses and qualifications of persons who are eligible and willing to act as independent directors, maintained by any *institute, body or association* (the institute), as may be notified by the Commission, having expertise in creation and maintenance of such data bank and post on their website for the use by the company making the appointment of such directors.

However, responsibility of exercising due diligence before selecting a person from the data bank referred to above, as an independent director shall lie with the company or the Government, as the case may be, making such appointment.

Election process and consent

The independent director of a listed company shall be elected in the same manner as other directors are elected and the statement of material facts annexed to the notice of the general meeting called for the purpose shall indicate the justification for choosing the appointee for appointment as independent director.

No individual shall be selected for the data bank of independent directors without his consent in writing.

Relaxation in requirements

The above requirements may be relaxed by the Commission on an application made by the company supported with the sufficient justification or the practical difficulty, as the case may be.

Power of Commission

The manner and procedure of selection of independent directors on the databank who fulfil the qualifications and other requirements shall be specified by the Commission. In this regard, the Commission has notified the Companies (Manner and Selection of Independent Directors) Regulations, 2018.

► Practice Question 21:

At the annual general meeting of Rahbar Refineries Limited (RRL), certain shareholders have raised objections on matters related to the use of the company's funds. In the opinion of those shareholders the board have exceeded the authority vested upon them by the Companies Act, 2017.

Identify those powers of board which the shareholders of RRL may be referring to.

► Solution:

Powers of Board.

The shareholders seem to be referring to the following powers of the board of RRL:

- Invest the funds of the company.
- Make loans.
- Incur capital expenditure on any single item or dispose of a fixed asset, in accordance with the limits prescribed.
- Undertake obligations under leasing contracts exceeding limits prescribed.

- Declare interim dividend
- To authorize sale, purchase or supply contracts with interested companies and firms
- To approve bonus to employees
- To take over a company or acquire a controlling or substantial stake in another company

► *Practice Question 22:*

Rashid was appointed as Chief Executive of Chalaak Limited (CL). At the time of his appointment, Adil, one of the major shareholders and founder member informed him that since last four years CL is paying 90% cash dividend to all the shareholders, however, Adil mentioned that he didn't like to pay dividend to minority shareholders and advised Rashid not to pay from this year. Rashid informed Adil that as per the provisions of Companies Act, 2017 Chief Executive shall be punishable with imprisonment that may extend to two years and with fine which may extend to five million rupees if the dividend is not paid within specified period of time after dividend has been declared.

Adil proposed Rashid to sign a contract with CL in which it will be clearly indicated that Rashid will be indemnified against all sort of liabilities if any imposed on him due to non-payment of dividend to the minority shareholders of CL. The contract was signed on 28th March 2020 between CL and Rashid. Is the contract valid?

► *Solution:*

In light of the provisions of the Companies Act, 2017 the aforesaid contract between CL and Rashid shall be void.

► *Practice Question 23:*

Asad filed criminal case against Bilal, who is working in the capacity of Chief Financial Officer of Shining Star Limited (SSL), on the premise that Bilal has misappropriated SSL's funds to the tune of Rs. 10 million. Bilal appointed M/s Dayyanat-dar & Co. Legal Advisors and provided all the evidence with respect to all the allegations raised by Asad in the said criminal case and paid Rs.500,000/- on account of legal fee. Based on the documentary evidence provided by Bilal the court acquitted i.e. declared Bilal as innocent. Bilal requested SSL management to indemnify him Rs. 500,000/- paid by him to the lawyer and provided the Legal Advisors invoice along with other necessary documents. Can SSL indemnify Bilal in above situation.

► *Solution:*

In the light of the provisions of Companies Act, 2017 SSL may indemnify Bilal.

► *Practice Question 24:*

Election of directors of Excellent Technologies Limited (ETL), a listed company, is scheduled to be held on 15 October 2025. The board of directors has requested Mohsin, one of the leading engineers, to contest the upcoming election as non-executive director for adding value to the board.

Before responding to the offer of ETL's board, Mohsin has sought your advice on the following concerns:

- Since he has no relationship with ETL either pecuniary or otherwise, can he contest the election as non-executive director?
- Would he be subjected to unforeseen liability that may arise due to adverse action of other directors?

Under the provisions of the Companies Act, 2017, advise Mohsin with regard to the above concerns.

► *Solution:*

Part (i) non-executive director

It is pertinent to note that pecuniary or other relationship with company are not the only criteria to establish eligibility of a person to be a non-executive director. Rather, in order to be a non-executive director of ETL, Mohsin shall have to ensure that he:

- is not from among the executive management team and may or may not be independent;
- is expected to lend an outside viewpoint to ETL's board;

- does not undertake to devote his whole working time to ETL and will not involve in managing the affairs of the ETL;
- is not a beneficial owner of ETL or any of its associated companies or undertakings;
- does not draw any remuneration from ETL except the meeting fee.

Part (ii) Liability

As far as the unforeseen liability due to adverse action of ETL's other directors are concerned Mohsin if elected as non-executive director, shall be held liable, only in respect of such acts of omission or commission by ETL which had occurred with his knowledge, attributable through board processes, and with his consent or connivance or where he had not acted diligently.

► Practice Question 25:

Under the provisions of the Companies Act, 2017 discuss the manners of selection of an independent director.

► Solution:

An independent director shall be selected from the data bank, containing names, addresses and qualifications of persons who are eligible and willing to act as independent directors, maintained by any institute, body or association as may be notified by the Commission, having expertise in creation and maintenance of such data bank.

► Practice Question 26:

In light of the provisions of the Companies Act, 2017, state six circumstances in which a director of a listed company would not be considered as an independent director.

► Solution:

Under the provisions of the Companies Act, 2017, the circumstances in which a director of a listed company would not be considered as an independent director are as follows:

- Having served as an employee of the company, any of its subsidiaries or its holding company in the preceding three years;
- Currently holding or having held the position of the chief executive officer in a subsidiary company, associated company, associated undertaking or holding company of the company in the preceding three years;
- Possessing, or having held within the past three years, a material business relationship with the company either directly or indirectly as a partner, major shareholder, or director of a body that has such a relationship with the company.
- Having received remuneration during the past three years prior to his appointment as a director or receiving additional remuneration, excluding retirement benefits, from the company apart from director's fee or has participated in the company's stock option or a performance-related pay scheme;
- Is a close relative of the company's promoters, directors or major shareholders;
- Holding cross-directorships or having significant links with other directors through involvement in other companies or bodies excluding associations licenced under the Companies Act, 2017;
- Has served on the company's board for more than three consecutive terms from the date of his first appointment, unless one term has skipped;
- Being nominated as a director by:
 - the company's creditors or other special interests through contractual arrangements.
 - a body corporate or company or corporation owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government, with extended credit facilities.

- a body corporate or company or corporation owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government in which such body corporate or company or corporation has made an investment.
- the Federal Government or a Provincial Government or the Commission due to investment made by them.
- foreign equity holders or any other body corporate established under a regional cooperation or other approved cooperation arrangement by the Federal Government.

In the case of a public sector company, the time periods for (i), (ii) and (iii) are reduced to two years instead of three years. However, for (vii), the consecutive terms are taken as two terms instead of three terms. Further, an independent director shall not be in the service of Pakistan or of any statutory body or institution owned or controlled by the Government.

5 PROCEEDINGS

5.1 Proceedings of the board [Section 176]

Quorum of listed company

The quorum for a meeting of directors of a listed company shall not be less than one-third of their number or four, whichever is greater and the participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of quorum.

Quorum for other than listed company shall be as provided in the articles.

► *Example 10:*

A listed company has seven directors. The quorum for board meetings shall be complete by participation of at least four directors.

► *Example 11:*

A listed company has seventeen directors. The quorum for board meetings shall be complete by participation of at least six directors.

Casual vacancy situation

If there are not enough directors to form a quorum to fill a casual vacancy, all the remaining directors shall be deemed to constitute a quorum for this limited purpose.

► *Example 12:*

A listed company has seven directors. Unfortunately four directors died in a car accident together. The remaining three directors shall be considered valid quorum for filling in casual vacancies arising in such situation.

Frequency of meetings

The board of a public company shall meet at least once in each quarter of a year.

5.2 Passing of resolution through circulation [Section 179]

Validity

A resolution in writing approved by majority of the directors/committee of directors for the time being entitled to receive notice of a meeting shall be as valid and effectual as if it had been passed at a meeting of directors/committee of directors duly convened and held.

Manner of circulation

Before passing it, the resolution should be circulated with necessary papers to all directors. Such resolution shall be noted at a subsequent meeting of board/committee of directors and made part of the minutes of such meeting.

Revocation not allowed

A directors' agreement to a written resolution, passed by circulation, once approved, may not be revoked.

5.3 Records of resolutions and meetings of board [Section 178]

Record to be kept

Every company shall keep records comprising:

- all resolutions of the board passed by circulation; and
- minutes of all proceedings of board meetings or committee of directors along with the names of participants, to be entered in properly maintained books.

Authentication

Minutes recorded as above if purporting to be authenticated by the chairman of the meeting or by the chairman of the next meeting, shall be the evidence of the proceedings at the meeting.

Copy to directors

A copy of the draft minutes of meeting of board shall be furnished to every director within 14 days of the date of meeting.

Place for keeping record and time duration

The records must be kept at the registered office of the company from the date of the resolution, meeting or decision simultaneously in physical and electronic form and it shall be preserved for at least ten years in physical form and permanently in electronic form.

► Practice Question 27:

Haider Limited (HL), a listed company, is in the process of finalization of a financing facility with a bank. The bank requires a copy of the board resolution for approval of the terms of the financing. However, no board meeting is planned in the near future and few directors are out of the country.

In the light of the provisions of the Companies Act, 2017 explain what alternative course of action is available to HL and the steps it would be required to take

► Solution:

Alternative course of action available to HL

HL can pass a resolution in writing approved by majority of the directors of HL for time being entitled to receive notice of a meeting of the directors approving the terms of the financing.

However, directors' agreement to a written resolution, passed by circulation, once approved, may not be revoked.

Steps required for passing a resolution by circulation

- The proposed resolution shall be circulated together with necessary documents, if any, to all the directors.
- The resolution shall be noted at a subsequent meeting of the board or the committee thereof, as the case may be, and made part of the minutes of such meeting.

6 RESTRICTIONS, PROHIBITIONS AND LIMITATIONS

6.1 Restrictions on director's remuneration [Section 170]

Remuneration for attending meetings

The remuneration to be paid to any director for attending the meetings of the directors or a committee of directors shall not exceed the scale approved by the company or the board of directors, as the case may be, in accordance with the provisions of the articles.

Remuneration for extra services

The remuneration of a director for performing extra services, including the holding of the office of chairman, is determined by the board of directors or the company in general meeting in accordance with the provisions in the company's articles.

6.2 Prohibition on assignment of office by directors [Section 174]

Prohibition on assignment of office

A director of any company shall not assign his office to any other person and any such appointment shall be void ab-initio.

Appointment of alternate director is allowed

The appointment by a director, of an alternate or substitute director to act for him during his absence from Pakistan of not less than 90 days, will not be deemed to be an assignment of office. Such appointment must be with approval of the board.

The alternate director so appointed vacates office when the director appointing him returns to Pakistan.

6.3 Restriction on transactions involving directors [Section 211]

Cash transactions

The company shall ensure that all cash transactions with its directors are conducted only through banking channels.

Non-cash transactions

Unless prior approval is accorded by a resolution of general meeting of company (and if the director or connected person is a director of its holding company, approval is also required to be obtained by passing a resolution in general meeting of the holding company) no company shall enter into an arrangement by which:

- A director of company or its holding/subsidiary/associated company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company; or
- Company acquires or is to acquire assets for consideration other than cash, from such director or person so connected.

Notice for approval of resolution shall include the particulars of arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer.

Any arrangement, in contravention of above provisions, shall be voidable at the instance of company unless:

- Restitution of subject matter is no longer possible; or
- Any right acquired in good faith without notice of contravention.

6.4 Loan to directors [Section 182]

Restriction

The company is not allowed, unless the transaction has been approved by members through resolution, to:

- make a loan to a director of the company or of its holding company or any of his relatives (spouse and minor children); or
- give a guarantee or security in connection with a loan made by any person to such a director; or to any of his relatives.

Additional requirement for listed company

Additionally, approval of the Commission is also required in case of a listed company, for such loans.

Exception

The above restrictions do not apply to a company which in the ordinary course of its business provides loans or gives guarantees or securities for the due repayment of any loan.

Consequences of contravention

All persons who are parties to any contravention of above provisions shall be jointly and severally liable to the lending company for the repayment of the loan or for making good the sum with markup not less than the borrowing cost of the lending company.

6.5 Other prohibitions

Prohibition regarding making of political contribution [Section 184]

A company shall not contribute any amount or allow utilisation of its assets:

- to any political party; or
- for any political purpose to any individual or body.

Prohibition regarding distribution of gifts [Section 185]

A company is prohibited to distribute gifts in any form to its members in its meeting.

► Practice Question 28:

Explain whether or not the following statement is in accordance with the provisions of the Companies Act, 2017.

“Directors’ remuneration for performance of extra services including the holding of office of the chairman or attending the board meeting is decided by the chief executive.”

► Solution:

The statement is not in accordance with the provisions of the Companies Act 2017. The directors’ remuneration for performing extra services, including the holding of the office of chairman, is determined by the directors or the company in general meeting in accordance with the provisions in the articles of association of the company.

► Practice Question 29:

Discuss the provisions relating to the payment of remuneration to any of the directors for attending the board meeting and performing extra services.

► Solution:

The remuneration to be paid to any director for attending the meetings of the directors or a committee of directors shall not exceed the scale approved by the company or the directors, as the case may be, in accordance with the provisions of the articles.

The remuneration of a director for performing extra services, including the office of the chairman, is determined by the directors or the company in general meeting in accordance with the provisions in the company's articles.

► **Practice Question 30:**

Explain whether or not the following statement is in accordance with the provisions of the Companies Act, 2017. "A director of a listed company cannot assign his office to another person under any circumstances."

► **Solution:**

The statement is in accordance with the provisions of the Companies Act 2017. Any such appointment shall be void ab initio.

► **Practice Question 31:**

In light of the provisions of the Companies Act 2017 advise the directors of KM Limited on the matter of assignment of director's office where Faisal, one of the directors, wishes to assign his office to Saeed as Faisal is going abroad for personal work.

► **Solution:**

The assignment of office by a director is prohibited and void ab initio. However, the directors have an option to appoint alternate or substitute director (with the approval of the board) if Faisal is going abroad for a period not less than 90 days. However, Saeed shall vacate the office when Faisal returns to Pakistan.

► **Practice Question 32:**

Mr. Hameed, who is a director in ABC Limited, a listed company, is planning to move to Europe for one year to set up his own business.

Respond to his request for advice, as regards his responsibilities, under the Companies Act 2017, in respect of:

- attending the annual general meeting of the company.
- attending the board meetings of the company.
- conditions under which he may be allowed to assign his office to another person.

► **Solution:**

Part (a) Director's attendance at Annual General Meeting.

It is not mandatory for a director to attend the annual general meeting of the company and there are no consequences of not attending it under Companies Act, 2017.

Part (b) Director's attendance at Board Meeting.

If Mr. Hameed does not attend three consecutive board meetings without seeking leave of absence he shall ipso facto cease to hold office.

Part (c) Restriction on assignment of office of directors

Mr. Hameed cannot assign his office to another person. However, he may appoint, with the approval of the board, an alternate or substitute director to act for him during his absence from Pakistan for a period not less than 90 days.

► **Practice Question 33:**

Rapid Constructions Limited (RCL) is a listed company. Advise the Board of Directors of RCL on the following matters, in the light of the provisions of the Companies Act, 2017:

- A request has been made by an independent director for increase in remuneration of directors from Rs. 25,000 to Rs. 40,000 for attending the Board and sub-committee meetings and performing extra services.
- Dawood, who is a director, wants to appoint his brother in his place as he is going abroad on vacations.
- Asad is a director but is not a member of the company.

► *Solution:***Part (a)**

The remuneration of a director for performing extra services, may be determined by the directors or the company in general meeting, in accordance with the provisions in the company's articles. Further, the remuneration for attending the Board of directors' meetings or Committee Meetings cannot exceed the scale approved by the company or the directors, as the case may be, in accordance with the provisions of the articles of the company.

Part (b)

Following conditions must be complied with if Dawood's brother is to be appointed as an alternate director.

- The absence of Dawood should be for a period of at least 90 days.
- The directors of the company approve the grant of leave to Dawood and the appointment of alternate director.
- Dawood's brother must be a member of RCL and should not be ineligible to be appointed as a director of RCL under any other criteria.

Part (c)

The condition for a director to be a member of the company does not apply to Asad if he is:

- i. representing the Government or an institution or authority which is a member;
- ii. an employee of the company; (whole-time director)
- iii. a Chief executive; or
- iv. representing a creditor.

► *Practice Question 34:*

Ahmed is a director on the boards of Nazeer Industries Limited (NIL) and King Limited (KL), which is the subsidiary of NIL. KL is in process of disposing off its land in Industrial Zone 1 since it wants to shift the production plant to Industrial Zone 2. Owing to the growing demand of Zone 2, the management of KL has been finding it difficult to obtain the plot in desired zone. Considering the difficulties of KL, Ahmed has offered to sell his plot in Zone 2 in consideration of KL's land in Zone 1. According to Ahmed, the fair values of both properties are approximately the same.

Under the Companies Act, 2017 state the conditions which must be met before such transaction is executed under the arrangement proposed by Ahmed

► *Solution:*

KL cannot enter into such arrangement unless prior approval for the non-cash transaction is obtained through a resolution in general meeting.

Since Ahmed is also the director of KL's holding company, approval from shareholders of NIL is also required to be obtained by passing a resolution in general meeting of the holding company.

The notice for approval of the resolution by KL and NIL shall include the particulars of the arrangement along with value of the assets involved in such arrangement duly calculated by a registered valuer.

► *Practice Question 35:*

Kismet Limited (KL) has entered into an arrangement with Ahmad Laiq, the CEO of Bijli (Private) Limited for the purchase of a specialized machinery worth Rs. 2,500,000 used in the manufacture of electric irons. Ahmad Laiq is the brother of one of KL's directors and also a director in KL's holding company. Ahmad Laiq has agreed to take 20,000 shares in KL in consideration for the payment of machinery.

Advise whether KL can acquire the machinery from Ahmad Laiq.

► *Solution:*

KL cannot enter into an arrangement by which it acquires asset(s) for consideration other than cash, from Ahmad Laiq who is connected with one of KL's directors' and is also a director in HL's holding company.

The above arrangement can only be entered if prior approval for the arrangement has been accorded by a resolution in KL's general meeting.

Since Ahmad Laiq is also a director in KL's holding company, approval shall also be required to be obtained by passing a resolution in general meeting of the holding company.

The notice for approval of the resolution by KL and holding company shall include the particulars of the arrangement along with value of the assets involved in such arrangement duly calculated by a registered valuer.

► *Practice Question 36:*

The directors of Shah Limited (SL), a listed company, have offered Shams who is presently working as General Manager Operations, to become the director of the company to fill in a casual vacancy. Last year Shams obtained a loan amounting to Rs. 1.2 million in accordance with the company's employment rules, out of which Rs. 0.8 million is still outstanding. Shams has agreed to take the position of director but is not in a position to repay the loan immediately.

Discuss the requirements of the Companies Act, 2017 which Shams will need to comply with.

► *Solution:*

The loan becomes immediately payable unless it is approved by the resolution of the general meeting and also the approval of the Commission has been obtained as SL is a listed company.

► *Practice Question 37:*

Azad Limited (AL) is a listed company engaged in the business of manufacturing and supply of electrical appliances. Mr. Majnou, a director of AL, has applied for an interest free loan from the company to be repayable in five years.

In view of the provisions of the Companies Act, 2017 describe the circumstances under which AL may grant loan to Mr. Majnou.

► *Solution:*

AL cannot, directly or indirectly, grant any loan to its director, Mr. Majnou unless it has been approved by the members of AL and also approval of Commission has been obtained.

► *Practice Question 38:*

In light of the provisions of the Companies Act 2017 advise the directors of TS Limited on the following matter:

"The CEO has refused the personal loan application of Yasir, who is also employed as a technical director, on the premise that grant of any loan to directors is prohibited under the law."

► *Solution:*

As Yasir is director, the loan to Yasir may be granted subject to following conditions:

- The loan transaction has been approved by a resolution of the members of the company.
- If TSL is listed company, prior approval from SECP is obtained.

► *Practice Question 39:*

Sodium Industries Limited (SIL) is a listed company that has a subsidiary, Beryllium Limited (BL), an unlisted company.

At a recent board meeting, BL approved the divestment of an inactive industrial land in Karachi. In this regard, BL has received the following two proposals:

Proposal A: Bahram, a director of BL, has expressed his interest in acquiring the land at market value. In exchange, he has offered to transfer his investment in the shares of an unlisted company to BL.

Proposal B: Jawed, a director of SIL, has shown his interest in acquiring the land at market value. In exchange, he has offered BL the options of either accepting his unused land in Jhelum as a swap or receiving the price in cash.

In light of the provisions of the Companies Act, 2017, advise the board of directors of BL on the prerequisites that BL needs to consider before proceeding with the potential sale of the industrial land to either Bahram or Jawed.

► **Solution:**

The board of BL must consider the following provisions of the Companies Act, 2017 (the Act) before proceeding with the sale of the industrial plot to either Bahram or Jawed:

Proposal A:

If the board decides to sell the industrial plot to Bahram, one of the directors of BL, in exchange for his investment in the shares of an unlisted company, as consideration other than cash, the board must obtain prior approval from the members through a resolution in the general meeting of BL.

Proposal B:

As SIL is the holding company of BL, if BL's board chooses to sell the industrial plot to Jawed, one of the directors of SIL, in exchanges for his unused land in Jhelum as a swap, as consideration other than cash, the board not only needs to obtain prior approval from BL's members but also obtain prior approval from SIL's members through a resolution in respective general meetings of SIL and BL.

Sale of plot for consideration in cash

In the event that BL's board decides to sell the industrial plot for cash, it is essential for the board to ensure that these transactions are conducted exclusively through banking channels.

Notice requirement for general meeting in both proposals

The notice meant for the general meeting seeking approval from the members of BL and/or its holding company SIL, as applicable according to the scenarios discussed above, must include the particulars of the arrangement along with the assessed value of the assets involved in such arrangement duly calculated by a registered valuer.

► **Practice Question 40:**

Hogfish (Private) Limited (HPL) operates sports facilities and owns multiple sports courts across various cities. Snapper Limited (SL) holds 25% of the shares in HPL.

On 26 August 2024, Flathead Limited (FL), a sports equipment trading company, acquired 26% shares in HPL. SL also holds 57% of the shares in FL.

On 2 September 2024, HPL's board of directors approved the sale of one tennis court. Saleem Tariq, a non-executive director of SL, expressed interest in acquiring this court at market value by offering shares in Flying Fish Ltd, a public unlisted company.

Under the provisions of the Companies Act, 2017, discuss the prerequisites that HPL must consider before finalizing the sale of the tennis court to Saleem Tariq.

► **Solution:**

SL controls more than half of the voting shares of HPL as follows:

Direct holding	25%
Indirect control through its subsidiary FL	26%
Total holding	51%

Hence, HPL is deemed to be a subsidiary of SL.

Therefore, the transaction to sell the tennis court to Saleem Tariq, a non-executive director of SL, in exchange for shares in Flying Fish Ltd, is a non-cash transaction with the director of HPL's holding company.

If HPL, decides to sell the tennis court to Saleem Tariq, it must:

- i. **Obtain shareholder approval:** HPL must obtain prior approval from its shareholders at a general meeting to proceed with the sale.
- ii. **Ensure SL's approval:** Given that Saleem Tariq is a non-executive director of SL, HPL should confirm that SL has also obtained prior approval from its shareholders in a general meeting for the sale.

The notice of general meeting for approval of the resolutions by HPL and SL shall include the particulars of the arrangement along with the value of the tennis court and the value of shares of Flying Fish Ltd duly calculated by a registered valuer.

7 OBJECTIVE BASED Q&A

1. The names and number of first directors shall be decided by the
 - a) Members of the company
 - b) Promoters of the company
 - c) Subscribers to the memorandum
 - d) CEO of the company
2. Casual vacancy on the board of directors of a listed company must be filled:
 - a) By calling an extra ordinary general meeting within 90 days from the date of such vacancy
 - b) By the directors not later than 90 days from the date of such vacancy
 - c) By the directors or members in general meeting, as the case may be, in accordance with the provisions contained in the articles of association
 - d) By the members in upcoming annual general meeting
3. Which of the following ineligibility applies only to appointment of directors in a listed company:
 - a) Is a minor
 - b) Is an undischarged insolvent
 - c) Has been convicted by a court for an offense involving moral turpitude
 - d) Has been declared by a court as defaulter in repayment of loan to a financial institution.
4. A director shall be treated to have vacated the office of director if he absents himself from
 - a) Meetings held in the last three months
 - b) Meeting held in the last 120 days
 - c) Three consecutive meetings of the board of directors
 - d) Three consecutive meetings of the members
5. A company is not allowed to contribute any amount
 - a) To any social purpose
 - b) To any dividend payment
 - c) To any political party
 - d) To any Zakat payment
6. The maximum number of director of a public company fixed by the Companies Act, 2017 is
 - a) 07
 - b) 10
 - c) 50
 - d) Not specified by the Companies Act, 2017
7. The quorum for a meeting of directors of a listed company will not be less than
 - a) Two-third of their number or 4 whichever is greater
 - b) One –third of their number or 4 whichever is greater
 - c) One-fourth of their number or 4 whichever is greater
 - d) Three-fourth of their number or 4 whichever is greater

8. Robust Limited's (RL's) election of directors is to be held next week. RL's Board of Directors has fixed nine directors to be elected for the next term. Whereas ten members have filed notices of their intention with RL to offer themselves for election as a director.

Mr. Arqam owns 100,000 shares in RL. The maximum number of votes Arqam may be allowed to cast in favour of the director(s) would be?

- a) 9 votes
 - b) 100,000 votes
 - c) 900,000 votes
 - d) 1,000,000 votes
9. Number of directors to be elected in the forthcoming election shall be fixed by the directors at least
- a) 21 days before election in the general meeting
 - b) 35 days before election in the general meeting
 - c) 60 days before election in the general meeting
 - d) None of the above is correct
10. The persons who may wish to contest the election of directors are required to give notice to the company at least
- a) 7 days before election
 - b) 14 days before election
 - c) 21 days before election
 - d) None of the above is correct
11. Any casual vacancy on the board of a listed company shall be filled up by the directors at the earliest but not later than
- a) 90 days from the date, the vacancy occurred.
 - b) 120 days from the date, the vacancy occurred.
 - c) 60 days from the date, the vacancy occurred.
 - d) None of the above is correct
12. In case of any material irregularity in the election of the directors, members having 10% or more voting power may apply to the court within
- a) 14 days of election
 - b) 21 days of election
 - c) 30 days of election
 - d) None of the above is correct
13. Mr. M has given a request to the company to hold fresh election of directors upon acquisition of a sizable shareholding in the company that is public unlisted company. The directors are supposed to proceed to hold fresh election of directors within
- a) 30 days of such application
 - b) 60 days of such application
 - c) Any time period as decided by the SECP
 - d) One year of such application

14. A person cannot be appointed as director of a company if he is lacking fiduciary behaviour and a declaration to this effect has been made by the court at any time during preceding
- 3 years
 - 5 years
 - Any time period as decided by the court
 - None of the above is correct
15. The directors of a public company shall meet at least once in
- Every month
 - Each quarter of a year
 - A year
 - None of the above is correct
16. Sunstone Limited is a public company with nine directors and a paid-up capital of Rs. 40 million (face value of Rs. 100 each). Khurram and Asim were elected as directors in the recent elections by securing 400,000 and 300,000 votes respectively. However, subsequently both of them resigned.
- Nasir was appointed to fill the casual vacancy created by Khurram while Asim's position is still vacant. Board is not satisfied with Nasir's performance and wish to replace him with Saim. A resolution has been moved in general meeting to remove Nasir from his position. Nasir will be able to secure his position if number of votes casted against the resolution equals to or exceeds:
- 450,000
 - 400,000
 - 350,000
 - 300,000
17. Which of the following business decisions requires approval of members in a general meeting?
- Approval of interim dividend
 - Approval to invest excess funds in fixed term deposits
 - Selling all the shares of subsidiary company to the highest bidder
 - Acquiring shares of another company at seven times higher the book value per share of that company
18. Election of directors of Rhinestone Limited (RL) having share capital of Rs. 4 million (face value of Rs. 10 each) was held on 5 March 2021 in which seven directors were elected. Yasir, Samia and Noureen, the shareholders of RL are of the opinion that the elections were not held fairly and material irregularities were noted. They intend to apply to the Court for re-election. The shareholders will be eligible to file their application if they hold at least:
- 40,000 voting shares and submit application by 4 April
 - 40,001 voting shares and submit application by 20 March
 - 80,000 voting shares and submit application by 4 April
 - 80,001 voting shares and submit application by 20 March
19. A director of a public company shall ipso facto cease to hold office if he is absent from:
- three consecutive board meetings without leave of absence
 - three consecutive general meetings without leave of absence
 - all meetings held during the last three months
 - three consecutive audit committee meetings

20. The election of the board of directors of Melon (Guarantee) Limited was held on 2 June 2025 in which Farhan was re-elected. In September, he got sick and has to go to China for medical treatment on 15 September 2025. During his absence, he wants to appoint an alternate director.

Farhan would be entitled to appoint an alternate director, with the approval of the board, if he returns on or after:

- a) 15 October 2025
 - b) 15 November 2025
 - c) 30 November 2025
 - d) 15 December 2025
21. Muskmelon Limited's (ML) election of directors is to be held on 30 September 2025. Kamal intends to file a notice of intention to offer himself for election as company's director. He was adjudicated as an undischarged insolvent on 30 September 2022.

Which of the following statements is NOT correct?

- a) He is eligible to be appointed as director of ML if he is ML's member and has discharged all his liabilities
 - b) He shall not offer himself for the position of director till he is adjudicated as solvent
 - c) He is entitled to contest the election of directors on completion of three years period i.e. 30 September 2025
 - d) A person cannot be eligible to offer himself for the position of director if he is adjudicated as an undischarged insolvent
22. Kashif Anas is to be appointed as the chairman of the board of directors of Alex Simone Limited with effect from 1 June 2025. His remuneration shall be determined by:
- a) the company in the general meeting
 - b) the directors in the board meeting
 - c) the HR committee
 - d) the directors in the board meeting or the company in the general meeting
23. Under the provisions of the Companies Act, 2017, which of the following powers can NOT be exercised by the board of directors of a company?
- a) To issue right shares
 - b) To borrow moneys otherwise than on debentures
 - c) To issue debentures or any instrument in the nature of redeemable capital
 - d) To sell or otherwise dispose of the subsidiary of the company
24. Ed Hardy (Pvt) Limited, a creditor of Rose Arabia Limited (RAL), has appointed Fazal Farhan as its nominee director on the board of RAL. Fazal Farhan has given a written Consent to RAL for his appointment. RAL shall file the consent within:
- a) 15 days with the registrar
 - b) 30 days with the registrar
 - c) 15 days with the Commission
 - d) 30 days with the Commission

25. Lithium Limited is contemplating several cash transactions with its directors for purchasing different items. The CEO seeks to understand the requirements set forth by the Companies Act, 2017 in such a situation. Which of the following is the correct requirement of the law?
- a) The company must maintain detailed records of each cash transaction above the prescribed limit with its directors
 - b) The company must ensure that all cash transactions with directors are approved by the shareholders
 - c) The company must conduct all cash transactions with directors only through banking channels
 - d) The company is not required to disclose the cash transactions with directors in its annual report if they are made for the purpose of the company's business
26. Under what circumstances can Ostrich Limited (OL) enter into a non-cash transaction with Ahmed without obtaining prior approval from a general meeting?
- a) If Ahmed is a director in OL and OL is acquiring assets from a person connected to him
 - b) If Ahmed is a director in OL's subsidiary and OL is acquiring assets from a person connected to him
 - c) If Ahmed is a director in one of OL's holding company's competitors and OL is acquiring assets from a person connected to him
 - d) If Ahmed is a director in OL's associated company and OL is acquiring assets from a person connected to him
27. Under the provisions of the Companies Act, 2017, which of the following may NOT be considered a quorum for a meeting of the board of directors of a listed company with seven directors?
- a) The participation of a director by audio conferencing and three in person
 - b) The participation of three directors by audio conferencing and four in person
 - c) The participation of three directors by video conferencing and one in person
 - d) The participation of a director by video conferencing and two in person to fill the casual vacancies arising due to the deaths of three directors and one being critically injured in a road accident
28. Under the provisions of the Companies Act, 2017, which of the following is the primary purpose of having independent directors in a listed company?
- a) To guide the CEO on major decisions and assist the chairman of the board
 - b) To represent and protect the interests of the investors
 - c) To oversee management, providing independent judgment and protect shareholder interests
 - d) To manage day-to-day operations and business decisions
29. Which of the following statements is correct about a director of a listed company?
- a) A director cannot be the CEO of the company
 - b) A director can be a full-time employee of the company
 - c) Every director is entitled to receive a monthly remuneration from the company
 - d) Every director actively involves in the company's day-to-day operations

ANSWERS

1	c)	First directors shall be decided by the subscribers of memorandum and their particulars shall be submitted along with the documents for incorporation.
2	b)	By the directors not later than 90 days from the date of such vacancy. [Section 155]
3	d)	A person shall not be appointed as a director of a listed company if he has been declared as defaulter in repayment of loan to a financial institution.
4	c)	If a director absents himself from the three consecutive meetings of the board of directors, he shall be treated to have vacated the office.
5	c)	A company is not allowed to contribute any amount to any political party or for any political purpose.
6	d)	The Companies Act, 2017 has not provided the maximum number of director for any type of company.
7	b)	The quorum for a meeting of directors of a listed company will not be less than one –third of their number or 4 whichever is greater
8	c)	900,000 votes i.e. product of 9 directors to be elected and 100,000 shares. [Section 159]
9	b)	Existing directors decide the number of directors for the next term at least 35 days before the date of meeting.
10	b)	Every person interested in contesting the election of the directors sends the notice of his interest to the company at least 14 days before the meeting.
11	a)	The casual vacancy in a board of a listed company must be filled by the directors within 90 days from the date of the vacancy.
12	c)	Members holding 10% of the voting power in the company may apply to the court within 30 days of the election of the directors to declare it invalid.
13	a)	Upon receiving such requisition the board shall within 30 days, proceed to hold fresh elections of directors of the company.
14	b)	A person cannot be appointed as director of a company for the period of 5 years from the court order.
15	b)	The directors of a public company are required to meet at least once in each quarter of a year.
16	a)	450,000
17	c)	Selling all the shares of subsidiary company to the highest bidder
18	a)	40,000 voting shares and submit application by 4 April
19	a)	three consecutive board meetings without leave of absence
20	d)	15 December 2025

21	d)	A person can't be eligible to offer himself for the position of director if he is adjudicated as an undischarged insolvent.
22	d)	the directors in the board meeting or the company in the general meeting
23	d)	To sell or otherwise dispose of the subsidiary of the company
24	a)	15 days with the registrar
25	c)	The company must conduct all cash transactions with directors only through banking channels
26	c)	If Ahmed is a director in one of OL's holding company's competitors and OL is acquiring assets from a person connected to him
27	a)	The participation of a director by audio conferencing and three in person
28	c)	To oversee management, providing independent judgment and protect shareholder interests
29	b)	A director can be a full-time employee of the company

STICKY NOTES

Introduction

1. Relevant definition: Director (based on function and not designation)
2. Natural person (a body corporate cannot be director)
3. Not to be variable representative (responsible for all aspects of company)
4. To be member (with few exceptions)
5. Authority (directors act collectively or by majority)
6. Fiduciary relationship (to act in the best interest of the company)
7. Consent to act as director (file with the registrar within 15 days)
8. Number of directorships (limit as may be specified)
9. Minimum number of directors (SMC: 1; other private: 2; public unlisted: 3; listed: 7)

Eligibility / ineligibility of certain persons to become director

1. Ineligibility (9 criteria for all companies and 2 additional for listed)
2. Ineligibility of bankrupt (imprisonment upto 2 years and/or fine)

Term of directors

1. At incorporation (by subscribers to the memorandum)
2. Additional directors (in general meeting)
3. Retirement of first directors (first AGM)
4. Term of office of elected directors (generally, three years)

Procedure for election of directors

1. Fixing the number of directors (not later than 35 days before meeting)
2. Notice of contesting the election (at least 14 days before meeting)
3. Elected unopposed (when contestants are not more than number fixed)
4. Number of votes (voting shares x number of director to be elected)
5. Result of polling (highest votes, second highest and so on)
6. All directors are equal (no difference in authority on the basis of vote)
7. Procedure for company limited by guarantee not having share capital (as per articles)

Nominee directors

1. Nominated by creditors (additional to number fixed for election)
2. Nominated by Government or body corporate (Freezing of votes of nominator in the election)

Fresh election of directors

1. Criteria (requisite shareholding)
2. Time limit and procedure (30 days; listed company to follow procedure specified by the Commission)

Powers of the court to declare election invalid

1. Appeal criteria (10% voting power)
2. Time limit (30 days)
3. Decision of court (election invalid in case of material irregularity)

Validity of acts of directors

1. An act done already by director is valid if defect in appointment is discovered.
2. When defect is noticed (the director shall not exercise the right of his office till the defect is removed)

Casual vacancy

1. Term of office (remainder of the term)
2. Appointment not necessary (if still have minimum number of directors)
3. Time limit (listed company) 90 days

Vacation of office and removal

1. Vacation of office (4 circumstances mentioned in the Act; company may include additional ground in its articles).
2. Removal of elected director (minimum enough votes in last election)
3. Removal in other cases (average votes)

Powers of board

1. Certain powers to be exercised by passing a board resolution
2. Authorisation of general meeting may be required in certain circumstances.

Duties of directors

1. The Act enlists 7 duties
2. Breach and ratification (by special resolution subject to restrictions imposed by the Commission)

Compliance with the code of corporate governance

1. The Commission may provide for framework for certain companies
2. Duty of directors to act in line with good corporate governance practices

Liabilities of directors and officers

1. Restriction on indemnification
2. Exception (acquittal or judgement in favour)

Independent director

1. Relevant definition: Independent director
2. Circumstances when a director shall not be considered independent
3. Manner of selection and maintenance of data bank of independent director
4. Election process and consent (in the same manner as other directors)
5. Relaxation in requirements (by the Commission)
6. Power of Commission (to make rules and regulations)

Protection to independent and non-executive directors for listed or public sector company

1. Liable only for acts done with his consent or where he did not act diligently etc.
2. Relevant definition: non-executive director

Proceedings of the board

1. Quorum of listed company (higher of 1/3rd of number and 4)
2. Casual vacancy situation (all the remaining directors)
3. Frequency of meetings (public company: once in each quarter)

Passing of resolution through circulation

1. Validity (as valid and effectual as passed in meeting)
2. Manner of circulation (to be circulated with necessary papers)
3. Revocation not allowed (once approved, may not be revoked)

Records of resolutions and meetings of board

1. Record to be kept (resolutions and minutes)
2. Authentication (chairman of the meeting or next meeting)
3. Copy of draft minutes to directors (within 14 days)
4. Place for keeping record and time duration (registered office; 10 years in physical form and permanently in electronic form).

Restrictions, prohibitions and limitations

1. Remuneration for attending meetings and for extra services according to scale approved by the company or board, as per articles.
2. A director cannot assign his office but appointment of alterante director in certain circumstances is allowed.
3. Cash transactions: only through banking channels
4. Non-cash transactions: resolution of general meeting required
5. Restriction on loans to director (subject to members' resolution and for listed company, approval from Commission).
6. Prohibition regarding making of political contribution
7. Prohibition regarding distribution of gifts

CHIEF EXECUTIVE AND OTHER OFFICERS

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Chief Executive
- 2 Other Officers
- 3 Objective Based Q&A

STICKY NOTES

AT A GLANCE

A chief executive manages a company subject to directions and control of directors. Any person ineligible to be a director cannot be a chief executive.

The name of first chief executive is decided by subscribers to the memorandum at the time of incorporation and term continues to the first AGM or if a shorter period is fixed by the subscribers at the time of his appointment, for such period.. The term for subsequent chief executive is not exceeding three years. The chief executive holds the office unless the successor is appointed.

The terms and conditions of appointment of chief executive are decided by directors or the company in general meeting, in accordance with articles. The chief executive is deemed to be a director and reports to the board of director.

A chief executive can be removed by special resolution, 3/4th of directors or by Government/authority holding 75% voting power.

The chief executive of public company is not allowed to be engaged in any competing business and should disclose the fact upon appointment.

A listed company shall also have a chairman of the board who must be a non-executive director. Listed companies are also required to appoint an independent share registrar and a public company shall have a secretary.

For appointing any sole purchase or sale agent, a company usually needs approval from the Commission.

1 CHIEF EXECUTIVE

1.1 Definition and Eligibility

Definition: Chief executive [Section 2(14)]

"chief executive", in relation to a company means an individual who, subject to the control and directions of the directors, is entrusted with the whole, or substantially the whole, of the powers of management of the affairs of the company and includes a director or any other person occupying the position of a chief executive, by whatever name called, and whether under a contract of service or otherwise.

Restriction on appointment (ineligibility) [Section 189]

A person who is ineligible to become a director of a company shall not be appointed or continue as the chief executive of any company.

1.2 Appointment of first chief executive [Section 186]

The name of first chief executive shall be determined by subscribers of memorandum. His specified particulars shall be submitted along with the documents of incorporation. The first chief executive shall hold office up to the first AGM unless shorter period is fixed by the subscribers at the time of his appointment. He may earlier resign or be removed from his office.

Notwithstanding above provisions, the Government shall have the power to nominate chief executive of a public sector company in such manner as may be specified.

1.3 Appointment of subsequent chief executive [Section 187]

Appointment time limit

The subsequent chief executive shall be appointed within 14 days of the election of the directors themselves or occurring of casual vacancy in the office of chief executive.

Term of office

The subsequent chief executive shall be appointed for a maximum period of three years.

The chief executive appointed against a casual vacancy shall hold office till the directors elected in the next election appoint a chief executive. The retiring chief executive can be re-appointed.

Continue until successor is appointed

Retiring chief executive shall continue to perform his services until his successor is appointed unless:

- his office was expressly terminated; or
- non-appointment of his successor is due to any fault on his part.

Nomination by Federal government

The Government shall have the power to nominate chief executive of a company, where majority of directors are nominated by the Government.

1.4 Terms of appointment [Section 188]

Terms and conditions

The terms and conditions of appointment of a chief executive are determined by the directors or the company in general meeting in accordance with the provisions in the articles. The terms and conditions of appointment of a chief executive nominated by government shall be determined by the Government, in such manner as may be specified.

Reports to board

He reports to board and he cannot exceed his authority which has been granted by board of directors.

Status of a director

The chief executive, if not already a director, shall be deemed to be a director in addition to his being a chief executive of the company. He shall be entitled to all the rights and privileges, and subject to all liabilities, of being a director.

1.5 Removal of chief executive [Section 190]

Chief executive may be removed through any of the following modes at any point in time regardless of any provisions in the articles or in his appointment to the contrary:

- by passing a special resolution in general meeting of the company; or
- by passing a resolution in the board of directors meeting supported by at least three-fourth of the number of directors;
- by Government/authority/person authorised by it, where more than 75% of the voting rights are held by the Government.

1.6 Not to engage in competing business [Section 191]

Restriction

In case of a public company, a chief executive, his spouse and minor children are prohibited to engage in a business which competes with the business of the company in which he is a chief executive or with the business of any of its subsidiary company.

Disclosure on appointment

Every person who is appointed as chief executive of a public company is required to disclose to the company in writing the nature of such business and his interest therein.

► Practice Question 01:

Faraya Limited (FL), an unlisted public company, is engaged in the business of manufacturing and sale of plastic bottles in Lahore. FL is planning to appoint Gul Maher as the chief executive of the company. During an interview with Gul Maher, he disclosed to the board that his wife Mona is running a corporate brokerage house in Lahore.

Under the provisions of the Companies Act, 2017 explain whether FL can appoint Gul Maher as the chief executive of the company.

► Solution:

A person who is ineligible to become a director of a company or has been disqualified to be a director of the company shall not be appointed as a chief executive of any company.

A person shall not be eligible to be appointed as a director of the company if the person himself or the spouse of such person is engaged in the brokerage business. However, this condition shall be applicable only in case of a listed company.

In the given scenario, FL is not a listed company. Therefore, Gul Maher is eligible to be appointed as the chief executive of FL.

► Practice Question 02:

A team of young engineers is planning to incorporate a private limited company which would provide machine maintenance services to large companies. The company would initially be incorporated with a share capital of Rs. 20 million. However, the engineers are not certain about appointment of the first and subsequent directors and chief executive and terms of their office.

Advise the team of engineers in respect of the above matters in the light of the Companies Act, 2017.

► *Solution:***First directors**

The number of directors and the names of the first directors shall be determined by the subscribers of the memorandum. The number of first directors may be increased by appointing additional directors by the members in a general meeting. The first directors shall hold office until the election of directors in the first annual general meeting.

Subsequent directors

Subsequent directors are elected in the first general meeting of the company. The directors so elected, hold office for a period of three years.

First Chief executive

The name of the first chief executive shall be determined by the subscribers of the memorandum of association of the company. The first chief executive shall, unless he earlier resigns or otherwise ceases to hold office, hold office up to the first annual general meeting of the company or, if a shorter period is fixed by the subscriber at the time of his appointment, for such period.

Subsequent Chief Executive

Within 14 days from the date of election of directors or the office of the chief executive falling vacant, as the case may be, the board shall appoint any person, including an elected director, to be the chief executive but such appointment shall not be for a period exceeding three years from the date of appointment.

► *Practice Question 03:*

Explain whether or not the following statement is in accordance with the provisions of the Companies Act, 2017. Support your answer with reasons.

“A chief executive, other than the first chief executive of the company, is appointed by the shareholders in the annual general meeting of the company, for a period up to the next annual general meeting.”

► *Solution:*

The statement is incorrect. Any chief executive (other than the first chief executive of the company) is appointed by the directors within 14 days from the date of their election or within 14 days of the office of the chief executive falling vacant.

The chief executive, other than the first chief executive of the company, is appointed for a period not exceeding three years, a chief executive appointed against a casual vacancy shall be appointed till the directors elected in the next election appoint a chief executive.

► *Practice Question 04:*

Tabdily (Pvt) Limited (TPL) has recently been converted into a public listed company and the directors intend to appoint a new Chief Executive of the company. Under the provisions of the Companies Act, 2017 briefly explain the requirement(s) for the appointment of a Chief Executive. Also state the restrictions, if any, on the appointment of a Chief Executive.

► *Solution:***Appointment of subsequent chief executive:**

The requirements for the appointment of a Chief Executive are as under:

- Within 14 days from the date of election of directors under the Act or the office of the chief executive falling vacant, as the case may be, the directors of TPL shall appoint any person, including an elected director, to be the chief executive, but such appointment shall not be for a period exceeding three years from the date of appointment.

- On the expiry of his term of office under the Act, a chief executive shall be eligible for reappointment.
- The chief executive retiring under the Act shall continue to perform his functions until his successor is appointed unless non-appointment of his successor is due to any fault on his part or his office is expressly terminated.

Restriction on appointment of chief executive

No person who is ineligible to become a director of TPL under the Act shall be appointed or continue as the chief executive of TPL.

► Practice Question 05:

Mr. Babar is currently working as a Marketing Manager in ST Limited (STL). The management intends to appoint him as the Chief Executive of the company. He is willing to accept the offer and has requested for a loan of Rs. 10 million. Moreover, he had also taken a loan in 2009, of which Rs.1 million is still outstanding.

State the conditions as specified in the Companies Act, 2017 which STL would need to comply with, in respect of the above loans.

► Solution:

The loan to Babar being chief executive is loan to a director and may be granted subject to following conditions:

- The loan transaction has been approved by a resolution of the members of the company;
- If STL is listed company, prior approval from SECP is obtained.
- In respect of the loan taken in 2009, STL must either settle the loan or STL must seek appropriate approval from members and also from SECP, in case STL is a listed company before appointing him as chief executive.

► Practice Question 06:

The Board of Directors of Hassam Textiles Limited (HTL) is not satisfied with the performance of its chief executive officer (CEO) and wants to remove him from his office before the expiry of his term on 31 August 2020.

Briefly explain the options available to HTL for removal of CEO under the above situation.

► Solution:

The Chief Executive may be removed before the expiration of his term of office notwithstanding anything contained in the article of the company or any agreement between the company and such chief executive by:

- board resolution passed by not less than three fourths of the total number of directors for the time being or
- the company by a special resolution.

► Practice Question 07:

Board of directors of ABC Limited consists of 12 directors. The chief executive of ABC Limited was appointed for a term of three years. It was specifically mentioned in his contract that he shall not be terminated before the expiry of term of his office. The directors are not satisfied with the performance of the chief executive and want to remove him. Can they remove the chief executive in presence of such clauses in the contract which do not allow his early termination?

► Solution:

The answer is yes. Directors may pass a resolution for his removal, if the resolution is voted in favour by at least 9 directors (three-fourth of total number of directors). They may decide to pass a special resolution for his removal by calling an extraordinary general meeting of the members of the company.

► *Practice Question 08:*

Bravo (Private) Limited (BPL) has two shareholders. The current board of directors has been formed in such a way that the directors effectively represent the interests of these two shareholders. The details are as follows:

Name of shareholders	No. of shares	Number of directors
Tiara Limited (TL) – listed company	6,030,000	5
Junaid	2,970,000	*3
	9,000,000	8

* including chief executive

TL wants to change the chief executive officer and appoint one of its directors as the chief executive of BPL before the expiry of the term of the office of the existing chief executive.

In the light of the provisions of Companies Act, 2017 advise TL in the above situation.

► *Solution:*

The directors of a company by a resolution passed by not less than three-fourths of the total number of directors for the time being, or the company by a special resolution, may remove a chief executive before the expiration of his term of office.

Therefore, the chief executive of BPL can be removed only if the proposal is supported by:

- at least 6 directors of the BPL, or
- by 3/4th majority of the members in the general meeting either present in person or by way of proxy.

Since TL has only 5 directors on the board of BPL and has 67% shareholdings, it cannot remove the existing chief executive without the support of Junaid or directors representing his interest.

► *Practice Question 09:*

Zameer is the first chief executive of Ryan Industries Limited, a public company. The directors of the company are not satisfied with his performance. What is the term of office of Zameer and explain how he can be removed before expiry of the above term?

► *Solution:*

Zameer being appointed as the first chief executive of Ryan Industries Limited, will hold office up to the first annual general meeting of the company or if a shorter period is fixed at the time of his appointment, on expiry of such period unless he earlier resigns or ceases to hold office.

Since the directors are not satisfied with the performance of Zameer they can remove him by a resolution passed by not less than three-fourths of the total number of directors for the time being, or by passing a special resolution in the general meeting of the company, notwithstanding anything contained in the articles or in any agreement between the company and Zameer.

► *Practice Question 10:*

Faraya Limited (FL), an unlisted public company, is engaged in the business of manufacturing and sale of plastic bottles in Lahore. FL is planning to appoint Gul Maher as the chief executive of the company. During an interview with Gul Maher, he disclosed to the board that his son Sultan, who is a business graduate, is engaged in the business of selling plastic bottles in Multan. Gul Maher also disclosed to the board that he sometimes provides technical assistance to Sultan without any charge.

Under the provisions of the Companies Act, 2017 explain whether FL can appoint Gul Maher as the chief executive of the company.

► **Solution:**

A chief executive of a public company shall not directly or indirectly engage in any competing business with the business carried on by the company of which he is a chief executive.

A business shall be deemed to be carried on indirectly by the chief executive if the same is carried on by his spouse or any of his minor children.

In the given scenario, Sultan is not a minor son of Gul Maher. Therefore, Gul Maher is eligible to be appointed as the chief executive of FL.

► **Practice Question 11:**

In the first meeting of Board of Directors of Hamid Textile Mills Limited (HTML), a listed company, the name of Mr. Imran was proposed for appointment as chief executive of the Company. Mr. Jamal opposed the proposal on the following grounds:

- i. Mrs. Imran is the Chief Executive Officer of Fahad Textile Mills (Private) Limited.
- ii. Mr. Imran is involved in the business of stock brokerage.
- iii. Mr. Imran is not a member of HTML.

Comment on the objections raised by Mr. Jamal in the light of the provisions of the Companies Act 2017.

► **Solution:****Part (i)**

A chief executive of a public company shall not directly or indirectly engage in any business which is of the same nature as and directly competes with, the business carried on by the company of which he is the chief executive. Since Mr. Imran's wife is the Chief Executive of FTMPL, he cannot be appointed as CEO of HTML.

Part (ii)

Moreover, no person shall be appointed as director of a listed company if engaged in the business of brokerage, or is a spouse of such person or is a sponsor, director or officer of a corporate brokerage house and as any person who cannot be a director cannot become chief executive. Therefore, Mr. Imran is not eligible for becoming the CEO of HTML.

Part (iii)

A person can be appointed as chief executive even if he is not the member of the company.

► **Practice Question 12:**

On 31 December 2025, Ali was appointed as a chief executive of Pearl Limited (PL), a listed company. In March 2026, he informed the board that on 15 February 2026, his spouse was appointed as a director in a brokerage house.

Under the provisions of the Companies Act, 2017 evaluate the impact of the appointment of Ali's spouse on his position and on PL.

► **Solution:**

Impact on Ali: Ali shall ipso facto cease to hold office of chief executive in PL from 15 February 2026 when his spouse was appointed as a director of a brokerage house.

Ali being PL's chief executive shall be deemed to be a director, hence he shall not be able to continue as the chief executive or a director of any other listed company including PL.

Impact on PL: Ali's acts till discovery of ineligibility are valid notwithstanding that afterwards it was discovered that he had ceased to hold his office in PL.

PL's board shall have to appoint chief executive within 14 days of occurrence of casual vacancy in the office of chief executive.

► *Practice Question 13:*

Under the provisions of the Companies Act, 2017, state the requirements relating to appointment and removal of subsequent chief executive of a company.

► *Solution:***Requirements relating to appointment of subsequent chief executive:**

Within fourteen days from the date of election of directors of the company or the office of the chief executive falling vacant, as the case may be, the board shall appoint any person, including an elected director, to be the chief executive, but such appointment shall not be for a period exceeding three years from the date of appointment.

Requirements relating to removal of subsequent chief executive:

The board by resolution passed by not less than three-fourths of the total number of directors for the time being, or the company by a special resolution, may remove a chief executive before the expiration of his term of office notwithstanding anything contained in the articles or in any agreement between the company and such chief executive.

However, the Government or an authority or a person authorized by it shall have the power to remove chief executive of a company where more than 75% of the voting rights are held by the government.

► *Practice Question 14:*

Discuss the grounds under which a chief executive shall ipso facto cease to hold office of the chief executive.

► *Solution:*

If a chief executive is not already a director, he shall be deemed to be a director. Accordingly, the following are the grounds under which the chief executive shall ipso facto cease to hold office of chief executive, when he/she:

- i. becomes ineligible to be appointed as a director on any one or more grounds enumerated in section 153;
- ii. absents himself from three consecutive meetings of the board without seeking leave of absence
- iii. himself or any firm of which he is a partner or any private company of which he is a director:
 - without the sanction of the company in general meeting accepts or holds any office of profit under the company other than that of CEO or a legal or technical adviser; or
 - accepts a loan or guarantee from the company in contravention of the provisions of the Act.

► *Practice Question 15:*

On 26 October 2025, the board of directors of Axis Cement Limited (ACL) unanimously approved the appointment of Fareed Shah as the chief executive for a period of two years under the terms and conditions specified in the contract.

On 9 March 2026, Seema Shah, the spouse of Fareed Shah, got elected on the board of Brut Cement (Pvt) Limited.

On 10 March 2026, an urgent meeting of ACL's board was held, in which most of the directors were of the view that Fareed Shah had ipso facto ceased to be the chief executive as a result of aforementioned fact, and demanded the immediate cancellation of his contract. However, the chairman of the board pointed out that the terms and conditions of Fareed Shah's contract specifically prohibit its earlier cancellation.

Under the provisions of the Companies Act, 2017, advise ACL's board with regard to the following:

- a) The view point expressed by the directors about the cessation of office of chief executive and cancellation of Fareed Shah's contract.
- b) How directors' demand may be implemented in the presence of specific provision in the Fareed Shah's contract which prohibits earlier cancellation of the contract?

► **Solution:****Part (a)**

The grounds under which the chief executive shall ipso facto cease to hold the office of the chief executive, do not include the appointment of chief executive's spouse in a company, engaged in similar business, as a director. Hence, the directors' viewpoint is not valid.

Nevertheless, the Companies Act, 2017 does require that a chief executive of a public company shall not directly or indirectly engage in any business which is of the same nature and directly competes with the business carried on by the company.

Hence, if BCL which is engaged in similar business, also competes with ACL, Fareed Shah shall be considered indirectly engaged in BCL's business and will have to vacate his office as chief executive. Contrary to the above situation, he will be eligible to continue to hold his office.

As regards directors' demand for the immediate cancellation of Fareed Shah's contract, the directors always have the power to cancel the contract of chief executive, subject to compliance of the provisions of the Companies Act, 2017 related to the removal of a Chief Executive.

Part (b) Earlier cancellation of contract:

Although Fareed Shah's contract specifically prohibits earlier cancellation, the Companies Act, 2017 overrides all such terms and conditions contained either in the articles of association of the company or in any agreement entered into between the company and the chief executive. The Act permits earlier removal of the chief executive. Hence, the directors' demand may be implemented by cancelling his contract to remove him from the office of the chief executive in either of the following two ways:

- By ACL's board of directors' through a resolution passed in a meeting by not less than three-fourths i.e. 75% of the total number of directors for the time being; or
- By ACL's members through a special resolution passed in the general meeting.

► **Practice Question 16:**

Rohu Limited (RL), an unlisted company incorporated on 10 June 2023, specializes in sportswear manufacturing. RL's subsidiary, Pomfret Automobiles (Private) Limited, is engaged in automotive production.

RL's board intends to appoint Mahmood Khan as the CEO to replace Haseeb Ahmed. However, the board has indicated that they do not wish to terminate or dismiss Haseeb Ahmed. The following information about Mahmood Khan was presented to the board:

- i. He is a director of Shrimp Securities Limited, a corporate brokerage house.
- ii. He is also a director of Boxfish Technologies (Private) Limited, which provides support to RL's IT department.
- iii. His wife, Mehreen Mahmood, is the CEO of Sunfish Automobiles (Private) Limited.

Under the provisions of the Companies Act, 2017:

- a) discuss the earliest possible time at which CEO Haseeb Ahmed can be replaced.
- b) evaluate the implications of each information provided about Mahmood Khan, in the context of his appointment as CEO.

► **Solution:****Part (a)**

In case Haseeb Ahmed is the first CEO of RL, the earliest possible time at which he can be replaced under normal circumstances is on or before 10 October 2024. Since RL's date of incorporation is 10 June 2023, his term will continue until the first annual general meeting (AGM), which is required to be held within sixteen months from the date of incorporation i.e., by 10 October 2024.

However, since the subscribers may fix a shorter period at the time of his appointment, in such a case, Haseeb Ahmed's term will end on the specified date unless he earlier resigns or otherwise ceases to hold office.

Part (b)

Following are the implications of the information presented to the board in respect of appointment of Mahmood Khan as CEO:

- i. Given RL's status as an unlisted company, there are no implications from Mahmood Khan's role as a director of Shrimp Securities Limited, a corporate brokerage house.
- ii. Mahmood Khan is also a director of Boxfish Technologies (Private) Limited, a company that provides IT support to RL's IT department. If this support is considered technical advisory support, then there is no implication with Mahmood Khan holding both positions provided necessary disclosure is made for holding the interest in company's contracts .

Moreover,, if the arrangement constitutes holding an office of profit, Mahmood Khan must ensure that the said arrangement is approved in the general meeting, otherwise, he will ipso facto cease to hold office, since the CEO is deemed to be a director as well.

- iii. If it is determined that Pomfret Automobiles (Private) Limited (PAL), a subsidiary of RL, is engaged in direct competition with Sunfish Automobiles (Private) Limited (SAL), a company where Mahmood Khan's wife serves as CEO, then Mahmood Khan would be disallowed from being appointed as CEO of RL. This is due to the provisions of the Companies Act, 2017 that provides that a business shall be deemed to be carried on indirectly by the CEO if the same is carried on by his spouse.

However, if no direct competition exists between PAL and SAL, there would be no legal impediment to Mahmood Khan's appointment as CEO of RL.

2 OTHER OFFICERS

2.1 Chairman of a listed company [Section 192]

The board of a listed company shall within 14 days from date of election of directors, appoint a chairman from among the non-executive directors.

The chairman shall be responsible for leadership of board and ensure that the board plays an effective role in fulfilling its responsibilities. The annual financial statements shall contain a review report by the chairman on the overall performance of board and effectiveness of role played by board in achieving the objectives.

The chairman shall hold office for 3 years unless he earlier resigns, becomes ineligible or disqualified or removed by the directors.

The board shall clearly define the respective roles and responsibilities of chairman and chief executive. The Commission may specify the classes of companies for which the chairman and chief executive shall not be the same individual.

2.2 Public company required to have secretary [Section 194]

The company secretary is responsible for advising the board on compliance of corporate laws and for maintenance of relevant records and registers.

A public company must have a company secretary, possessing such qualification as may be specified.

Definition: Company Secretary [Section 2(21)]

A “company secretary” means any individual appointed to perform secretarial and other duties customarily performed by a company secretary and declared as such, having such qualifications and experience, as may be specified.

2.3 Listed company to have share registrar [Section 195]

Listed companies are required to appoint independent share registrar to handle the transfer of shares and all other obligations of the company as an issuer towards shareholder. In case of listed companies all applications for transfer of shares are directed to the share registrar instead of company. The name of share registrar of the company is mentioned in the notice of general meetings as well.

2.4 Bar on appointment of sole purchase, sales agents [Section 196]

No company (incorporated in Pakistan or outside) which is carrying on business in Pakistan shall, without the approval of the Commission, appoint any sole purchase, sale or distribution agent.

► Example 01:

ABC Limited is registered under Companies Act, 2017 and is carrying on business in Pakistan and Middle East. It is considering appointing a sole purchase agent. It must obtain approval of the Commission for the appointment.

Exception to above rule:

Company incorporated outside Pakistan are not required to obtain the approval of the Commission for such appointment (unless the major portion of business of such company or person is conducted in Pakistan).

► Example 02:

ABC Inc. is registered company under the relevant law of USA and is carrying on business in 12 different countries including some business in Pakistan. It is considering appointing a sole sale agent in Pakistan. It need not obtain approval of the Commission for the appointment.

► *Example 03:*

XYZ Inc. is registered company under the relevant law of USA and is carrying on business in 3 different countries including major portion of business in Pakistan. It is considering appointing a sole distribution agent in Pakistan. It must obtain approval of the Commission for the appointment.

► *Practice Question 17:*

Following is the composition of board of directors of Faisal Limited, a listed company:

Independent directors	Khalid, Dawood, Rehmat
Non-executive directors	Salman, Arif, Ashraf
Executive directors	Fasih (CEO), Kashif (Director Finance)

Under the Companies Act, 2017 advise which of the above directors are eligible to be appointed as Chairman of the board. Also state the time frame for his appointment, duration of office and his responsibilities.

► *Solution:*

Since independent directors are also non-executive directors and any of the non-executive directors (i.e. Khalid, Dawood, Rehmat, Salman, Arif, Ashraf) may be appointed as Chairman. The board of Faisal Limited shall within 14 days from the date of election of directors appoint a chairman who shall hold office for a period of three years unless he earlier resigns, becomes ineligible or disqualified under the Companies Act, 2017 or is removed by the directors.

The responsibilities of the Chairman are defined by the board. Chairman shall be responsible for leadership of the board and ensure that the board plays an effective role in fulfilling its responsibilities. The Chairman is required to issue a review report in every annual financial statement of the company which shall contain a review on overall performance of the board and effectiveness of the role played by the board in achieving the company's objectives.

3 OBJECTIVE BASED Q&A

1. Afridi, Bader, Dawood and Iffat owns 45%, 25%, 10% and 5% shares respectively of Splendid Mills Limited (SML), a public unlisted company. They were elected as SML's director in the last election of directors as unopposed. The board appointed Anas as the chief executive of SML; however, due to Anas's unsatisfactory performance, the board has decided to remove him in the next board of directors meeting. Anas will stand removed as chief executive if:
 - a) directors having more than 50% shareholdings in SML's share capital will vote against him
 - b) directors having more than 75% shareholdings in SML's share capital will vote against him
 - c) any four directors will vote against him
 - d) all the directors will vote against him
2. Subsequent Chief Executive of a company is required to be appointed by the directors within
 - a) 07 days of the election of Directors
 - b) 14 days of the election of Directors
 - c) 21 days of the election of Directors
 - d) 30 days of the election of Directors
3. Which of the following statements is correct regarding chairman of a listed company?
 - a) Chairman must be from amongst the non-executive directors
 - b) Chairman can only be removed by passing a special resolution
 - c) Chairman must be from amongst the independent director
 - d) Chairman is appointed by the shareholders within fourteen days from the date of election of directors
4. Which of the following officers are mandatorily required to be appointed to manage the affairs of a listed company under the provisions of the Companies Act, 2017?
 - a) Chairman, chief executive, company secretary, sole purchase agent
 - b) Chairman, chief executive, company secretary, share registrar
 - c) Chairman, chief executive, company secretary, chief financial officer
 - d) Chairman, chief executive, company secretary, chief financial officer, head of audit
5. Commission may specify the classes of companies for which the _____ and _____ shall not be the same individual.
 - a) Chief executive and Chief Financial Officer
 - b) Chairman and Chief executive
 - c) Chief Financial Officer and Company Secretary
 - d) Chief executive and Company Secretary
6. The chief executive reports to:
 - a) Members in general meeting
 - b) Board of Directors
 - c) The Registrar
 - d) The Commission

7. In case of a _____ company, a chief executive, his spouse and minor children are prohibited to engage in a business which competes with the business of the company in which he is a chief executive or with the business of any of its subsidiary company.
- Private Company
 - Public Company
 - Listed Company
 - Holding Company
8. A chief executive shall be a person who is vested with whole or substantially the whole, of the powers of the management of the affairs of the company. Being a member of the board of directors, he reports to
- The chairman of the company
 - The members of the company
 - The board of directors of the company
 - The company secretary of the company
9. A company is incorporated outside Pakistan and conducts major portion of its business in Pakistan. In order to appoint a sole purchase, sale or distribution agent, it shall be required to obtain approval of :
- Special resolution
 - Registrar
 - Commission
 - It does not need approval in these circumstances.
10. A company is incorporated outside Pakistan and conducts major portion of its business outside Pakistan. In order to appoint a sole purchase, sale or distribution agent, it shall be required to obtain approval of :
- Special resolution
 - Registrar
 - Commission
 - It does not need approval in these circumstances.
11. In case of a _____, a chief executive, his spouse and minor children are prohibited to engage in a business which competes with the business of the company in which he is the chief executive or with the business of any of its subsidiary company.
- company incorporated under the Companies Act, 2017
 - public company incorporated under the Companies Act, 2017
 - listed company incorporated under the Companies Act, 2017 only
 - holding company incorporated in Pakistan
12. The Chief Executive Officer of a company shall be considered to be the _____ of the company.
- Independent Director
 - Executive Director
 - Non-Executive Director
 - Chairman

13. The board of Jicama Limited (JL) comprises of twelve directors. A meeting of the board was called to consider removal of Adnan from the position of JL's Chief Executive. In the said board meeting, ten directors were present.

Considering the situation, the resolution to remove Adnan has to be passed by:

- a) not less than 9 directors
 - b) not less than 8 directors
 - c) not less than 7 directors
 - d) not less than 5 directors
14. Which of the following statements is correct with regard to the roles and responsibilities of the Chairman of the board of directors of a company?
- a) The roles and responsibilities shall be clearly mentioned in the articles of association
 - b) The roles and responsibilities shall be clearly defined in the memorandum of association
 - c) The roles and responsibilities shall be clearly mentioned in his contract of appointment
 - d) The roles and responsibilities shall be clearly defined by the board
15. On 22 December 2022, Farhan Ataullah was nominated as chief executive of Lacoste (Pvt) Limited (LPL), a public sector company. On 9 March 2023, Farhan Ataullah tendered his resignation. In this situation, _____ shall have the power to nominate LPL's new chief executive.
- a) Government of Pakistan
 - b) The Commission
 - c) The Registrar
 - d) The board of directors
16. Catfish Holding (CH), a company registered in Turkey with major business operations in Pakistan, is considering to appoint Goldfish (Pvt) Limited (GPL), a company registered in Pakistan, as its sole distributor for its product in Pakistan.
- Under the provisions of the Companies Act, 2017, which of the following statements is correct?
- a) CH is not obligated to obtain the Commission's approval before appointing GPL
 - b) CH is obligated to obtain the Commission's approval before appointing GPL
 - c) As a Turkish company, CH is obligated to obtain approval either from the Turkish or Pakistani Commission before appointing GPL
 - d) As a Turkish company, CH is obligated to obtain approval from both the Turkish and Pakistani Commissions before appointing GPL

ANSWERS

1	c)	Any four directors will vote against him
2	b)	Subsequent Chief Executive shall be appointed within 14 days of the elections of the directors.
3	a)	Chairman must be from amongst the non-executive directors
4	c)	Chairman, chief executive, company secretary, chief financial officer
5	b)	Chairman and Chief executive. [Section 192]
6	b)	Board of Directors [Section 188]
7	b)	Public Company [Section 191]
8	c)	Although being part of the board of directors, he reports to the board of directors.
9	c)	Approval of Commission is required. [Section 196]
10	d)	No approval is required. [Section 196]
11	b)	public company incorporated under the Companies Act, 2017
12	b)	Executive Director
13	a)	not less than 9 directors
14	d)	The roles and responsibilities shall be clearly defined by the board
15	a)	Government of Pakistan
16	b)	CH is obligated to obtain the Commission's approval before appointing GPL

STICKY NOTES

Chief executive

1. Relevant definition: Chief executive
2. Restriction on appointment (same ineligibility as for directors)
3. Appointment of first chief executive (determined by subscribers to the memorandum; term upto first AGM)
4. Appointment of subsequent chief executive (within 14 days of election of directors or casual vacancy; term of office is maximum 3 years)
5. Continue until successor is appointed
6. Nomination by Federal government (where majority of directors are nominated by the Government)
7. Terms of appointment (determined by directors or general meeting as per articles)
8. Reports to board and has status of a director in addition of being chief executive
9. Removal (by special resolution; by 3/4th directors; Government or authority holding 75% voting rights)
10. Not to engage in competing business and give disclosure of any such business on appointment

Other officers

1. Chairman of a listed company (from non-executive director)
2. Public company required to have secretary
3. Listed company to have share registrar
4. Bar on appointment of sole purchase, sales agents without the prior approval of the Commission.
(approval of Commission not required in a certain case)

AT A GLANCE

SPOTLIGHT

STICKY NOTES

SHARE CAPITAL AND COMMENCEMENT OF BUSINESS

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Share Capital
- 2 Alteration of Share Capital Clause in Memorandum
- 3 Commencement of Business
- 4 Objective Based Q&A

STICKY NOTES

AT A GLANCE

Share means a share in the share capital of a company and is a form of transferable moveable property carrying rights and obligations as per article of association.

Authorised share capital is the maximum amount of share capital which a company is authorised to issue. Paid up share capital is the amount issued by the company and subscribed by the shareholders. A company shall issue fully paid shares only.

Nominal value is the face value or par value of the shares. Market value is the price at which share is sold in the market.

Shares may be divided in to different classes but all shares within a class will be of same value. A company may issue shares of different kind or classes only if it is authorised to do so as per memorandum and articles.

Shares may be ordinary or preference. Difference in ordinary and preference share capital is that of dividend, voting rights and right to repayment of capital in case of winding up.

Variation in shareholders right requires an alteration in articles and will be through special resolution of members and class resolution of effected class. Such variation can be challenged by members having at least 10% voting rights of aggrieved class and the court may declare variation invalid if satisfied.

A company may alter its share capital clause in memorandum if authorized to do so by its articles so as to increase, consolidate, sub-divide or cancel its share capital not yet taken up. The copy of special resolution and altered memorandum are required to be filed with registrar.

A public company shall not exercise any business or borrowing powers unless it is entitled to commencement of business by registrar subject to compliance with certain requirements including minimum subscription and issue of prospectus or filing of statement in lieu of prospectus. If such company commences business or exercises borrowing powers otherwise, every office or responsible person will be liable to penalties and other consequences.

1 SHARE CAPITAL

1.1 Nature of shares [Section 2(63) & 60 to 62]

“share” means a share in the share capital of a company.

Shares and share certificates have several characteristics:

- A share is a form of movable property, carrying rights and obligations, and is transferable from one person to another in the manner provided by articles.
- A share must be paid for. It must be paid for in full when it is allotted to the shareholder.
- Every share in a company having a share capital shall be distinguished by its distinctive number.
- A certificate issued in physical form under signature of authorised officer of the company as may be specified or issued in book-entry form (i.e. electronic) shall be the main evidence of the title of the person to such shares.
- The manner of issue of a certificate of shares, form of such certificate and other matters may be specified in articles.

Issuance of shares is the first step of offering shares by the company, then people or promoters pay for the shares, this is termed as subscription of shares and finally shares are allotted to respective names of applicants/subscribers, this is termed as paying up of the capital.

1.2 Authorised and paid up share capital

Definition: Authorised share capital [Section 2(5)]

“authorised capital” or “nominal capital” means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.

Issued and paid up share capital

The nominal value of shares that have been issued to shareholders. This amount may be equal to or less than authorised share capital but cannot exceed it. This is also called allotted shares.

Publication of authorised and paid up capital [Section 25]

Where any notice, advertisement or other official publication of a company contains a statement of amount of authorised capital of the company, such notice, advertisement or other official publication shall also contain a statement in an equally prominent position and in equally conspicuous characters of amount of the paid up capital.

Any company which makes default in complying with the requirements of above and every officer of the company who is party to the default shall be liable to a penalty not exceeding of level 1 on the standard scale.

Fully paid shares [Section 58]

A company having share capital shall issue only fully paid shares. Many years ago, it was allowed to issue partly paid shares but now companies can only issue fully paid shares.

► Example 01:

ABC Limited, a public company has authorised share capital of 800,000 ordinary shares of Rs.10 each (Rs. 8,000,000 in total). The nominal value of the shares is Rs.10 per share. The issued share capital is 400,000 ordinary shares. All of these, 400,000 shares are fully paid.

Authorised share capital is Rs. 8,000,000 (800,000 shares of Rs. 10). Issued share capital is 4,000,000 (400,000 shares of Rs. 10). The maximum liability of the shareholders for the unpaid debts of the company, in the event of the company's liquidation, is zero as all of the nominal value is fully paid.

Nominal value

This is face value of shares, also called par value.

Market value

This is the value at which share are traded at stock exchange or otherwise.

1.3 Classes and kind of share capital [Section 58]

The share capital of a company may be divided into several different classes, or there may be just one class of shares. Within each class of shares, all the shares must be of the same fixed nominal amount.

► Example 02:

The ordinary shares in a company may be divided into 500,000 shares, all of Rs.10 each. Within the same class, there cannot be shares for differing nominal amounts and all the shares carry equal rights and privileges.

Requirement

A company having share capital shall issue only fully paid shares which may be of different kinds and classes as provided by its memorandum and articles.

► Example 03:

A company limited by shares may have different kinds (ordinary and preference etc.) of share capital and various classes (class A, class B etc.) under each kind.

Explanation

A company shall have more than one kind of share capital only if it has authorised capital (in memorandum) of all those kinds.

Ordinary shares vs. preference shares

	Ordinary shares	Preference shares
Voting rights	The ordinary shareholders are entitled to vote at general meetings of the company. Different classes of ordinary shares may have different voting rights.	The preference shareholders are usually not entitled to vote at general meetings of the company or are entitled to vote for only on certain issues as mentioned in articles.
Dividend rights	They are entitled to residual profit after payment of preference dividend.	They are entitled to prior right (ahead of ordinary shares) to dividend which is usually fixed and may or may not be cumulative.
Winding up	They are entitled to all surplus assets after return of nominal value to preference shareholders.	They have prior right of return of nominal value, but no further participation in surplus.
Basis of different classes	Ordinary shares may be of different classes on the basis of different voting rights, rights disproportionate to paid up shares, or different entitlements of dividend, right issue and issue of bonus shares.	Preference shares may be of different classes on the basis of varying percentages of fixed dividend, accumulation or otherwise of the dividend, on the basis of redemption or conversion of preference shares into ordinary shares etc.

1.4 Variation of shareholders' rights [Section 38]

Special resolution

The variation in shareholders' rights shall only be made by alteration of articles by passing a special resolution.

Restriction on alteration

If alteration affects the substantive rights or liabilities of members or of a class of members, it shall be carried out only if a majority of at least 3/4th of the members or of the class of members affected by such alteration vote for such alteration.

1.5 Right to challenge the variation in the court [Section 59]

Criteria for application to Court

Any member or members of affected class representing at least 10% shareholding of that class who are aggrieved by the variation of their rights may, within 30 days of the date of the resolution varying their rights, apply to the Court for an order cancelling the resolution.

The application may be made on behalf of the shareholders entitled to make it by such one or more of their number as they may authorise in writing in this behalf.

Basis of Court decision

The court has got the powers to declare the resolution null and void if it feels that either:

- the company withheld certain facts while getting the resolution passed, had the members been in knowledge of those facts, they would not have passed the resolution varying the rights of a particular class; or
- the variation is otherwise prejudicial to the interest of members.

Filing with registrar

The company is required to file a copy of the order of the court to the registrar within 15 days of receipt of the order.

► Practice Question 01:

Saga Limited (SL), a listed company, has two classes of ordinary shares i.e. Class A and Class B. In order to attract foreign investors, the directors intend to issue a new class of ordinary shares i.e. Class C, with no voting rights. Currently SL's memorandum and articles of association do not contain such class of shares.

Under the provisions of the Companies Act, 2017 briefly describe the steps which the directors should take prior to issuance of Class C shares. (Procedure for issuance of shares is not required)

► Solution:

SL can issue new class C shares only if it is permitted by the memorandum and articles of association. Since SL's articles and memorandum lack any such classification, the directors are first required to alter the provisions of SL's articles of association and memorandum of association by getting a special resolution passed by general meeting.

It should however be noted that where such alteration affects the substantive rights or liabilities of members or of a class of members, it shall be carried out only if a majority of at least three-fourths (3/4) of the members or of the class of members affected by such alteration, as the case may be, exercise the option through vote either personally or through proxy.

An altered copy of the articles of association shall be filed with the registrar, within 30 days from the date of passing of the resolution. The registrar shall register the same and then the alteration shall be effective.

► *Practice Question 02:*

The directors of Pioneer Shipping Limited have decided to issue Class B ordinary shares which would have different rights and would be issued to a group of investors. The existing paid up capital will be classified as Class A shares.

In the light of Companies Act, 2017 explain the following:

- Validity of directors' resolution regarding the issuance of Class B shares.
- The nature of variation in the rights and privileges that may be attached to different classes of shares

Ahmed and Faraz holding 9% and 10% shareholdings respectively, do not agree with the issuance of class B shares as in their opinion this would adversely affect their interest, though a majority of the members are in favour of the resolution.

- In the light of the provisions of the Companies Act, 2017 advise the course of action which Ahmed and Faraz should take in respect of the above.

► *Solution:***Part (a)**

The directors may issue more than one kind of share capital which may have different classes of shares under each kind. However, the decision of the directors would only be valid if such issuance is specifically provided in PSL's memorandum and articles of association.

Part (b)

The variation in the rights and privileges attached to different classes of shares may be of the following nature:

- different voting rights; voting rights disproportionate to the paid up value of share held; voting rights for specific purposes only; or no voting rights at all;
- different rights for entitlement of dividend, right shares or bonus shares or entitlement to receive the notices and to attend the general meetings; and
- rights and privileges for indefinite period, for a limited specified period.

Part (c)

Since Ahmed and Faraz hold more than 10% of the Class A shares, they can apply for cancellation of resolution to the Court within 30 days of the date of resolution. However, in order to get a favourable decision, they shall have to satisfy the Court that:

- some facts which would have had a bearing on the decision of the shareholders were withheld by PSL in getting the aforesaid resolution passed; or
- having regard to all the circumstances of the case, the variation would unfairly prejudice the Class A shareholders.

► *Practice Question 03:*

Paradise Limited, upon passing a special resolution on August 20, 20X3 made amendments in its Articles of Association affecting substantial rights associated with class "B" shares of the company. Few aggrieved shareholders having objection on the special resolution intend to file an application in the Court, for the cancellation of the above resolution.

Discuss the relevant provisions of the Companies Act, 2017 specifying the following:

- What is meant by variation of shareholders' rights?
- The conditions which the aggrieved shareholders will have to comply with, to be eligible for filing an application in the court for the cancellation of the above resolution.
- The matters which the Court would consider while making a decision on the above application.

► *Solution:***Part (a)**

Variation of shareholders' rights means changing of the rights i.e. reducing, enhancing or cancelling the rights of the shareholders.

Part (b)

The following conditions would have to be complied with by the aggrieved shareholders:

- Their holding should be at least ten percent of the total class 'B' shares.
- Application must be filed within 30 days of the date of passing of special resolution.

Part (c)

The Court shall pass an order for cancellation of the resolution only if it is satisfied that some facts having impact on the decision of the shareholders were withheld by the company in getting the special resolution passed or, the variation in rights would unfairly prejudice the shareholders of the class represented by the applicant.

► *Practice Question 04:*

In the 14th annual general meeting of Sapphire Limited, a special resolution has been passed to increase the voting rights of shareholders of class A by 50%.

Faiza Ibrahim, a shareholder from class B, wants to get the said special resolution cancelled.

Under the Companies Act, 2017 discuss how Faiza Ibrahim can challenge the special resolution and ask for its cancellation. Also determine the grounds on which the decision may be made in her favour.

► *Solution:*

Faiza Ibrahim can challenge the special resolution by applying to the Court for an order cancelling the resolution; if she holds 10% or more shares of class B either in her own name or collectively with others who should authorize her in writing. The said application shall be filed within 30 days of the date of the said resolution.

Following are the grounds on which the decision may be made by the Court in her favour:

- If the applicant(s) had casted vote in favour of the resolution and some facts which would have had a bearing on the decision of Faiza Ibrahim, were withheld by Sapphire Limited in getting the aforesaid resolution passed.
- If the applicant(s) had not casted vote in favour of the resolution, then it will have to be proved by Faiza Ibrahim, that the variation would unfairly prejudice their rights.

► *Practice Question 05:*

Cadmium Limited (CL) is an unlisted company in the manufacturing sector. It has issued two classes of shares i.e., class A and class B.

On 21 August 2025, CL passed a special resolution to vary the rights of class A shareholders. This resolution sought to limit the voting powers that had previously been granted to class A shareholders. CL has filed all the required documents with the registrar within the specified time.

However, some class A shareholders are dissatisfied with the special resolution and wish to challenge it.

In light of the provisions of the Companies Act, 2017, advise class A shareholders on the possible course of action available to them. Also, elaborate on CL's duties if a decision is made against it.

► *Solution:*

Class A shareholders who are dissatisfied with the special resolution pertaining to the variation of their rights have the following courses of action to consider:

Petition to annul rights variation:

Class A shareholders who feel aggrieved, holding not less than 10% of class A shares, possess the right to apply to the Court seeking the annulment of the resolution that altered their rights.

This application must be submitted within 30 days from the date of the resolution.

The aggrieved shareholders have to prove to the Court one of the following:

- They initially voted in favour of the resolution but later discovered that CL withheld crucial facts in getting the special resolution passed that would have had a bearing on their decision; or
- They casted the vote against the resolution, as they have established that the variation would unfairly prejudice their interest.

Such an application may be filed by any one or more class A shareholders duly authorized in writing by the class A shareholders for this purpose.

Decision given against CL:

In case, the Court orders against CL, ordering the cancellation of the resolution that altered the rights of class A shareholders, CL will no longer have permission to implement the proposed variation of rights.

CL must immediately reverse any actions taken based on the cancelled resolution.

Upon receiving the Court's order, CL has 15 days to furnish a copy of the Court's order to the registrar.

Since CL has filed an amended version of the articles of association (AoA) to the registrar based on the special resolution, it shall refile the AoA with the registrar in their previous form, as per Court's directive.

Every copy of the AoA issued after the Court's order shall align with the AoA as amended in accordance with the Court's decision.

2 ALTERATION OF SHARE CAPITAL CLAUSE IN MEMORANDUM

2.1 Possible alterations [Section 85]

A company having share capital may, if so authorised by its articles, alter the authorised capital clause in memorandum through a special resolution, so as to:

- a) increase its authorised capital;
- b) consolidate and divide its share capital into shares of larger amount than its existing shares;
- c) sub-divide its shares, into shares of smaller amount than is fixed by the memorandum
- d) cancel shares which have not been taken or agreed to be taken by any person, and diminish share capital by the amount of the shares so cancelled.

► Example 04:

ABC (Pvt) Limited has got an authorised and paid up share capital of Rs. 500 million divided into 5 million shares of Rs. 100 each. The company may alter this capital by special resolution and declare that the authorised and paid up share capital of the company is Rs. 500 Million but now it is divided into 50 million shares of Rs. 10 each. This is division of capital into shares of a smaller amount than originally fixed by the memorandum. Every member possessing one share shall now possess 10 shares but overall paid up value of shares will remain the same.

► Example 05:

ABC (Pvt) Limited has got an authorised ordinary share capital of Rs. 500 million divided into 50 million ordinary shares of Rs. 10 each, out of total authorised capital Rs. 200 million is already paid up. The company if so resolve in the general meeting may subdivide the unissued authorised capital into preference and ordinary shares by stating in the authorised capital clause of the memorandum that the authorised capital of the company is Rs. 500 Million divided into 25 million ordinary shares for Rs. 10 each and 25 million preference shares of Rs. 10 each.

2.2 Filing with registrar [Section 85]

The company shall file resolution and altered copy of memorandum with the registrar within 15 days from the date of passing the resolution.

► Example 06:

JKL Limited has authorised and paid up share capital of Rs. 500 million divided into 5 million shares of Rs. 100 each. In order to increase the marketability of the company's shares, the board of directors suggested the sub-division of shares into shares of smaller par value of Rs. 10 each without changing the total paid up value of the share capital. A special resolution to this effect was passed by the company in its annual general meeting held on 24th October 2025.

JKL Limited must file the copy of such special resolution and altered copy of memorandum with the registrar by 7th November 2025 (i.e. 15 days from the date of passing the resolution).

2.3 No effect on rights of shareholders [Section 85]

In the event of consolidation or sub-division of shares, the rights attaching to the new shares shall be strictly proportional to the rights attached to the previous shares so consolidated or sub-divided.

Where any shares issued are of a class which is the same as that of shares previously issued, the rights attaching to the new shares shall be the same as those attached to the shares previously held.

► **Example 07:**

ABC (Pvt) Limited has got an authorised and paid up share capital of Rs. 500 million divided into 5 million shares of Rs. 100 each. The company may alter this capital by special resolution and declare that the authorised and paid up share capital of the company is Rs. 500 Million but now it is divided into 50 million shares of Rs. 10 each. This is division of capital into shares of a smaller amount than originally fixed by the memorandum. Every member possessing one share shall now possess 10 shares but overall paid up value of shares will remain the same.

The rights attaching to the new shares shall be strictly proportional to the rights attached to the previous shares i.e. sub-division of shares shall not affect the rights of shareholders.

► **Practice Question 06:**

The directors of Sherwani Limited wish to increase the authorized capital of the company from Rs 100 million to Rs 200 million. You are required to inform them about the relevant provisions regarding increase in authorized capital, contained in the Companies Act, 2017.

► **Solution:**

The company, if allowed by its articles and by passing a special resolution can alter the capital clause of its memorandum of association so as to increase its authorised capital whenever it requires.

The company is required to file the resolution and the related documents i.e. altered copy of the memorandum of association with the registrar within 15 days from passing the same, failing which the resolution shall not be effective and shall ultimately lapse.

► **Practice Question 07:**

The authorized and paid-up share capital of Swordfish (Private) Limited (SPL) is Rs. 400 million. Due to an increase in demand for its products, SPL intends to expand its production capacity by raising an additional Rs. 200 million from the general public.

Under the provisions of the Companies Act, 2017, outline the amendments to SPL's memorandum and articles of association, necessary to facilitate raising funds from the general public.

► **Solution:**

If SPL intends to raise an additional Rs. 200 million from the general public, either through the issuance of share capital or debentures or redeemable capital, it should make the following amendments:

In the Memorandum of Association:

- Remove the parenthesis and word (Private) from its name

In the Articles of Associations:

- Remove the parenthesis and word (Private) from its name
- Remove the restriction on the transfer of shares
- Remove the limitation on the number of its member
- Remove the prohibition of any invitation to the public to subscribe for the shares or debentures or redeemable capital of the company

Additionally, if SPL intends to raise the additional Rs. 200 million through the issuance of share capital, it must alter its memorandum of association with respect to its authorized capital for increasing the amount by at least Rs. 200 million.

3 COMMENCEMENT OF BUSINESS

3.1 Introduction to prospectus and statement in lieu of prospectus

Prospectus

A prospectus is a formal document issued by a public company when it wants to invite the general public to subscribe its shares or debentures. It contains prescribe details about the company, its financial position, risks, and investment opportunities. It helps potential investors make informed decisions before investing.

Statement in Lieu of Prospectus

If a public company does not issue a prospectus, it must submit a “Statement in Lieu of Prospectus” to the registrar. This document provides similar but lesser details as a prospectus but is used when shares or debentures of a public company are not being offered to the general public.

Circumstances	Relevant Document to be issued or filed
Inviting general public, or when company is listed on stock exchange	Prospectus
Not inviting the public to subscribe	Statement in lieu of prospectus
Issued a prospectus but could not obtain listing on stock exchange	Repayment of all money on the basis of prospectus AND filing Statement in lieu of prospectus

Filing with registrar before issue [Section 57]

No prospectus shall be issued by or on behalf of a company unless on or before the date of its publication, a copy thereof signed by every person who is named therein as a director or proposed director of the company has been filed with the registrar.

In case of any contravention, the company and every person who is a party to the issue, publication or circulation of the prospectus shall be liable to a penalty not exceeding of level 2 on the standard scale.

3.2 Commencement of business [Section 19]

Minimum Subscription

Minimum subscription means the amount, if any, fixed by the memorandum or articles upon which the directors may proceed to allotment. If no amount is fixed, the whole amount of share capital (other than that to be issued not for cash) is minimum subscription.

► Example 08:

That minimum amount, which is required to commence the business, for example, company would need a building, machinery, equipment and working capital budget for starting the business, without sufficient funds for all this, company is not able to commence its business.

Conditions for commencement of business

A public company shall not start its operations or exercise any borrowing powers unless:

- shares for cash have been allotted to an amount not less than the minimum subscription;
- every director of the company has paid to the company full amount on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash;
- no money is or may become liable to be repaid to applicants for any shares which have been offered for public subscription;

► *Example 09:*

Whenever the company issues shares or debentures to the general public, it is required to get those shares or debentures listed on an exchange before allotment of shares. The procedure is as follows:

- Company issues prospectus and fixes a date for payments from applicants against its securities and simultaneously files an application for listing of securities to the exchange
- People deposit money into the banks as required by company
- Company waits for the listing from exchange and provides for any further information or deficiencies as pointed out by the exchange.
- The company is given certificate of listing and it can now use the money of applicants and allot them shares
- If listing is refused, the money from applicants must be repaid forthwith.

Until such money is repaid, company shall not be allowed to commence business.

- a) there has been filed with the registrar a duly verified declaration by the chief executive or one of the directors and the secretary that the aforesaid conditions have been complied with; and
- b) in the case of a company which has not issued a prospectus inviting the public to subscribe for its shares, there has been filed with the registrar a statement in lieu of prospectus.

Exception

The above requirement does not apply to:

- to a company converted from private to a public;
- to a company limited by guarantee and not having a share capital.

Acceptance and registration of documents by registrar

The registrar shall, after making such enquiries as he may deem fit to satisfy himself, accept and register all the relevant documents. The acceptance and registration of documents shall be a conclusive evidence that the company is entitled to start its operations and exercise any borrowing powers.

3.3 Consequences of non-compliance [Section 20]**Penalty**

If any company starts its business operations or exercises borrowing powers in contravention of above provisions, every officer or other person who is responsible for contravention shall without prejudice to other liabilities be liable to a penalty not exceeding level 2 on the standard scale.

Status of contracts by company

Any contract made by a company before the date at which it is entitled to commence business shall be provisional only, and shall not be binding on the company until that date, and on that date it shall become binding.

► *Practice Question 08:*

Under the provisions of the Companies Act, 2017 briefly explain the exception(s) to the following general rule:

“Companies can commence the business only after obtaining certificate of commencement of business from the registrar”.

► *Solution:*

Following companies can commence business without obtaining certificate of commencement of business:

- i. A private company
- ii. A company converted from private to public
- iii. A company limited by guarantee and not having a share capital

4 OBJECTIVE BASED Q&A

1. In a company limited by shares, the share capital represents capital introduced into the company by the company's
 - a) Directors
 - b) Guarantors
 - c) Auditors
 - d) Members
2. Issuance of shares is the first step of offering shares by the company, then people or promoters pay for the shares this is termed as
 - a) Subscription of shares
 - b) Transfer of shares
 - c) Payment of shares
 - d) Selling of shares
3. The issued share capital is the nominal value of the shares that have been issued to shareholders. The issued share capital
 - a) May be more than the authorized share capital
 - b) Must be more than the authorized share capital
 - c) May be less than the authorized share capital
 - d) Must be equal to the authorized share capital
4. In Pakistan, all companies limited by shares are required to have an authorized share capital and the amount of the authorized share capital can be increased but
 - a) Only with the approval of the directors
 - b) Only with the approval of the shareholders
 - c) Only with the approval of the registrar
 - d) Only with the approval of the creditors
5. When the shares are issued, the shareholders must
 - a) Give their consent in written form
 - b) Appoint two persons as their proxy
 - c) Pay for the shares in full
 - d) Apply for special privileges
6. If the company goes into liquidation with unpaid debts, the shareholders will
 - a) Be liable personally to contribute in the company's debts
 - b) Not be required to contribute in the company's debts
 - c) Be liable to contribute 50% of the unpaid debts
 - d) Be liable to contribute 75% of the unpaid debts
7. Ordinary shares are also called
 - a) Equity shares
 - b) Bonus shares
 - c) Founders shares
 - d) deferred Shares

8. The ordinary shareholders are entitled to vote at general meetings of the company. Normally all ordinary shareholders have
 - a) Ten votes per share
 - b) One vote per ten shares
 - c) One vote per share
 - d) As much vote as they wish
9. A preference share normally carries as prior right (ahead of ordinary shares) to
 - a) Receive a salary which is normally a fixed amount each year
 - b) Receive a repayment of capital in the event of winding up
 - c) Vote in the general meeting
 - d) None of the above
10. What type of resolution is required to alter the capital clause of memorandum of association
 - a) Ordinary resolution
 - b) Special resolution
 - c) Ordinary resolution of 30 days' notice
 - d) Special resolution of 30 days' notice
11. After the alteration in capital clause of MOA, the company is required to file the resolution and the related documents i.e. altered copy of the MOA with the registrar within
 - a) 15 days
 - b) 30 days
 - c) 60 days
 - d) 90 days
12. If the variation affects the substantive rights of any particular class of shareholders, it shall not be deemed to have been carried out unless
 - a) Two third majority of that particular class agree to the alterations.
 - b) Fifty one percent majority of that particular class agree to the alterations.
 - c) Three fourth majority of that particular class agree to the alterations
 - d) Seventy percent majority of that class agree to the alterations
13. Any member or members of the affected class representing at least 10 percent shareholding of that class may apply for an order against the resolution varying their rights. They will apply to
 - a) The registrar
 - b) The Commission
 - c) The board of directors
 - d) The Court
14. In case of variation in shareholders' rights of a particular class of members, 10% or more of the class of shareholders who are aggrieved by the variation of their rights may apply to the court, for an order cancelling the variation within
 - a) 14 days
 - b) 21 days
 - c) 30 days
 - d) None of the above is correct

15. In case of variation in shareholders' rights of a particular class of members, the court may give its decision in favour or against the special resolution by the company. The company is required to forward a copy of the court decision to the registrar within
- 14 days of receipt of the order
 - 15 days of receipt of the order
 - 30 days of receipt of the order
 - None of the above is correct
16. Candid Oils Limited has class A and class B ordinary shares of Rs. 10 each, carrying voting right of one and two votes per share respectively. A special resolution was passed to bring the voting rights of class B shareholders equal to class A shareholders. However, two shareholders of class B are not satisfied with this resolution and intends to apply for its cancellation. They can do so if:
- they hold more than 10% shares of class B and apply to the Court
 - they hold 10% or more shares of class B and apply to the Court
 - they hold at least 10% shares of class B and apply to the Commission
 - they hold at least 20% shares of class B and apply to the Commission
17. Which of the following instruments is considered to be the prima facie evidence of the title of a listed company's shares?
- Share purchase agreement
 - Share subscription application
 - Share certificates issued in book-entry form
 - All of the above
18. Nominal share capital means the:
- amount of share capital fixed by the memorandum or articles of association which must be paid by the subscribers in order to commence business
 - face value of the shares issued by the company
 - maximum amount of share capital as authorised by the memorandum of association
 - amount of share capital against which shares have been allotted by the company
19. The shares held by a member of a public company shall be considered to be the movable property transferable in the manner:
- provided by the memorandum of association of the company
 - provided by the articles of association of the company
 - provided by the prospectus of the company
 - considered appropriate by the board of directors
20. If a public company opts not to issue shares to the general public initially and start the business in such a case Company would be required to file with the registrar
- Statement of affairs
 - Statement of capital
 - Statement in lieu of prospectus
 - Statement in lieu of advertisement

21. For obtaining the certificate of commencement of business a public company has to meet certain requirements. Choose the incorrect one from following
- a) The company should have allotted shares against cash equal to the amount of minimum subscription
 - b) The directors should have paid in cash to the company full amount on each of the shares taken or contracted to be taken
 - c) The members should have paid in cash to the company full amount on each of the shares taken or contracted to be taken
 - d) No money is or may become liable to be repaid to applicants for any shares
22. Before being permitted to trade, a public company must have:
- a) Obtained a certificate of incorporation only
 - b) Been listed on the securities exchange
 - c) Issued a prospectus
 - d) Obtained a commencement of business certificate and certificate of incorporation
23. Which of the following shall be considered conclusive evidence on the basis of which a public company shall be entitled to start its operations?
- a) Received full amount from every director on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash.
 - b) Submitted the duly verified declaration along with other documents duly verified by CEO and the registrar has accepted & registered the same.
 - c) Allotted shares that were held subject to payment of whole amount thereof in cash equivalent to minimum subscription.
 - d) Repaid the money to the applicants for any shares which have been offered for public subscription.
24. A prospectus is required to be duly signed by:
- a) the chief executive and a director
 - b) every person who is named therein as a director or proposed director
 - c) the chief executive, a director and the chief financial officer
 - d) every director including the chief executive
25. Minimum subscription is:
- a) the total authorised share capital of a company as stated in the prospectus
 - b) the whole amount of the share capital other than that issued or agreed to be issued as paid up otherwise than in cash, if no amount of minimum subscription is so fixed
 - c) the whole amount of the subscription received from applicants, if no amount of minimum subscription is so fixed
 - d) the amount to be generated from public for which prospectus is issued
26. The promoters of Blue Whale Limited (BWL) got the certificate of incorporation dated 3 September 2021. They have decided that BWL shall never approach general public for raising fund and have further decided to commence business from next month. BWL would be required to file with the registrar:
- a) revised memorandum of association
 - b) revised articles of association
 - c) Prospectus
 - d) statement in lieu of prospectus

27. At an extraordinary general meeting, the shareholders of Silver Limited engaged in a discussion regarding the amendment of the memorandum and articles of association to authorize the issuance of different classes of shares with varying voting rights. During this deliberation, one of the shareholders inquired about the underlying rationale for granting varying voting rights to different classes of shares in a company. In response, which of the following is the correct explanation of the inquiry?
- a) To favour individual shareholders over large institutional investors
 - b) To restrict the participation of minority shareholders in major decisions
 - c) To maintain a fair allocation of voting power among different classes of shareholders
 - d) To discourage speculative trading and market volatility
28. Which of the following statements is correct regarding the requirement to file a prospectus?
- a) Both private and public unlisted companies are required to file a prospectus along with their registration documents
 - b) Only public unlisted companies are required to file a prospectus within 30 days of the commencement of their business
 - c) A company needs to file a prospectus if it seeks to obtain long-term loans from a financial institution in excess of its paid-up share capital
 - d) A company needs to file a prospectus if it seeks to raise capital from the general public

ANSWERS

1	d)	The members are the shareholders of the company. They are also the owners of the company.
2	a)	When people or promoters pay for the shares, this is termed as subscription of shares then finally shares are allotted to respective names of applicants.
3	c)	The issued share capital may be less than the authorized share capital, but cannot exceed it.
4	b)	The amount of the authorized share capital has to be specified in the company's memorandum of association and it can be increased only with the approval of the shareholders.
5	c)	When the shares are issued, they must be paid for in full.
6	b)	If the company goes into liquidation with unpaid debts, the maximum amount they will lose is the amount already contributed as share capital.
7	a)	The ordinary shareholders are the owners of their company and ordinary shares are often called 'equity shares'.
8	c)	Normally, all ordinary shareholders have one vote per share.
9	b)	A preference shareholder has a prior right to receive repayment of capital in the event of winding up of the company.
10	b)	The company, if allowed by the articles and by passing a special resolution can alter the capital clause of its memorandum.
11	a)	The company is required to file the amended copy of the MOA with the registrar within 15 days from passing the resolution.
12	c)	Three fourth majority of that particular class must agree to the alteration, in order to make that variation valid.
13	d)	Any member or members of the affected class may apply to the court for an order against the resolution.
14	c)	The person aggrieved by the change may file an application within 30 days of passing of the resolution.
15	b)	The company is required to file a copy of the court to the registrar within 15 days of the receipt of the order.
16	b)	they hold 10% or more shares of class B and apply to the Court
17	c)	Share certificates issued in book-entry form
18	c)	maximum amount of share capital as authorised by the memorandum of association
19	b)	provided by the articles of association of the company
20	c)	If the company is not issuing shares to the general public initially then the company would be required to file a statement in lieu of the prospectus with the registrar.
21	c)	Not the members but only the directors should have paid in cash to the company full amount on each of the shares taken or contracted to be taken
22	d)	A public company after obtaining certificate of incorporation is also required by law to obtain certificate of commencement of business.
23	b)	Submitted the duly verified declaration along with other documents duly verified by CEO and the registrar has accepted & registered the same.
24	b)	every person who is named therein as a director or proposed director

25	b)	the whole amount of the share capital other than that issued or agreed to be issued as paid up otherwise than in cash, if no amount of minimum subscription is so fixed
26	d)	statement in lieu of prospectus
27	c)	To maintain a fair allocation of voting power among different classes of shareholders
28	d)	A company needs to file a prospectus if it seeks to raise capital from the general public

STICKY NOTES

Share Capital

1. Characteristics: transferable movable property, carrying rights and obligations.
2. Relevant definition: Authorised share capital
3. Issued and paid up share capital (may be equal to or less than authorised capital)
4. Publication of authorised and paid up capital (equal prominence)
5. Only fully paid shares to be issued
6. Nominal value and market value are usually different.
7. Different classes and kind of share capital (may be issued as provided in memorandum and articles)
8. Ordinary shares vs. preference shares

Variation of shareholders' rights

1. Special resolution (for alteration in articles)
2. Restriction on alteration (3/4th of class affected)
3. Criteria for application to Court (10% shareholding of aggrieved class)
4. Basis of Court decision (withholding of certain facts; prejudicial)
5. Filing with registrar (within 15 days of receipt of order)

Alteration of share capital clause in memorandum

1. Possible alterations (increase, consolidate, sub-divide, cancel)
2. Filing with registrar (within 15 days)
3. No effect on rights of shareholders



Commencement of business

1. Relevant concept: minimum subscription
2. Conditions for commencement of business
Prospectus: for issue to general public
Statement in lieu of prospectus: otherwise
3. Exception (converted to public; limited by guarantee not having share capital)
4. Acceptance and registration of documents by registrar is conclusive evidence
5. Penalty (Level 2 on standard scale)
6. Status of contracts by company (provisional only, become binding when it is entitled to commence business)

MORTGAGES AND CHARGES

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Introduction
- 2 Registration
- 3 Modification, Satisfaction and Rectification
- 4 Records and Register
- 5 Objective Based Q&A

STICKY NOTES

AT A GLANCE

The memorandum and articles of association deem to include implied borrowing powers for some specified borrowings. The mode of exercising borrowing power is stated in the articles. A public company having share capital cannot exercise any borrowing power unless it is entitled to commence business. The borrowing powers impliedly include the power to mortgage or pledge assets.

If a company borrows money without or in excess of powers in memorandum such borrowing is ultra vires the company. If directors exceed their borrowing powers then the borrowing is ultra vires the directors.

The borrowings may be made through issuing debentures, borrowing from credit institutions or through other sources. The security against borrowing may be in the form of pledge, mortgage or charge on assets.

The Act describes a list of mortgage and charges which are required to be registered with the registrar. Any subsequent change or satisfaction of such mortgage or charge shall also be filed with registrar by company or by the lender. The registrar shall, on receipt of intimation about payment or satisfaction in full, cause a notice to be sent to the holder of the mortgage or charge to show cause unless the intimation is accompanied with no objection certificate.

The company shall maintain at its registered office copies of instruments creating or modifying a charge. It shall also maintain a register of mortgages and charges which shall be open to inspection.

1 INTRODUCTION

1.1 Borrowing Powers

Borrowing powers to be part of memorandum [Section 30]

The memorandum and articles of a company is deemed to include (implied) power to enter into any arrangement for obtaining loans, advances, finances or credit, as defined in the Banking Companies Ordinance, 1962 and to issue other securities not based on interest for raising resources from a scheduled bank, a financial institution or general public.

Restriction on borrowing powers [Section 19]

A public company having share capital shall not exercise any borrowing powers unless its documents have been accepted and registered by the registrar for commencement of business.

The Act does not prescribe any maximum amount that a company may borrow; however, articles may prescribe such limits.

Power to pledge/mortgage/charge company's assets as security

A company having borrowing powers has also the power to pledge or mortgage any of its property or create a charge on its assets as security for the borrowing.

Manner of exercising borrowing powers

The articles may provide the manner in which a company can exercise its borrowing powers e.g. in general meetings or power vested to the board of directors. Where borrowing powers are vested to the board, the articles may fix the limit of the borrowings. The directors may also delegate such powers to a committee or to an officer of the company.

Ultra vires borrowing

If a company borrows money without or in excess of the powers conferred on it by memorandum, the borrowing is ultra vires the company. Any borrowing which is intra vires the company but beyond the limit prescribed by articles for the board, the borrowing is ultra vires the directors.

1.2 Forms of borrowings

Borrowing by issuing debentures

Effectively, any security issued by a company to raise capital, other than a share, is a debenture. A public company may issue debentures to public or may issue debentures to any persons privately. Debentures may be secured or unsecured.

Borrowing from credit institutions

Credit institutions include the commercial banks, investment banks, non-banking finance companies, modaraba and all other business organisations providing facilities for loan against the interest or sometimes against participation in profits of the company as per agreed terms. These loans too, usually are secured against the assets of the company.

Borrowing from other sources

Other sources for obtaining loans may include the sponsors or controlling shareholders of the company. This type of financing is usually unsecured, however, it may be secured against the assets of the company.

1.3 Forms of Security

Pledge

The Contract Act, 1872 defines pledge as “a bailment of goods as security for the repayment of a debt or performance of a promise”. The pledge relates to moveable assets whose physical possession is with the lender as security.

Mortgage

The Transfer of Property Act, 1882 defines mortgage as “the transfer of an interest in specific immoveable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability”. A mortgage relates to immovable assets when there is transfer of title (an interest) to lender as security.

Charge

According to the Transfer of Property Act, 1882 a charge is security for the payment of a debt or other obligation that does not pass ‘title of the property’ or any right to its possession to the person to whom the charge is given. A charge may relate to any asset that the lender has right to take possession in event of company’s default to pay the loan.

The two broad categories of charge are:

- Fixed charge: The charge which is created on identified assets like specific land and building, specific plant and machinery, etc.
- Floating charge: The charge is created over class of assets which changes over time like debtors, stock, etc. or the entire undertaking of the company.

Definition: mortgage or charge [Section 2(42)]

“mortgage or charge” means an interest or lien created on the property or assets of a company or any of its undertakings or both as security.

2 REGISTRATION

2.1 Requirement of registration [Section 100]

List of mortgage and charges to be registered

The Companies Act 2017 requires that the following charges (including mortgage and pledge) must be registered:

- a) a mortgage or charge on any immovable property wherever situate, or any interest therein; or
- b) a mortgage or charge for the purposes of securing any issue of debentures;
- c) a mortgage or charge on book debts of the company;
- d) a floating charge on the undertaking or property of the company, including stock-in-trade; or
- e) a charge on a ship or aircraft, or any share in a ship or aircraft;
- f) a charge on goodwill or on any intellectual property;
- g) a mortgage or charge or pledge, on any movable property of the company;
- h) a mortgage or charge or other interest, based on agreement for the issue of any instrument in the nature of redeemable capital; or
- i) a mortgage or charge or other interest, based on conditional sale agreement, namely, lease financing, hire-purchase, sale and lease back, and retention of title, for acquisition of machinery, equipment or other goods.

Negotiable Instruments not to be treated a mortgage or charge

Where a negotiable instrument has been given to secure the payment of any book debts of a company, the deposit of the instrument for the purpose of securing an advance to the company shall not be treated as a mortgage or charge on those book debts.

Particulars, manner and time limit for registration

A company (for mortgage or charges as mentioned in above list) must file the specified particulars of the mortgage or charge, together with a copy of the instrument, if any, verified in the specified manner, by which the mortgage or charge is created or evidenced, with the registrar for registration.

Such mortgage and charge shall be registered within period of 30 days beginning with the day after the date of its creation.

However, any subsequent registration of a mortgage or charge shall not prejudice any right acquired in respect of any property before the mortgage or charge is actually registered.

► Example 01:

XYZ Limited obtained a loan of Rs. 200 million from ABC Bank and provided security by creating a mortgage on its property on 26th February 2026. The mortgage must be registered by 28th March 2026.

If created outside Pakistan on property outside Pakistan

In the case of a mortgage or charge created out of Pakistan comprising solely property situated outside Pakistan, it should be registered within a period of 30 days after the date on which the instrument or copy could have been received in Pakistan in due course of post and if dispatched with due diligence.

► Example 02:

XYZ Limited obtained a loan of \$40 million from ABC Bank and provided security by creating a mortgage in New York on its property situated in New York on 26th February 2026. It takes 7 days to receive documents in Pakistan dispatched from New York, USA in due course of post. The mortgage must be registered by 4th April 2026.

If created in Pakistan on property outside Pakistan

In case the mortgage or charge is created in Pakistan but comprises property outside Pakistan, a copy of relevant instrument may be filed for registration even when further proceedings may be necessary to make the mortgage or charge valid or effectual according to the law of the country in which the property is situate.

Company acquiring property subject to a mortgage or charge

The above provisions relating to registration shall apply to a company acquiring any property subject to a mortgage or charge.

► *Example 03:*

Jafer Limited acquired a property on 26th February 2026 from M/s Ali & Sons which is subject to a charge. Jafer Limited shall get the charge registered by 28th March 2026.

Certificate of registration

On registration of a mortgage or charge, the registrar shall issue a certificate of registration under his signatures or authenticated by his official seal in such form and in such manner as may be specified.

Constructive notice

A person acquiring the company's property shall be deemed to have constructive notice that the asset is subject to mortgage or charge from the date of its registration.

Effect of non-registration

If the company or interested persons fails or neglects to register the mortgage or charge as aforesaid, the mortgage or charge would become void and shall not be accepted as such by the liquidator or any creditor. However, this shall not affect any contract or obligation for repayment of the money secured by such unregistered mortgage or charge.

2.2 Duty/Right as to registration [Section 105]

Duty of company

It shall be the duty of a company to file with the registrar for registration the specified particulars of every mortgage or charge created by the company.

Right of interested person

The registration of any such mortgage or charge may be effected on the application of any person interested therein (e.g. lender).

Where the registration is affected on the application of some person other than the company, that person shall be entitled to recover from the company the amount of any fees properly paid by him to the registrar on the registration.

► *Example 04:*

XYZ Limited obtained a loan of Rs. 200 million from ABC Bank and provided security by creating a mortgage on its property on 26th February 2026. ABC Bank filed the documents for registration of the mortgage with the registrar and paid the relevant fees. ABC Bank is entitled to recover the amount of fees properly paid.

3 MODIFICATION, SATISFACTION AND RECTIFICATION

3.1 Modification in the particulars of mortgage or charge [Section 106]

Meaning

It means the change in the terms or conditions or extent or operation of any mortgage or charge registered.

Duty of company

It shall be the duty of the company to send to the registrar the particulars of such modification together with a copy of the instrument evidencing such modification verified in the specified manner.

Procedure

The provisions as to registration of mortgage or charge shall apply to such modification of the mortgage or charge as aforesaid.

3.2 Company to report satisfaction of charge [Section 109]

Duty of company to inform registrar

A company shall give intimation of the payment or satisfaction in full, of any mortgage or charge to the registrar in the manner specified, within a period of 30 days from the date of such payment or satisfaction.

Show cause notice to lender

The registrar shall, on receipt of intimation of payment or satisfaction by company, cause a notice to be sent to the holder of the mortgage or charge calling upon him to show cause within such time not exceeding 14 days, as may be specified in such notice, as to why payment or satisfaction in full shall not be recorded as intimated to the registrar.

If no cause is shown

If no cause is shown, by such holder of the mortgage or charge, the registrar shall accept the memorandum of satisfaction and make an entry in the register of charges kept by him.

If any cause is shown

If any cause is shown, the registrar shall record a note to that effect in the register of charges and shall inform the company.

► Example 05:

XYZ Limited gave intimation to registrar that on 24th March 2026 it has repaid its loan to ABC Bank and requested the recording of relevant satisfaction of charge. The registrar sent a notice to show cause to ABC Bank. ABC Bank objected the satisfaction of charge on the ground that some loan processing charges are still due. The registrar shall record the objection in register of charges and shall inform the XYZ Limited.

When show cause notice is not required

The notice to show cause referred above shall not be required if a no objection certificate on behalf of the holder of the mortgage or charge is furnished, along-with the intimation submitted for the payment or satisfaction.

Effect of delay

If a company fails to file the particulars of satisfaction of mortgage or charge within the 30 days' period, the required particulars may be submitted with the additional fee, as may be specified and imposing the penalty as specified.

3.3 Power of registrar [Section 110]

The registrar may enter in the register of charges and inform the parties concerned, on evidence being given to his satisfaction with respect to any registered charge:

- that the debt for which the charge was given has been paid or satisfied in whole or in part; or
- that part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking.

The registrar may do so despite the fact that no intimation has been received by him from the company.

3.4 Rectification of register of mortgages [Section 108]

Application to the Commission

The company or any person interested may apply to the Commission to grant relief in following circumstances:

- the omission to file with the registrar the particulars of any mortgage or charge or any modification therein within the time; or
- the omission or misstatement of any particular with respect to any such mortgage or charge.

Conditions for granting relief

The Commission shall grant relief on being satisfied that the above-mentioned omission or misstatement:

- was accidental or due to inadvertence or to some other sufficient cause; or
- is not of a nature to prejudice the position of creditors or shareholders of the company; or
- that on other grounds it is just and equitable.

Order by the Commission

The Commission, on such terms and conditions as seem to the Commission just and expedient, may order:

- that the time for filing the required particulars be extended; or
- that the omission or misstatement be rectified; and
- as to the costs of the application as it thinks fit.

A copy of the order passed for rectification of register of mortgages duly certified by the Commission or its authorised officer shall be forwarded to the concerned registrar within 7 days from the date of the order.

Prior rights not to be affected

Where the Commission extends the time for the registration of a mortgage or charge, the order shall not prejudice any rights acquired in respect of the property concerned prior to the time when the mortgage or charge is actually registered.

► Practice Question 01:

Armani Weavings Limited (AWL) obtained a long term loan of Rs. 300 million from Danny Bank Limited (DBL) against the charge over its factory buildings. The charge was duly registered with the registrar.

Up to December 2021, AWL made regular payments and re-paid 60% of the total loan amount. However, AWL committed a default in the payment of the balance amount, which is overdue since June 2022. After negotiation, DBL has agreed to waive the mark-up alongwith 10% of the overdue loan provided that AWL makes the payment of the entire outstanding amount by 10 March 2023. On 9 March 2023, AWL paid the agreed amount to DBL.

- a) Under the provisions of the Companies Act, 2017, discuss how AWL's factory buildings can be released from the charge registered in favour of DBL.

Assume that the charge has not been released till 15 September 2023 and AWL has entered into a contract with Calvin Klein Limited (CKL) for the disposal of the said buildings.

- b) Under the provisions of the Companies Act, 2017, advise how CKL would get the charge released on its own.

► **Solution:**

Part (a)

AWL's factory buildings can be released from the charge registered in favour of DBL in the following manner:

- i. AWL shall intimate to the registrar about the satisfaction of charge in the manner specified.
- ii. The said intimation shall be given within a period of thirty days from the date of such satisfaction i.e. by 7 April 2023.
- iii. The registrar shall, upon receipt of intimation from AWL, send a notice to DBL calling upon it to show cause within a specified time, not exceeding 14 days, as to why payment or satisfaction in full shall not be recorded as intimated by AWL to the registrar. If DBL fails to provide a cause, the registrar shall accept the memorandum of satisfaction and make an entry in the register of charges maintained by him.
- iv. The requirement of show cause notice shall not be applicable if AWL furnishes a no-objection certificate from DBL along with the intimation.

Part (b) Release of charge by other interested party:

CKL, being an interested party, would be able to get the charge released on its own in the following manner:

Submit an application to the registrar in the prescribe form along with the following documents as evidence:

- that the debt for which the charge was given has been paid or satisfied in whole; or
- that the factory buildings charged have been released from the charge or ceased to be a part of AWL's property.

► **Practice Question 02:**

Eagle Limited (EL) is finalizing negotiations for a USD 2 million long-term loan with Oilbird International Bank Inc. (OIB), a foreign lender. OIB requires security in the form of a charge on EL's immovable properties in Pakistan by 12 March 2024. While advised to register the charge, EL believes this is not necessary as OIB is a foreign bank.

Under the provisions of the Companies Act, 2017, advise EL's management on the following:

- a) Whether, with whom and within what timeframe does EL need to register the charge?
- b) Assume EL was required to register the charge, but failed to do so. State the consequences of such failure.
- c) Assume EL registered the charge. However, three months after registration, the repayment period of loan is extended by OIB at EL's request. What will EL need to do in this scenario?

► **Solution:**

Part (a)

Under the Companies Act, 2017 (the Act), EL is required to register any charge created against its properties in Pakistan, even if the charge is created outside of Pakistan.

EL must register the charge with the registrar as required by the Act.

EL must file the necessary particulars of the charge with the registrar within 30 days from the date of its creation, which in this case, is by 11 April 2024.

Part (b)

The failure to register charges as mandated by the Act, carries significant consequences. An unregistered charge will not be considered by the liquidator or any creditor unless it is registered at a later date. Consequently, if EL were to become insolvent, OIB's security interest in the properties would not be acknowledged, rendering them an unsecured creditor.

Furthermore, the Act stipulates that anyone acquiring the properties after the creation of an unregistered charge is considered to have notice of the charge only from the date of its registration. As a result, a bona fide purchaser, who was unaware of the unregistered charge at the time of acquiring the properties, could potentially override OIB's security interest.

Part (c)

Given that OIB extended the repayment period of EL's loan at EL's request, this constitutes a modification of the registered charge. In this scenario, EL is obligated to submit to the registrar the particulars of this modification, accompanied by a copy of the instrument evidencing the modification, verified in the manner specified. The provisions governing the registration of charge under the Act, shall then apply to this modification as they would to the original charge.

4 RECORDS AND REGISTER

4.1 Copy of instrument creating mortgage or charge [Section 107]

Every company shall cause a copy of following instruments to be kept at the registered office of the company:

- every instrument creating any mortgage or charge requiring registration; and
- every instrument evidencing modification of the terms or conditions of any mortgage or charge.

4.2 Company's register of mortgages and charges [Section 112]

Requirement

Every company shall maintain a register of mortgages and charges requiring registration in such form and in such manner as may be specified and any violation shall be an offence punishable under the Act.

An officer of the company, who authorises or permits the omission of any entry required to be made, shall be liable to a penalty of level 1 on the standard scale.

Open to inspection

The register of charges maintained and the copies of instrument creating any mortgage and charge or modification thereof shall be open to inspection of:

- any member or creditor of the company without fee; and
- any other person on payment of such fee as may be fixed by the company for each inspection.

The refusal of inspection of the said copies or the register shall be an offence and any person guilty of an offence shall be liable to a penalty of level 1 on the standard scale, and every officer of the company who knowingly authorises or permits the refusal shall incur the like penalty, and in addition to the above penalty, the registrar may by order compel an immediate inspection of the copies or register.

► Example 06:

Afzal is creditor of XYZ Limited. He applied for inspection of register of mortgages and charges but his request was declined by company secretary of XYZ Limited who insisted on payment of fee which Afzal refused to pay. Afzal being creditor has right to inspect the register without fee and he may complain to registrar. The registrar may by order compel an immediate inspection and company secretary shall be liable to penalty of level 1.

► Example 07:

Aslam, who is an employee of XYZ Limited but neither the member nor creditor, applied for inspection of copy of instrument creating a mortgage but his request was declined by company secretary of XYZ Limited who insisted on payment of fee as fixed by the company which Aslam refused to pay. Aslam can insist on inspection only after payment of such fee as may be fixed by the company for each inspection.

► Practice Question 03:

- List any six mortgages and charges which are required to be registered under the provisions of the Companies Act, 2017.
- On 5 September 2025, Orange Limited (OL) has obtained a long term loan of Rs. 300 million from Mango Bank Limited for expansion of its business, against mortgage of the following properties:
 - factory building situated in Quetta having value of Rs. 200 million.
 - showroom situated in London, UK having value of Rs. 150 million.

Under the provisions of the Companies Act, 2017:

- i. discuss the duties of OL with regard to the registration of above mortgages and the consequences of non-registration.
- ii. state the requirements relating to the inspection of register of mortgages and charges.

► **Solution:**

Part (a)

The mortgages and charges which are required to be registered under the provisions of the Companies Act, 2017 are as follows:

- i. a mortgage or charge on any immovable property wherever situated, or any interest therein; or
- ii. a mortgage or charge for the purposes of securing any issue of debentures;
- iii. a mortgage or charge on book debts of the company;
- iv. a floating charge on the undertaking or property of the company, including stock-in-trade; or
- v. a charge on a ship or aircraft, or any share in a ship or aircraft;
- vi. a charge on goodwill or on any intellectual property;

Part (b)

i. Duties with regards to the registration of mortgages:

It shall be the duty of OL to get the said mortgages registered with the registrar. OL must file the specified particulars of its properties together with a copy of the instrument, if any, verified in the prescribed manner, by which the charge has been created or evidenced within a period of thirty days as follows:

Property situated in Pakistan:

The factory building is situated in Quetta i.e. situated in Pakistan, hence, OL shall file the above particulars for registration on or before 5 October 2025.

Property situated outside Pakistan:

The showroom is situated in London, UK i.e. situated outside Pakistan, hence, OL may file the above particulars for registration, notwithstanding that further proceedings may be necessary for OL to make the mortgage valid or effectual according to UK's law.

Consequences of non-registration:

The mortgage created by OL in favour of MBL shall not be taken into account by the liquidator or any other creditor unless it is duly registered and a certificate of registration of such charge is given by the registrar under the Companies Act, 2017.

In case OL failed to file the required particulars, then MBL being an interested person may file the specified particulars of mortgages created by OL in MBL's favour to get it affected, and OL shall have to pay to MBL the amount of any fees properly paid by MBL to the registrar on the registration.

Part (b)

ii. Inspection of register of mortgages and charges:

The register of mortgages and charges required to be maintained by OL under the Companies Act, 2017 shall be open to inspection of:

- any member or creditor of OL without fee; and
- any other person on payment of such fee as may be fixed by OL for each inspection.

5 OBJECTIVE BASED Q&A

1. The Companies Act 2017 requires certain charges (including mortgage and pledge) that must be registered. Choose the one which is not required to be registered.
 - a) a floating charge on the undertaking or property of the company, including stock-in-trade
 - b) a mortgage or charge on book debts of the company
 - c) promissory note given to secure the payment of any book debts of a company
 - d) a charge on goodwill or on any intellectual property
2. A charge was created on the property of KLM Limited on 30 June 2021. What is the latest date by which such charge must be registered?
 - a) 7 July 2021
 - b) 30 July 2021
 - c) 15 July 2021
 - d) 31 July 2021
3. A charge was created in UAE on the property situated in UAE belonging to JKL Limited on 30 June 2021. The documents posted from UAE to Pakistan take 3 days in ordinary course of post. What is the latest date by which such charge must be registered?
 - a) 30 July 2021
 - b) 2 August 2021
 - c) 8 August 2021
 - d) 15 August 2021
4. If a charge is not registered:
 - a) The relevant loan need not be repaid at all.
 - b) The mortgage or charge would be void against the liquidator and creditors of the company.
 - c) The mortgage or charge would be valid against the liquidator of the company.
 - d) The mortgage or charge would be valid against the creditors of the company.
5. Which of the following is correct with respect to duty or right as to registration of mortgages and charges?
 - a) Only the borrowing company can file the mortgage or charge for registration and shall bear the cost of registration.
 - b) Only the charge-holder can file the mortgage or charge for registration and shall bear the cost of registration.
 - c) Either the borrowing company or the charge-holder can file the mortgage or charge for registration and such company or charge-holder, as the case may be, shall bear the cost of registration.
 - d) Either the borrowing company or the charge-holder can file the mortgage or charge for registration and borrowing company shall bear the cost of registration.
6. A company shall give intimation of the payment or satisfaction in full, of any mortgage or charge to the registrar in the manner specified, within a period of:
 - a) 15 days from the date of such payment or satisfaction.
 - b) 30 days from the date of such payment or satisfaction.
 - c) 30 days from the date of passing the special resolution.
 - d) 15 days from the date of passing the special resolution.

7. Which of the following is incorrect in relation to satisfaction of mortgages and charges?
- The registrar may record the satisfaction of charge even when no intimation has been received by him from the company.
 - The registrar shall send notice to charge-holder to show cause as to why the satisfaction of charge may not be recorded as intimated to him regardless of whether a no-objection certificate on behalf of holder is furnished by the company with the intimation.
 - If no cause is shown by charge-holder of the mortgage or charge, the registrar shall accept the memorandum of satisfaction and make an entry in the register of charges kept by him.
 - If any cause is shown by charge-holder, the registrar shall record a note to that effect in the register of charges and shall inform the company.
8. The Commission shall grant relief on being satisfied that the omission or misstatement in registration of mortgages and charges:
- is not of a nature to prejudice the position of creditors or shareholders of the company.
 - was accidental or due to inadvertence or to some other sufficient cause.
 - on grounds it is just and equitable to do so.
 - Any one or more of above.
9. In relation to rectification or registration of mortgages and charges, the Commission, on such terms and conditions as seem to the Commission just and expedient, may order:
- that the omission or misstatement be rectified.
 - that the time for filing the required particulars be extended.
 - as to the costs of the application as it thinks fit.
 - Any one or more of above.
10. A company did not maintain proper register of mortgages and charges and a charge registered with the registrar was omitted from the register maintained by the company. Which of the following is not a consequence thereof:
- The charge shall become void against the liquidator and creditors of the company.
 - Such violation shall be an offence punishable under the Act.
 - Any officer in default shall be liable to penalty of level 1 on the standard scale.
 - None of the above options is correct as all of above are consequences according to Companies Act, 2017.
11. Charcoal Limited (CL) has purchased plant and machinery for Rs. 100 million from Fuchsia (Private) Limited (FPL). Following information in this respect are available:
- 50% payment will be made to FPL on 15 March 2022 by obtaining a bank loan. The loan will be secured against mortgage of CL's factory building.
 - The balance will be paid in four equal quarterly instalments which will be secured through the charge over CL's inventory and pledge of CL's ordinary shares of one of the directors.

Which of the following securities are required to be registered with the registrar?

- Mortgage over CL's factory building and pledge of CL's ordinary shares
- Mortgage over CL's factory building and charge over CL's inventory
- Mortgage over CL's factory building only
- Mortgage over CL's factory building, pledge of CL's ordinary shares and charge over CL's inventory

12. Which of the following statements is correct regarding inspection of a company's register of mortgages and charges?
- Only a member or a creditor of the company can inspect without fee
 - Any member of the company can inspect without fee and any other person including creditors can inspect on payment of such fee as fixed by the company
 - Anyone can inspect on payment of such fee as fixed by the company
 - Any member or creditor of the company can inspect without fee and any other person can inspect on payment of such fee as fixed by the company
13. The registrar has not received any intimation of satisfaction of charges from the company. He may still enter in the register of mortgages and charges a memorandum of satisfaction with respect to the registered charge only when:
- concerned bank informed to the registrar
 - the final payment of debt has been made
 - the registrar has the knowledge that the payment of debt has been made
 - the registrar himself has the evidence that the debt has been paid
14. Lavender Limited has granted long term loan of Rs. 10 million to its chief operating officer, against which he has deposited a negotiable instrument as security.
- Which of the following statements is correct regarding registration of above security under the Companies Act, 2017?
- Negotiable instrument is not considered as a security for the purpose of mortgage or charge and does not require registration
 - Negotiable instrument above Rs. 10 million is required to be registered as mortgage or charge
 - Negotiable instrument upto Rs. 10 million is not required to be registered as mortgage or charge
 - Negotiable instrument is acceptable as security; hence, it is required to be registered as mortgage or charge
15. On 8 September 2022, Quince Limited (QL) paid the final instalment of long term loan obtained from Coconut Bank Limited. Identify the last date by which QL shall intimate to the registrar about the payment in full of the mortgage created and registered under the Companies Act, 2017.
- 23 September 2022
 - 7 October 2022
 - 23 October 2022
 - 7 November 2022
16. Which of the following is the purpose of maintaining a register of mortgages and charges as mandated by the Companies Act, 2017?
- To ensure that all company's officers have access to information regarding the company's financial health
 - To keep track of all outstanding loans and debts owed by the company to its creditors
 - To record and monitor the company's assets and liabilities, secured by mortgages or charges
 - To facilitate the payment of fees to the registrar for the inspection of company documents
17. Bluebird Limited (BL) acquired the assets of Peacock (Pvt) Limited (PPL) on 5 February 2024. PPL had a registered charge on its assets due to a loan acquired in November 2023. BL did not inform the registrar about the acquisition. Which of the following statements is correct?
- The charge automatically becomes unenforceable against the acquired assets
 - The charge continues to be valid and enforceable against the acquired assets
 - PPL remains liable for the charge unless BL informs the registrar about the acquisition
 - The registrar will impose a penalty on PPL for not informing about the acquisition

18. Barn Swallow Limited (BSL) obtained loans totalling Rs. 200 million; a Rs. 150 million long-term loan from Wagtail Bank Limited (WBL) with a first charge on BSL's plant and machinery, valued at approximately Rs. 260 million, and a Rs. 50 million medium-term loan from Bee-eater Bank Limited (BBL) with a second charge on the same plant and machinery.

Whose duty is to register the first and second charges over BSL's plant and machinery with the registrar?

- a) BSL
 - b) WBL or BBL
 - c) BSL or WBL or BBL
 - d) BSL or by the consortium of WBL and BBL
19. Under the provisions of the Companies Act, 2017, which of the following scenarios represents a charge and not a mortgage?
- a) A company obtains a loan to purchase a new office building and grants the lender a first charge on its factory building
 - b) A company obtains a loan to purchase machinery and transfers the title of one of its factory buildings to the lender
 - c) A company obtains a long-term loan and grants the lender a second charge on its head office building
 - d) A company obtains a long-term loan and grants the lender a charge over its inventories

ANSWERS

1	c)	Promissory note given to secure the payment of any book debts of a company is not required to be registered. [Section 100]
2	b)	30 July 2021 i.e. within 30 days after the date of creation of charge. [Section 100]
3	b)	2 August 2021 i.e. within 30 days after the 3 days allowed for post to reach Pakistan. [Section 100]
4	b)	The mortgage or charge would be void against the liquidator and creditors of the company. [Section 100]
5	d)	Either the borrowing company or the charge-holder can file the mortgage or charge for registration and borrowing company shall bear the cost of registration. [Section 105]
6	b)	30 days from the date of such payment or satisfaction. [Section 109]
7	b)	The show cause notice shall not be required if a no objection certificate on behalf of the holder of the mortgage or charge is furnished, along-with the intimation submitted for the payment or satisfaction. [Section 109&110]
8	d)	Any one or more of above [Section 108]
9	d)	Any one or more of above [Section 108]
10	a)	Not maintaining proper record would not invalidate the mortgage or charge if it has been properly registered with the registrar. However, it would still be violation resulting in the penalty under the law. [Section 112]
11	b)	Mortgage over CL's factory building and charge over CL's inventory
12	d)	Any member or creditor of the company can inspect without fee and any other person can inspect on payment of such fee as fixed by the company
13	d)	the registrar himself has the evidence that the debt has been paid
14	a)	Negotiable instrument is not considered as a security for the purpose of mortgage or charge and does not require registration
15	b)	7 October 2022
16	c)	To record and monitor the company's assets and liabilities, secured by mortgages or charges
17	b)	The charge continues to be valid and enforceable against the acquired assets
18	a)	BSL
19	d)	A company obtains a long-term loan and grants the lender a charge over its inventories

STICKY NOTES**Borrowing Powers**

1. Borrowing powers to be part of memorandum (implied power)
2. Restriction on borrowing powers (commencement of business)
3. Power to pledge/mortgage/charge company's assets as security
4. Manner of exercising borrowing powers (board of directors subject to articles)
5. Ultra vires borrowing (borrowing exceeding the authority)

Forms of borrowings

1. Borrowing by issuing debentures
2. Borrowing from credit institutions
3. Borrowing from other sources

Forms of Security

1. Pledge
2. Mortgage
3. Charge

Requirement of registration

1. List of mortgage and charges to be registered (9 items)
2. Negotiable Instruments not to be treated a mortgage or charge
3. Particulars, manner and time limit for registration (30 days after creation)
4. If created outside Pakistan on property outside Pakistan (30 days after ordinary post time)
5. If created in Pakistan on property outside Pakistan (instrument may be filed for registration even when further proceedings may be necessary in other country)
6. Company acquiring property subject to a mortgage or charge (same)
7. Certificate of registration (by registrar)
8. Constructive notice (to any one acquiring company's property)
9. Effect of non-registration (would become void)

Duty/Right as to registration

1. Duty of company (to get it registered)
2. Right of interested person (to be reimbursed for fees properly paid)

Modification in the particulars of mortgage or charge

1. Duty of company (to send to the registrar)
2. Procedure (same as registration)

Satisfaction of charge

1. Duty of company to inform registrar (within 30 days)
2. Show cause notice to lender (within such time not exceeding 14 days)
3. If no cause is shown (registrar shall accept the memorandum of satisfaction)
4. If any cause is shown (registrar shall note and inform the company)
5. When show cause notice is not required (NOC filed along)
6. Effect of delay (additional fee and penalty)

The registrar may register satisfaction of charge even without intimation received by him from the company.

Rectification of register of mortgages

1. Application to the Commission
2. Conditions for granting relief (accidental, just and equitable etc)
3. Order by the Commission (time extension, rectification, costs)
4. Prior rights not to be affected due to rectification

Records and register

1. Copy of instrument creating mortgage or charge to be kept at registered office
2. Requirement to maintain company's register of mortgages and charges
3. Open to inspection (member and creditor without fee)

MEETINGS AND RESOLUTIONS

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Company Meetings
- 2 Service of Documents and Notices
- 3 Conduct of Meetings
- 4 Resolutions and Records
- 5 Objective Based Q&A

STICKY NOTES

AT A GLANCE

The meetings of directors include board meetings in which all directors may attend and the meetings of committee of directors in which selected directors participate.

The meetings of members include general meetings (statutory meeting, annual general meeting & extra ordinary general meeting) in which all members are entitled to attend and class meetings which only the members of specific class may attend.

Only public companies having share capital are required to hold statutory meeting and a statutory report is presented and discussed therein.

Every company (other than SMC) shall hold an annual general meeting at least once in a calendar year within a period of one hundred and twenty days following the close of its financial year.

In addition to the annual general meeting, extra ordinary general meetings may be called by directors, or on requisition of members to discuss any matter.

In case of default by directors in holding a general meeting, the Commission may call the meeting and the cost to conduct such meeting shall be borne by the company or as directed by the Commission.

Any notice to be served on company or any officer shall be served at registered office. Any notice to be served on a member at his registered address or address supplied with the company by the member.

Members are entitled to vote by show of hands or may demand poll. Members may also appoint proxies. All resolutions and minutes of meetings are recorded and kept by the company.

1 COMPANY MEETINGS

1.1 Types of meetings

Meetings of directors

There are two types of meetings of directors, namely:

- board meetings which may be attended by all the directors; and
- meetings of committee of directors in which selected directors participate to decide for specific tasks assigned to those committees. The committees of directors may include audit committee, human resource and remuneration committee, nomination committee, risk management committee and sustainability committee.

Meetings of members

There are two general categories of meetings of members namely:

- General meetings in which all the members who are entitled to attend and vote at such meetings according to articles may participate. There are three types of general meetings namely:
 - statutory meeting;
 - annual general meeting; and
 - extra-ordinary general meeting.
- Class meetings (any specific class of members e.g. meeting of preference shareholders).

General meetings are chaired by the chairman of the board of directors, and other directors also attend. However, the directors do not have a right to vote at a general meeting unless they are also a member of the company. They can, then, vote at the meeting as a member.

1.2 Statutory meeting [Section 131]

Requirement

Every public company having a share capital shall hold a general meeting of the members of the company, to be called the “statutory meeting”.

In case first annual general meeting of a company is decided to be held earlier, no statutory meeting shall be required.

The requirement shall not apply to a public company which converts itself from a private company after one year of incorporation.

Time limit

The statutory meeting shall be held within earlier of:

- 180 days from commencement of business; or
- 9 months from the date of its incorporation.

► Example 01:

A public company was incorporated on 3 January 2021 and was allowed to commence business from 25 April 2021. It should hold statutory meeting latest by 2 October 2021 being earlier of 180 days from commencement of business (i.e. 21 October 2021) and 9 months from incorporation (i.e. 2 October 2021).

► Example 02:

A public company was incorporated on 7 January 2021 and was allowed to commence business from 22 February 2021. It should hold statutory meeting latest by 20 August 2021 being earlier of 180 days from commencement of business (i.e. 20 August 2021) and 9 months from incorporation (i.e. 6 October 2021).

Notice

The notice of a statutory meeting shall be sent to the members at least 21 days before the meeting along-with a copy of statutory report.

Contents of statutory report

The statutory report shall state:

- a) the total number of shares allotted, distinguishing shares allotted other than in cash, and stating the consideration for which they have been allotted;
- b) the total amount of cash received against the shares allotted;
- c) an abstract of receipts and payments made up to a date within 15 days of date of the report, under distinctive headings:
 - the receipts from shares, debentures and other sources;
 - the payments made;
 - the balance remaining in hand; and
 - an account or estimate of the preliminary expenses of the company showing separately any commission or discount paid or to be paid on issue of shares or debentures;
- d) the names, addresses and occupations of the directors, chief executive, secretary, auditors and legal advisers of the company and the changes, if any, since incorporation;
- e) the particulars of any contract to modified for which approval of meeting is required, together with proposed modification;
- f) the extent to which underwriting contracts have been carried out together with the reasons for their not having been carried out; and
- g) any commission or brokerage paid / payable for the issue of shares to any director, chief executive, secretary or officer or to a private company of which he is a director.

The statutory report shall also contain a brief account of the state of the company's affairs since its incorporation and the business plan, including any change or proposed change affecting the interest of shareholders and business prospects of the company.

Report of the auditors

The statutory report shall, so far as it relates to the shares allotted by the company, the cash received in respect of such shares and to the receipts and payments of the company, be accompanied by a report of the auditors of the company as to the correctness of such allotment, receipt of cash, receipts and payments.

Certification / Authentication

The statutory report shall be certified by the chief executive and at least one director of the company, and in case of a listed company also by the chief financial officer.

Filing with registrar

The directors shall cause a copy of the statutory report, along-with report of the auditors as aforesaid, to be delivered to the registrar for registration forthwith after sending the report to the members of the company.

List of members at meeting

The directors shall cause a list showing the names, occupations, nationality and addresses of the members of the company, and the number of shares held by them respectively, to be produced at the commencement of the meeting and to remain open and accessible to any member of the company during the continuance of the meeting.

Discussion at meeting

The members of the company present at the meeting shall be at liberty to discuss any matter relating to the formation of the company or arising out of the statutory report, whether previous notice has been given or not, but no resolution of which notice has not been given in accordance with the articles may be passed.

Adjournment

The meeting may adjourn from time to time, and at any adjourned meeting any resolution of which notice has been given in accordance with the articles, either before or after the original meeting, may be passed, and an adjourned meeting shall have the same powers as an original meeting.

1.3 Annual general meeting (AGM) [Section 132]

Requirement and time limit

Every company (other than single member company) shall hold an AGM within 16 months from the date of its incorporation and thereafter once in every calendar year within a period of 120 days following the close of its financial year.

► Example 03:

Suppose ABC Limited is incorporated on 1st April 2020 and it opts for a financial year end of 30th June every year. It would be required to hold its first annual general meeting in next sixteen month time period. So it can opt to hold the first annual general meeting till 31st July 2021.

We assume that the company opted to hold the annual general meeting on 31st July 2021. From this date onward company will be required to hold the annual general meeting within 120 days of the close of financial year and at least once in a calendar year. Keeping all the above in view, what shall be the latest time on which company can hold its AGM in 2022?

The next financial year will close on 30th June 2022, so till when would the company be required to hold its AGM? It should be 28th October 2022 because it cannot wait for more than 120 days from close of financial year.

► Example 04:

XYZ Limited, another company registered on 1st September 2020, Its financial year closes in 30th September each year. It held its first annual general meeting on 1st November 2021 which was well within 16 months from the date of its incorporation.

What is the latest date by which company can hold its second AGM? It must be within 120 days of close of financial year and at least one AGM must be held in each calendar year, so latest date should be 31st December 2022.

Extension in time

In the case of a listed company, the Commission, and, in any other case, the registrar, may for any special reason extend the time within which any AGM, shall be held by a period not exceeding 30 days.

Place of meeting

In case of listed company, AGM shall be held in the town in which the registered office of the company is situated or in a nearest city.

However, at least 7 days prior to the date of meeting, on the demand of members residing in a city who hold at least 10% of the total paid up capital or such other percentage as may be specified, a listed company must provide the facility of video-link to such members enabling them to participate in its AGM.

Notice: All companies

The notice of an AGM shall be sent to the members and every person who is entitled to receive notice of general meetings at least 21 days before the date fixed for the meeting.

Notice: Listed company

In case of a listed company, such notice shall be sent to the Commission, in addition to its being dispatched in the normal course to members and the notice shall also be published in English and Urdu languages at least in one issue each of a daily newspaper of respective language having nationwide circulation.

Calling a meeting

AGM is called on the order of directors and not of the members.

1.4 Extra-ordinary general meeting (EGM) [Section 133]

All general meetings of a company, other than the AGM and the statutory meeting, shall be called extra-ordinary general meetings.

Calling EGM by the board

The board may at any time call an EGM to consider any matter which requires the approval of the company in a general meeting.

Calling EGM by the board on requisition of members

The board shall forthwith proceed to call an EGM, at the requisition made by the members:

- in case of a company having share capital, representing not less than 1/10th of the total voting power as on the date of deposit of requisition; and
- in case of a company not having share capital, not less than 1/10th of the total members.

The requisition shall state the objects of the meeting, be signed by the requisitionists and deposited at the registered office of the company.

Calling EGM by requisitionists themselves

If the board does not proceed within 21 days from the date of the requisition being so deposited to cause a meeting to be called, the requisitionists, may themselves call the meeting, but in either case any meeting so called shall be held within 90 days from the date of the deposit of the requisition.

Any meeting called by the requisitionists shall be called in the same manner, as nearly as possible, as that in which meetings are to be called by board.

Any reasonable expenses incurred by the requisitionists in calling a meeting shall be reimbursed to the requisitionists by the company and the sums so paid shall be deducted from any fee or other remuneration payable to such of the directors who were in default in calling the meeting.

Notice

The notice of EGM is required to be sent to the member's at least 21 days before the date of the meeting similarly as of the notice of AGM.

However, in case of unlisted company, if all the members entitled to attend and vote at any EGM so agree, a meeting may be held at a shorter notice.

1.5 Power of SECP to call meetings [Section 147 & 148]

Power to give directions

The Commission has power to call general meeting of the company in case of:

- There is default in conducting AGM or statutory meeting.
- The directors did not proceed to call an EGM on the requisition of members.

The Commission may give such directions in relation to the calling, holding and conducting of the meeting and preparation of any document required with respect to the meeting as the Commission may think fit.

One member may be quorum

The above-mentioned directions may include a direction that one member of the company present in person or by proxy shall be deemed to constitute a meeting.

Cost of conducting the meeting

Any meeting so conducted shall, for all purposes, be deemed to be a meeting of the company duly called, held and conducted, and all expenses incurred for such meeting shall be paid by the company unless the Commission directs the same to be recovered from any officer of the company.

Penalty

If any person makes default in holding a meeting of the company called by the Commission or in complying with any directions of the Commission, shall be liable to a penalty of level 3 on the standard scale.

► Practice Question 01:

Explain whether all limited companies are required to hold statutory meeting within 6 months of incorporation.

► Solution:

The statement is incorrect because only public companies having share capital are required to hold statutory meetings. Moreover, the statutory meeting is to be held within a period of 180 days, from the date at which the company is entitled to commence business or nine months from the date of its incorporation whichever is earlier.

► Practice Question 02:

Joint Limited (JL) was incorporated as a public company on 1 February 2018 and was authorized by the registrar to commence business from 1 April 2018. The board of directors is divided on the issue of holding first general meeting of its members.

Two directors are of the view that the meeting should be held on 30 September 2018 whereas majority of the directors want to hold it on 30 October 2018.

In the light of the provisions of the Companies Act, 2017:

- i. Explain whether you agree with the proposal of the majority of the directors or the other two directors.
- ii. What would be your opinion in (i) above if the directors want to hold first annual general meeting on 25 September 2018?

► Solution:

Part (i) Statutory meeting:

JL is required to hold its first general meeting (Statutory meeting) within a period of 180 days from the date at which it was entitled to commence business or within nine months from the date of its incorporation whichever is earlier.

Therefore, in view of the above, JL is required to hold its statutory meeting not later than 27 September 2018.

Part (ii)

If the directors decide to hold first AGM on 25 September 2018 than no statutory meeting shall be required.

► Practice Question 03:

Karachi Telecommunication (Private) Limited (KTL) was incorporated on 1st March 2019 under the Companies Act 2017. Its directors have decided to hold the first Annual General Meeting (AGM) of the company on August 10, 2020, for placing the first audited financial statements for the period ended March 31, 2020, for approval.

Comment on the decision of the directors, in the light of provisions contained in the Companies Act 2017.

► *Solution:*

The decision of the directors contravenes the Companies Act, 2017 since the first financial statement must be laid within sixteen months after the date of incorporation of the company. The latest date for first AGM must be 30th June 2020 and not afterwards.

► *Practice Question 04:*

Explain the exceptions to this provisions as specified under the Companies Act, 2017.

“Every company shall hold its annual general meeting within a period of 120 days following the close of its financial year.”

► *Solution:*

In the case of a listed company, the Commission and in any other case, the registrar, may for any special reason extend the time within which any annual general meeting, shall be held, by a period not exceeding 30 days.

► *Practice Question 05:*

Explain whether or not the following statement is in accordance with the provisions of the Companies Act, 2017 and support your answer with reasons:

“Notice of an extraordinary general meeting should always be sent to the shareholders, at least 21 days before the date of the meeting.”

► *Solution:*

In the case of an unlisted company if all the members entitled to attend and vote at the meeting so agree, the EGM may be held at a shorter notice.

► *Practice Question 06:*

Peach Panther Ltd (PPL) is planning to call an Extra-ordinary General Meeting (EGM) to transact certain businesses due to an emergency faced by the company. You are required to answer the following:

- i. Which meetings are called EGM?
- ii. What is the minimum notice period for calling an EGM? Can PPL hold such meeting on a shorter notice?

► *Solution:***Part (i)**

All general meetings of a company other than Annual General Meeting and Statutory Meeting shall be called EGM.

Part (ii)

The minimum notice period for calling an EGM is 21 days. In case of emergency affecting the business of a company other than a listed company, if all the members entitled to attend and vote in the meeting agree, then an EGM can be held at such shorter notice.

► *Practice Question 07:*

Violet Limited (VL), a public unlisted company, received its certificate of incorporation on 1 August 2021. VL's management submitted duly verified declaration along with necessary documents to the registrar related to commencement of business that were accepted and registered by the registrar on 1 October 2021.

VL started its business operations with effect from 15 October 2021. However, it was revealed in the very first month of its commercial production that the main product is not meeting the specified standards. After engaging experts and making modification in the production process, VL resumed its production activities on 25 November 2021.

VL closes its financial year on 30 September.

Under the provisions of the Companies Act, 2017 advise VL's directors with regard to the following:

- a) The period within which VL is required to hold the statutory meeting.
- b) The contents that need to be included in the statutory report with respect to share capital.
- c) Can VL avoid holding of the statutory meeting due to any reason(s) including production issues as faced by VL?

► **Solution:**

Part (a)

Violet Limited (VL) shall hold the statutory meeting at the earliest of the following two dates:

- within a period of 180 days from the date at which VL is entitled to commence business i.e. the date when the registrar has accepted and registered the duly verified declaration filed by VL i.e. 1 October 2021. Hence 180 days will be on 29 March 2022. Or
- within 9 months from the date of its incorporation. VL received its certificate of incorporation on 1 August 2021, hence nine months will be on 30 April 2022.

Therefore, VL is required to hold its statutory meeting not later than 29 March 2022.

Part (b)

Following are the contents that need to be included in VL's statutory report with respect to share capital:

- The total number of shares allotted by VL, distinguishing shares allotted other than in cash, and stating the consideration for which they have been allotted;
- The total amount of cash received by VL in respect of all the shares allotted;
- In VL's abstract of the receipts and the payments, exhibit the receipts from shares, and show separately under the preliminary expenses any commission or discount paid or to be paid on the issue or sale of shares;
- The particulars of any commission or brokerage paid or to be paid in connection with the issue or sale of shares to any of VL's director, chief executive, secretary or officer or to a private company of which he is a director;
- The statutory report shall be accompanied by a report of VL's auditors, so far as it relates to the shares allotted by it, the cash received in respect of such shares, as to the correctness of such allotment and receipt of cash.

Part (c)

VL could avoid the requirement of holding its statutory meeting if it could hold its first annual general meeting before 29 March 2022. However, the same could not be avoided on any other reason including production issues as faced by VL.

2 SERVICE OF DOCUMENTS AND NOTICES

Service of document/notice means delivering the document/notice in the way prescribed or permitted by the applicable laws.

2.1 Service of documents on company and its officers [Section 53]

A document or information may be served on the company or any of its officers at the registered office of the company:

- a) against an acknowledgement; or
- b) by post or courier service; or
- c) through electronic means; or
- d) in any other manner as may be specified.

2.2 Service of documents on Commission or the registrar [Section 54]

A document or information may be served on the Commission or the registrar:

- a) against an acknowledgement; or
- b) by post or courier service; or
- c) through electronic means; or
- d) in any other manner as may be specified.

2.3 Service of notice on a member [Section 55]

Address

A document or information may be served on a member:

- a) at his registered address; or
- b) if he has no registered address in Pakistan, at the address supplied by him to the company for the giving of notice to him.

Manner of serving

A document or information may be served on a member

- a) against an acknowledgement; or
- b) by post or courier service; or
- c) through electronic means; or
- d) in any other manner as may be specified.

When notice by post to be deemed effective

Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice and, unless the contrary is proved, to have been effected at the time at which the letter will be delivered in the ordinary course of post.

► Example 05:

XYZ Limited posted letters containing the notice to its members by post on 2nd February by properly addressing, prepaying and positing for its AGM to be held on 27th February. One of the letter addressed to Zahid was delayed by 15 days due to error by relevant postal staff. The letters are usually delivered within 2 days but Zahid received it on 19th February. Zahid has questioned the validity of AGM on account of delay in delivery of notice which was received just 8 days (and not at least 21 days) before AGM. In these circumstances, the notice shall be deemed effected and Zahid's claim is not valid.

Notice in case of joint-holders

A notice may be given by the company to the joint-holders of a share by giving the notice to the joint-holder named first in the register of members in respect of the share.

► *Example 06:*

Azam, Babar and Chand (names in accordance with sequence in register of members) are joint shareholders of 5% shares in XYZ Limited. XYZ Limited sent notice for AGM only to Babar. Azam and Chand claimed they should have received the notice instead. Azam's claim is valid while Chand's claim is not valid.

Notice to legal representative

A notice may be given by the company to the person entitled to a share in consequence of death or insolvency of a member addressed to him by name or by the title or representatives of the deceased or assignees of the insolvent or by any like description, at the address supplied for the purpose by the person claiming to be so entitled.

► *Example 07:*

XYZ Limited received a notice from official assignee of Sajid', one of its members, informing XYZ Limited of insolvency of Sajid and his appointment as official assignee with relevant particulars and documents. XYZ Limited is in process of calling an EGM, it may send the notice to official assignee at address provided by him.

► *Practice Question 08:*

State the provisions under the Companies Act, 2017, for serving notice to a member of a company.

► *Solution:*

A notice may be served to a member of a company at their registered address in Pakistan. If no registered address is available, it may be served at the address provided by the member for receiving notices. Service can be affected by acknowledgment, post, courier, electronically, or by any other specified method.

When a notice is sent by post, it is deemed served upon proper addressing, prepaying, and posting of a letter containing the notice. Unless proven otherwise, service is effective on the delivery date.

A company may serve a notice to the first-named joint shareholder on the register, on behalf of all joint shareholders.

A notice to the deceased or insolvent member's successor can be served at the address provided by the claimant, using the successor's name or the title or representatives of the deceased or assignees of the insolvent or by any like description.

3 CONDUCT OF MEETINGS

3.1 Provisions as to meetings and votes [Section 134]

The following provisions shall apply to the general meetings of a company or meetings of a class of members of the company.

Notice

Notice of meeting is a formal document sent to each member at his registered address or other communication address provided in Pakistan.

The notice may be served to members against an acknowledgement or by post or courier service or through electronic means or any other specified manner.

Notice of the meeting specifying the place and the day and hour of the meeting alongwith a statement of the business to be transacted at the meeting shall be given:

- i. to every member or class of the members of the company as the case may be;
- ii. to every director;
- iii. to any person who is entitled to a share in consequence of the death or bankruptcy of a member, if the company has been notified of his entitlement;
- iv. to the auditors of the company.

The notice shall be sent in the manner in which notices are required to be served, but the accidental omission to give notice to, or the non-receipt of notice by, any member shall not invalidate the proceedings at any meeting.

Facility of video-link

In case of a listed company, if certain members who hold 10% of the total paid up capital or such other percentage as may be specified, reside in a city, it shall be mentioned in the notice that such members, may demand the company to provide them the facility of video-link for attending the meeting.

Participation

Members of a company may participate in the meeting personally, through video-link or by proxy.

Ordinary business & Special business

In the case of an annual general meeting, all the businesses to be transacted shall be deemed special, other than:

- i. the consideration of financial statements and the reports of the board and auditors;
- ii. the declaration of any dividend;
- iii. the election and appointment of directors in place of those retiring;
- iv. the appointment of the auditors and fixation of their remuneration.

Statement of material facts for special business

A statement setting out all material facts concerning special business shall be annexed to the notice of the meeting.

In particular, the nature and extent of the interest (if any) of every director, whether directly or indirectly shall be stated.

Where any item of business requires an approval to any document by the meeting, the time when and the place where the document may be inspected, shall be specified in the statement.

Presiding the meeting

The chairman of the board, if any, shall preside as chairman at every general meeting of the company.

If there is no such chairman, or if at any meeting he is not present within 15 minutes after the time appointed for holding the meeting, or is unwilling to act as chairman, any one of the directors present may be elected to be chairman.

If none of the directors is present or is unwilling to act as chairman, the members present shall choose one of their member to be the chairman.

Number of votes

In the case of a company having a share capital, every member shall have votes proportionate to the paid-up value of the shares or other securities carrying voting rights held by him according to the entitlement of the class of such shares or securities, as the case may be. However, at the time of voting, fractional votes shall not be taken into account.

Note: please note carefully that we have used the word ‘proportionate to the paid up value of shares’ rather than ‘equal to the paid up value of shares’. This is because of the various classes of share capital in the company. If the company has more than one class of shares then voting rights of one class may differ from other but whatever the difference may be the voting rights shall have regard to the paid up value of shares.

In the case of a company limited by guarantee and having no share capital, every member shall have one vote.

On a poll, votes may be given either personally or through video-link or by proxy or through postal ballot.

Right to vote

A member holding shares or other securities carrying voting rights shall not be debarred from casting his vote, nor shall anything contained in the articles have the effect of so debarring him.

Single member company

All the requirements of the Companies Act regarding calling of, holding and approval in general meeting, board meeting and election of directors in case of a single member company, shall be deemed complied with; if the decision is recorded in the relevant minutes book and signed by the sole member or sole director as the case may be.

3.2 Voting by show of hands [Section 141 & 142]

Voting by show of hands

At any general meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded, be decided on a show of hands.

Declaration by chairman

On a vote on a resolution at a meeting by a show of hands, a declaration by the chairman that the resolution:

- has or has not been passed; or
- passed unanimously or by a particular majority;

is conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

An entry in respect of such a declaration in minutes of the meeting recorded is also conclusive evidence of that fact without such proof.

3.3 Voting by poll [Section 143, 144 & 145]

Demand for poll

Before or on the declaration of the result of the voting on any resolution on a show of hands, a poll:

- may be ordered to be taken by the chairman of the meeting of his own motion; and
- shall be ordered to be taken by him on a demand made in that behalf by the members present in person or through video-link or by proxy, where allowed, and having not less than 1/10th of the total voting power.

The demand for a poll may be withdrawn at any time by the members who made the demand.

Poll through secret ballot

When a poll is demanded on any resolution, it may be ordered to be taken by the chairman of the meeting by secret ballot on his own motion, and shall be ordered to be taken by him on a demand made in that behalf by the members present in person, through video-link or by proxy, where allowed, and having not less than 1/10th of the total voting power.

Time of taking poll

A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith.

A poll demanded on any other question shall be taken at such time, not more than 14 days from the day on which it is demanded, as the chairman of the meeting may direct.

Conduct and result of poll

When a poll is taken, the chairman or his nominee and a representative of the members demanding the poll shall scrutinize the votes given on the poll and the result shall be announced by the chairman.

The chairman shall have power to regulate the manner in which a poll shall be taken.

The result of the poll shall be deemed to be the decision of the meeting on the resolution on which the poll was taken.

3.4 Proxies [Section 137]

Right to appoint proxy

A member of a company entitled to attend and vote at a meeting of the company may appoint another person as his proxy to exercise all or any of his rights to attend, speak and vote at a meeting.

The appointment of proxy is not allowed in the case of a company not having a share capital unless the articles provide otherwise.

More than one proxy for one meeting

A member shall not be entitled to appoint more than one proxy to attend any one meeting. If any member appoints more than one proxy for any one meeting and more than one instruments of proxy are deposited with the company, all such instruments of proxy shall be rendered invalid.

Who may be appointed as proxy?

A proxy must be a member unless the articles of the company permit appointment of a non-member as proxy.

Notice accompanied by proxy form

Every notice of a meeting of a company shall prominently set out the member's right to appoint a proxy and the right of such proxy to attend, speak and vote in the place of the member at the meeting and every such notice shall be accompanied by a proxy form.

Proxy instrument

The instrument appointing a proxy shall:

- be in writing; and
- be signed by the appointer or his attorney duly authorised in writing, or if the appointer is a body corporate, be signed by an officer or an attorney duly authorised by it.

An instrument appointing a proxy, if in the form set out in Table A in the First Schedule shall not be questioned on the ground that it fails to comply with any special requirements specified for such instruments by the articles.

Time limit

The proxies must be lodged with the company not later than 48 hours before the time for holding a meeting and any provision to the contrary in the company's articles shall be void.

In calculating the period, no account shall be taken of any part of the day that is not a working day.

Rights of proxy

The members or their proxies shall be entitled to do any or all the following things in a general meeting, namely:

- demand a poll on any question; and
- on a question before the meeting in which poll is demanded, to abstain from voting or not to exercise their full voting rights;

and any provision to the contrary in the articles shall be void.

Inspection of proxy forms

Every member entitled to vote at a meeting of the company shall be entitled to inspect during the business hours of the company all proxies lodged with the company.

3.5 Representation of body corporate at meetings [Section 138]**Body corporate as a member**

A body corporate or corporation which is a member of another company may, by resolution of its board or other governing body authorise an individual to act as its representative at any meeting of that other company, and the individual so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents.

Body corporate as a creditor

A body corporate or corporation which is a creditor of another company may, by resolution of its board or other governing body authorise an individual to act as its representative at any meeting of the creditors of that other company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents.

3.6 Representation of government at meetings [Section 139]**Power to appoint**

The Federal Government (through concerned Minister-in-Charge) or a Provincial Government, as a member of a company, may appoint such individual as it thinks fit to act as its representative at any meeting of the company or at any meeting of any class of members of the company.

Rights of appointed individual

An individual appointed to act as aforesaid shall, for the purpose of the Companies Act, be deemed to be a member of such a company and shall be entitled to exercise the same rights and powers, including the right to appoint proxy, as the Federal Government or Provincial Government may exercise as a member of the company.

3.7 Quorum of general meeting [Section 135]

Meaning of quorum

Quorum means certain minimum number of members of a company as is fixed as competent to transact business in a general meeting of members in the absence of the other members. Any business transacted in a meeting without quorum shall be void.

Minimum quorum requirement

Listed company	10 members present personally or through video link representing at least 25% voting power (own or proxy).
Other company having share capital	2 members present personally or through video link representing at least 25% voting power (own or proxy).
Company not having share capital	As provided in the articles.

Larger Quorum

A company may fix quorum larger than the above-mentioned minimum quorum by its articles.

Absence of quorum

If the required quorum is not present at the meeting within half an hour from the time appointed for the meeting, the meeting shall be:

- dissolved, if called upon the requisition of members; and
- adjourned to the same day in the next week at the same time and place, if called by the directors on their own.

Quorum at adjourned meeting

If a quorum is not present within half an hour at adjourned meeting, the members present in the meeting (either personally or through video link), not being less than two, shall be a quorum, unless the articles provide otherwise.

3.8 Court declaring a general meeting invalid [Section 136]

Petition criteria

Members having not less than 10% of the voting power in the company may file a petition that the proceedings of a general meeting be declared invalid by reason of a material defect or omission in the notice or irregularity in the proceedings of the meeting, which prevented members from using their rights effectively.

Time limit

The petition shall be made within 30 days of the impugned meeting.

Court order

The Court may declare such proceedings or part thereof invalid and direct holding of a fresh general meeting, if satisfied.

► Practice Question 09:

Explain the term “special business” with reference to the Companies Act, 2017. Give at least two example

► *Solution:*

All businesses transacted at annual general meeting, shall be treated as “special business” except the following:

- declaration of dividend,
- consideration of the financial statements and the reports of the directors and auditors,
- election of directors,
- appointment and fixing of the remuneration of auditors.

► *Examples:*

- Disposal of a significant business segment of company.
- Investment in associated undertaking.

► *Practice Question 10:*

Unique Limited is due to hold its first annual general meeting on 20 April 2026. Under the provisions of the Companies Act, 2017 advise the directors with regard to the types of businesses which would be deemed to be special business and also discuss additional formalities which are required to be complied with in respect of notice containing special business.

► *Solution:*

In case of an annual general meeting, all businesses to be transacted shall be deemed special other than:

- i. the consideration of financial statements and the reports of the board and auditors;
- ii. the declaration of any dividend;
- iii. the election and appointment of directors in place of those retiring; and
- iv. the appointment of the auditors and fixation of their remuneration.

Where any special business is to be transacted at a general meeting, there shall be annexed to the notice of the meeting a statement setting out all material facts concerning such business, including, in particular, the nature and extent of the interest, if any, therein of every director, whether directly or indirectly. Where any item of business consists of according of an approval to any document by the meeting, the statement shall specify the time and the place for the inspection of such document.

► *Practice Question 11:*

On declaration of the result of voting in the Annual General Meeting (AGM) by the chairman of AS Limited, a public company, few shareholders demanded a poll. The chairman refused to hold the poll and declared the result of voting on show of hands.

In the light of Companies Act, 2017:

- a) How would you assess whether or not the Chairman’s decision of not holding a poll was valid?
- b) Explain whether the Chairman can delay the holding of poll to a date subsequent to the date of AGM.

► *Solution:***Part (a)**

The chairman is required to hold a poll in case the same is demanded by members present in person or through video-link or by proxy, where allowed and having 10% or more of the total voting power.

If the shareholder who demanded the poll meets the condition as mentioned above, the decision of the Chairman of not holding the poll would be invalid.

Part (b)

The Chairman can delay the poll up to 14 days from the day on which it is demanded for all matters except the following:

- On the election of a chairman, the poll shall be taken forthwith.
- On a question of adjournment, the poll shall be taken forthwith.

► **Practice Question 12:**

Mr. Shakeel has significant shareholdings in various public and private companies. He is not satisfied with some of the resolutions passed by such companies by show of hands. You are required to advise him as regards the following:

- a) What conditions would he need to satisfy if Mr. Shakeel wishes to request for a poll?
- b) Explain whether a company is required to oblige him if he wishes to satisfy himself about the validity of the results of voting by poll.

► **Solution:****Part (a)**

If Mr. Shakeel intends to make a request for a poll, the chairman of the meeting would be required to accept his request provided the request is supported by members having at least 10% of voting power

Part (b)

When a poll is taken, the chairman or his nominee and a representative of the members demanding the poll i.e. Mr. Shakeel and members requesting the poll, shall scrutinize the votes given on the poll. However, the results of the poll shall be announced by the chairman of the meeting.

► **Practice Question 13:**

Fancy Works Limited (FWL) is in process of finalizing the prerequisites of holding its first Annual General Meeting (AGM) to be held on 31 October 2025.

- i. Advise FWL about the matters relating to proxies which must be included in the notice of AGM.
- ii. Arbaz Limited (AL) is a member of FWL. How would AL represent itself in the AGM?

► **Solution:****Part (i)**

The Notice of AGM of FWL shall prominently set out the member's right to appoint a proxy and the right of such proxy to attend, speak and vote in the place of the member at the meeting and such notice shall be accompanied by a proxy form.

Part (ii)

AL may by resolution of its board authorize an individual to act as its representative at any meeting of FWL. The instrument of proxy for such individual be signed by an officer or an attorney duly authorized by AL in this behalf.

► **Practice Question 14:**

Green Leaf Limited, a listed company, has sent a notice of the forthcoming Annual General Meeting, to the Company Secretary of Red Rose Limited which is also a listed company. Red Rose Limited had recently acquired 100,000 shares in Green Leaf Limited and you are required to advise its directors about the following, in the light of Companies Act, 2017:

- a) Who can represent Red Rose Limited in the annual general meeting of Green Leaf Limited?
- b) What are the essential characteristics of an instrument of proxy to be submitted to Green Leaf Limited and what is the deadline for its submission?

► *Solution:***Part (a)**

A company which is a member of another company may by resolution of the board or other governing body may authorize any of its officials or any other person to act as its representative at the meeting of that other company.

Part (b)

The instrument appointing a proxy shall:

- be in writing and
- be signed by an officer or an attorney duly authorized.

The proxy shall be lodged with the company not later than forty-eight hours before the time of the meeting.

► *Practice Question 15:*

The Board of Directors of Classic Paints Limited, a public listed company, has called an Extraordinary General Meeting on the requisition of the shareholders holding 10% of the voting power of the company. Approximately twenty minutes before the commencement of the meeting, the Chairman of the Board of Directors informed the Company Secretary of his inability to attend the meeting due to the death of a close relative.

Required:

- a) What would be the quorum of the above meeting?
- b) Mention the latest time by which the quorum of the meeting should be present. What would be the impact if quorum is not present within the prescribed time?
- c) Who could chair the meeting in the above situation?

► *Solution:***Part (a)**

Being a public listed company, the quorum of the meeting is not less than 10 members present personally or through video link who represent not less than 25% of the total voting power, either of their own account or as proxies, unless the articles provide for a larger number.

Part (b)

The quorum of the meeting should be present within half an hour from the time for the meeting otherwise the meeting shall be dissolved as it has been called on the requisition of members.

Part (c)

Since chairman of the board of directors cannot attend the meeting therefore, anyone of the directors present may be elected to be chairman. However, if none of the directors is present or is unwilling to act as chairman, the members present shall choose one of the members to be the chairman.

► *Practice Question 16:*

The annual general meeting of VX Limited, a listed company, was convened on 30 May 2026. However, only four shareholders turned up to attend the meeting.

Explain how VX Limited should deal with the above situation in the light of Companies Act, 2017.

► *Solution:*

Since VX Limited is a listed company, unless the articles provide for a larger number the quorum of an annual general meeting shall not be less than ten members present personally or through video-link, who represent not less than twenty-five percent of the total voting power, either of their own account or as proxies.

In VX Limited only four shareholders turned up to attend the meeting and therefore the quorum were not formed. If the quorum is not present within half an hour from the time appointed for the meeting, the Chairman shall adjourn the meeting and the meeting shall stand adjourned to the same day in the next week at the same time and place.

At the adjourned meeting if a quorum is not present within half an hour from the time appointed for the meeting, the members present personally or through video-link, being not less than two, shall be a quorum, unless the articles provide otherwise.

► **Practice Question 17:**

An Extraordinary General Meeting of Mastermind Technologies Limited (MTL), a listed company, was scheduled to be held on October 31, 2025. The directors adjourned the meeting for the next week as the quorum was not present within fifteen minutes of the scheduled time.

Based on the provisions of the Companies Act, 2017, you are required to comment on the following:

- The decision of the directors to adjourn the meeting, assuming the meeting was called upon the requisition of the members.
- The decision of the directors to adjourn the meeting, assuming the meeting was called by the directors.
- The impact of the adjournment on the validity and rights of proxies which were deposited with the company before adjournment.

► **Solution:**

Part (a)

The directors of the company should have waited for half an hour. If within half an hour from the time appointed for the meeting the quorum is not present, the directors should direct to dissolve the meeting, as the meeting is called upon the requisition of the member.

Part (b)

The directors of the company should have waited for half an hour. The directors of the company may adjourn the general meeting of the company if within half an hour from the time appointed for the meeting the quorum is not present and shall adjourn the meeting to the same day in the next week at the same time and place, as meeting is called by the directors.

Part (c)

The proxies deposited before adjournment of the meeting shall stand valid for the adjourned meeting. A proxy shall be entitled to attend and vote instead of member appointing him and have such rights in respect of speaking and voting at the adjourned meeting as are available to a member.

► **Practice Question 18:**

The 21st annual general meeting (AGM) of Noke Jhoke Limited was held on 20 August 2025. Two of the shareholders, Mateen and Ragib were not satisfied with the conduct of the meeting. One week after the meeting, they submitted a complaint to the chairman of the board of directors, requiring him to invalidate the proceedings of the 21st AGM.

In view of the provisions of the Companies Act, 2017 explain the circumstances in which Mateen and Ragib would succeed in their contention.

► **Solution:**

In the given scenario, Mateen and Ragib would not succeed in their contention as they have filed the complaint with the chairman of the board of directors.

In order to succeed, Mateen and Ragib are required to file a petition in the Court and must have 10% or more of the voting power in the company.

The petition must be made within 30 days of the impugned meeting.

The Court may declare the proceedings of a general meeting or part thereof invalid and direct holding of a fresh meeting on the following grounds:

- By reason of any material defect or omission in the notice; or
- Irregularity in the proceedings of the meeting which prevented Mateen and Ragib from using their rights.

► *Practice Question 19:*

The annual general meeting of Alpha Limited (AL), a listed company, is scheduled to be held in March 2026 to transact several ordinary and special businesses such as election of directors.

Under the provisions of the Companies Act, 2017 list the information which must be included in AL's notice of annual general meeting to be published in the newspapers. Your answer should cover all aspects which must either be included in or be annexed to notice of annual general meeting.

► *Solution:***Information to be included in the notice of general meeting**

Notice of AL's annual general meeting should:

For normal business

- specify the place, day and hour of the meeting;
- include a statement of the business to be transacted at the meeting;
- specify availability of an option of video-link facility to those members on demand who hold 10% of the total paid up capital or such other percentage as may be specified, and who reside in a city;
- prominently set out member's right to appoint a proxy and the right of such proxy to attend, speak and vote in the place of the member at the meeting;
- be accompanied by a proxy form;

For special business

- the special resolution, shall be accompanied by the draft resolution;
- a statement shall be annexed to the notice of the meeting setting out all material facts concerning such special business, including, in particular, the nature and extent of the interest, if any, therein of every director, whether directly or indirectly, and where any item of business consists of the according of an approval to any document by the meeting, the time when and the place where the document may be inspected, shall be specified in the statement;

In case of election of directors

- expressly state the number of directors fixed for election and names of the retiring directors.

► *Practice Question 20:*

The Annual General Meeting of Trade Limited was held at 11:25 a.m. on 10 November 2025. Certain shareholders have lodged following complaints with the company secretary:

- i. Notice of the annual general meeting was not received by them although they are resident in Pakistan and their registered addresses have also been provided to the company.
- ii. Since the meeting could not commence at the scheduled time i.e. 11:00 a.m., it became invalid and should be called again.
- iii. A resolution passed in the meeting was approved by a show of hands. However, a poll should have been carried out.
- iv. Mr. Hamid who voted for a resolution was represented through a proxy which was deposited at 5:01 p.m. i.e. after office hours on 8 November 2025. Since 9 November 2025 was a public holiday, the condition of depositing the proxy at least 48 hours before the commencement of the meeting, was not met.
- v. Mr. Ghulam who holds 100,000 shares was represented by two proxies i.e. Mr. Cassim (75,000 shares) & Mr. Danish (25,000 shares). Only proxy with 75,000 shares was counted for the purpose of voting.
- vi. JKM Limited holding 20,000 shares of the company was represented by Mr. Waheed, who is neither a director nor an employee of JKM Limited.

In the light of the provisions of the Companies Act 2017 you are required to:

- a) Comment on the validity of each of the above complaints.
- b) Describe the circumstances under which a court may declare the resolution(s) passed in the above meeting or the entire proceedings of the meeting as invalid.

► **Solution:**

Part (a)

- i. The accidental omission to give notice to, or non-receipt of notice by any member shall not invalidate the proceedings at any meeting. Therefore, if Trade Limited has sent a notices properly and according to requirement of the law, the shareholders' complaint is not valid.
- ii. As per the Act, if within half an hour from the time appointed for the meeting, a quorum is not present, the meeting may either be dissolved or adjourned. Since the quorum was present within 30 minutes, the meeting is valid.
- iii. As per the Act, at any general meeting, a resolution put to the vote of the meeting shall be decided on show of hands, unless a poll is demanded. The concerned shareholders should have demanded a poll on or before the declaration of the result of the voting by show of hands and not after the meeting is concluded. Therefore, the shareholder's protest is not valid.
- iv. Proxy is not valid as it was not deposited 48 hours before the meeting.
- v. A member shall not be entitled to appoint more than one proxy to attend any one meeting. In this case, Mr. Ghulam had appointed more than one proxy for the meeting and more than one instrument of proxy was deposited with the company, therefore both the instruments of proxy would be rendered invalid.
- vi. A company which is a member of another company may, by resolution of the directors, authorise an individual to act as its representative at any meeting of that other company. Therefore, Mr. Waheed's vote is valid.

Part (b)

The court may, on a petition by members having not less than ten per cent of the voting power in the company, that the proceedings of a general meeting be declared invalid by reason of any material defect or omission in the notice or irregularity in the proceedings of the meeting which prevented members from using effectively their rights, declare such proceedings or part thereof invalid and direct holding of fresh general meeting:

However, the petition shall be made within 30 days of the impugned meeting.

► **Practice Question 21:**

Brown Enterprises Limited (BEL) was formed as a construction company with an issued and paid up share capital of 500 million ordinary shares of Rs. 10 each. Orchid Limited (OL), Teal Limited which is one of the subsidiary company of OL and Mauve (Private) Limited have subscribed 125 million, 130 million and 245 million ordinary shares of BEL respectively.

The board of directors of BEL has decided to construct state-of-the-art five storey shopping mall in a posh locality of Islamabad. BEL's management found a lucrative piece of land in the said locality which is owned by Zakir who is also a non-executive director of BEL and OL. After negotiation, BEL and Zakir principally agreed that on completion of the shopping mall, fifth floor of the shopping mall will be given to Zakir in exchange for the price of his said land.

Under the provisions of the Companies Act, 2017 discuss the conditions that must be complied with in order to execute the above transaction.

► *Solution:*

Brown Enterprises Limited (BEL) intends to acquire land in exchange of fifth floor of the proposed shopping mall i.e. intends to enter into a non-cash transaction with one of its directors.

Moreover, BEL is subsidiary company of Orchid Limited (OL), as OL controls more than one-half voting shares of BEL as follows:

Direct shareholding $125/500 \times 100 =$	25%
Indirect shareholdings through Teal Limited $130/500 \times 100 =$	26%
Total shareholdings of OL together with its subsidiary in BEL	51%

In the light of above facts, in order to execute the said transaction following conditions must be complied with:

- A general meeting of BEL be called for obtaining shareholders' prior approval through a resolution.
- Since Zakir is also a director of OL, a general meeting of OL shall also be called for obtaining holding company shareholders' prior approval through a resolution.
- The notice of general meeting to be called for approval of the resolution by BEL as well as OL shall include:
 - the particulars of the land to be purchased along-with the value of the land duly calculated by a registered valuer.
 - the particulars of fifth floor of the proposed shopping mall to be sold along-with its value duly calculated by a registered valuer.
 - among other matters, as required for notice of general meeting there shall be annexed to the notice a statement setting out all material facts concerning the said transaction including the nature and extent of Zakir's interest as director.

► *Practice Question 22:*

In the general meeting of Red Coral Limited (RCL), while discussing one of the agenda items, two of the members, Yasmeen and Yameen wants to demand poll.

Under the provisions of the Companies Act, 2017 advise the chairman whether they are eligible to demand the poll. Also discuss the procedure to be followed for taking the poll in the general meeting.

► *Solution:*

If Yasmeen and Yameen together hold not less than 10% of the voting share of RCL, then they will be eligible to demand poll.

Following procedures are to be followed for taking the poll in the general meeting subject to fulfilment of the above conditions:

- Upon demand of Yasmeen and Yameen, the chairman shall entertain their demand and order to take poll within 14 days from the day of the demand.
- The chairman shall have power to regulate the manner in which a poll shall be taken.
- The chairman or his nominee and a representative of the Yasmeen and Yameen shall scrutinize the votes given on the poll.
- The result shall be announced by the chairman.
- The result of the poll shall be deemed to be the decision of the meeting on the resolution for which the poll was taken.

► **Practice Question 23:**

The extraordinary general meetings of Dolphin Limited, a public company listed on Pakistan Stock Exchange Limited and its subsidiary Sardines (Guarantee) Limited, a public unlisted company, have been scheduled to be held on the same day i.e. 13 September 2021 at 9:00 a.m. and 2:00 p.m. respectively in Islamabad.

Under the provisions of the Companies Act, 2017 identify the quorum requirements for both the companies in the above situation.

► **Solution:****Quorum of DL's EGM when meeting is requisitioned by directors/members**

- 10 members present personally or through video-link representing 25% of total voting power, either of their own account or as proxies, unless GL's articles require a larger number.

Quorum of SGL's EGM when meeting is requisitioned by directors/members

- Where SGL has share capital, 2 members present personally or through video-link representing 25% of total voting power, either of their own account or as proxies, unless the SGL's articles require a larger number.
- Where SGL does not have share capital, then as provided in SGL's articles of association.

Quorum of DL's & SGL's EGM(s) if meeting is requisitioned by the Commission

If the meetings are called on the direction of the Commission, then Commission may give such ancillary / consequential directions as it thinks expedient in relation to the calling, holding and conducting of the meeting. Accordingly, Commission may direct that one member present in person or by proxy shall be deemed to constitute a meeting.

► **Practice Question 24:**

Kino Limited (KL) was incorporated on 9 September 2017 with a paid-up capital of Rs. 2 million divided into 200,000 ordinary shares of Rs. 10 each.

KL's directors have called an extraordinary general meeting (EGM) to be held on 10 September 2022 at 10 AM to approve the resolution to wind up KL.

Following is the list of KL's shareholders along with the number of shares held by them:

Shareholders	No. of shares held
Anas	20,000
Baber	30,000
Dilawar	40,000
Essa	50,000
Fiza	60,000

It is expected that Anas, Dilawar and Essa would not be able to attend the EGM. However, on 8 September 2022 at 11 AM, Essa has deposited a proxy with KL's company secretary in favour of Baber. Essa and Baber would cast vote against the resolution.

Under the provisions of the Companies Act, 2017, explain the effect of the above expected matters on the EGM and ordinary and special resolutions to be passed.

► **Solution:**

Effect on the EGM: Since KL is a public unlisted company, its extraordinary general meeting (EGM) would still be considered valid if two members present personally who represents more than 25% of the total voting power, unless KL's articles provide for a larger number. Considering this, the EGM proceeding would be valid as two members namely Baber and Fiza would attend it, who holds 45% shares of KL's total voting power [i.e. $(30,000+60,000) \div 200,000$].

The non-presence of Anas, Dilawar and Essa will have no effect.

Effect on passing of ordinary resolution: The proxy deposited by Essa in favour of Baber at 11 AM, on 8 September 2022 shall not be considered valid as it has been deposited less than 48 hours before the said EGM, hence Baber would not be able to exercise Essa's voting power as proxy holder in the said EGM.

It means in the EGM, only Baber and Fiza would be entitled to exercise their voting rights. Fiza has 67% ($60,000 \div 90,000 [60,000 + 30,000]$) voting power in the EGM. If she favours the resolution, the resolution would be considered passed by simple majority, even if Baber would cast his vote against the resolution.

Effect on passing of special resolution: A special resolution is considered to have been passed if a majority of not less than three-fourth of such members as are present in the general meeting, in person or by proxy, vote in favour of the said resolution.

Since only Fiza would cast vote in favour of the resolution who have 67% voting power in the EGM as established above, special resolution would not be considered as passed.

► *Practice Question 25:*

On 9 March 2023, an extraordinary general meeting (EGM) of Cartier Metal Limited (CML) was held to consider various matters. Farhan and Fareed, who are CML's shareholders were disappointed with the way the Chairman conducted the EGM. They intend to refer the matter to CML's board for cancellation of EGM's proceedings and calling a fresh meeting for the consideration of the same agenda items.

Under the provisions of the Companies Act, 2017, advise Farhan and Fareed the course of action to be followed to get the EGM's proceedings cancelled and a fresh meeting to be called.

► *Solution:*

Cancellation of EGM's proceedings:

Farhan and Fareed, being the shareholders of CML, may get the proceedings of EGM cancelled and call for a fresh meeting on the following grounds:

- i. They together shall have not less than 10% voting power, on the basis of which they may make an application. However, if their voting power is less than 10% then they should have to include another member to have requisite voting power.
- ii. The said application shall have to be filed by way of a petition in the Court rather referring the matter to CML's board.
- iii. The said petition shall be made within thirty days of the EGM i.e. by 7 April 2023.
- iv. The ground that they are disappointed with the way the Chairman conducted the EGM does not seem sufficient. The Court may declare the proceedings of EGM invalid if they were prevented from effectively using their rights due to:
 - a material defect or omission in the EGM's notice; or
 - irregularity in the proceedings of the EGM.

Only the Court may direct holding of fresh EGM, if it is satisfied with the ground given in the petition.

► *Practice Question 26:*

In the annual general meeting (AGM) of Hafnium Engineering Limited (HEL), the Chairman proceeded to an agenda item, which sought members' approval for an investment in an associated company. Without delay, he requested approval through a show of hands. Based on the result of show of hands, he promptly declared the resolution approved.

After the meeting, Ali, a member of HEL who attended the AGM for the first time, voiced his reservations. He stated that he had expressly asked for a poll, a request that seemed to have been disregarded. Additionally, he highlighted that the Chairman failed to provide a definitive count of members in favour or against the resolution.

In light of the provisions of the Companies Act, 2017, comment on the following matters:

- a) The validity of the Chairman's declaration of the approval.
- b) The legitimacy of Ali's concerns and the rights he possesses in this context.

► **Solution:**

Part (a) Validity of the chairman's approval

The validity of the chairman's approval under the provisions of the Companies Act, 2017 (the Act), pertaining to a show of hands at the AGM of HEL, seeking members' approval for an investment in an associated company, is subject to the following considerations:

- The chairman's approval can be deemed valid if it is demonstrated that Ali did not call for a poll either before or at the announcement of the voting outcome.
- Alternatively, if Ali had initially requested a poll but subsequently withdrew the demand during the AGM, the chairman's approval can also be regarded as valid.

Furthermore, the following points are relevant in proving the validity of the mentioned approval:

- When a show of hands is used, the declaration made by the chairman of HEL regarding whether the resolution was passed or not through the vote at the AGM is considered conclusive evidence of the result.
- The chairman is not required to provide proof regarding the specific number or proportion of votes in favour of or against the resolution.
- An entry in the AGM's minutes serves as conclusive evidence of the decision, based on the show of hands that was taken.

Part (b)

The legitimacy of Ali's concerns under the provisions of the Companies Act, 2017 are as follows:

In order to validate Ali's concerns, he must demonstrate the following:

- He demanded a poll either before or upon the declaration of the voting result through a show of hands by the chairman regarding the aforementioned resolution.
- He did not withdraw the demand for the poll.
- He possesses at least one-tenth of the total voting power of HEL, either individually or along with other member(s) present in person, or through video-link, or by proxy.

Ali's concern that the chairman did not provide a definite count of members in favour of or against the resolution is incorrect, as the chairman is not required to prove this, as discussed in point (a) above.

Rights of Ali

Once it is established that Ali's concerns are valid, he possesses the right to file a petition in the Court, to request the Court to declare a portion of the AGM proceedings of HEL as invalid, due to the irregularities in the AGM proceedings that prevented him or others from effectively exercising their rights. He may also seek annulment of the impugned resolution.

It is important for Ali to note that he must submit the petition to the Court within 30 days of the impugned AGM.

► **Practice Question 27:**

Palla Limited (PL), an unlisted company with a paid-up capital of 50 million shares of Rs. 10 each, will hold its Annual General Meeting (AGM) on 21 October 2024. In addition to ordinary business, the agenda includes consideration of the approval of a loan of Rs. 10 million to an associated company.

Under the provisions of the Companies Act, 2017, advise PL on the following matters relating to the AGM:

- a) Ordinary business matters to be included in the AGM agenda.
- b) Identification of persons eligible to receive the notice of the AGM and the specific information required to be annexed to the notice of AGM.
- c) Persons entitled to preside over the meeting and the quorum requirements.

► *Solution:***Part (a)**

In the annual general meeting (AGM), the following matters are considered ordinary business for inclusion in the agenda of the meeting:

- i. the consideration of the financial statements and the reports of the board and auditors;
- ii. the declaration of any dividend;
- iii. the election and appointment of directors in place of those retiring; and
- iv. the appointment of the auditors and the fixation of their remuneration

Part (b)

Following persons are eligible to receive the notice of the AGM:

- i. every member of the company
- ii. every director
- iii. any person who is entitled to a share in consequence of the death or bankruptcy of a member, if the company has been notified of his entitlement
- iv. the auditors of the company

Information to be annexed to the notice of AGM

Given that PL's AGM agenda includes the consideration of the approval of a loan of Rs. 10 million to an associated company, this constitutes special business. Accordingly, the following information must also be annexed to the notice:

- A statement detailing all material facts concerning the loan to the associated company.
- The nature and extent of any interest held by each director, directly or indirectly, in the loan.
- If the meeting is to approve any documents, the statement must specify the time and place for inspecting these documents.
- A draft resolution, since a special resolution is required to approve a loan to an associated company.

Part (c)**Person entitled to preside over the meeting**

PL's chairman of the board, if any, is entitled to preside over the AGM. If there is no chairman, or if he is not present within fifteen minutes of the appointed time for holding the meeting, or is unwilling to act, the directors present will choose someone from amongst themselves to be the chairman. If none of the directors is present or is unwilling to act, the members present will choose one of their members to be the chairman.

Establishment of quorum requirements

Unless otherwise specified in PL's articles of association, which may fix a larger quorum, the quorum for the AGM should be two members present either personally or through video link, representing not less than twenty-five percent of the total voting power, either on their own account or as proxies, i.e., they must have 12.5 million voting rights (50 million shares × 25%).

4 RESOLUTIONS AND RECORDS

4.1 Notice of resolution [Section 140]

Resolutions to be stated in notice

The notice of a general meeting of a company shall state the general nature of each business proposed to be considered and dealt with at a meeting, and in case of special resolution, accompanied by the draft resolution.

Resolution by members

The members having not less than 5% voting power in the company may give notice of a resolution and such resolution together with the supporting statement, if any, which they propose to be considered at the meeting, shall be forwarded so as to reach the company:

- in the case of a meeting requisitioned by the members, together with the requisition for the meeting;
- in any other case, at least 10 days before the meeting; and the company shall forthwith circulate such resolution to all the members.

4.2 Resolution passed at adjourned meeting [Section 146]

Where a resolution is passed at an adjourned meeting of:

- a company;
- the holders of any class of shares in a company;
- the board; or
- the creditors of a company;

the resolution shall, for all purposes, be treated as having been passed on the date on which it was in fact passed, and shall not be deemed to have been passed on any earlier date.

► Example 08:

Maria Limited AGM was scheduled and conducted on 17th August 2020 in which a resolution for change of registered office was among the other businesses to be transacted. However, the meeting was adjourned to 31st August 2020 and then the resolution for change of registered office was passed. The resolution shall be deemed to be passed on 31st August 2020 and not on 17th August 2020.

4.3 Passing of resolution by the members through circulation [Section 149]

When resolution through circulation is allowed

Except for the ordinary businesses to be conducted in the annual general meeting, the members of a private company or a public unlisted company (having not more than 50 members), may pass a resolution (ordinary or special) by circulation signed by all the members for the time being entitled to receive notice of a meeting.

Rules regarding resolution passed through circulation

- Any resolution so passed shall be as valid and effectual as if it had been passed at a general meeting of the company duly convened and held.
- A resolution shall not be deemed to have been duly passed, unless the resolution has been circulated, together with the necessary papers, if any, to all the members.
- A members' agreement to a written resolution, passed by circulation, once signified, may not be revoked.
- A resolution so passed shall be noted at subsequent meeting of the members and made part of the minutes of such meeting.

4.4 Filing of resolution [Section 150]

Filing with registrar

Every special resolution passed by a company shall, within 15 days from the passing thereof, be filed with the registrar duly authenticated by a director or secretary of the company.

Annexed to articles

Where articles have been registered, a copy of every special resolution for the time being in force shall be embodied in or annexed to every copy of the articles issued after the date of the resolution.

Sent to member on request

A copy of every special resolution shall be forwarded to any member at his request on payment of such fee determined by the company.

4.5 Records of resolutions and meetings [Section 151]

Records to be kept

Every company shall keep records of:

- copies of all resolutions of members passed otherwise than at general meetings; and
- minutes of all proceedings of general meetings along with the names of participants, to be entered in properly maintained books.

Authentication

Minutes recorded if purporting to be authenticated by the chairman of the meeting or by the chairman of the next meeting, shall be the evidence of the proceedings at the meeting.

Minutes to be evidence

Until the contrary is proved, every general meeting of the company in respect of the proceedings whereof minutes have been so made shall be deemed to have been duly called, held and conducted.

Place and time of record

The records must be kept at the registered office of the company from the date of the resolution, meeting or decision simultaneously in physical and electronic form and it shall be preserved for at least twenty years in physical form and permanently in electronic form.

4.6 Inspection of records of resolutions and meetings [Section 152]

Open to inspection

The books containing the minutes of proceedings of the general meetings shall be open to inspection by members without charge during business hours, subject to such reasonable restrictions as the company may by its articles or in general meeting impose so that not less than two hours in each day be allowed for inspection.

Certified copy to member

Any member shall at any time after 7 days from the meeting be entitled to be furnished, within 7 days after he has made a request in that behalf to the company, with a certified copy of the minutes of any general meeting at such charge as may be fixed by the company.

Effect of non-compliance

If an inspection, as afore-mentioned, is refused, or if certified copy, as afore-mentioned, is not furnished within the time specified, the person guilty of an offence shall be liable to a penalty of level 1 on the standard scale, and the registrar may direct immediate inspection or supply of copy, as the case may be.

► **Practice Question 28:**

Mr. Dinshaw holding 13.5% shares in ABC Limited gave notice of a resolution to the company on May 22, 20X4, proposing to appoint M & T Associates in place of the existing share registrar of the company. The resolution was to be considered at the annual general meeting scheduled for May 30, 20X4. The company could not circulate the proposed resolution among its members.

Evaluate the above situation in the light of the provisions of the Companies Act, 2017.

► **Solution:**

Any member having not less than 5% voting power in the company may give notice of a resolution and such resolution together with the supporting statement, if any, is required to be forwarded in such a way so as to reach the company at least 10 days before the meeting.

Mr. Dinshaw holds 13.5% shares in the company i.e. more than 5% hence he is entitled to submit the resolution to the company. However, since the notice given by Mr. Dinshaw did not reach the company in the prescribed time, the company cannot be held liable for its failure to circulate the resolution.

► **Practice Question 29:**

The board of directors of Majestic Limited (ML) intends to change the company's name. They are of the view that such a change would help in rebranding and rebuilding the image of the company. In this regard, the board has directed the company secretary to call a general meeting on priority basis in order to obtain members' approval.

Considering the urgency of the matter, company secretary has advised the board that required approval under the law may be taken from the members by getting the resolution passed through circulation.

Under the provisions of Companies Act, 2017:

- i. advise whether ML can get the resolution passed by its members through circulation;
- ii. specify the pre and post-requisites which must be taken care of, in order to ensure that the resolution passed through circulation by members of ML is valid.

► **Solution:**

Part (i)

The members of a private company or a public unlisted company, may pass a resolution (ordinary or special) through circulation. Considering this provision of law, ML can obtain the members' approval through circulation if it is not a listed company.

Part (ii)

Resolution shall be circulated, together with the necessary papers, if any, to all the members. It shall be signed by all the members for the time being entitled to receive notice of a meeting. Further, resolution shall be noted at subsequent meeting of the members and made part of the minutes of such meeting.

► **Practice Question 30:**

On 26 September 2020, the board of directors of Duck Fertilizers Limited (DFL), a public unlisted company, in its recent board meeting has approved a short term loan to Kitten Limited, one of the associated companies, to meet its working capital requirement, for which shareholders' approval is required. DFL's annual general meeting is scheduled to be held in March 2021.

Under the provisions of the Companies Act, 2017:

- a) briefly discuss the options available to DFL for obtaining shareholders' approval.
- b) state the procedure(s) to be followed for obtaining the approval in each option identified in (a) above. (Ignore procedures relating to voting)

► *Solution:***Part (a)**

Following options are available to DFL for obtaining shareholders' approval:

Option (i): The board of directors of DFL may obtain approval of its shareholders by calling an extraordinary general meeting (EGM). As the board is entitled to call EGM at any time to consider any matter which requires shareholders' approval.

Option (ii): Nonetheless, as the approval required for matter that is special business, and being a public unlisted company, if DFL's number of members are not more than fifty then DFL's board of directors has another option to get the shareholders' approval by passing resolution by circulation.

Part (b)

The procedures to be followed for obtaining shareholders' approval:

Option (i) Holding Extra Ordinary General Meeting

- Twenty-one days' notice of the meeting shall be given to every member in the manner required by the Act.
- However, DFL being a public unlisted company, if all the members entitled to attend and vote at the said EGM so agree, a meeting may be held at a shorter notice.
- Notice of the meeting shall specify the place, the day and hour of the meeting along with a statement of the business to be transacted at the meeting and a draft resolution.
- A statement shall be annexed to the notice of the meeting setting out all the material facts concerning the short term loan, including the nature and extent of interest, if any, of the directors.
- Members may participate in the meeting personally, through video-link or by proxy.
- Every member shall have votes proportionate to the paid-up value of the shares held by him and no such member shall be debarred from casting his vote.

Option (ii) Passing of resolution by the members through circulation

- The resolution shall be circulated together with the necessary papers, if any, to all the members.
- The resolution passed by circulation must be signed by all the members for the time being entitled to receive notice of a meeting.
- The said resolution shall be noted at the subsequent meeting of members and made part of the minutes of such meeting.

► *Practice Question 31:*

Tripod Limited (TL), a listed company, intends to alter its articles to set a larger quorum requirement for general meetings and it has obtained approval of the general meeting through special resolution. The directors of TL are of the view that in order to be effective, the special resolution should be filed with the Commission. However, the company secretary has advised to keep the resolution at the registered office so that anyone who is interested may inspect it.

Briefly discuss the requirement(s) relating to filing/furnishing of special resolution.

► *Solution:*

Every special resolution passed by a company shall, within 15 days from the passing thereof, be filed with the registrar duly authenticated by a director or secretary of the company.

Where articles have been registered, a copy of every special resolution for the time being in force shall be embodied in or annexed to every copy of the articles issued after the date of the resolution.

A copy of every special resolution shall be forwarded to any member at his request on payment of such fee not exceeding the amount as the company may determine.

► **Practice Question 32:**

Rapid Constructions Limited (RCL) is a listed company. Advise the Board of Directors of RCL on the following matter, in the light of the provisions of the Companies Act, 2017:

On 5 December 2020 an urgent request has been received from Farid, a member, for inspection and supply of minutes of the company's fifteenth extraordinary general meeting held on 2 December 2020.

► **Solution:**

Any member shall at any time after 7 days from the meeting, be entitled to be furnished with a certified copy of the minutes of the general meeting. Therefore, Farid cannot request for inspection or a copy of the minutes of the meeting before 9 December 2020 as the meeting was held on 2 December 2020.

Further, RCL is required to furnish copy of the minutes of the meeting within 7 days from the date of the request. If Farid makes the request on 9 December 2020, RCL may furnish a copy by 16 December 2020.

► **Practice Question 33:**

The details of ML's share capital as at 30 June 2021 are as follows:

Class of ordinary Shares	No. of shares in million	Paid-up share capital Rs. in million	Voting rights
Class A	50	500	1 vote per share
Class B	30	600	2 votes per share
Class C	20	600	3 votes per share

Saleem Hussain, one of ML's shareholders, holding 50% shares in class A, has filed an application with the company requesting for an increase in voting rights of class A shares, without changing their face value, so that each share of class A would carry 2 votes.

Under the provisions of the Companies Act, 2017:

- advise ML's management regarding Saleem Hussain's eligibility to demand increase in voting rights of class A shares and discuss the requisite approvals required to be sought for getting such change approved.
- discuss the course of action required to be taken by ML on Saleem Hussain's application, assuming that his eligibility to demand increase in voting rights is favourably established in (a) above.

► **Solution:****Part (a) Eligibility of Saleem Hussain to demand increase in voting rights of Class A**

Since Saleem Hussain holds 14.71% [i.e. $25 (50 \text{ million shares} \times 50\%) \div \{170 (50 \times 1) + (30 \times 2) + (20 \times 3)\}$] of total voting power in ML which is more than one-tenth of the total voting power, he is eligible to demand discussion of any agenda item proposed by him in accordance with the Companies Act, 2017 at any general meeting of ML.

Requisite approvals required to be sought for getting such change approved

Currently all class of shares in ML carry equal voting rights of 10% of the face value of each class (i.e. face value of Rs. 10/-, Rs. 20/- and Rs. 30/- each of class A, B and C respectively). The request to increase the voting rights of class A shares without changing their face value will be considered as variation in shareholders' rights that will affect the substantive rights of members of class B and C, as it will give 20% voting rights to members of class A.

Accordingly, the requisite approvals required to be sought for getting such change approved will be from at least three-fourths of the affected class of members i.e. class B and C.

Part (b)

Following actions are required to be taken by ML upon receipt of Saleem Hussain's application requesting variation in shareholders' rights by increasing voting rights of class A shares:

- The management shall call the board meeting forthwith to consider the requisition made by Saleem Hussain.
- Shares of different classes are issued in accordance with the memorandum of association (MOA) and articles of association (AOA) of the company. Accordingly, ML needs to alter its MOA and AOA if requisite approval is in place. Hence, the board of ML shall proceed to call an extraordinary general meeting (EGM) by sending notice of EGM to all the members within 21 days from the date of Saleem Hussain's requisition for discussing the agenda item of change in voting rights. EGM shall be held within 90 days from the date of the deposit of the said requisition.
- The alterations are considered as special business, hence, a statement shall be annexed to the notice setting out all material facts concerning variation in shareholders' right including, in particular, the nature and extent of interest, if any, therein of every director.
- The alterations shall be subject to the provisions of the Companies Act, 2017 and to the conditions contained in ML's MOA that requires passing a special resolution.
- However, if any general meeting of ML is already scheduled to be held, and the said request was sent by Saleem Hussain at least 10 days before the said meeting, then ML shall forthwith circulate the notice of resolution together with draft resolution and supporting statement, if any, as submitted by Saleem Hussain to all the members of ML.
- ML shall file duly authenticated special resolution with the registrar within 15 days from passing of special resolution.
- ML shall file a copy of MOA and AOA as altered, with the registrar, within 30 days from the date of passing of special resolution.

► **Practice Question 34:**

Crimson Limited (CL) was incorporated on 1 July 2018 as a public unlisted company with the following authorized and paid up capital:

	Class A	Class B
Authorized share capital [No. of shares (in million)]	1,200	800
Paid up share capital [No. of shares (in million)]	600	400
Face value per share (Rs.)	15	40

The board of directors in their latest meeting has planned to alter CL's share capital in the following manner:

- Cancel the authorized share capital of class B by 350 million shares
- Consolidate two shares of class A into one share
- Sub-divide one share of class B into two shares having equal face value

Under the provisions of the Companies Act, 2017 discuss the following matters:

- Impact of the board of directors' plan on the authorized and the paid up share capital.
- Procedures to be followed for implementation of the said plan.

► **Solution:****Part (a)**

Impact of the board of directors' plan on CL's authorized and the paid up share capital is as follows:

		Class A			Class B		
		No. of shares in million	Face value	Rs. in million	No. of shares in million	Face value	Rs. in million
	Authorized share capital:						
	Current position	1,200	15	18,000	800	40	32,000
(i)	After cancellation of Class B shares by 350 million				450 (800-350)	40	18,000
(ii)	After consolidation of two shares of Class A into one share	600 (18,000÷30)	30 (15+15)	18,000			
(iii)	After sub-division of one share of Class B into two shares of equal face value				900 (450×2)	20 (40÷2)	18,000
	Paid up share capital:						
	Current position	600	15	9,000	400	40	16,000
(i)	After cancellation of Class B shares by 350 million				No effect		
(ii)	After consolidation of two shares of Class A into one share	300 (9,000÷30)	30 (15+15)	9,000			
(iii)	After sub-division of one share of Class B into two shares of equal face value				800 (16,000÷20)	20 (40÷2)	16,000

Part (b)

Following are the procedures that need to be followed for implementation of the plan to alter CL's share capital:

- Call general meeting for getting approval. For that purpose send notice to all the members. Alternately being an unlisted company and if CL's members are not more than fifty, the said approval may be taken by circulation if the resolution is signed by all the members for the time being entitled to receive notice of a meeting. As the proposed business is a special business, the notice should be accompanied with a copy of the draft resolution and a statement setting out all material facts concerning alteration.
- Pass a special resolution for getting the approval of alteration i.e. cancellation of the authorized share capital of class B, consolidation of two shares of class A and sub-division of one share of class B into two shares.
- Alter the authorized capital clause of the memorandum of association if it is authorized by CL's articles of association.
- File copy of special resolution duly authenticated by a director or secretary of CL alongwith notice of the exercise of said power with the registrar within 15 days of passing the resolution/exercise of power.

► *Practice Question 35:*

Penguin Limited (PL) has Class A and Class B ordinary shares, with 80 million shares of Rs. 10 each and 15 million shares of Rs. 20 each respectively.

PL issued a notice to its members and published it in various newspapers, announcing an extraordinary general meeting (EGM) scheduled for 7 March 2024. The meeting considered a proposal to revise the terms of a long-term advance given to Kiwi Limited (KL), which includes extending the grace period for instalments by an additional six months and reducing the interest rate by 2%. This proposal was put forward by Faiz Ahmed, a director at PL, who also serves as a non-executive director at KL.

During the EGM, following an initial show of hands, a member attending remotely demanded a poll on the resolution. The Chairman then ordered that the poll be conducted via a secret ballot the next week. Subsequently, a director raised the following questions regarding the Chairman's decision and the polling process:

- Is the Chairman justified in ordering the poll through a secret ballot, and when will the results of the poll be implemented?
- What is the total voting power for each class of shares and for the company as a whole?
- What is the minimum number of votes required to pass the proposed resolution, assuming that only Class A shareholders have attended the poll?
- What steps must be complied with in respect of the resolution if members vote in favour of the resolution during the poll?

Under the provisions of the Companies Act, 2017, advise to the board of directors on each of the questions raised by the director.

► *Solution:***Part (a) Poll through a secret ballot:**

If following criteria were met, then the Chairman was justified in ordering the poll through a secret ballot; otherwise, not:

- The Companies Act, 2017 (the Act) mandates that the Chairman must order a poll if it is demanded by member(s) present at the meeting, or even through video-link, provided other requirements are met. Therefore, it is essential to verify that the member who demanded the poll was in attendance at the EGM via video-link.
- The member demanding the poll must possess not less than one-tenth of the total voting power of PL.

Furthermore, the Act requires that the poll be taken within fourteen days of the demand. Since the Chairman ordered the poll to be conducted the following week, this action aligns with the legal requirement.

Effective date of implementation of the poll's result:

According to the Act, the result of the poll shall be deemed to be the decision of the meeting on the resolution in question. However, since the outcome of the poll will only be determined on the date the poll is conducted, the effective date of implementation should be the actual date on which the poll is held.

Part (b) Voting power:**Class A total voting power**

Total voting power of Class A shareholders are 80,000,000

$$= (80,000,000 \text{ shares} \times 1 [= 10 \div 10])$$

Class B total voting power

Total voting power of Class B shareholders are 30,000,000

$$= (15,000,000 \text{ shares} \times 2 [= 20 \div 10])$$

PL's total voting power

Total voting power of PL i.e. entire company are 110,000,000

$$[= (80,000,000 \times 1) + (15,000,000 \times 2)]$$

Part (c) Votes required for passing the resolution:

Given Faiz Ahmed's dual role as a director in both PL and KL, these two entities are considered associated companies.

Under the Act, long-term advances are categorized as investments in associated companies. Accordingly, any revision to the terms of these advances requires approval through a special resolution.

Since only Class A shareholders have attended the poll, the minimum number of votes required for passing the special resolution is calculated based on $\frac{3}{4}$ of the total voting power of Class A shareholders. Given that the total voting power of Class A shareholders is 80,000,000 votes, the minimum number of votes required to pass the special resolution is 60,000,000 votes (which is $80,000,000 \times \frac{3}{4}$).

Part (d) Steps must be complied with in respect of the resolution:

If members vote in favour of the resolution during the poll, PL shall file the special resolution with the registrar within fifteen days from the date it is passed. This filing must be duly authenticated by either a director or the secretary of PL.

Additionally, if PL has registered its articles of association, a copy of the special resolution must be included in or attached to every copy of the articles of association issued after the date of the resolution.

5 OBJECTIVE BASED Q&A

1. A general meeting is a meeting of the shareholders of the company who are entitled by the company's articles to
 - a) Borrow money on behalf of the company
 - b) Appoint company secretary on behalf of the company
 - c) Attend and vote at such meetings
 - d) Call annual general meeting
2. Generally a private company is not required to hold a statutory meeting but it shall also be required to hold a statutory meeting if
 - a) Such private company decides to liquidate the company
 - b) Such private company is a subsidiary of a public company
 - c) Such private company converts itself into a public company within one year of its incorporation.
 - d) Such private company converts itself into a public company within 06 months of its incorporation.
3. The statutory meeting shall consider and approve report called statutory report which is sent to each member, along with a notice of the statutory meeting
 - a) At least 21 days before the date of statutory meeting
 - b) At least 7 days before the date of statutory meeting
 - c) At least 30 days before the date of statutory meeting
 - d) At least 14 days before the date of statutory meeting
4. The first annual general meeting of a company shall be held
 - a) After 16 months from the date of its incorporation
 - b) Within 16 months from the date of its incorporation
 - c) After 18 months from the date of its incorporation
 - d) Within 12 months from the date of its incorporation
5. The SECP, in the case of a listed company and the registrar, in the case of other companies may extend the time for holding of subsequent annual general meeting
 - a) Upto a maximum of 30 days
 - b) Upto a minimum of 30 days
 - c) For 21 days
 - d) For 15 days
6. At least 21 days' notice of annual general meeting shall be given to members and in case of a listed company such notice shall also be published in
 - a) An Urdu or an English daily newspaper having nationwide circulation
 - b) An Urdu and an English daily newspaper having nationwide circulation
 - c) An Urdu and an English fortnight newspaper
 - d) Any local language and an English fortnight newspaper

7. If members of a listed company, not resident in city where AGM is taking place required the company to provide the facility of video link to attend AGM of the company, then they must fulfil the following condition in order to make such request to be valid
 - a) Holding at least 10% share capital
 - b) The request must be in written form
 - c) The request must be made at least 7 days before such meeting
 - d) All of the above
8. If the directors do not proceed to call a meeting within 21 days of filing of the requisition by the members, the requisitionists may call a meeting and that meeting should be held and conducted
 - a) Within 21 days from the date of the deposit of the requisition
 - b) Within 30 days from the date of the deposit of the requisition
 - c) Within 90 days from the date of the deposit of the requisition
 - d) Within 120 days from the date of the deposit of the requisition
9. When there are material defects or omission in the notice or the proceedings of the meeting is alleged to be irregular then, following condition(s) must be fulfilled in order to declare such meeting invalid
 - a) Members having 10% or more rights can apply
 - b) Members can apply to the court
 - c) Application must be made within 30 days of the meeting
 - d) All of the above
10. If the required quorum is not present at the meeting within half an hour from the time appointed for the meeting it shall be
 - a) Dissolved in any case
 - b) Adjourned in any case
 - c) Held in any case
 - d) Dissolved, if called upon the requisition of members
11. In any company voting is done by show of hands unless a poll is ordered by chairman of the meeting. On show of hands every member shall exercise
 - a) 1 vote per 10 shares
 - b) 10 votes per share
 - c) 1 vote irrespective of number of shares
 - d) 10 votes irrespective of number of shares
12. A member cannot appoint more than one proxy to attend any one meeting. If more than one proxy is appointed for any one meeting
 - a) All proxies possess same voting rights
 - b) All proxies possess same right to speak
 - c) All appointments of proxies shall be valid
 - d) All appointment of proxies shall be invalid

13. Members of the company can demand a certified copy of the minutes of general meeting, any time after 7 days from meeting, which the company shall provide to them
- Within 7 working days of receipt of his request
 - Within 14 working days of receipt of his request
 - Within 30 working days of receipt of his request
 - Within 60 working days of receipt of his request
14. The records of all proceedings of the meetings must be kept at the registered office of the company in physical and electronic form and it shall be preserved for
- At least 10 years in physical form and permanently in electronic form
 - At least 20 years in physical form and permanently in electronic form
 - Permanently in physical form and in electronic form for 10 years
 - Permanently in physical form and in electronic form for 20 years
15. Members of a private company or a public unlisted company, may pass a resolution by circulation signed by all members except
- For special businesses of AGM
 - For special businesses of Statutory meeting
 - For ordinary businesses of AGM
 - For ordinary businesses of Statutory meeting
16. Abid is the chairman of the board of directors of Innovative Technologies Limited (ITL) and is present in ITL's 25th Annual General Meeting (AGM). However, due to difference of opinion with ITL's chief executive on few agenda items, Abid is unwilling to chair the AGM. In such a situation:
- the chief executive shall have to preside the AGM as chairman
 - the members present in the AGM shall choose one of the members to be the chairman
 - the member holding highest number of shares and present shall preside the AGM as chairman
 - one of the directors present may be elected to be the chairman of the said AGM
17. Minutes of all general meetings of a company should be kept at the registered office of the company in physical and electronic form for a period of:
- 10 years
 - 10 years and permanently respectively
 - 20 years
 - 20 years and permanently respectively
18. With reference to the resolution passed by members through circulation, which of the following statements is true?
- The resolution may be revoked if members holding 10% voting power withdraw their agreement signified in writing
 - The resolution may be revoked when the board of directors vote against the resolution
 - The resolution may be revoked where decision taken by members is not effected within 120 days of passing the same
 - The resolution cannot be revoked once signified by members in writing

19. Which of the following businesses proposed to be presented in the upcoming annual general meeting of Neelam Limited shall be deemed as special business?
- Obtaining financial facility of Rs. 100 million
 - Declaration of 300% dividend out of the current years' profit
 - Election of directors
 - Approval of consolidated financial statements
20. The annual general meeting of Blue Amber Limited, a listed company having share capital of Rs. 500,000,000 of Rs. 10 each was scheduled to be held on 6 March 2021 at 8:30 AM for which the notice of the meeting was sent on 12 February 2021. On the day of meeting at 9:00 AM, attendance of shareholders was as follows:

Present in person	10 persons holding 10 million shares
Present through proxies	5 persons holding 2 million shares

Which of the following actions should be taken by the chairman?

- Commence the meeting as per the agenda circulated
 - Adjourn the meeting to be held on 13 March 2021
 - Dissolve the meeting and circulate fresh notice of meeting
 - Either (a) or (b)
21. Notice of extraordinary general meeting of the company, called by the directors on the requisition of members, is required to be sent to:
- members, directors and the Commission
 - directors, auditors and the Commission
 - members, directors and auditors
 - members, auditors and the Commission
22. The annual general meeting (AGM) of Trout Limited (TL) was held on 7 September 2021. Ali Kamal, one of TL's shareholders, wants a certified copy of AGM minutes for his record. On submission of his request to TL, he shall be entitled to receive a certified copy of the minutes:
- within 7 days if he makes the request on 12 September 2021
 - within 7 days if he makes the request on 21 September 2021
 - within 15 days if he makes the request on 11 September 2021
 - within 15 days if he makes the request on 15 September 2021
23. Cod Limited (CL) is a public unlisted company having its registered office and branch office in Karachi and Lahore respectively. CL is in the process of finalising the location of its upcoming annual general meeting (AGM). In this regard, which of the following statements is true?
- CL's AGM has to be held in Karachi
 - CL's AGM can be held anywhere in the province of Sindh only
 - CL's AGM can be held anywhere in the province of Sindh or Punjab only
 - CL's AGM can be held anywhere in Pakistan

24. Ahmed holds 50,000 shares in Jellyfish Limited (JL). JL operates six days in a week from Monday to Saturday. Annual general meeting of JL is scheduled to be held on Monday i.e. 20 September 2021 at 11:00 a.m. in which Ahmed wants to appoint Naeem as proxy. In this regard, he must have the proxy form delivered to JL by:
- Friday, 17 September 2021 at 11:00 a.m.
 - Saturday, 18 September 2021 at 11:00 a.m.
 - Sunday, 19 September 2021 at 11:00 a.m.
 - Monday, 20 September 2021 at 11:00 a.m.
25. Sole Fish Limited (SFL) was incorporated on 12 August 2021 as public unlisted company. SFL's year-end is 30 September. The management shall have to present SFL's financial statements before the company in annual general meeting, without taking extension, latest by:
- 12 August 2022
 - 12 December 2022
 - 30 December 2022
 - 28 January 2023
26. A special resolution which is passed by members in the annual general meeting and is required to be filed with the registrar, has to be authenticated by:
- a director and chief financial officer
 - a director or company secretary
 - chief executive officer and a director
 - chairman or chief financial officer
27. The board of Grapes Limited (GL) has approved a loan for one of its associated undertakings. In order to seek approval for the said loan, a notice of extraordinary general meeting is to be sent to all the members.
- While reviewing the register of members, it was noted that 10,000 shares are jointly held by Zaid, Rohan and Khalid. In this regard, which of the following statements is correct?
- The notice shall be given by GL to all the three joint shareholders
 - The notice shall be given by GL to any two of the joint shareholders
 - The notice may be given by GL to the joint holder named first in the register in this respect
 - The notice may be given by GL to any one of the joint shareholders
28. Rhenium Limited, which has a paid-up ordinary share capital of Rs. 15 million having a par value of Rs. 50 per share, convened an extraordinary general meeting on 4 September 2023. During this meeting, approval was obtained from the shareholders to make an investment in one of the associated companies. However, shareholders Yawer and Yasir contend that the proceedings were not conducted in a fair manner. Consequently, they are considering applying to have the special resolution declared unenforceable.
- To initiate the process of declaring the special resolution unenforceable, the concerned shareholders must submit their application to:
- the Commission by 19 September 2023, provided they hold a minimum of 60,000 shares
 - the Commission by 3 October 2023, provided they hold a minimum of 30,000 shares
 - the Court by 19 September 2023, provided they hold a minimum of 60,000 shares
 - the Court by 3 October 2023, provided they hold a minimum of 30,000 shares

29. The Supply Chain Officer (SCO) of Titanium Limited held a telephonic discussion with the Chief Operating Officer of Aluminium Limited (AL) concerning a substantial dispute pertaining to the timely delivery and quality of materials supplied by AL. The SCO conveyed dissatisfaction with the response received during the conversation and plans to document the matter formally by sending a letter to AL. In accordance with the provisions of the Companies Act, 2017, what is the prescribed method for serving the letter to AL?
- By sending the letter via email to AL's CEO's official email address, ensuring a read receipt is received
 - By delivering the letter in person to AL during business hours and obtaining a signed acknowledgment from an authorized officer
 - By sending the letter to AL through a reputable and trackable post or courier service, obtaining a signed acknowledgement upon delivery
 - By sending the letter to AL at its registered office against an acknowledgement, by post, courier, electronic means, or any other manner specified by the relevant authorities
30. Farhan, a member of Lutetium Ltd, wants to inspect the minutes of a recent extraordinary general meeting but is denied access by the company due to an ongoing internal audit. According to the Companies Act, 2017, what action can Farhan take to inspect the minutes?
- File a legal suit against the company for denying access to the minutes
 - Request the company to complete the internal audit within a reasonable time frame to facilitate the inspection
 - Seek permission from the board of directors to access the minutes during the internal audit
 - File a formal complaint with the registrar for the refusal of inspection
31. Salman Zuberi, a member of Quail (Guarantee) Limited (QGL), has requested inspection of the minutes of a recent extraordinary general meeting (EGM). However, QGL has refused him access, claiming that he is not entitled to inspect the minutes.
- Under the provision of the Companies Act, 2017, which of the following actions that Salman can take against the refusal by QGL?
- File a petition with the Court to impose a penalty on QGL and enforce his right to inspect the EGM minutes
 - File an application with the Commission to impose a penalty on QGL and enforce his right to inspect the EGM minutes
 - File an application with the registrar, to impose penalty on QGL, who may direct immediate inspection of EGM minutes
 - File an application with the board of directors to allow immediate access to EGM minutes
32. Waqar, a member of Hen (Pvt) Limited (HPL), intends to submit an application for a certified true copy of the minutes of the annual general meeting (AGM) of HPL, which was originally held on 27 February 2024. However, due to an adjournment, the AGM was finally concluded on 6 March 2024.
- What is the maximum date by which HPL must provide him with a certified copy of the minutes assuming he submits the application immediately upon becoming eligible?
- 5 March 2024
 - 11 March 2024
 - 13 March 2024
 - 19 March 2024

33. Northern Cardinal Limited, a public unlisted company, circulated a special resolution to all its forty-five members for approval of a loan to its associated company. The resolution will be deemed to have been duly passed if and only if it is signed by:
- at least seventy five percent of members for the time being entitled to receive notice of a meeting
 - at least seventy five percent of members who received the notice of the meeting
 - all the members for the time being entitled to receive notice of a meeting
 - all the members who received the notice of the meeting
34. Greater Racket Limited (GRL), incorporated on 2 November 2023, with an authorized share capital of Rs. 80 million, is entitled to commence business from 1 February 2024. Its financial year-end is 30 June. GRL commenced its business from 12 February 2024.
- GRL's board of directors is considering convening the statutory meeting. The meeting should be held not later than:
- 29 July 2024
 - 2 August 2024
 - 9 August 2024
 - 1 November 2024
35. Under the provisions of the Companies Act, 2017, how does an extraordinary general meeting differ from a statutory meeting?
- An extraordinary general meeting serves as a substitute of annual general meeting, but there is no substitute for a statutory meeting
 - An extraordinary general meeting can be called by the members of the company, whereas a statutory meeting may be called by the directors of the company
 - An extraordinary general meeting may be called at any time during the year, whereas a statutory meeting is held once in a life time of a company, where applicable
 - An extraordinary general meeting deals with matters outlined in the Companies Act, whereas a statutory meeting covers matters detailed in the articles of association
36. Ahmed recently acquired 2% of the shares in Goliath Grouper Limited (GGL), a listed company. He noticed that GGL's articles states that in case of poll, members can only vote in writing or by a show of hands in the general meeting. However, Ahmed prefers to use other mode to cast his vote as permitted by the Companies Act, 2017. Consequently, he wrote a letter to the CEO requesting permission in this regard. Which of the following statements is correct?
- GGL's articles is the regulation of the company; it takes precedence, and hence Ahmed's request shall not be entertained by GGL
 - Ahmed's request will be entertained only after GGL's articles has been altered; therefore, GGL would reject his application
 - The Act overrides the articles; hence, Ahmed's request shall be entertained by GGL
 - Only a court can resolve the discrepancy between the Act and the articles; hence, Ahmed must file a petition with the court

ANSWERS

1	c)	An AGM is a meeting of the members of the company and they have a right to vote at and attend such meetings.
2	c)	When a private company converts itself into a public company within one year of its incorporation it shall also be required to hold such meeting.
3	a)	Statutory report shall be send to the members at least 21 days before the date of statutory meeting.
4	b)	The first AGM shall be held within 16 months from the date of its incorporation thereafter at least once in a calendar year.
5	a)	The timing of AGM may be extended upto a maximum of 30 days.
6	b)	The notice of an AGM shall be published in an Urdu and an English daily newspaper having nationwide circulation.
7	d)	All the mentioned conditions must be fulfilled in order to request the company for video link facility.
8	c)	The meeting should be held and conducted within 90 days of filing of the requisition.
9	d)	In order to declare meeting invalid, members having 10% or more voting rights can apply to court within 30 days of the meeting.
10	d)	The meeting shall be dissolved if it was called on the request of the members.
11	c)	On show of hands every member shall exercise one vote per member.
12	d)	If more than one proxy is appointed for any one meeting, all appointment of proxies shall be invalid.
13	a)	The company shall provide the members certified copied within 7 days of receipt of his request
14	b)	The records must be kept for at least 20 years in physical form and permanently in electronic form.
15	c)	Passing of resolution by the members through circulation is allowed except for the ordinary businesses of AGM.
16	d)	one of the directors present may be elected to be the chairman of the said AGM
17	d)	20 years and permanently respectively
18	d)	The resolution cannot be revoked once signified by members in writing
19	a)	Obtaining financial facility of Rs. 100 million
20	b)	Adjourn the meeting to be held on 13 March 2021
21	c)	members, directors and auditors
22	b)	within 7 days if he makes the request on 21 September 2021
23	d)	CL's AGM can be held anywhere in Pakistan
24	a)	Friday, 17 September 2021 at 11:00 a.m.
25	b)	12 December 2022
26	b)	a director or company secretary
27	c)	The notice may be given by GL to the joint holder named first in the register in this respect
28	d)	the Court by 3 October 2023, provided they hold a minimum of 30,000 shares
29	d)	By sending the letter to AL at its registered office against an acknowledgement, by post, courier, electronic means, or any other manner specified by the relevant authorities

30	d)	File a formal complaint with the registrar for the refusal of inspection
31	c)	File an application with the registrar, to impose penalty on QGL, who may direct immediate inspection of EGM minutes
32	d)	19 March 2024
33	c)	all the members for the time being entitled to receive notice of a meeting
34	a)	29 July 2024
35	c)	An extraordinary general meeting may be called at any time during the year, whereas a statutory meeting is held once in a life time of a company, where applicable
36	c)	The Act overrides the articles; hence, Ahmed's request shall be entertained by GGL

STICKY NOTES

Types of meetings

1. Meetings of directors (board meetings & committee meetings)
2. Meetings of members (general meetings & class meetings)

Statutory meeting

1. Requirement (for public company having share capital except when converted from private company one year after incorporation; not required if AGM already held)
2. Time limit (earlier of 180 days of commencement of business and 9 months of incorporation)
3. Notice (21 days before meeting with copy of statutory report)
4. Contents of statutory report
5. Report of the auditors (to accompany statutory report)
6. Certification / Authentication (CEO and one director, and in case of listed company CFO too).
7. Filing with registrar (forthwith the dispatch to members)
8. List of members at meeting (remain open and accessible during meeting)
9. Discussion at meeting (any matter but no resolution without the notice)
10. Adjournment (allowed; same power as original meeting)

Annual general meeting (AGM)

1. Requirement (other than SMC) and time limit (first: 16 months from incorporation; subsequent: once in calendar year and within 120 days of close of financial year)
2. Extension in time (30 days; by Commission (listed company); by registrar (other company))
3. Place of meeting (town of registered office or nearest city in case of listed company; members of listed company may demand facility of video-link)
4. Notice: All companies (21 days)
5. Notice: Listed company (send to Commission and publish in English & Urdu newspapers)
6. Calling a meeting (on order of directors)

Extra-ordinary general meeting (EGM)

1. Calling EGM by the board (to obtain approval of members etc)
2. Calling EGM by the board on requisition of members (10% voting power)
3. Calling EGM by requisitionists themselves (within 90 days if not called by directors within 21 days of the requisition)
4. Notice (21 days; if all members of unlisted company so agree, a shorter notice is allowed)

Power of SECP to call meetings

1. Power to give directions (in case of default in AGM or Statutory Meeting; or when directors do not proceed to call EGM on requisition)
2. One member may be quorum (the Commission may give such direction)
3. Cost of conducting the meeting (as decided by the Commission)
4. Penalty (Level 3 on standard scale)

Service of documents and notices

1. against an acknowledgement; or
2. by post or courier service; or
3. through electronic means; or
4. in any other manner as may be specified.

Service of notice on a member – Additional points

1. Address (registered address or other address supplied)
2. When notice by post to be deemed effective (by properly addressing, prepaying and posting)
3. Giving notice to one joint-holder who is named first is sufficient..
4. Notice to legal representative (in case of death or insolvency)

Provisions as to meetings and votes

1. Notice (specifying the place and day and hour of the meeting)
2. Facility of video-link (listed company)
3. Participation (personally, through video-link or by proxy)
4. Ordinary business (4 items) & Special business (all other)
5. Statement of material facts for special business (to be annexed with notice)
6. Presiding the meeting (order: chairman of board, any other director or any other member)
7. Number of votes (proportionate to the paid up value of shares)
8. Right to vote (articles cannot debar a member from casting a vote)
9. Single member company (record the decision in minute book and sign it)

Voting by show of hands

1. Voting by show of hands (unless a poll is demanded)
2. Declaration by chairman (declaration by chairman and recording in the minutes is conclusive evidence)

Voting by poll

1. Demand for poll (chairman or 10% voting power)
2. Poll through secret ballot (chairman or 10% voting power)
3. Time of taking poll (forthwith for election of chairman or on question of adjournment; 14 days in other cases)
4. Conduct and result of poll (chairman can regulate the manner)

Proxies

1. Right to appoint proxy (not allowed in company not having share capital unless articles provide otherwise)
2. More than one proxy for one meeting (invalid)
3. Who may be appointed as proxy? (Member unless articles allow otherwise)
4. Notice accompanied by a proxy form
5. Proxy instrument (be in writing and be signed by appointer/attorney)
6. Time limit (48 hours before meeting)
7. Rights of proxy (demand a poll, vote or abstain from voting)
8. Inspection of proxy forms (every voting member is entitled)

Representation of body corporate at meetings

1. Body corporate as a member (by resolution of board)
2. Body corporate as a creditor (by resolution of board)

Representation of government at meetings

1. Power to appoint (Federal Government through minister-in-charge and provincial government)
2. Rights of appointed individual (same as member including right to appoint proxy)

Quorum of general meeting

1. Minimum quorum requirement (listed company; other company having share capital; other company not having share capital).
2. Larger Quorum (may be fixed by articles)
3. Absence of quorum (half an hour; dissolved or adjourn)
4. Quorum at adjourned meeting (half an hour; two or more persons are quorum unless articles provide otherwise)

Court declaring a general meeting invalid

1. Petition criteria (10% voting power)
2. Time limit (30 days)

Resolutions

1. Resolutions to be stated in notice (draft special resolutions)
2. Resolution by members (5% voting power)
3. Resolution passed at adjourned meeting deem to pass on actual date (not earlier date)
4. Passing of resolution by the members through circulation is allowed for private company and public unlisted company (having not more than 50 members)

Filing of resolution

1. Filing with registrar within 15 days (special resolution)
2. Annexed to articles
3. Sent to member on request (on payment of fee)

Records of resolutions and meetings

1. Records to be kept (copies of resolutions; minutes of meetings)
2. Authentication (chairman of that meeting or next meeting)
3. Minutes to be evidence (until the contrary is proved)
4. Place and time of record (registered office; 20 years in physical form; permanently in electronic form)

Inspection of records of resolutions and meetings

1. Open to inspection (to members without charge)
2. Certified copy to member (member may request 7 days after meeting and on payment of fee fixed by company within 7 days)

AT A GLANCE

SPOTLIGHT

STICKY NOTES

DISTRIBUTION OF PROFITS

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Declaration of Dividend
- 2 Payment of Dividend
- 3 Objective Based Q&A

STICKY NOTES

AT A GLANCE

Dividends are payments made by a company to its members out of distributable profits. Every company can utilize its profits to pay dividends to its members with certain exceptions e.g. association not for profits.

Amount of dividend is proposed by directors and approved in general meeting by the company. However the amount of declared dividend cannot exceed the amount proposed by directors.

Dividend may be in form of cash or in kind. Dividend in kind shall be only in the form of shares of listed companies held by the distributing company.

Dividend shall be paid to the registered shareholders or their order within the specified period. Listed companies shall pay the dividend directly to the bank account of shareholders through electronic transfer. Other companies give option to pay through direct bank transfer or issue dividend warrants or cross cheque.

Book closure refers to a period in which no share transfer applications are processed by the company for identifying the shareholders eligible for dividends, notice etc.

Payment of dividend is the responsibility of chief executive of the company and the directors cannot defer or withhold the payment. There are some exceptions to this rule where withholding is lawful.

Final dividend is deemed to be declared at the date of AGM and interim dividend is deemed to be declared on the date of book closure or the date of approval by director in case of no book closure.

1 DECLARATION OF DIVIDEND

1.1 Implied power to declare dividend

Dividends are payments made to members by a company, out of its distributable profits.

Unless there are specific restrictions in the company's memorandum and articles (e.g. association not for profit prohibits the payment of dividend to its members), every company has an implied power to use its profits to pay dividends to its shareholders.

1.2 Certain restrictions on declaration of dividend [Section 240]

Not to exceed amount recommended by directors

The company in general meeting may declare dividends; but no dividend shall exceed the amount recommended by the board.

Restriction on distribution of certain gains

No dividend shall be declared or paid by a company for any financial year out of the profits of the company made from the sale or disposal of any immovable property or assets of a capital nature comprised in the undertaking or any of the undertaking of the company, unless the business of the company consists, whether wholly or partly, of selling and purchasing any such property or assets, except after such profits are set off or adjusted against losses arising from the sale of any such immovable property or assets of a capital nature.

► Example 01:

ABC Limited has accumulated profits (retained earnings) of Rs. 520 million including net gain on disposal of immovable properties amounting to Rs. 150 million. This net gain of Rs. 150 million relates to two disposals, one resulting in a gain of Rs. 200 million and the other resulting in a loss of Rs. 50 million. The company can use any of Rs. 520 million to declare and pay dividends.

The investment properties may be carried at fair value with unrealized gain recognised in profit or loss as per IAS 40 Investment property, but Companies Act requires that no dividend shall be declared or paid out of unrealized gain (i.e. gain related to unsold property) on investment property credited to profit or loss account.

► Example 02:

Kashif Limited (KL) bought a property for capital appreciation (i.e. an investment property) for Rs. 50 million. At year end the property was revalued to Rs. 58 million using fair value model under IAS 40 and a gain of Rs. 8 million was recognised in profit or loss account. KL cannot pay dividend out of this gain of Rs. 8 million.

► Practice Question 01:

Under the provision of the Companies Act, 2017 briefly describe the restrictions, if any, with regard to the declaration of final dividend by a company listed on stock exchange.

► Solution:

No dividend shall be declared by a company otherwise than out of profits of the company.

No dividend shall be declared by a company for any financial year out of the profits of the company made from the sale or disposal of any immovable property or assets of a capital nature or any of the undertaking of the company unless the business of the company consists, whether wholly or partly, of selling and purchasing any such property or assets, and except after such profits are set off or adjusted against losses arising from the sale of any immovable property or assets of a capital nature.

No dividend shall be declared out of unrealized gain on investment property credited to profit or loss account.

► *Practice Question 02:*

Explain whether or not the following statement is in accordance with the provisions of the Companies Act, 2017. Support your answer with reasons.

“There is no restriction on the declaration of dividend and the chief executive may declare dividend in the general meeting of the company out of any kind of profit.”

► *Solution:*

The statement is incorrect and contains the following errors.

The chief executive of the company does not declare the dividend. He informs the shareholders about the percentage/amount of the dividend as recommended by the directors. The dividend is approved by the members but the dividend so approved shall not exceed the amount as recommended by the directors.

No dividend shall be declared or paid by a company out of the profits of the company made from the sale or disposal of any immovable property or assets of a capital nature comprised in the undertaking(s), unless the business of the company consists, whether wholly or partly, of selling and purchasing any such property or assets, except after such profits are set off or adjusted against losses arising from the sale of any such immovable property or assets of a capital nature.

No dividend shall be declared out of unrealized gain on investment property credited to profit and loss account.

► *Practice Question 03:*

Under the provisions of the Companies Act, 2017 state the restrictions imposed on a company with regard to declaration of dividend.

► *Solution:*

The restrictions imposed under the provisions of the Companies Act, 2017 on a company with regard to declaration of dividend are as follows:

- Dividend shall not be declared by a company otherwise than out of its profits.
- Dividend declared in general meeting shall not exceed the amount recommended by the board.
- Dividend shall not be declared by a company for any financial year, out of the profits of the company made from the sale or disposal of any immovable property or assets of a capital nature comprised in the undertaking or any of the undertaking of the company, unless the business of the company consists, whether wholly or partly, of selling and purchasing any such property or assets, except after such profits are set off or adjusted against losses arising from the sale of any such immovable property or assets of a capital nature.
- Dividend shall not be declared out of unrealized gain on investment property credited to the profit or loss account.

2 PAYMENT OF DIVIDEND

2.1 Dividend to be paid only out of profits [Section 241]

Form of payment

Any dividend may be paid by a company either in cash or in kind only out of its profits.

Payment in kind

The payment of dividend in kind shall only be in the form of shares of listed company held by the distributing company.

2.2 Provisions relating to payment

To be paid only to registered shareholders [Section 242]

Any dividend declared by a company must be paid to its registered shareholders or to their order within such period and in such manner as may be specified and in this regard the Commission has issued the Companies (Distribution of Dividends) Regulations, 2017.

Period of payment [Regulation 3 & 2(viii)]

Except when it is allowed under the law to withhold the payment of dividend, the chief executive officer of every company is responsible to make the payment of cash dividend within a period of 10 working days (any day on which banks are open for business) from the date of:

- a) its declaration in case of final dividend;
- b) its declaration in case of interim dividend without announcement of book closure; or
- c) start of book closure in case of interim dividend when book closure is announced.

Further, every listed company shall ensure that book closure must be started for determination of interim dividend entitlement within 15 days of the date on which such dividend is approved by the board

Manner of payment – listed company [Section 242]

In case of a listed company, any dividend payable in cash shall only be paid through electronic mode directly into the bank account designated by the entitled shareholders.

Manner of payment – other than listed company [Regulation 4]

A company, other than a listed company, shall obtain cash dividend distribution mandate at the time of becoming a shareholders of the company comprising of following three modes from their registered shareholders, namely:-

- i. direct transfer into the designated bank account; or
- ii. dividend warrant (a document that shows that a shareholder is entitled to a dividend, it functions like a cross cheque); or
- iii. cross cheque:

The shareholder can change the mandate at any time during the year through a written request containing all requisite details to the company.

Manner of payment - General [Regulation 4 & 2(vi)]

A company may appoint a paying agent for distribution of dividend payable in cash.

“paying agent” means a bank or any entity including a share registrar and a central depository appointed by a company and having relevant approval of SBP for making payment of cash dividend directly into the designated bank account of entitled shareholder.

The banks may not be required to appoint a paying agent and may itself assume functions and responsibility of paying agent themselves.

2.3 Book closure [Section 125]

Purpose

The closure of register of members (or debenture-holders) means a time period during which a company will not handle requests to transfer shares (or debentures). This is done to identify the cut-off date for determining which members (or debenture-holders) on record will receive a notice of a meeting or dividend (or interest) payment for that period.

► Example 03:

Listed companies usually comprise of large number of members possessing shares. These shares are readily saleable in the stock exchange and the company cannot be sure of who are its members at any given date unless transfers of shares are suspended for some days by giving a prior notice to the members. This procedure is commonly known as 'Book Closure'. All of the persons who possess the shares of the company as of the start of the book closure are considered as members of the company and served notices of meetings and paid dividends etc. accordingly.

Power to close register [Section 125]

A company may, on giving not less than 7 days' previous notice close its register of members, or the part of it relating to members holding shares of any class, for any period or periods not exceeding in the whole 30 days in each year.

The Commission may, on the application of the company extend the 30 days' period for a further period of 15 days.

The same provision shall also apply for the purpose of closure of register of debenture-holders of a company.

Additional requirement for listed company [Section 125]

In the case of listed company, notice for closure of the register, must be given by advertisement in English and Urdu languages at least in one issue each of a daily newspaper of respective language having wide circulation.

Penalty [Section 125]

Any contravention or default in complying with above requirements shall be an offence liable to a penalty of level 2 on the standard scale.

2.4 Directors not to withhold declared dividend [Section 243]

Requirement

When a dividend has been declared, it shall not be lawful for the directors of the company to withhold or defer its payment and the chief executive of the company shall be responsible to make the payment within specified period from the date of declaration.

Declaration of final dividend

The final dividend is proposed by directors and approved by members in AGM. Dividend shall be deemed to have been declared on the date of the general meeting in case of a dividend declared/approved in the general meeting.

Declaration of interim dividend

The directors may propose and pay interim dividend before end of year. Interim dividend shall be deemed to have been declared on:

- the date of commencement of closing of share transfer for purposes of determination of entitlement of dividend;
- the date on which dividend is approved by the board (in case of no book closure).

Consequences of delay in payment

Where a dividend has been declared by a company but is not paid within the period specified, the chief executive of the company shall be punishable with imprisonment for a term which may extend to two years and with fine which may extend to five million rupees.

Chief executive convicted shall from the day of the conviction cease to hold the office of chief executive of the company and shall not, for a period of five years from that day, be eligible to be the chief executive or a director of that company or any other company.

No offence deemed to be committed

No offence shall be deemed to have been committed in the following cases if the Commission has, on application by company within 45 days from the date of declaration of the dividend, and after providing an opportunity to the shareholder/other person, permitted the company to withhold or defer payment:

- where the dividend could not be paid by reason of the operation of any law;
- where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with;
- where there is a dispute regarding the right to receive the dividend;
- where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder; or
- where, for any other reason, the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the company.

Lawful withholding

A company may withhold the payment of dividend of a member where the member has not provided the complete information or documents as specified by the Commission (Approval of SECP is not required in this case).

► Practice Question 04:

On 18 September 2025, the directors of Ashanti Limited (AL), a listed company, declared an interim dividend of Rs. 5 per share and announced book closure from 28 September 2025 to 3 October 2025, both days inclusive.

Under the provisions of the Companies Act, 2017 briefly describe when AL should pay the above dividend. Also state any four circumstances in which AL may not be considered to have committed an offence for non-payment of dividend.

► Solution:

An interim dividend must be paid within specified period of its declaration and in the given scenario, the dividend shall be deemed to have been declared on 28 September 2025 i.e. the date of commencement of closing of share transfer for determination of entitlement of dividend.

Hence, AL should pay dividend within 10 working days from 28 September 2025.

The circumstances in which non-payment of dividend by AL shall not constitute an offence are as under:

- i. where the dividend could not be paid by reason of the operation of any law;
- ii. where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with;
- iii. where there is a dispute regarding the right to receive the dividend;
- iv. where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder; or
- v. where, for any other reason, the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the company;

AL may also withhold the payment of dividend of a member where the member has not provided the complete information or documents as specified by the Commission.

► *Practice Question 05:*

The Board of Directors of Giant Industries Limited (GIL), a listed company, in their meeting held on 25 February 2026 had approved 30% interim cash dividend for the shareholders.

Under the provisions of the Companies Act, 2017:

- a) state when an interim dividend is deemed to have been declared and the responsibilities of GIL regarding its payment.
- b) identify the circumstances under which the directors may withhold/adjust the payment of dividend.

► *Solution:***Part (a) Declaration of interim dividend:**

Interim dividend is deemed to have been declared:

- on the date of commencement of closing of share transfer for purposes of determination of entitlement of dividend; and
- where register of members is not closed for such purpose, on the date on which such dividend is approved by the board.

Responsibilities of GIL for the payment of dividend:

The dividend shall only be paid out of the profits. The chief executive of GIL is responsible to make the payment of dividend to registered shareholders or to their order within 10 working days from the date of declaration. Moreover, since dividend is payable in cash, it shall only be paid through electronic mode directly into the bank account designated by the entitled shareholders. In case of book closure, GIL shall ensure that book closure must be started for determination of interim dividend entitlement within 15 days of the date on which such dividend is approved by the board.

Part (b) Circumstances under which GIL may withhold the payment of dividend to certain shareholders:

- where the dividend could not be paid by reason of the operation of any law;
- where a shareholder has given directions to GIL regarding the payment of the dividend and those directions cannot be complied with;
- where there is a dispute regarding the right to receive the dividend;
- where the dividend has been lawfully adjusted by GIL against any sum due to it from the shareholder; or
- where, for any other reason, the failure to pay the dividend or to post the warrant within the stipulated period was not due to any default on the part of GIL.
- where the member has not provided the complete information or documents, as specified by the Commission.

► *Practice Question 06:*

Explain the exception to the following provisions as specified under the Companies Act, 2017.

Where a dividend is declared by a company but is not paid within the period specified in the Companies Act, 2017, the chief executive of the company shall be punishable with imprisonment for a term which may extend to two years and with fine which may extend to five million rupees.

► *Solution:*

The Chief Executive will not be punishable in the following cases:

- where the dividend could not be paid by reason of the operation of any law.
- where a shareholder has given directions to the company regarding the payment of the dividend and those directions could not be complied with.

- where there is a dispute regarding the right to receive the dividend.
- where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder.
- where for any other reason the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the company.

And the Commission has allowed the company to withhold or defer the payment of dividend against an application made by the company within 45 days from the date of declaration of dividend.

Company may also withhold the payment of dividend of a member where the member has not provided the complete information or documents as specified by the Commission.

► **Practice Question 07:**

On 31 July 2025, the Directors of Clove Engineering Limited (CEL), a listed company, declared an interim dividend of Rs. 5 per share. However, before making payment of the dividend, the company suffered huge losses due to a massive fire in the factory. The CFO has informed the board of directors about CEL's inability to pay the dividend in time.

Under the provisions of the Companies Act, 2017 briefly describe:

- When an interim dividend is deemed to have been declared by CEL.
- The consequences of non-payment of dividend within the stipulated time.

► **Solution:**

(a) Declaration of interim dividend:

Interim dividend is deemed to have been declared:

- on the date of commencement of closing of share transfer for purposes of determination of entitlement of dividend; and
- where register of members is not closed for such purpose, on the date on which such dividend is approved by the directors.

(b) Consequences of non-payment of dividend:

Where a dividend has been declared by a company but is not paid within the stipulated time (i.e. within 10 working days from the date of declaration i.e. 31 July 2025 in this case), the chief executive of the company shall be punishable with imprisonment for a term which may extend to two years and with fine which may extend to five million rupees.

A chief executive convicted as above shall from the day of the conviction cease to hold the office of chief executive of the company and shall not, for a period of 5 years from that day, be eligible to be the chief executive or a director of that company or any other company.

► **Practice Question 08:**

The board of directors of Dinar Ltd, a listed company, had recommended a final dividend @ 100% for the year ended June 30, 20X3. Just a week after the notice for AGM had been dispatched the company suffered huge losses due to certain unanticipated events and incurred heavy liabilities. The company is now considering the following options:

- Reducing the dividend to 25%.
- Deferring the payment of 75% of the dividend, for six months.

Explain whether the company can exercise the above options, under the Companies Act, 2017.

► *Solution:***Option (i)**

Once the dividend is recommended by the Board of Directors, it may be reduced by approval of members, in the AGM.

Option (ii)

When a dividend has been declared, it shall not be lawful for the directors to defer its payment beyond specified period. Hence the company cannot defer it for six months.

► *Practice Question 09:*

In the light of the Companies Act, 2017 briefly explain the purpose of closure of register of members of a company. Also state the matters to be considered while issuing a notice to the members intimating about closure of register of members.

► *Solution:***Purpose of closure of register of members:**

The purpose of closure of register of members of a company is to identify the cut-off date for determining which member will receive dividend payment or other entitlement for a particular period.

Matters to be considered while issuing a notice about closure:

Under the provisions of the Companies Act, 2017 the matters to be considered while issuing a notice to the members intimating about closure of register of members are as follows:

i. Period:

Notice must be given not less than 7 days prior to the close of register of members.

The closure period of register of members of a company during the whole year at different intervals shall not exceed 30 days in total.

In case the register of members of the company has been closed for 30 days in a year, then make an application to the Commission allowing extension for a further period of 15 days.

ii. Advertisement:

In the case of a listed company, the notice for closure of the register of members must be advertised in English and Urdu languages at least in one issue each of a daily newspaper of respective language having wide circulation.

iii. Service of notice:

Notice may be served on a member at his registered address or, if he has no registered address in Pakistan, at the address supplied by him to the company for the giving of notices to him against an acknowledgement or by post or courier service or through electronic means or in any other manner as may be specified.

If a notice is to be sent by post, it should be properly addressed, prepaid and posted containing the notice.

In case of joint-holders of a share, notice may also be given to the joint-holder named first in the register in respect of the share.

In case of death or insolvency of a member, a notice may also be given to the person entitled to a share in consequence of such death or insolvency of a member. It may be addressed to him by name or by the title or representatives of the deceased or assignees of the insolvent or by any like description, at the address supplied for the purpose by the person claiming to be so entitled.

► *Practice Question 10:*

Under the provisions of the Companies (Distribution of Dividends) Regulations, 2017 briefly explain 'Paying agent', 'Working day' and 'Manner of payment of cash dividend'.

► *Solution:*

‘Paying agent’ means a bank or any entity including a share registrar and a central depository appointed by a company and having relevant approval of SBP for making payment of cash dividend directly into the designated bank account of entitled shareholder.

‘Working day’ means any day on which banks are open for business.

Manner of payment of cash dividends:

A company may appoint its share registrar or a paying agent for distribution of dividend payable in cash.

The banks may not be required to appoint a paying agent and may itself assume functions and responsibility of paying agent.

A company, other than a listed company, shall obtain cash dividend distribution mandate at the time of becoming a shareholder of the company comprising of following three modes from their registered shareholders, namely:

- direct transfer into the designated bank account; or
- dividend warrant; or
- cross cheque

The shareholder can change the mandate at any time during the year through a written request containing all requisite details of the company.

► *Practice Question 11:*

Under the provisions of the Companies Act, 2017, list any four circumstances under which the chief executive of a company shall not be penalized if payment of dividend is not made within the prescribed time period.

► *Solution:*

In the following circumstances, the chief executive of a company shall not be penalized if payment of dividend is not made within the prescribed time period, where on application the Commission has permitted the company to withhold or defer the payment, namely:

- i. where the dividend could not be paid by reason of the operation of any law;
- ii. where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with;
- iii. where there is a dispute regarding the right to receive the dividend;
- iv. where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder; or
- v. where, for any other reason, the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the company.
- vi. Where the member has not provided the complete information or documents as specified by the Commission. However, in this case, the requirement of filing the application with the Commission is not applicable.

► *Practice Question 12:*

The recently appointed CEO of Uranium Limited (UL) has expressed interest in obtaining information on the following matters:

- i. When an interim cash dividend is deemed to have been declared and the responsibilities of UL regarding its payment.
- ii. Provisions pertaining to the documentation of resolutions and minutes of general meetings, along with any associated requirements.

Provide the above information to the CEO in accordance with the provisions of the Companies Act, 2017.

► **Solution:**

Following are the information as desired by UL's CEO in accordance with the provisions of the Companies Act, 2017 (the Act):

Matter (i) Declaration of interim cash dividend:

Interim cash dividend is deemed to have been declared under the following circumstances:

- on the date when the closing of share transfer commences for the purpose of determining the entitlement to dividend; and
- If the register of members is not closed for this purpose, then on the date when UL's board approves the dividend.

Responsibilities of UL regarding the payment of dividend:

The CEO of UL holds the responsibility of ensuring the payment of dividend to registered shareholders or their order. This must be done within such period and in such manner as may be specified.

Payment of interim cash dividend can be made by cheque, warrant, or any electronic payment method as per the shareholders' preferences. However, in case UL is a listed company, it is to be made exclusively through electronic mode, directly into the bank account designated by entitled shareholders.

Matter (ii) Documentation of resolutions and minutes

As per the requirements the Act:

- UL is obligated to maintain records of all resolutions (ordinary or special) passed by members through means other than general meetings i.e. passed by the members through circulation. This is applicable if UL is a public unlisted company (having not more than fifty members); and
- Minutes of all proceedings during general meetings must be recorded, including the names of participants. These should be properly documented in maintained books.

Associated requirements

Authenticated minutes of general meetings, either by the chairman of the meeting or the chairman of the next meeting, serves as evidence of the proceedings.

Minutes from each general meeting need to be created. These minutes are considered valid unless proven otherwise.

For a resolution by circulation to be considered valid, it needs to be circulated along with relevant documents, if any, to all the members of UL.

Resolution passed by circulation should be noted at subsequent meeting of UL's members and included in the minutes of such meeting.

Records are required to be kept at UL's registered office from the date of the resolution, meeting or decision, in both physical and electronic forms. They should be preserved for at least twenty years in physical form and permanently in electronic form.

The special resolution must be filed with the registrar within 15 days from its passing, duly authenticated by a director or secretary.

Any resolution approved during an adjourned meeting remains fully valid and effective as if it were approved on the date of its actual passing, without being considered approved on any earlier date.

The minutes will be available for member inspection, free of charge, during business hours. Reasonable restrictions, as determined by the company's articles or general meetings, may apply, ensuring at least two hours per day are allowed for inspection.

Any member may request after seven days from the meeting and, upon making such a request to the company, UL must provide a certified copy of the minutes of any general meeting, within seven days of the request.

► *Practice Question 13:*

State the requirements, applicable to public limited companies, for the 'Manner of payment of cash dividend' as outlined under the provisions of the Companies (Distribution of Dividends) Regulations, 2017.

► *Solution:*

Manner of payment of cash dividends:

A public limited company has the option to appoint its share registrar or a paying agent to manage the distribution of dividends payable in cash unless the company is itself a bank, in which case it can assume this function.

For public companies that are not listed, they must collect cash dividend distribution mandate from their registered shareholders upon the person becoming a member of the company. These mandates should specify one of the following three modes of payment:

- direct transfer into the designated bank account; or
- dividend warrant; or
- crossed cheque

► *Practice Question 14:*

Jaleel Khan, an assistant to the Company Secretary of Bluefish Limited (BL), a listed company, is responsible for making the arrangements for BL's extraordinary general meeting in the Company Secretary's absence.

Jaleel Khan is considering closing the register of members for eight days. During the year, the register of members was closed for ten days in January 2024, seven days in April 2024 and eight days in July 2024.

Advise Jaleel Khan on the appropriateness of his plan to close the register of members, in accordance with the provisions of the Companies Act, 2017.

► *Solution:*

The maximum allowable period for closure of register of members is 30 days.

Since BL already closed its register of members for 25 days [10 + 7 + 8], Jaleel Khan can choose one of these options:

- i. Reducing the closure period: If Jaleel Khan thinks it might be difficult to get an extension, he can shorten the closure period to five days [30 – 25].
- ii. Seek an extension: Jaleel Khan can apply to the Commission for an extension of minimum three-day to close the register of members, if a shorter closure period as above is not feasible.

3 OBJECTIVE BASED Q&A

1. The chief executive officer of every company is responsible to make the payment of final cash dividend within a period of _____ from the date of its declaration.
 - a) 30 calendar days
 - b) 30 working days
 - c) 10 calendar days
 - d) 10 working days
2. A company may, on giving not less than _____ previous notice close its register of members, for any period or periods not exceeding in the whole _____ in each year.
 - a) 7 days and 14 days
 - b) 7 days and 30 days
 - c) 15 days and 30 days
 - d) 15 days and 45 days
3. The amount of final dividend is proposed by directors and approved by
 - a) Members in AGM of the company
 - b) Auditors in AGM of the company
 - c) CEO in BOD meeting of the company
 - d) Members in EGM of the company
4. Interim dividend may be proposed and paid before the end of the year by the
 - a) Directors of the company
 - b) Chairman of the company
 - c) Chief Executive of the company
 - d) None of the above
5. The dividend is proposed by the directors. The members may
 - a) Reduce the dividend
 - b) Accept the dividend
 - c) Reject the dividend
 - d) All of the above
6. Dividend warrants are a type of a crossed cheque and can be credited in to bank account of
 - a) Creditor of the company
 - b) Auditor of the company
 - c) Member of the company
 - d) Director of the company
7. Who is responsible in case of default regarding payment of dividend to member?
 - a) Director Finance of the company
 - b) BOD of the company
 - c) CEO of the company
 - d) Chairman of the company

8. In any case, the members of the company cannot
- Reject the amount of dividend proposed by directors
 - Accept the amount of dividend proposed by directors
 - Decrease the amount of dividend proposed by directors
 - Increase the amount of dividend proposed by directors
9. In case of delay in payment of dividend, Chief executive of the company may be imprisoned for a term not exceeding two years and he may be fined for an amount
- Upto Rs. 50 million
 - Upto Rs. 5 million
 - Minimum Rs. 5 million
 - Minimum Rs. 50 million
10. In case of default regarding period of payment of dividend, Chief executive of the company will be fined and imprisoned for a term which may extend to two years. He shall further be ineligible to become a director or chief executive of
- Any company for the next five years
 - Any company for the next ten years
 - Any holding company for the next five years
 - Any subsidiary company for the next ten years
11. Any dividend payable in cash by a listed company may be paid:
- only through electronic mode directly into the bank account designated by the entitled shareholders
 - by cross cheques issued in the name of the entitled shareholders
 - by dividend warrant at the registered address of entitled shareholders
 - in any of the above manner at the discretion of the distributing company
12. Peach Limited's board in its meeting held on 9 September 2022 has approved an interim cash dividend of 20% i.e. Rs. 2 per share for the year ending 30 June 2023. The dividend shall be deemed to have been declared on the date:
- of intimation to Pakistan Stock Exchange
 - on which such dividend is approved by the board
 - of the next general meeting
 - on which announcement is made to the public
13. Following information are available in respect of Pear Limited for the year ended 30 June 2022:

	Rs. in million
Unappropriated profit brought forward	100
Profit from principal line of business for the year	300
Gain/(loss) on disposal of land(s) situated at:	
Multan	150
Jhelum	(350)

Following is the maximum amount of dividend the board could recommend to the members for the year ended 30 June 2022:

- a) Rs. 100 million
- b) Rs. 200 million
- c) Rs. 300 million
- d) Rs. 400 million

14. A listed company may, by giving not less than seven days' prior notice, close its registers of:
- a) debenture-holders and mortgages
 - b) members and mortgages
 - c) mortgages and directors
 - d) members and debenture-holders
15. The board of directors of Gold Limited (GL) has proposed a final dividend for its Shareholders. In order to approve the payment of the dividend, GL requires:
- a) an ordinary resolution to be passed in the annual general meeting (AGM)
 - b) a special resolution to be passed in the AGM
 - c) either an ordinary resolution to be passed in the AGM or a special resolution to be passed in the AGM if the dividend amount is more than GL's share capital
 - d) no resolution to be passed in any general meeting
16. Which of the following is the primary purpose of payment of dividends to the shareholders of a company?
- a) To attract new investors and increase the company's market value
 - b) To finance the company's expansion and capital projects
 - c) To reward shareholders for their investment and provide a steady income stream
 - d) To meet legal requirements and comply with corporate governance principles
17. Sardine Limited (SL) published a notice for a general meeting to hold an election of directors. Akram Khan, a shareholder, filed a notice with SL indicating his intention to contest the upcoming directors' election. However, it was revealed that Akram Khan faced a conviction in January 2020 for not timely paying dividends during his tenure as CEO of Basking Shark Limited. Can Akram Khan be eligible to be appointed as SL's director?
- a) Yes, since he was not convicted for an offence involving moral turpitude
 - b) Yes, since three years have elapsed from the date of his conviction, he is eligible to be appointed as a director
 - c) No, he cannot be appointed as a director unless SL's board of directors resolves for his appointment in their meeting
 - d) No, since five years have not elapsed from the date of his conviction, he is not eligible to be appointed as a director

ANSWERS

1	d)	Within 10 working days. [Regulation 3]
2	b)	A company may, on giving not less than 7 days' previous notice close its register of members, for any period or periods not exceeding in the whole 30 days in each year. [Section 125]
3	a)	The amount of final dividend will be approved by the members in Annual General Meeting of the company
4	a)	The directors of the company may proposed and pay interim dividend before the end of the year
5	d)	The members may reduce, accept or reject the dividend as proposed by the director
6	c)	Dividend warrants can be credited into the bank account of member of the company
7	c)	In case of default regarding payment of dividend, Chief Executive of the company may be fined
8	d)	Members cannot resolve to increase the amount of dividend as proposed by directors
9	b)	Chief executive of the company may be fined for an amount upto Rs. 5 Million along with imprisonment for a term which may extent to two years
10	a)	Chief executive shall be ineligible to become a director or CEO of any company for the next five years
11	a)	only through electronic mode directly into the bank account designated by the entitled shareholders
12	b)	on which such dividend is approved by the board
13	b)	Rs. 200 million
14	d)	members and debenture-holders
15	a)	an ordinary resolution to be passed in the annual general meeting (AGM)
16	c)	To reward shareholders for their investment and provide a steady income stream
17	d)	No, since five years have not elapsed from the date of his conviction, he is not eligible to be appointed as a director

STICKY NOTES**Declaration of dividend**

1. A company has implied power to declare and pay dividends out of its distributable profits unless there is specific restriction in its memorandum or articles (e.g. association not for profit).
2. Not to exceed amount recommended by directors
3. Restriction on distribution of gain on immovable property and gain on investment property.

Dividend to be paid only out of profits

1. Form of payment: Cash or in kind
2. Payment in kind: only in the form of shares of listed company held by the distributing company.

Provisions relating to payment

1. To be paid only to registered shareholders
2. Period of payment (10 working days)
3. Manner of payment – listed company (electronic mode only)
4. Manner of payment – other than listed company (direct transfer, dividend warrant or cross cheque)
5. Manner of payment - General (paying agent)

Book closure

1. Purpose (to determine the entitled members for dividend or notice etc)
2. Power to close register (7 days previous notice; not exceeding 30 days in total in each year, further 15 days may be extended by the Commission)
3. Additional requirement for listed company (English & Urdu newspaper)
4. Penalty (Level 2 on standard scale)

Directors not to withhold declared dividend

1. Requirement (CEO is responsible to make payment within specified period)
2. Declaration of final dividend (AGM)
3. Declaration of interim dividend (commencement of closing of register or date of approval by the board)
4. Consequences of delay in payment (CEO imprisonment upto 2 years, fine upto Rs. 5 million and ineligible for 5 years)
5. No offence deemed to be committed (certain situations; prior approval within 45 days of declaration)
6. Lawful withholding (when member does not provide complete information as specified by the Commission)

INVESTMENTS AND DISCLOSURE OF INTEREST

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Investments by a Company
- 2 Disclosure of Interest
- 3 Objective Based Q&A

STICKY NOTES

AT A GLANCE

The term associated companies or associated undertaking means two or more companies and/or undertakings interconnected with each other due to common directorship, ownership, or certain other ways.

Investment includes equity, loan, advance or guarantee by whatever name called. Directors take the decision of investments in their board meetings.

A company shall not make any investment in its associated company except through a special resolution. A company can invest in associated company by loan or advance subject to agreement approved under such special resolution.

Subject to certain exceptions, all investments of a company shall be at its own name.

A company shall maintain a register of investments not held in its own name at its registered office open for inspection of members with no charge. Others may inspect the register by paying fixed fee and in defined hours.

Directors are agents of the company and maintain a fiduciary relationship and hence are required to disclose their interest in any transaction to be entered in to by the company. Interested directors shall not be entitled to take part in the decision.

A company may enter in to any transaction with related party subject to the policy approved by the board. Where majority of directors are interested in the transaction the matter will be decided in the general meeting.

The Commission may specify the record to be maintained by company in relation to the related party transactions.

1 INVESTMENTS BY A COMPANY

1.1 Definition of associated companies and undertakings [Section 2(4)]

“associated companies” and “associated undertakings” mean any two or more companies or undertakings, or a company and an undertaking, interconnected with each other in the following manner, namely:

- if a person who is the owner or a partner or director of a company or undertaking, or who, directly or indirectly (through his spouse or minor children), holds or controls shares carrying not less than twenty per cent of the voting power in such company or undertaking, is also the owner or partner or director of another company or undertaking, or directly or indirectly, holds or controls shares carrying not less than twenty per cent of the voting power in that company or undertaking; or
- if the companies or undertakings are under common management or control or one is the subsidiary of another; or
- if the undertaking is a modaraba managed by the company;

(Modaraba is an Islamic financing activity, a set up created in order to ensure interest free financing. Modaraba Management Company is established as a company which is licensed to float Modarabas which are separate legal entities from Modaraba Management Company).

However, following directorships or shareholdings shall not be considered while ascertaining the status of companies to be associated:

- directorship of a person by virtue of nomination by the Concerned Minister of the Federal Government or a Provincial Government or a financial institution directly or indirectly owned or controlled by such Government; or
- directorship of a person appointed as “Independent Director”
- shares owned by the National Investment Trust or a financial institution directly or indirectly owned or controlled by the Federal Government or a Provincial Government; or
- shares registered in the name of a central depository where such shares are not beneficially owned by the central depository.

► Example 01:

Azam is a director in ABC Limited, a public company limited by shares, if he is also a director in DEF Limited then both ABC Limited & DEF Limited shall be considered as associated companies of each other due to presence of a common director (Azam) in both the companies.

Azam is also a partner in a partnership firm named GHI Enterprises, then all the above named three businesses (‘the undertakings’) shall be considered as associated undertakings of each other. The point to note here is that they are known as associated undertakings rather than associated companies because one of the three business involved in the relationship is not a company under the Companies Act 2017.

► Example 02:

Babar is director in ABC Limited and he is also owner of more than 20% shares of JKL (Private) Limited. ABC Limited and JKL (Private) Limited shall be considered associated companies.

► Example 03:

ABC Limited is holding company of DEF Limited and KLM Limited.

- ABC Limited and DEF Limited shall be considered associated companies as the latter is subsidiary of the former.
- ABC Limited and KLM Limited shall be considered associated companies as the latter is subsidiary of the former.
- DEF Limited and KLM Limited shall be considered associated companies being under common control of ABC Limited.

► *Example 04:*

National investment Trust owns 25% shares in ABC Limited and 30% shares in XYZ Limited. ABC Limited and XYZ Limited shall not be considered associated companies.

► *Example 05:*

Saima is director in ABC Limited and she is also independent director appointed in XYZ Limited. ABC Limited and XYZ Limited shall not be considered associated companies.

1.2 Investment in associated companies [Section 199]

Definition: Investment

The term “investment” shall include equity, loans, advances, guarantees, by whatever name called, except for the amount due as normal trade credit, where the terms and conditions of trade transaction(s) carried out on arms-length and in accordance with the trade policy of the company.

Power to make investments in general

The investment decisions are within the power of directors exercised through their board meetings.

Restriction on investment in associated company

A company shall not make any investment in any of its associated companies except under the authority of a special resolution which shall indicate:

- the nature;
- period;
- amount of investment; and
- terms and conditions attached thereto.

An increase in the amount or any change in the nature of investment or the terms and conditions attached thereto shall be made only under the authority of a special resolution.

Condition: agreement for loan

The company shall invest in its associated company by way of loans or advances in accordance with an agreement in writing and such agreement shall inter-alia include:

- nature of loan;
- purpose of loan;
- period of the loan;
- rate of return;
- fees or commission;
- repayment schedule for principal and return;
- penalty clause in case of default or late repayments; and
- security, if any, for the loan

in accordance with the approval of the members in the general meeting.

Condition: return on investment

The return on such investment shall not be less than the borrowing cost of the investing company or the rate as may be specified by the Commission whichever is higher and shall be recovered on regular basis in accordance with the terms of the agreement, failing which the directors shall be personally liable to make the payment

Condition: due diligence

The directors of the investing company shall certify that the investment is made after due diligence and financial health of the borrowing company is such that it has the ability to repay the loan as per the agreement.

Exemptions and regulations

The Commission may specify certain classes of companies on which requirement of passing a special resolution etc. shall not be applicable. The Commission has also made regulations for imposing conditions and restrictions on making investments in associated companies.

Records

Every company shall maintain and keep at its registered office a register of investments in associated companies and undertakings containing such particulars as may be specified.

1.3 Investments of company to be held in its own name [Section 200]**Requirement**

All investments made by a company on its own behalf shall be made and held by it in its own name.

Exceptions

- The company may hold any shares in its subsidiary company in the name of any nominee of the company, if it is necessary to do so, to ensure that the number of members of the subsidiary company is not reduced below the statutory limit.
- Where the company has a right to appoint or get elected any person as a director of any other company and a nominee of the company in exercise of such right has been so appointed or elected, the shares in such other company of an amount not exceeding the nominal value of the qualification shares which are required to be held by a director thereof, may be registered or held by such company jointly in its own name and in the name of such person or nominee, or in the name of such person or nominee alone.
- Company may also place its investment in securities in the name of central depository company if it so desires and the securities are allowed to be kept in central depository system.

► **Example 06:**

ABC Limited has wholly owned subsidiary (100% shareholding) i.e. XYZ Limited. XYZ Limited is public unlisted company and it must have at least three members. ABC Limited is allowed to hold some of its investment in XYZ Limited in the name of two other persons (rather than in its own name).

► **Example 07:**

ABC Limited has invested in 15% shares of XYZ Limited and want to nominate Mr. Afzal as director. As per articles of XYZ Limited, only a person who holds at least 10,000 shares (qualification shares) may become the director of the company. ABC Limited is allowed to transfer 10,000 shares in XYZ Limited either jointly in its own name and in the name of Mr. Afzal, or in the name of Mr. Afzal alone.

► **Example 08:**

The shares can be transferred in the name of central depository company (CDC) and in such a case the shares get registered in the name of central depository company as a trustee. However, beneficial ownership remains in the name of actual owner of shares. So if company puts its invested shares or securities in central depository it would not be in non-compliance of the Companies Act.

1.4 Register for investments not held in own name [Section 200]

Contents of the register

Where, due to exceptions discussed above, any shares or securities in which investments have been made by a company are not held by it in its own name, the company shall forthwith enter in a register maintained by it for the purpose at its registered office the nature, value and such other particulars as may be necessary fully to identify such shares or securities.

Open for inspection

The register shall be open to the inspection of members without charge, and to any other person on payment of fees fixed by company during business hours, subject to such reasonable restrictions, as the company may impose, so that not less than two hours in each day be allowed.

Certified copies

Any member may require a certified copy of register or any part thereof, on payment of such fee as may be fixed by the company. The certified copies requested shall be issued within a period of 7 days. A member seeking to exercise the rights must make a request to the company to that effect.

Order by registrar for allowing inspection

In case of contravention, the registrar may by an order compel an immediate inspection of the register or direct that copies required shall be sent to the persons requiring them.

► Practice Question 01:

Kalaam Limited (KL) is considering the following options to invest its excess funds:

- i. Acquire 8% shareholdings in Lighter Oil Limited (LOL) for Rs. 120 million. LOL is a growing company and is expected to fetch higher returns in futures.
- ii. Grant a loan of Rs. 100 million to Monsoon (Private) Limited (MPL) for launching a new product. The loan would carry interest at the rate prevailing in the market. KL currently holds 25% of MPL's paid-up capital and has two directors in common.

Under the provisions of the Companies Act, 2017 specify the condition(s) which KL must fulfil before opting for any of the above investment options.

► Solution:

Part (i)

The directors can make investment in its shares by passing a resolution in their meeting.

Part (ii)

MPL is an associated undertaking of KL due to common directorship. Therefore, KL can make investment in MPL only under the authority of a special resolution passed by the members in the general meeting. The special resolution shall be supported by an agreement in writing which shall include the terms and conditions specifying the nature, purpose, period of loan, rate of return, fees or commission, repayment schedule for principal and return, penalty clause in case of default or late repayments and security, if any, for the loan in accordance with the approval of the members in the general meeting.

The rate of return on such investment shall not be less than the borrowing cost of KL (investing company) or the rate as may be specified by the Commission whichever is higher and shall be recovered on regular basis in accordance with the terms of agreement, failing which the directors shall be personally liable to make the payment.

Further, the directors of KL (investing company) shall certify that investment is made after due diligence and that the borrower has the ability to repay the loan as per the agreement.

► *Practice Question 02:*

Ironside Limited (IL) owns 51% voting shares in Snow Storm Limited (SSL) and 52% voting shares in Flipper (Pvt) Limited (FPL). SSL intends to make an investment of Rs. 200 million in FPL.

Under the provisions of the Companies Act, 2017:

- i. State the type of relationship, if any, which exists between SSL and FPL.
- ii. Describe the conditions which SSL must fulfil before making any investment in FPL.

► *Solution:***Part (i)**

SSL and FPL are associated companies as both of them are under common control of IL.

Part (ii)

SSL shall not make any investment in its associated company:

- except under the authority of a special resolution which shall indicate the nature, period and amount of investment and terms and conditions attached thereto.
- provided that the return on investment in the form of loan shall not be less than the higher of borrowing cost of investing company (SSL) or such other rate as the Commission may specify.
- the directors of the investing company shall certify that the investment is made after due diligence and financial health of the borrowing company is such that it has the ability to repay the loan as per the agreement

► *Practice Question 03:*

Naseer, a non-executive director of Oliver Travels Limited (OTL), while reviewing details of investments made by OTL, has shown his concerns on the following shares that are not held in the name of OTL:

- i. 500 shares in Pak Travels (Private) Limited (PTPL) are held in the name of Rahim who is an employee of OTL. PTPL is a wholly owned subsidiary of OTL.
- ii. 5,000 shares of Tours & Tours (Private) Limited (TTPL) are held in the name of Sami, who is a non-executive director in TTPL by virtue of OTL's nomination. OTL owns 30% voting shares in TTPL.

Under the provisions of the Companies Act, 2017 briefly explain the possible reasons for holding investment of OTL in the name of Rahim and Sami.

► *Solution:***Part (i)**

PTPL is wholly owned subsidiary company of OTL means it has one shareholder. Whereas, PTPL being a private company must have at least two members, hence OTL may hold any shares in the name of any of its nominee to ensure that the number of members of PTPL is not reduced below the statutory limit.

Part (ii)

OTL has nominated Sami as non-executive director by virtue of its investment in TTPL. It means OTL have right to appoint or get elected any person as director of TTPL, therefore, in the light of the provisions of Companies Act, 2017 OTL have the right to transfer TTPL's shares in the name of Sami up to an amount not exceeding the nominal value of the qualification shares which are required to be held by TTPL's director. Such shares may be registered or held by OTL jointly with Sami or in the name of Sami alone.

► *Practice Question 04:*

In February 2021, Silver Topaz Limited (STL) acquired 18% voting shares in Jade Limited (JL). After acquisition, STL nominated one of its directors on JL's board.

STL's board is planning to acquire further 10% voting shares in JL in May 2021.

Under the Companies Act, 2017 discuss the condition(s) which STL must fulfil before making any further acquisition of shares in JL.

► *Solution:*

As STL has nominated one of its directors on JL's board, both the companies became associated companies due to common directorship. Therefore, STL's plan of further investment would be considered as investment in associated company.

Accordingly, STL can make further investment in JL only under the authority of a special resolution which shall indicate the nature, period, amount of investment and terms and conditions attached thereto.

► *Practice Question 05:*

Blush Pakistan Limited (BPL) is a public unlisted company, managed by Ivory (Private) Limited (IPL). BPL has been using a specialised raw material for production of its main products.

In order to meet its future raw material requirements, BPL is considering to grant an interest free loan for a period of two years to its sole supplier Jade Packaging Limited (JPL) for expansion of its manufacturing facilities. JPL is also managed by IPL.

Discuss the provisions of the Companies Act, 2017 that are required to be complied with by BPL with respect to the above loan.

► *Solution:*

Blush Pakistan Limited (BPL) and Jade Packaging Limited (JPL) are managed by Ivory (Private) Limited, hence according to the provision of the Companies Act, 2017 both BPL and JPL are associated companies. Hence, the said loan falls under the definition of investments in associated companies.

Following are the requirement that need to be complied with by BPL prior to granting of loan to JPL:

- Call general meeting for getting approval, for that purpose send notice to all the members.
- Pass a special resolution which shall indicate the nature, period, amount of investment and terms and conditions attached thereto.
- Grant the loan against an agreement in writing and such agreement shall inter-alia include the terms and conditions specifying the nature, purpose, period of the loan, rate of return, fees or commission, repayment schedule for principal and return, penalty clause in case of default or late repayments and security, if any, for the loan.
- Ensure that:
 - the return on such investment shall not be less than BPL's borrowing cost or the rate as may be specified by the Commission whichever is higher.
 - The directors of BPL has certified that the investment is made after due diligence and that the financial health of JPL is such that it has the ability to repay the loan as per the agreement.
- File the special resolution with the registrar within fifteen days from the passing thereof, duly authenticated by a director or secretary of BPL.
- If BPL's articles of association (AOA) have been registered, embody or annex a copy of the aforesaid special resolution till such time it will be in force to every copy of AOA issued after the date of the resolution.
- Maintain and keep a register of investments in associated companies and undertakings containing such particulars as may be specified at its registered office.

► *Practice Question 06:*

The shareholders of Aramis Limited (AL), an unlisted public company, in its annual general meeting held in September 2025 had approved a loan to its associated company for a new project.

In February 2026, due to significant changes in the prices of various items, it is estimated that the total cost of the project will escalate by 25% and that AL shall have to provide additional loan to its associated company for covering up the project cost.

Under the provisions of the Companies Act, 2017, advise AL's board of directors on the following matters:

- a) The possible modes through which shareholders' approval may be obtained.
- b) The procedures to be followed by AL for getting shareholders' approval for the modes identified in (a) above.

► *Solution:***Part (a)**

Following are the possible modes through which AL, being an unlisted company, may obtain its shareholders' approval:

Through circulation: If AL's number of shareholders are not more than 50, it can get the resolution passed through circulation, which shall be as valid and effectual as if it had been passed at AL's general meeting duly convened and held.

Through calling EOGM: If the directors do not want to get the resolution passed by the members through circulation as discussed above or number of AL's members are more than 50, then AL can get the resolution approved through calling an EOGM.

Part (b)

Since AL needs to extend further loans or make investment in its associated company, it must pass a special resolution to obtain approval from its shareholders. The procedures that AL must follow for the modes identified in part (a) are as follows:

Through circulation:

- Circulate the special resolution together with the necessary papers and details to all the shareholders.
- Get the special resolution signed by all the shareholders, for the time being entitled to receive notice of the said meeting.
- Notify the said special resolution at the subsequent meeting of the shareholders and made part of the minutes of such meeting.

Through calling EOGM:

- Issue notice of EOGM to all the shareholders of the company:
 - at least 21 days prior to the date of EOGM, or
 - at a shorter notice, if due to urgency AL obtained prior approval of all those shareholders, who are entitled to attend and vote at the said EOGM, to call EOGM at a shorter notice.
- Annex to the notice of EOGM a statement setting out all material facts concerning the changes in the earlier contract.
- The time and the place where the contract may be inspected, shall be specified in the statement.
- Accompany the notice of EOGM with the draft resolution.
- Indicate in the special resolution further amount of loan and changes, if any, in the terms and conditions of earlier arrangement.

► **Practice Question 07:**

Latif Saeed, a shareholder in Falcon Cars Limited (FCL), recently obtained a certified copy of the company's investment register. This document revealed that FCL has invested in shares of various companies. However, he observed that the shares of some companies are held in the names of other individuals. The details of his observations are as follows:

Investee company	Holding	Shares held in the name of
Albatross Motor Bikes Limited (AML) – an unlisted company	100%	- Muneer Noor, an FCL employee nominated as a member of AML, holds one share - Salman Tanveer, an FCL director nominated as another member of AML, holds one share
Raven Cars Limited (RCL) – a listed company	15%	Owais Pervaiz, an FCL director nominated as a director of RCL, holds 10% shares
Coot Trackers Limited (CTL) – an unlisted company with five members	5%	Qaim Raheel, an FCL director nominated as a member of CTL, holds one share

Latif Saeed, curious about the rationale behind holding FCL's investments in the names of other individuals, has approached you for professional guidance.

Under the provisions of the Companies Act, 2017, briefly explain whether FCL is justified in holding its investments in the names of other individuals and also state the potential consequences of failing to comply with the related provisions of the law.

► **Solution:**

Situations where investments made by FCL may be held in the names of other individuals:

- **AML – 100% shareholding**

Under the Companies Act, 2017 (the Act), AML is considered a wholly-owned subsidiary of FCL since FCL owns 100% of its shares. AML is a public unlisted company required by the Act to have at least three members. Consequently, AML must include two additional members to fulfil this requirement. The Act permits FCL to hold shares in AML in the name of any FCL nominee, maintaining the minimum membership requirement.

Thus, FCL is justified in holding one share each in the names of Muneer Noor and Salman Tanveer to meet the statutory limit.

- **RCL – 15% shareholding**

With a 15% investment in RCL, FCL has nominated Owais Pervaiz to RCL's board, leveraging a provision that enables an entity with a minimum of 14.28% [= 7 ÷ 100%] investment to appoint a board representative. Assuming RCL, a listed company with seven directors, allows for such nomination.

If RCL's articles of association stipulate that directors must hold 10% qualification shares, FCL is justified in holding 10% of shares in the name of Owais Pervaiz as per these requirements. Non-compliance in this regard would be considered a violation.

- **CTL – 5% shareholding**

CTL, being an unlisted company with a statutory minimum of three members and currently having five, does not necessitate FCL, a 5% shareholder, to nominate a member. The Act prohibits holding investments in another person's name under such circumstances. Therefore, FCL holding one share in the name of Qaim Raheel is not justified.

Consequences of non-compliance

A fine of up to five million rupees will be imposed on FCL if it fails to comply with the Act's provisions by not holding shares in its own name. Additionally, any officer of FCL found in default may face imprisonment up to two years or a fine up to one million rupees, or both.

2 DISCLOSURE OF INTEREST

2.1 Disclosure of interest by director [Section 205]

Why to disclose interest or concern

The directors are agents of the company and they are in a fiduciary relationship with all the members of the company. So they are required to make all contracts and all transaction in good faith and in the best interest of the company. Hence if they make any transaction or enter into any contract on behalf of the company in which they are themselves interested by any means, they should give a complete disclosure of the fact so that their integrity is not questioned. There must not be any conflict of interest between the company and the directors.

► Example 09:

A listed company has to purchase a specific property and that property relates to the spouse of a director; he shall be required to make a disclosure of his interest to other directors. As a director of the company he shall be working for the company and should try to bargain at lowest possible price, but on the other hand his spouse is owner of the property, he should also be naturally interested that his spouse gets highest possible price for that property. You can see that conflict of interest arises, so whenever there is such a situation, a complete disclosure from the director must be given to the other directors and then after disclosing, interested director may not be part of the directors' meetings in which such contract or transaction is to be discussed.

Prohibited transactions are not validated by disclosure

If directors are forbidden to make certain transactions with the company by provisions of any law, those provisions shall prevail, and disclosure of those transactions cannot justify the contravention of law. Even for transactions which are not prohibited, disclosure of interest must be made and certain transactions may carry additional approval requirement.

Requirement

Every director of a company who is concerned or interested in any contract or arrangement entered into, or to be entered into, by the company shall disclose the nature of his concern or interest at a meeting of the board.

A director shall be deemed also to be interested or concerned if any of his relatives (spouse, children including step children and parents), is so interested or concerned.

Timing of disclosure

The director should give the notice of his interest in transactions or arrangements:

- in first board meeting, in which such transaction or arrangement is discussed, if such transaction requires directors' approval;
- if he was not interested at the time of first discussion, in first board meeting held after he becomes so interested, if such transaction requires directors' approval;
- in first meeting held after the transaction or arrangements is entered into, if such transaction does not require directors' approval.

General notice

Instead of making a disclosure at separate intervals on each transaction, the director may give a general notice regarding his directorships or memberships in other body corporate or partnership in firms so that he may be considered as interested in any transaction, contract or arrangement entered into with these businesses.

Such notice should be given at the directors' meeting or the concerned director may take reasonable steps to ensure that it is brought up and read at the first meeting of the board after it is given.

This general notice shall expire at the end of the financial year in which it is given and may be replaced by fresh notice to be given in last month of financial year.

2.2 Interested director not to participate or vote [Section 207]

Not to participate or vote

A director shall not, as a director, take any part in the discussion of, or vote on, any contract or arrangement entered into, or to be entered into, by or on behalf of the company, if he is in any way, whether directly or indirectly, concerned or interested in the contract or arrangement, nor shall his presence count for the purpose of forming a quorum at the time of any such discussion or vote; and if he does vote, his vote shall be void.

Not to be present

A director of a listed company who has a material personal interest in a matter that is being considered at a board meeting shall not be present while that matter is being considered.

Approval from members

If majority of the directors are interested in, any contract or arrangement entered into, or to be entered into, by or on behalf of the company, the matter shall be laid before the general meeting for approval.

Exception

The above provisions shall not be applicable under the following circumstances:

- If the person is a director of a private company which is neither a subsidiary nor a holding company of a public company;
- when the director has acted as surety of the company and the resolution under consideration relates to the indemnification or insurance coverage of the surety director against any loss incurred by the director for becoming surety of the company.

2.3 Disclosure of interest by officers other than directors [Section 206]

Other officer of a company who is directly or indirectly concerned or interested in any proposed contract or arrangement with the company shall not enter into any such contract or arrangement unless he discloses the nature and extent of his interest in the transaction and obtains the prior approval of the board.

2.4 Related party transactions [Section 208]

Expression: related party

The expression “related party” includes:

- i. a director or his relative;
- ii. a key managerial personnel or his relative;
- iii. a firm, in which a director, manager or his relative is a partner;
- iv. a private company in which a director or manager is a member or director;
- v. a public company in which a director or manager is a director or holds along with his relatives, any shares of its paid up share capital;
- vi. any body-corporate whose chief executive or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager (**exception:** advice, directions or instructions given in a professional capacity);
- vii. any person on whose advice, directions or instructions a director or manager is accustomed to act (**exception:** advice, directions or instructions given in a professional capacity);

viii. any company which is:

- a holding, subsidiary or an associated company of such company; or
- a subsidiary of a holding company to which it is also a subsidiary;

ix. such other person as may be specified.

Here, the term “relative” means spouse, siblings and lineal ascendants and descendants of a person.

► **Example 10:**

XYZ Limited is considering an arrangement with ABC firm in which Azam, Babar and Chand are partners. Azam is spouse of Naheed, one of the directors in XYZ Limited. In relation to XYZ Limited, Naheed is related party being a director, Azam is a related party being relative of a director and ABC firm is related party being a firm in which relative of a director is a partner.

► **Example 11:**

KLM Limited often obtains investment consultancy from Adeel. Adeel practices as business advisor and provides the consultancy to KLM Limited purely in professional capacity. Adeel is not a related party in relation to XYZ Limited as advice is given in a professional capacity.

Expression: office of profit

The expression “office of profit” means any office:

- i. where such office is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- ii. where such office is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

► **Example 12:**

Fareed is a non-executive director in Multan Pharma Limited (MPL), a listed company. He only receives meeting fee from MPL for attending board meetings and meetings of audit committee. Fareed does not hold office of profit in MPL.

► **Example 13:**

Naveed is a director in Multan Pharma Limited (MPL), a listed company. He receives only meeting fee from MPL for attending board meetings and meetings of risk management committee. Naveed also supervises the production on routine basis and lives in a rent free accommodation provided by MPL near its production site. Naveed does not receive any monthly or annual salary from MPL. Naveed holds office of profit in MPL.

Requirement of approved policy for related party transactions

A company may enter into any contract or arrangement with a related party only in accordance with the policy approved by the board, subject to such conditions as may be specified, with respect to:

- a) sale, purchase or supply of any goods or materials;
- b) selling or otherwise disposing of, or buying, property of any kind;
- c) leasing of property of any kind;
- d) availing or rendering of any services;
- e) appointment of any agent for purchase or sale of goods, materials, services or property; and
- f) such related party’s appointment to any office or place of profit in the company, its subsidiary company or associated company.

Requirement of special resolution

Where majority of the directors are interested in any of the above transactions, the matter shall be placed before the general meeting for approval as special resolution.

Exception: certain transactions

The above requirements of approved policy or special resolution do not apply to any transactions entered into by the company in its ordinary course of business on an arm's length basis.

The expression "arm's length transaction" means a transaction which is subject to such terms and conditions as may be specified.

► Example 14:

Majeed is a director in Multan Electronics Limited (MEL), a listed company. His brother bought two air conditioners from main showroom of MEL at the same retail price as is offered to any other customer. The transaction entered into by MEL is in its ordinary course of business and on an arm's length basis, therefore, requirements of section 208 are not applicable.

Requirement to refer and justify in directors' report

Every contract or arrangement entered into with related party shall be referred to in the board's report to the shareholders along-with the justification for entering into such contract or arrangement.

Requirement to maintain records

The Commission may specify the record to be maintained by the company with regards to transactions undertaken with the related party.

Status of contracts in contravention by director or employee

Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the board or approval by a special resolution in the general meeting as required and if it is not ratified by the board or, as the case may be, by the shareholders at a meeting within 90 days from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the board and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

Regardless of the above provision, it shall be open to the company to proceed against a director or any employee who had entered into such contract or arrangement in contravention of the provisions relating to related party transactions for recovery of any loss sustained by it as a result of such contract or arrangement.

Penalty and other consequences of non compliances of section 205, 206(1), 207 or 208

Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the above provisions shall be liable:

- a) in case of listed company, be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than five million rupees, or with both; and
- b) in case of any other company, to a penalty of level 2 on the standard scale.
- c) Moreover, under section 212, the Court, on the basis of prior show cause, may declare a director to be lacking of fiduciary behaviour which will results in disqualification of directorship of any company for next five year.

► Practice Question 08:

What is the procedure for filing a general notice of interest by a director and what would such a general notice include?

► *Solution:*

Instead of making a disclosure at separate intervals on transaction by transaction basis, the director may give a general notice regarding his directorships in other body corporate or partnership in firms so that he may be considered as interested in any transaction, contract or arrangement entered into with these businesses.

Such notice should be given at the directors' meeting or the concerned director may take reasonable steps to ensure that the notice is read by the other directors.

This general notice shall expire at the end of the financial year in which it is given and may be replaced by fresh notice to be given in last month of financial year.

► *Practice Question 09:*

The director of a company shall not take any part in the discussion of, or vote on, any contract or arrangement entered into, or to be entered into, by or on behalf of the company, if he is in any way, whether directly or indirectly, concerned or interested in such contract or arrangement.

Under the provisions of the Companies Act, 2017 briefly describe the exceptions to the above rule, if any.

► *Solution:*

The above rule shall not be applicable under the following circumstances:

- If the person is a director of a private company which is neither a subsidiary nor a holding company of a public company;
- when the director has acted as surety of the company and the resolution under consideration relates to the indemnification or insurance coverage of the surety director against any loss incurred by the director for becoming surety of the company.

► *Practice Question 10:*

Faraz Limited (FL) is considering to enter into a contract with Bari Limited (BL) for the construction of its new manufacturing facility. The Board of Directors of FL has authorized Hasan Ali, an executive director, to negotiate the final price with BL.

Sara Ali, who is a chief executive in BL, is the spouse of Hasan Ali.

In view of the provisions of the Companies Act, 2017 briefly explain the responsibilities of Hasan Ali towards FL under the above circumstances.

► *Solution:*

Being a director, Hassan Ali is an agent of the shareholders of the company and stands in a fiduciary relationship with them so he is required to make all contracts and all transactions in good faith and in best interest of the company. In this case, Hassan Ali is deemed to be indirectly interested in the transaction as his wife is the chief executive in BL.

Therefore, Hassan Ali should give a general notice to the effect to all other directors that he should be regarded as concerned or interested in the transaction to be entered into with BL and such notice shall be given at the meeting of the directors at which the question of entering into the contract or arrangement is first to be taken into consideration.

After disclosing his interest in the transaction, Hassan Ali should not be part of the directors' meeting in which such contract or transaction is to be discussed.

► *Practice Question 11:*

Fida Rehman has been the executive director of Golden Industries Limited (GIL), a listed company. On 9 November 2025, on behalf of GIL's management, Fida Rehman entered into a two year contract with Carol (Private) Limited (CPL) for the supply of raw material on 15 days credit.

On 7 March 2026, Fida Rehman's father acquired 12% shares in CPL.

Under the provisions of the Companies Act, 2017 briefly explain the responsibilities of Fida Rehman in respect of the above, for the entire term of the contract.

► **Solution:**

According to the provisions of the Companies Act, 2017, Fida Rehman is deemed to be interested in the contract with Carol (Private) Limited (CPL) on 7 March 2026 when his father acquired shares in CPL. Under the Companies Act, 2017, parents falls under the definition of director's relatives. Therefore, Fida Rehman shall be deemed to be interested.

Accordingly, Fida Rehman's responsibilities in respect of CPL's contract are as follows:

- Fida Rehman shall disclose the nature of his interest by giving a general notice at the first meeting of GIL's board meeting held after 7 March 2026 that he is concerned or interested in the contract with CPL effective 7 March 2026.
- As GIL entered into a two year contract with CPL, the said notice shall expire at the end of GIL's financial year and may be renewed for further period of one financial year by a fresh notice given in the last month of the financial year in which it would otherwise expire.
- In order to make the said notice effective, it must be given in a meeting of the board of GIL or Fida Rehman himself takes reasonable steps to ensure that it is brought up and read at the first meeting of the board of GIL after it is given.

► **Practice Question 12:**

Discuss the provisions of the Companies Act, 2017 relating to the proceedings of the meeting of the board of directors of a company.

► **Solution:**

Following provisions are available in the Companies Act, 2017, with regards to the proceedings of the board of directors of a company:

Requirement as to quorum in case of a listed company:

The quorum for a meeting of board of a listed company shall not be less than one-third of number of directors or four, whichever is greater and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum.

However, if at any time, there are not enough directors to form a quorum to fill a casual vacancy, all the remaining directors shall be deemed to constitute a quorum for this limited purpose.

Requirement as to quorum in case of company other than listed company:

The quorum for a meeting of the board of other than listed company shall be as provided in the articles of association of the company.

Frequency of board meeting and participation of interested director of a company:

The board of a public company shall meet at least once in each quarter of a year.

A director of a public company or a private company which is either holding or subsidiary of a public company shall not, as a director, take any part in the discussion of, or vote on any arrangement by or on behalf of a company, if he is so interested.

Passing of resolution by the directors through circulation:

A resolution in writing signed by all the directors for the time being entitled to receive notice of a meeting of the directors shall be as valid and effectual as if it had been passed at a meeting of the directors duly convened and held.

Circular resolution once approved shall be noted at a subsequent meetings of the board and made part of the minutes of such meeting.

Records of resolutions and meetings of board:

Every company shall keep records comprising:

- all resolutions of the board passed by circulation; and
- minutes of all proceedings of board meetings along with the names of participants, to be entered in properly maintained books

Authentication of minutes:

The above minutes recorded, if purporting to be authenticated by the chairman of the meeting or by the chairman of the next meeting, shall be the evidence of the proceedings at the meeting.

Until the contrary is proved, every meeting of board in respect of the proceedings whereof minutes have been so made shall be deemed to have been duly called, held and conducted.

Furnishing and keeping minutes:

A copy of the draft minutes of meeting of board shall be furnished to every director within 14 days of the date of meeting.

The records must be kept at the registered office of the company from the date of the resolution, meeting or decision simultaneously in physical and electronic form and it shall be preserved for at least ten years in physical form and permanently in electronic form.

Consequences of holding in the absence of quorum or not holding meeting:

If a meeting of the board is conducted in the absence of a quorum or a meeting of board is not held as mentioned above, the chairman of the directors and the directors shall be held liable and penalized.

► **Practice Question 13:**

Cherry Limited (CL) is engaged in the business of manufacturing and selling of air conditioners. On 15 August 2022, Aslam, one of the directors, with the consent of the chief executive, has entered into a contract on behalf of CL, with Tamarind Limited (TL) as a distributor for the supply of air conditioners in Punjab.

The spouse of Aslam holds 5% shares in TL.

Under the provisions of the Companies Act, 2017 advise on the enforceability of contract entered into between CL and TL and the consequences which may arise due to the non-compliance of the said contract.

► **Solution:**

Enforceability of the contract: In order to establish the enforceability of the contract, first need to establish the relationship of CL with TL.

Since Aslam's spouse holds 5% shares in TL, TL shall be considered as related party of CL as under the provisions of the Companies Act, 2017 a public company shall be considered as related party if a director along with his relative holds any shares of its paid up share capital. Accordingly, Aslam will be considered interested in the contract entered into with TL.

Hence, the said contract may be entered only in accordance with the policy approved by the board. If CL's management has not followed the said policy, the contract between CL and TL is voidable at the option of CL's board.

The said contract may be enforced if the board ratified it within 90 days from the date on which the contract was entered into i.e. on or before 13 November 2022.

Consequences due to non-compliance: In the case of any non-compliance with regard to the said contract, Aslam along with chief executive shall be held liable to indemnify CL against any loss incurred in respect of the said contract.

CL also has a right to proceed against Aslam for recovery of any loss sustained by it, as Aslam being director has entered into the said contract in contravention of the provisions of the Companies Act, 2017.

► **Practice Question 14:**

Bashir Zaman and his two brothers Nadeem and Faheem are the only shareholders of Nakin Tyre Limited (NTL) holding 20 million, 35 million and 45 million shares respectively.

Bashir Zaman also holds 2 million shares in Axis Rubber (Pvt) Limited (ARL). The other shareholders of ARL are Tahir, his daughter Nasira and his minor son Rauf, who respectively holds 8 million, 37 million and 3 million shares in ARL. In the latest election of directors held during the last year, Tahir and Nasira were re-elected as directors of ARL.

On 26 February 2023, Bashir Zaman got married to Nasira.

On 10 March 2023, the following proposals are under consideration of the boards of NTL and ARL:

- i. The grant of a loan of Rs. 50 million by NTL to ARL. The loan will be repayable over a period of five years.
- ii. The sale of products by ARL to NTL on special credit term of six months.

Under the provisions of the Companies Act, 2017, advise the boards of NTL and ARL the conditions that must be complied with before implementing the above proposals. (Ignore the requirements relating to notice of the meeting)

► **Solution:**

Since Bashir Zaman directly holds 20% shares [$20 \div (20+35+45) \times 100$] of NTL and indirectly controls 78% shares of ARL (W-1), NTL and ARL are associated companies under the provisions of the Companies Act, 2017.

W-1:

Shareholders	ARL	
Bashir Zaman	$2 \div (2+8+37+3) =$	4%
Bashir Zaman's spouse	$37 \div (2+8+37+3) =$	74%
		78%

Consequently, following conditions must be complied with by NTL and ARL before implementing the proposal:

Proposal (i) By NTL:

- NTL may grant loan to ARL only under the authority of a special resolution passed by the members in the general meeting.
- The said special resolution shall indicate the nature, period, amount of investment and terms and conditions attached thereto.
- NTL shall enter into an agreement in writing with ARL.
- The said agreement shall include the terms and conditions specifying the nature, purpose, period of loan, rate of return, fees or commission, repayment schedule for principal and return, penalty clause in case of default or late repayments and security, if any, for the loan in accordance with the approval of the members in the general meeting.
- The rate of return on loan shall not be less than NTL's borrowing cost or the rate as may be specified by the Commission whichever is higher.
- NTL's directors shall have to certify that:
 - they have conducted the due diligence and
 - that ARL's financial health is such that it has the ability to repay the loan as per the agreement

Proposal (ii) By ARL:

Since ARL and NTL are associated companies, it will also fall under the ambit of related party.

Accordingly, the sale of products by ARL to NTL on special credit term of six months cannot be classified as an arm's length transaction.

Therefore, the following conditions must be complied with by ARL before implementing the said proposal:

- ARL's board must have approved the policy for entering into any contract or arrangement with a related party, subject to such conditions as may be specified by the Commission through regulations.
- Such transactions should be carried out in accordance with the board's policy.
- Since one out of two directors of ARL are interested in the said transaction, the matter may be placed before ARL's general meeting for members' approval through special resolution.

► **Practice Question 15:**

Define the term 'related party' as contained in the Companies Act, 2017.

► **Solution:**

The term "related party" as defined in the Companies Act, 2017 includes following:

- i. a director or his relative;
- ii. a key managerial personnel or his relative;
- iii. a firm, in which a director, manager or his relative is a partner;
- iv. a private company in which a director or manager is a member or director;
- v. a public company in which a director or manager is a director or holds along with his relatives, any shares of its paid up share capital;
- vi. any body corporate whose chief executive or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- vii. any person on whose advice, directions or instructions a director or manager is accustomed to act;
- viii. any company that is
 - a holding, subsidiary or an associated company of such company; or
 - a subsidiary of a holding company to which it is also a subsidiary;
- ix. such other person as may be specified

► **Practice Question 16:**

The CEO of Marlin Textile Limited (MTL) has assigned Bashir Rehman, an executive director, to negotiate the terms and conditions for acquiring Rs. 200 million worth of machinery from Lionfish Machines Limited (LML), a listed company. The CEO believed that Bashir Rehman's father, who serves as LML's CEO, could facilitate better negotiation terms. The machinery acquisition is on the agenda for MTL's board meeting scheduled for 10 September 2024.

Under the provisions of the Companies Act, 2017, advise:

- a) the responsibilities that Bashir Rehman has towards MTL in relation to the machinery purchase.
- b) the potential implications and responsibilities that LML must consider in the sale of machinery to MTL, assuming that Bashir Rehman's elder brother owns 100 shares in LML.

► *Solution:*

Part (a) Responsibilities of Bashir Rehman

Bashir Rehman is deemed to have an indirect interest in the purchase of machinery from LML due to his father being LML's chief executive. Consequently, Bashir must disclose the nature of his interest at the board meeting on 10 September 2024. Bashir must take reasonable steps to ensure that his notice is brought up and read at the board meeting. Bashir is prohibited from participating in the contract discussion. His presence will not be considered for forming the quorum during these discussions, and he should abstain from casting a vote in decision for the purchase of the machinery, as it would be considered void.

In case, Bashir is possessing a material personal interest in the purchase and MTL is also a listed company, then he must not be present during board discussions about the purchase of the machinery.

Part (b) Potential implications

Because Bashir Rehman's elder brother owns 100 shares in LML, LML will be considered a related party of MTL under the Companies Act, 2017.

Responsibilities of LML

LML can only enter into a contract for the sale of machinery to MTL if it aligns with the policy approved by the board in this regard. However, the above requirement of an approved board policy does not apply if the transaction entered into by LML is in its ordinary course of business on an arm's length basis. Furthermore, LML must maintain records of this transaction with MTL, being its related party, as may be specified by the Commission. The board of directors must refer to this contract in their report to the shareholders, along with the justification for entering into such a contract.

1. OBJECTIVE BASED Q&A

1. Under the provisions of the Companies Act 2017, the power to make investments in a company rests with the
 - a) CEO of the company
 - b) Directors of the company
 - c) Members of the company
 - d) Chairman of the company
2. Investment in associated company cannot be made by the directors themselves. They will have to get its approval from
 - a) Members in a class meeting through special resolution
 - b) Members in a general meeting through ordinary resolution
 - c) Members in a general meeting through special resolution
 - d) Members in a BOD meeting through ordinary resolution
3. Being a separate legal person, a company can make investments in any other company or security. But all the investments of the company must be made and held
 - a) In the name of controlling shareholders
 - b) In the name of Sponsors of the company
 - c) In the name of chairman of the company
 - d) In the name of Company itself
4. The company shall not make an increase in amount or any variation in the nature and terms of any investment in associated companies without passing
 - a) An ordinary resolution in the general meeting.
 - b) A special resolution in the general meeting
 - c) A resolution in the Board meeting
 - d) A resolution in creditors meeting
5. The register for investments of company not held in its own name is open to inspection for the members of the company,
 - a) Free of cost for at least two hours daily
 - b) Free of cost for at least five hours daily
 - c) At a payment of charge for at least two hours daily
 - d) At a payment of charge for at least five hours daily
6. Any member may require a certified copy of register of investment not held in the company's name, on fee fixed by the company. Certified copies requested shall be issued
 - a) After 7 days
 - b) Within 7 days
 - c) After 14 days
 - d) Within 14 days
7. The term "investment" shall include
 - a) Loans
 - b) Advances
 - c) Equity
 - d) All of the above

8. Anas, Asadullah, Ameen and Arqam are founder partners of Fast Movers Forwarders (FMF). In January 2020, all partners had purchased shares of Quality Tiles Limited (QTL), a listed company. In June 2020, they contested the election of directors of QTL and got elected as directors out of seven positions. Being majority directors of QTL, they cancelled the contract of existing logistics service provider and awarded the contract to FMF.

Whether the aforesaid contract is valid?

- a) Yes, because it is approved by the majority of the directors and the board is fully empowered to manage the affairs of the company
 - b) No, the contract need to be approved by majority of such directors who are not interested in the said contract
 - c) No, the contract must be laid before the general meeting for approval
 - d) No, the contract must be approved by the general meeting as well as by the Commission
9. Under which of the following situations a person may, as a director, take part in the discussion of any contract to be entered into on behalf of the company, even if he is in anyway concerned or interested in the contract?

If he is the director of a private company which is:

- a) subsidiary of a public company.
 - b) holding company of a public company.
 - c) associated undertaking of a public company.
 - d) neither a subsidiary nor a holding company of a public company.
10. KLM Limited in considering a related party transaction in which majority of directors are interested. Which of the following is correct?
- a) If the transaction is in accordance with policy approved by the board of KLM Limited, it need not be approved in a general meeting.
 - b) The matter must be placed before the general meeting for approval as special resolution.
 - c) The matter must be placed before the general meeting for approval as ordinary resolution.
 - d) Such transactions are absolutely prohibited under the Companies Act and all interested directors shall be liable to penalty in case such transaction is carried out whether with or without approval.

11. Akram is the chief financial officer of Snapper House Limited (SHL). As part of its expansion plan, SHL is in the process of acquiring an office building, owned by Najma who is Akram's wife, on rent in a commercial area. SHL asked Najma to provide terms and conditions of the rent agreement for consideration and necessary approval.

Which of the following statements is correct?

- a) Akram will have to disclose his interest and obtain prior approval of SHL's board before signing the rent agreement
 - b) SHL can sign the rent agreement and Akram will give an update to SHL's board in the immediately next board meeting
 - c) SHL can sign rent agreement with prior approval of the chief executive
 - d) No approval is needed; however, Akram cannot be involved in the transaction
12. Kingfish Limited (KL) holds 5 million shares in Moonfish Limited (ML) and wants to acquire further 3 million shares in ML. The issued, subscribed and paid-up share capital of ML as at 9 September 2025 is 50 million shares. There is no common director on the boards of both companies.

In this regard, which of the following statements is correct?

- a) KL needs to obtain approval of its members in general meeting before making further investment in ML
- b) KL needs to obtain approval of its members in general meeting through special resolution before making further investment in ML
- c) KL can make further investment in ML if board's approval is in place
- d) KL does not require any approval before making further investment in ML

13. Purple Limited (PL) is wholly owned subsidiary of Byzantium Limited (BL). BL has transferred ten shares of PL each in the name of its directors Kashif and Zahid, in order to ensure that:
- they could attend PL's general meeting
 - they could look after PL's affairs to protect BL's interest
 - the number of PL's members shall be in accordance with the statutory limit
 - both (a) and (b)
14. Where a director has entered into a contract with the company for supply of raw material without obtaining the required approval, the contract shall be voidable at the option of the board, unless within 90 days from the date at which such contract was entered into, it is ratified:
- by the directors and shareholders in their respective meetings
 - either by the directors in their meeting or by the shareholders in their meeting
 - by the directors only, in their meeting
 - by the shareholders only, in their meeting
15. Under the provisions of the Companies Act, 2017, which of the following transactions falls under the definition of related party transaction?
- Entity A has extended Rs. 20 million loan to Entity B. One of the directors of Entity A is the friend of Entity B's CFO
 - Entity C has supplied raw materials amounting to Rs. 50 million to Entity D. The CEOs of both the entities are childhood friends
 - Ahmed, a director in Entity E, has recently been elected as a director in Entity F, a subsidiary company of Entity G. Entity G is providing machine maintenance services to Entity E for the last many years
 - Entity H and Entity J entered into a consultancy agreement. Azam Khan is the son of Entity H's CEO and son-in-law of Entity J's CEO
16. Hyder Ali, a nominee of Chloe Limited (CL), got elected as a director of Salvatore Ferragamo Ltd (SFL). Under the provisions of the Companies Act, 2017, which of the following statements is correct about the qualification shares to be given to Hyder Ali?
- CL will register all those shares in Hyder Ali's name that are held by CL as long-term investments
 - CL can register as many shares in Hyder Ali's name as authorised by its board in the light of regulations contained in CL's articles of association
 - CL is required to register only one share in Hyder Ali's name, for becoming SFL's member
 - CL can register such number of qualification shares in Hyder Ali's name as are required to be held by a director in accordance with SFL's articles of association
17. Which of the following situations would NOT be excluded when determining the status of a company, undertaking, or person as an associated company, associated Undertaking, or associated person?
- A person's directorship nominated by a financial institution
 - A person's directorship appointed as an independent director
 - Shares registered in the name of a central depository, where such shares are not beneficially owned by the central depository
 - Shares owned by the National Investment Trust

ANSWERS

1	b)	Directors of the company can make an investment or disinvestment decision.
2	c)	Directors will have to get its approval from members in a general meeting through a special resolution.
3	d)	All the investments of the company must be made and held in the name of the company itself and not in the name of any other person.
4	b)	The company cannot change or vary the terms of investments without passing a special resolution in the general meeting
5	a)	The register is open to inspection of the members free of cost for at least two hours daily
6	b)	Certified copies of register requested shall be issued within 7 days
7	d)	The expression investment shall include loans, advances, equity, guarantees by whatever name called or any amount which is not in the nature of normal trade credit
8	c)	No, the contract must be laid before the general meeting for approval as majority of directors are interested in the contract.
9	d)	The restrictions do not apply to director of a private company which is neither a subsidiary nor a holding company of a public company.
10	b)	The matter must be placed before the general meeting for approval as special resolution. [Section 208]
11	a)	Akram will have to disclose his interest and obtain prior approval of SHL's board before signing the rent agreement
12	c)	KL can make further investment in ML if board's approval is in place
13	c)	the number of PL's members shall be in accordance with the statutory limit
14	b)	either by the directors in their meeting or by the shareholders in their meeting
15	c)	Ahmed, a director in Entity E, has recently been elected as a director in Entity F, a subsidiary company of Entity G. Entity G is providing machine maintenance services to Entity E for the last many years
16	d)	CL can register such number of qualification shares in Hyder Ali's name as are required to be held by a director in accordance with SFL's articles of association
17	a)	A person's directorship nominated by a financial institution

STICKY NOTES

Relevant definitions

1. Associated companies and undertakings
2. Investment

Investment in associated companies

1. Power to make investments in general: Directors
2. Restriction on investment in associated company: Special resolution
3. Condition: agreement for loan (in writing and certain contents)
4. Condition: return on investment (not less than borrowing cost of the investing company and the rate specified by the Commission, whichever is higher)
5. Condition: due diligence (of borrowing company)
6. Exemptions and regulations (power of the Commission)

Investments of company to be held in its own name

1. Requirement: to be held in company's own name
2. Exception: to ensure minimum number of members in a subsidiary
3. Exception: qualification shares to nominate a person as director
4. Exception: in the name of CDC
5. Certain particulars to be maintained in the register of such investments
6. Open for inspection (members without charge; others on payment of fee)
7. Certified copies (on payment of fee; within 7 days)
8. Order by registrar for allowing inspection (in case of contravention)

Disclosure of interest by director

1. Why to disclose interest or concern (fiduciary relationship / duty to act in the best interest of the company)
2. Prohibited transactions are not validated by disclosure
3. Requirement (to disclose in board meetings when he or relative is interested)
4. Timing of disclosure (depends on whether transaction needs approval of the board)
5. General notice (shall expire at the end of financial year)

Interested director not to participate or vote

1. Will not be counted in quorum and not to participate in discussion or vote (if he votes, his vote shall be void)
2. Not to be present (listed company)
3. Approval from members (if majority of directors are interested)
4. Exception (private company, neither subsidiary nor holding of public company & director acting as surety for the company).

Disclosure of interest by officers other than directors

1. Obtain prior approval of the board

Related party transactions

1. Expression: related party
2. Expression: office of profit
3. Requirement of approved policy for related party transactions
4. Requirement of special resolution (where majority of directors are interested)
5. Exception: transactions in ordinary course of business on an arm's length basis
6. Requirement to refer and justify in directors' report
7. Requirement to maintain records
8. Status of contracts in contravention by director or employee (voidable)
9. Penalty (Listed company: imprisonment upto 3 years or fine upto Rs. 5 million; other companies: Level 2 on standard scale)

AT A GLANCE

SPOTLIGHT

STICKY NOTES

ACCOUNTS AND ANNUAL RETURN

IN THIS CHAPTER:

AT A GLANCE

SPOTLIGHT

- 1 Books of Accounts
- 2 Financial Statements
- 3 Group Financial Statements
- 4 Directors' Report and Statement of Compliance
- 5 Annual Return
- 6 Objective Based Q&A

STICKY NOTES

AT A GLANCE

Every company shall prepare and keep at its registered office, books of accounts and other relevant books. It shall also prepare financial statements for every financial year which shall give true and fair view of company's affairs. Financial year means the period for which an entity prepares financial statements whether the said period is a year or not.

Directors have right to inspect the books of accounts during business hours but members do not have such right but may be authorized by the Act, directors or company in general meeting.

Financial statements must be approved by board of company. Audited financial statement shall be filed with the registrar once the company has approved the same in general meeting.

Listed companies are also required to prepare and file quarterly financial statements.

Consolidated financial statements of group are also prepared and attached with the financial statements of a holding company.

Directors report is also prepared by board of director of every company except in case of a private company which is not a subsidiary of public company and has a paid up share capital for less than Rs. 3 million.

Annual return of a company provides information about the company, its officers and members and share capital at the date of AGM or last day of calendar year if no AGM is held or held but not concluded.

1 BOOKS OF ACCOUNTS

1.1 Relevant definitions

Definition: Books and paper [Section 2(10)]

“book and paper” and “book or paper” includes books of account, cost accounting records, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form.

Definition: Books of account [Section 2(11)]

“books of account” include records maintained in respect of:

- a) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- b) all sales and purchases of goods and services by the company;
- c) all assets and liabilities of the company; and
- d) items of cost in respect of production, processing, manufacturing or mining activities.

Definition: Financial year [Section 2(34)]

“financial year” in relation to a company or any other body corporate, means the period in respect of which any financial statement of the company or the body corporate, as the case may be, laid before it in general meeting, is made up, whether that period is a year or not.

1.2 Books of accounts to be kept by a company [Section 220]

Requirement

Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statements for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch offices, if any.

Cost accounts

In the case of a company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or the other inputs or items of cost as may be specified, shall also be maintained.

Keeping books at place other than registered office

All or any of the books of account aforesaid and other relevant papers may be kept at such other place in Pakistan as the board may decide and where such a decision is taken, the company shall file with the registrar a notice in writing giving the full address of that other place within 7 days of the decision.

Records of branch offices

Where a company has a branch office in Pakistan or outside Pakistan, it shall be deemed to have complied with the requirement, if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarized returns are sent periodically by the branch office to the company at its registered office or the other place where books of accounts are kept.

Inspection by directors

The books of account and other books and papers maintained by the company within Pakistan shall be open for inspection by any director during business hours, and in the case of financial information, if any, maintained outside the country, copies of such financial information shall be maintained and produced for inspection by any director.

Where such inspection is made, the officers and other employees of the company shall give to the director making such inspection all assistance in connection with the inspection which the company is reasonably expected to give.

Inspection by members

Members do not have absolute right to inspect books of accounts. .

Time period

The books of account of every company relating to a period of not less than 10 financial years immediately preceding a financial year together with the vouchers relevant to any entry in such books of account shall be kept in good order.

► Example 01:

Extravagant Hotels Limited (EHL) was incorporated in the year 2000. EHL's financial year ends on 30 June. EHL has kept its books of accounts in professional, systematic and organised manner since incorporation. On 15 March 2022, due to shortage of space, the board of directors has approved that the books of accounts should only be kept up to the period prescribed by the Companies Act, 2017. EHL can dispose of such books of accounts up to the financial year 2011.

Requirement for liquidator

The liquidator of the company appointed for winding up of the company is also required to maintain the above stated books of accounts for the company during its winding up.

► Practice Question 01:

SQL Plastics Limited is a wholly owned subsidiary of a foreign company and has its registered office in Karachi.

- List the books of account the company is required to maintain.
- State the conditions which the directors shall be required to comply with if they want to keep the books of account at SQL's factory located in Peshawar.

► Solution:

- SQL Plastic Limited must keep proper books of account and other relevant books and papers and financial statements for every financial year which give a true and fair view of the state of the affairs of the company. in the case of a company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or the other inputs or items of cost shall also be maintained.
- As the directors of SQL Plastic Limited intend to keep the books of account at a place other than the registered office, SQL Plastic Limited must file with the registrar a notice in writing within 7 days of the decision, giving the full address of the other place.

2 FINANCIAL STATEMENTS

2.1 Relevant definitions

Definition: Financial statements [Section 2(33)]

“financial statements” in relation to a company, includes:

- a) a statement of financial position as at the end of the period;
- b) a statement of profit or loss and other comprehensive income or in the case of a company carrying on any activity not for profit, an income and expenditure statement for the period;
- c) a statement of changes in equity for the period;
- d) a statement of cash flows for the period;
- e) notes, comprising a summary of significant accounting policies and other explanatory information;
- f) comparative information in respect of the preceding period; and
- g) any other statement as may be prescribed.

Definition: Chief financial officer (CFO) [Section 2(15)]

“chief financial officer” means an individual appointed to perform such functions and duties as are customarily performed by a chief financial officer.

2.2 Financial statements [Section 223]

Requirement

The board of every company must lay before the company in AGM its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company.

Time limit

The first financial statement must be laid at some date not later than sixteen months after the date of incorporation of the company and subsequently once at least in every calendar year.

The financial statements must be laid within a period of 120 days following the close of financial year. However, in the case of a listed company the Commission, and in any other case the registrar, may, for any special reason, extend the period for a term not exceeding 30 days.

Duration of financial year

The period to which the statements aforesaid relate, not being the first, shall not exceed one year except where special permission of the registrar has been obtained.

Audit

The financial statement shall be audited by the auditor of the company, and the auditor’s report shall be attached thereto.

The requirement of audit shall not apply to a private company having the paid up capital not exceeding Rs. 1 million or such higher amount of paid up capital as may be notified by the Commission.

Dispatch to members

Every company shall send audited financial statements together with the auditor's report, directors' report and in the case of a listed company the chairman's review report to every member of the company and every person who is entitled to receive notice of general meeting, either by post or electronically at least 21 days before the date of meeting at which it is to be laid before the members of the company.

Copy at registered office

The company shall keep a copy of financial statements together with the said report at the registered office of the company for the inspection of the members.

Filing to Authorities by Listed company

A listed company shall, simultaneously with the dispatch to members, send by post three copies and electronically a copy of such financial statements together with said reports to each of the Commission, registrar and the securities exchange and shall also post the same on the company's website.

The reports shall be made available on the website of the company for a time period as may be specified.

2.3 Approval and authentication of financial statements [Section 232]

Manner of authentication

The financial statements must be approved by the board of the company and signed on behalf of the board by the chief executive and at least one director of the company, and in case of a listed company also by the chief financial officer.

Chief executive not in Pakistan

When the chief executive is for the time being not available in Pakistan, then the financial statements may be signed by at least two directors.

Affidavit by certain private companies

In case of a private company having a paid up capital not exceeding Rs. 1 million, the financial statements shall also be accompanied by an affidavit executed by those who signed the financial statements, that the financial statements have been approved by the board.

Single member company

The financial statements of a single member company shall be signed by one director.

2.4 Filing of financial statements with registrar (after AGM) [Section 233]

Requirement

After the audited financial statements have been laid before the company at the AGM and duly adopted, a copy of such financial statements together with reports and documents required and, duly signed (by CEO/directors), shall be filed by the company with the registrar.

Time limit

Above financial statements shall be filed within 30 days from the date of such meeting in case of a listed company and within 15 days in case of any other company.

When members do not adopt financial statements

If the general meeting before which the financial statement is laid does not adopt the same or defers consideration thereof or is adjourned, a statement of that fact and of the reasons therefor shall be annexed to the said financial statements required to be filed with the registrar.

Not applicable to

This filing requirement shall not apply to a private company having paid up capital not exceeding Rs. 10 million or such higher amount as may be notified by the Commission.

2.5 Quarterly financial statement of listed companies [Section 237]**Time period**

Every listed company shall prepare the quarterly financial statements within the period of:

- 30 days of the close of first and third quarters of its year of accounts; and
- 60 days of the close of its second quarter of its year of accounts.

Additional requirement for second quarter

Additional requirements for second quarter accounts:

- a) the cumulative figures for the half year i.e. six months be presented
- b) it shall be subjected to a limited scope review by the statutory auditors of the company
- c) limited scope review shall be in such manner and according to such terms and conditions as may be determined by ICAP and approved by the Commission.

► **Example 02:**

Adeel Limited is a listed company with financial year from 1 July to 30 June. It shall prepare following financial statements for the year 2019 – 2020.

Financial statements	Date / Time limit
For the quarter ending 30 September 2019	30 th October 2019 (within 30 days)
For the quarter ending 31 December 2019	29 th February 2020 (within 60 days)
For the half year ending 31 December 2019	29 th February 2020 (within 60 days)
For the quarter ending 31 March 2020	30 th April 2020 (within 30 days)
For the year ending 30 June 2020	28 th October 2020 (within 120 days)

Posted on website and electronic filing

The quarterly financial statements shall be posted on the company's website for the information of its members. Moreover, it shall also be transmitted electronically within the period specified above:

- to the Commission,
- to the securities exchange; and
- with the registrar.

The Commission may specify the time period for which the quarterly financial statements shall be made available on the website of the company.

Extension in time for first quarter

However, if the company was allowed extension for annual financial statements; the company may apply to the Commission for extension for filing accounts of first quarter and the Commission may extend the period of filing for a period not exceeding 30 days.

► *Example 03:*

The board of Relax Furniture Limited (RFL) a listed company, couldn't lay before the company in annual general meeting its annual financial statements for the year ended 30th June 2019 that was required to be laid on or before 28th October 2019; accordingly applied to the Commission for extension. Commission extended the period up to 27th November 2019.

RFL was required to file its accounts for first quarter on or before 30th October 2019 i.e. Within 30 days of the close of first quarter of its year of accounts. Hence also applied to the Commission to extend the period of filing the same due to the fact that the time period for its annual financial statements for the year ended 30th June 2019 were also extended by the Commission.

Dispatch to member on request

A copy of the quarterly financial statements shall be dispatched in physical form if so requested by any member without any fee.

Authentication

The approval and authentication requirements of the quarterly financial statements are same as those of annual financial statements.

► *Practice Question 02:*

Under the provision of the Companies Act, 2017 briefly describe the requirements of a private limited company for presenting its first financial statements in the annual general meeting and whether the financial statements are required to be audited.

► *Solution:*

The first financial statements of a private limited company must be laid before the general meeting not later than sixteen months after the date of incorporation of the company.

In addition to above, the financial statements must be laid within a period of 120 days following the close of the financial year. However, for any special reason, the registrar may extend the period for a term not exceeding 30 days.

The first financial statements of a private limited company shall be audited by its auditor and auditor's report shall be attached thereto. However, if the paid up capital of the private company does not exceed one million the audit is not mandatory.

► *Practice Question 03:*

The chief executive of Raza Enterprises Limited (REL), a listed company, is out of the country at the time of finalization of annual accounts. Explain the provisions related to signing and authentication of the annual accounts as contained in the Companies Act, 2017 which REL would have to comply with, in the above situation.

► *Solution:*

When the chief executive is for the time being not in Pakistan, then the financial statements of the company shall be signed by not less than two directors for the time being in Pakistan, and since it is a listed company the financial statements shall also be signed by the CFO.

► *Practice Question 04:*

The annual general meeting of a company was held on October 24, 2019 but on account of certain disagreements, the members did not adopt the audited financial statements for the year ended June 30, 2019. In the above situation how would the company comply with the provisions of the Companies Act, 2017 related to the filing of copies of annual accounts with the registrar of companies?

► *Solution:*

Even if the financial statements are not approved by the shareholders, the company would still be required to file the financial statements with the registrar within 30 days of the annual general meeting. However, in such a situation a statement of the fact that the financial statements have not been adopted giving reasons thereof shall have to be attached while filing the financial statements.

► *Practice Question 05:*

Under the provisions of the Companies Act, 2017 briefly discuss:

- i. the time frame within which quarterly financial statements should be prepared and the requirement, if any, for its review
- ii. the filing requirement of the quarterly financial statements.

► *Solution:***Part (i) Time frame for preparation of quarterly financial statements**

Every listed company shall prepare the quarterly financial statements within the period of:

- thirty days of the close of first and third quarters of its year of accounts; and
- sixty days of the close of its second quarter of its year of accounts.

Requirement of review of second quarter financial statements

The cumulative figures for the half year presented in the second quarter accounts shall be subjected to a limited scope review by the statutory auditors of the company in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan and approved by the Commission.

Part (ii) Filing of quarterly financial statements

The quarterly financial statements must be transmitted electronically to the Commission, Securities Exchange and with the Registrar within the period as specified above.

However, upon an application by the company, the Commission may, extend the period of filing in case of accounts of the first quarter for a period not exceeding thirty days, if the company was allowed extension in respect of its previous financial statements.

► *Practice Question 06:*

Annual general meeting of Opal Limited (OL), a listed company, for the year ended 31 December 2020 was held on 1 March 2021. All the presented agenda items were approved at the meeting except for the adoption of annual financial statements.

In the light of the Companies Act, 2017 discuss the requirements OL must comply with for filing its financial statements.

► *Solution:*

Since OL's financial statements have not been adopted in the annual general meeting, a statement of that fact and its reasons shall be annexed to the said financial statements required to be filed with the registrar within thirty days from the date of the meeting i.e. 30 March 2021.

► *Practice Question 07:*

Red Limited (RL) is listed on Pakistan Stock Exchange. The audit of RL's financial statements for the year ended 30 November 2021 is in process and will be concluded on 28 March 2022. The management has informed that the financial statements for quarter ended 28 February 2022 will be prepared two weeks after the conclusion of year end's audit.

Under the provisions of the Companies Act, 2017 advise all the statutory compliances to be made by RL in respect of aforesaid financial statements including transmission/dispatch requirements, if any.

► *Solution:***Statutory compliance for the financial statements for year ended 30 November 2021:**

Red Limited (RL) is required to lay its duly audited financial statements for the year ended 30 November 2021 within 120 days following the close of its financial year i.e. by 30 March 2022.

Since the audit will be concluded on 28 March 2022, RL would not be able to send the financial statements twenty-one days before the date of meeting, i.e. on or before 8 March 2022. Accordingly, RL is required to make an application to the Commission requesting an extension for filing the financial statements giving special reason. It is also advisable to get the extension for annual general meeting (AGM).

After getting the aforesaid extension, RL shall send the financial statements for the year ended 30 November 2021 together with the auditors' report, directors' report and chairman's review report to every member and every person who is entitled to receive notice of general meeting, either by post or electronically at least twenty-one days before the date of the meeting at which it is to be laid before RL's members, and shall keep a copy at its registered office for the inspection of the members.

RL shall, simultaneously with the dispatch of the financial statements as above, send by post three copies and electronically a copy of the financial statements together with said reports to the Commission, registrar and the securities exchange and shall also post on the RL's website.

After the financial statements have been laid before the company at either the AGM or in an extra ordinary general meeting to be held maximum by 29 April 2022 if extension of 30 days has been granted by the Commission, a copy of such financial statements shall be filed with the registrar within thirty days from the date of general meeting i.e. by 29 May 2022.

If the general meeting before which the financial statements are laid does not adopt the same or defers consideration thereof or is adjourned, a statement of that fact and of the reasons therefor shall be annexed to the said financial statements required to be filed with the registrar.

Statutory compliance for first quarterly financial statements for the quarter ended 28 February 2022

RL is required to prepare its quarterly financial statements within 30 days of the close of first quarter i.e. 30 March 2022. Since it is established that the quarterly financial statements will be prepared 2 weeks after 28 March 2022 i.e. 12 April 2022, therefore, RL should make an application to the Commission requesting extension in the period for filing its first quarterly financial statements; if the Commission has allowed extension for laying the financial statement for the year ended 30 November 2021 as discussed earlier.

Quarterly financial statements shall be posted on RL's website for the information of its members and also be transmitted electronically to the Commission, securities exchange and with the registrar maximum by 29 April 2022 if that extension of 30 days has been received from the Commission.

► *Practice Question 08:*

Under the provisions of the Companies Act, 2017 briefly explain the provisions relating to the quarterly financial statements of a listed company. Your answer should cover the following:

- Time frame within which quarterly financial statements should be prepared and the requirement for its review
- Requirement for the approval and authentication
- Requirement for its publication and transmission

► *Solution:***Part (a) Time frame for preparation:**

Every listed company shall prepare the quarterly financial statements within the period of:

- thirty days of the close of first and third quarters of its year of accounts; and
- sixty days of the close of its second quarter of its year of accounts.

Requirement of review:

- **First and third quarter financial statements:** It is not mandatory for a listed company to get the first and third quarterly financial statements reviewed.
- **Second quarter financial statements:** The cumulative figures for the half year, presented in the second quarter financial statements shall be subjected to a limited scope review by the statutory auditors of the company in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan and approved by the Commission.

Part (b) Requirement for approval and authentication:

The quarterly financial statements must be approved by the board of the company and signed on behalf of the board by the chief executive and at least one director of the company and also by the chief financial officer.

If the chief executive is for the time being not available in Pakistan, then it may be signed by at least two directors.

Part (c) Publication and transmission:

The quarterly financial statements shall be posted on the company's website for the information of its members and also be transmitted electronically to the Commission, securities exchange and the registrar within the period specified in (a) above.

The Commission may, upon an application by the company, extend the period of filing in case of financial statements of first quarter for a period not exceeding thirty days, as per relevant provisions of the Companies Act, 2017.

A copy of the quarterly financial statements shall be dispatched in physical form, if so requested by any member without any fee.

The Commission may specify the time period for which the quarterly financial statements shall be made available on the website of the company.

► **Practice Question 09:**

Dates Ceramics Limited (DCL) was incorporated on 1 July 2021 as an unlisted company and all the seven subscribers were appointed as DCL's directors.

On 8 September 2022, an urgent meeting of DCL's board was held to discuss the fire occurred in the office building. Among other matters, the chief executive also informed the board that:

- all the financial records were lost and the data from the backup server have not yet been restored. He further informed that IT team is confident that they will restore the data by next week.
- the audit of DCL's financial statements for the year ended 30 June 2022 is yet to be completed and due to this fire incident, it is not possible to complete it before 15 December 2022. Consequently, DCL's annual general meeting would not be held on 22 October 2022 as planned.

Under the provisions of the Companies Act, 2017 state the responsibilities of DCL's directors in the given scenario.

► **Solution:**

Since it will be DCL's first annual general meeting (AGM) after its incorporation, DCL's directors shall be responsible for the following in the given scenario:

i. AGM and financial statements:

To hold AGM and lay DCL's financial statements within sixteen months from the date of its incorporation i.e. by 31 October 2022.

To make an application to the registrar for the grant of extension in the time for holding AGM and laying before the AGM DCL's financial statements.

To ensure that AGM should not be delayed for more than 30 days i.e. beyond 30 November 2022 as may be allowed by the registrar.

ii. Election of directors:

To hold election of directors in DCL's AGM, since DCL's first directors shall stand retired from office of the directors.

To continue to perform their functions until their successors are elected, if DCL's first AGM could not be held on its due date.

To take immediate steps to hold the election of directors and in case of any impediment should report such circumstances to the registrar within 45 days before the due date of AGM in which elections are to be held i.e. on or before 15 September 2022.

To ensure that the first AGM should not be delayed for more than 90 days from the due date of the meeting i.e. beyond 29 January 2023 or such extended time as may be allowed by the registrar.

► Practice Question 10:

Under the provisions of the Companies Act, 2017, briefly describe the terms 'Financial statements' and 'Body corporate'.

► Solution:

"Financial statements" in relation to a company, includes:

- i. a statement of financial position as at the end of the period;
- ii. a statement of profit or loss and other comprehensive income or in the case of a company carrying on any activity not for profit, an income and expenditure statement for the period;
- iii. a statement of changes in equity for the period;
- iv. a statement of cash flows for the period;
- v. notes, comprising a summary of significant accounting policies and other explanatory information;
- vi. comparative information in respect of the preceding period; and
- vii. any other statement as may be prescribed.

"Body corporate" includes:

- i. a company incorporated under the Companies Act, 2017 or company law; or
- ii. a company incorporated outside Pakistan, or
- iii. a statutory body declared as body corporate in the relevant statute, but does not include:
 - a co-operative society registered under any law relating to cooperative societies; or
 - any other entity, not being a company as defined in the Companies Act, 2017 or any other law for the time being which the concerned Minister-in-Charge of the Federal Government may, by notification, specify in this behalf.

► **Practice Question 11:**

Under the provisions of the Companies Act, 2017, briefly describe the provisions related to the approval and authentication of the financial statements.

► **Solution:**

The Companies Act, 2017 includes the following provisions related to financial statements approval and authentication:

- i. The financial statements, including consolidated financial statement, if any, must be approved by the board of the company.
- ii. The financial statements, including consolidated financial statement, if any, must be signed on behalf of the board by the chief executive and at least one director of the company. In the case of a listed company, the financial statements must also be signed by the chief financial officer.

However, if the chief executive is not available in Pakistan, the financial statements may be signed by at least two directors.
- iii. The financial statements of a private company having a paid up capital not exceeding Rs. 1 million shall also be accompanied by an affidavit executed by the chief executive if the accounts are signed by him or by any of the directors if the accounts have been signed by two directors, as the case may be, that the financial statements have been approved by the board.
- iv. The financial statements of a single member company shall be signed by one director.

► **Practice Question 12:**

Briefly discuss the provisions of the Companies Act, 2017, in respect of the following independent matters:

- a) Requirements for maintenance of books of account.
- b) Presentation and circulation of the financial statements before the first annual general meeting (AGM) as the board of directors plans to convene the first AGM on 8 December 2023. Assume that the company was incorporated on 1 August 2022.

► **Solution:**

Part (a)

The requirements for the maintenance of books of account under the provisions of the Companies Act, 2017 are as follows:

General requirements

Every company is required to prepare and keep books of account, along with other relevant books, papers, and financial statements, at its registered office for each financial year including that of its branch office(s), if any. These records should give a true and fair view of the state of the affairs of the company.

Specific Requirements

Companies engaged in production, processing, manufacturing, or mining activities must maintain specific details concerning the utilization of materials, labour, and other inputs or cost-related items, as may be specified.

Alternate Location for Keeping Records

The board of the company can decide to keep any or all of the aforementioned books and papers at a different location within Pakistan. In such a case, the company is required to file a written notice with the registrar within seven days of decision of the board, providing the full address of that other place.

Branch Offices

Where a company has branch office(s) in Pakistan or outside Pakistan, it is considered compliant with the aforesaid requirements if proper books of account relating to transactions at the branch office are maintained at that office and summarized returns are periodically sent from the branch office to the company's registered office or the other place.

Retention of Records

The company's books of account, covering a period of at least ten immediate financial years prior to the current financial year, or for all the years preceding if the company has been in existence for less than ten years should be maintained in good order, along with relevant vouchers for any entries in those records.

Part (b)

Presentation of the financial statements

The first financial statements must be presented at the first AGM, and this should occur within sixteen months from the company's date of incorporation. On the basis of stated assumption the company was incorporated on 1 August 2022, its first AGM should be held by 30 November 2023. During this meeting, the company should present its first financial statement and not on the originally planned date of 8 December 2023.

The financial statements should be audited by the company's appointed auditor, and the auditor's report should be attached to these statements. However, this audit requirement does not apply to private limited companies with a paid-up capital not exceeding one million rupees, or any higher amount as notified by the Commission.

Circulation of the financial statements

The company is obligated to send its audited financial statements, along with the auditor's report, directors' report and in the case of a listed company, the chairman's review report to:

- every member of the company and
- every person entitled to receive notice of AGM, either through post or electronically, at least twenty-one days prior to the date of first AGM. The company is also required to keep a copy of the audited financial statements at its registered office, available for inspection of the members.

For listed companies, alongside dispatching the financial statements and related reports as mentioned above, the company must send three copies by post and one copy electronically to the Commission, the registrar, and the securities exchange. Additionally, the company should post these documents on its website.

For single-member companies, the aforementioned requirements do not apply, except for the audit requirement as stated earlier.

► Practice Question 13:

Under the provisions of the Companies Act, 2017, discuss the following in the context of half-yearly and annual financial statements of a listed company:

- a) The timeframe for preparing these statements, along with the requirements for their review and audit.
- b) The requirements for their approval, authentication, publication and transmission.

► Solution:

Part (a)

Time frame for preparation

A listed company is required to prepare:

- i. Its half-yearly financial statements within sixty days of the close of the second quarter of its year of accounts.

ii. Its annual financial statements:

- For the first financial statements, within sixteen months of incorporation.
- For subsequent annual financial statements, within one hundred and twenty days following the close of its financial year.

Requirement for review and audit

Half-yearly financial statements

The half-yearly financial statements must undergo a limited scope review by the company's statutory auditors. This review should be conducted in accordance with the terms and conditions determined by the Institute of Chartered Accountants of Pakistan and approved by the Commission.

Annual financial statements

The annual financial statements must be audited by the company's auditors in the manner stipulated by the Companies Act, 2017. The auditor's report must be attached to the financial statements.

Part (b) Requirements for half-yearly and annual financial statements of a listed company:

Approval and authentication

The half-yearly and annual financial statements must be approved by the board and signed on behalf of the board by the chief executive, at least one director of the company and also by the chief financial officer.

If the chief executive is for the time being not available in Pakistan, the financial statements may instead be signed by at least two directors of the company.

Publication and transmission:

A copy of the annual audited financial statements, along with the auditors' report, directors' report and the chairman's review report, must be sent to every member of the company and to every person entitled to receive notice of the general meeting. This can be done either by post or electronically, at least twenty-one days before the meeting where it is to be presented to members.

The half-yearly and annual financial statements must be posted on the company's website for the information of its members and transmitted electronically to the Commission, the securities exchange and the registrar within the specified timeframe.

The Commission may specify the time period for which the half-yearly and annual audited financial statements should be available on the company's website.

Upon request, a physical copy of the half-yearly financial statements shall be dispatched to any member without any fee.

► Practice Question 14:

Salmon Limited (SL) was incorporated as an unlisted company. SL's registered office is in Islamabad, with outlets in Karachi, Lahore, Multan and Dubai, and its factory and workshop located in Karachi.

On 5 September 2024, Ejaz Alam, a member residing in Multan, submitted a written request to inspect SL's complete books of accounts at the Multan office. He also requested copies of SL's financial statements for the last fifteen years.

Under the provisions of the Companies Act, 2017, advise SL on the validity of Ejaz Alam's request and outline the various requirements that must be considered.

► *Solution:*

Inspection of books of accounts

Under the Companies Act, 2017, SL is obligated to maintain its books of account and other books and papers at its registered office or another designated location within Pakistan. These records must be accessible for inspection by the company's directors during regular business hours. For financial information kept outside Pakistan, i.e., in Dubai, copies of this information must also be available for inspection by the directors.

Based on the aforementioned provisions of the law, Ejaz Alam, as a member of SL, does not have the right to inspect SL's books of account at the branch office or any other location. Only the company's directors possess this right. Therefore, Ejaz Alam's request to inspect SL's complete books of accounts is not valid under the law.

If SL maintains accurate financial records for each branch offices relating to the transactions effected at the branch offices in and outside Pakistan i.e. Dubai, at the respective branch location and regularly sends summarized returns periodically to SL's registered office or another designated location, discussed above, then SL will be considered compliant with the requirements of the Companies Act, 2017.

Copies of financial statements

SL is required to maintain its books of account for a minimum of ten years preceding the current year or the entire period of SL's existence if it is less than ten years old. These records should include the relevant vouchers for any entries related to financial transactions.

Based on the aforementioned provisions of the law, Ejaz Alam's request for financial statements spanning 15 years exceeds the statutory requirement of 10 years. While SL may retain records for a period longer than the legal minimum, it is not obligated to provide financial statements beyond the prescribed timeframe.

► *Practice Question 15:*

Under the provisions of the Companies Act, 2017, state the requirements related to the first financial statements for public unlisted companies.

► *Solution:*

Under the Companies Act, 2017, the requirements related to the first financial statements for public unlisted companies are as follows:

Laying of first financial statements

The board must lay the first financial statements before the company at its annual general meeting. The financial statements should cover the period from the incorporation of the company up to the close of the first financial year adopted by the company.

Length of the period covered

The period covered by the first financial statements can exceed 12 months.

Timeline for laying first financial statements

The first financial statements must be laid no later than 16 months after the date of incorporation of the company.

Approval and signing

The financial statements must be approved by the board of directors and signed on behalf of the board by the CEO and at least one other director. For listed companies, the CFO must also sign.

Audit requirements

The first financial statement must be audited by the company's auditors, with the auditor's report attached to the financial statements.

Distribution of financial statements

Audited financial statements, along with the auditors' and directors' reports, must be sent to every member of the company and every person entitled to receive notice of general meeting. These documents must be sent via post or electronic means at least 21 days before the general meeting.

Members access

A copy of the financial statements must be kept at the registered office of the company for inspection by the members.

3 GROUP FINANCIAL STATEMENTS

3.1 Consolidated financial statements [Section 228]

Requirement

There shall be attached to the financial statements of a holding company having a subsidiary or subsidiaries, at the end of the financial year at which the holding company's financial statements are made out, consolidated financial statements of the group presented as those of a single enterprise and such consolidated financial statements shall comply with the disclosure requirements of the relevant Schedule and financial reporting standards notified by the Commission.

Exception

The above requirement shall not apply to a private company and its subsidiary, where none of the holding and subsidiary company has the paid up capital exceeding Rs. 1 million.

Additional interim financial statements

Where the financial year of a subsidiary precedes the day on which the holding company's financial year ends by more than 90 days, such subsidiary shall make an interim closing, on the day on which the holding company's financial year ends, and prepare financial statements for consolidation purposes.

► Example 04:

On January 1, 2020 River Pakistan Limited (RPL) became the holding company of Green Pakistan Limited (GPL) by acquiring 51% shares. The financial year-end of RPL is 30th June and that of GPL is 31st December. GPL shall be required to make an interim closing on 30th June 2020 to prepare financial statements from 1 July 2019 to 30 June 2020 for consolidation purposes. These financial statements shall be in addition to those prepared from 1 January to 31 December by GPL.

Audit

Every auditor of a holding company appointed (to audit its individual financial statements) shall also report, in the specified form, on consolidated financial statements and exercise all such rights and duties as are vested in him under the law.

Disclosure of certain material information

There shall also be disclosed in consolidated financial statements any note or explanation on a qualification (relating to a subsidiary) which is material from viewpoint of members of holding company but have not been covered in the financial statements of holding company.

Authentication

Every consolidated financial statement shall be signed by the same persons by whom the individual financial statements of the holding company are required to be signed.

Application of other sections

The all provisions of sections 223, 233, 234, 235 and 236 shall apply to a holding company required to prepare consolidated financial statements as if for the word "company" appearing in these sections, the words "holding company" were substituted.

Relaxation by the Commission

The Commission may, on an application of a holding company, direct that the above provisions shall not apply to such extent as may be specified in the direction.

Penalty

Any contravention or default in complying with above requirements shall be an offence liable to a penalty of level 2 on the standard scale.

3.2 Financial year of holding company and subsidiary [Section 229]

Financial year to coincide

The board of a holding company shall ensure that its financial year and each of its subsidiaries coincides, except where in their opinion there are good reasons against it.

Facilitation by the Commission

For the above purposes, the Commission may facilitate a holding company or a subsidiary by extending the financial year of any such company, on an application by such company.

► Example 05:

On October 1, 2021 Food Festival Limited (FFL) became the holding company of Oregano Limited (OL) by acquiring 60% shares. The financial year-end of FFL is 31st December and that of OL is 31st October. OL applied for extension of its financial year so that its financial year coincides with that of FFL (its holding company). The Commission may allow the extension.

Other related relaxations

While granting any extension as mentioned above, the Commission may grant such other relaxations as may be incidental or ancillary thereto.

► Example 06:

On October 1, 2021 Food Festival Limited (FFL) became the holding company of Oregano Limited (OL) by acquiring 60% shares. The financial year-end of FFL is 31st December and that of OL is 31st October. OL applied for extension of its financial year so that its financial year coincides with that of FFL (its holding company). The Commission may allow the extension. The Commission may also allow other relaxations e.g. holding of AGM and other filing requirements.

► Practice Question 16:

Muskmelon Investment Limited's Research Manager has provided you the break-up of shareholding of the following companies:

Name of companies	*Paid-up share capital	Shareholders					
		AL	BPL	CPL	DL	EL	Others
		----- Rs. in '000 -----					
Apricot Ltd. (AL)	10,000	-	-	3,000	3,500	3,500	-
Berry (Pvt) Ltd. (BPL)	20,000	10,200	-	2,000	3,800	4,000	-
Cherry (Pvt) Ltd. (CPL)	300,000	-	-	-	-	-	300,000
Damson Ltd. (DL)	400,000	-	-	288,000	-	-	112,000
Elderberry Ltd. (EL)	50,000	-	-	20,000	30,000	-	-

*** Each share carries one voting right.**

Using the information above, under the provisions of the Companies Act, 2017:

- a) prepare a summary to determine the relationship that exists between the following companies (*Ignore the relationship of associated companies*):
 - i. DL and BPL
 - ii. CPL and AL
- b) identify the companies as covered in (a) above that are required to prepare consolidated financial statements.

► **Solution:**

Part (a) (i) Relationship between DL and BPL:

BPL shall be deemed to be a subsidiary of DL because DL controls itself, together with its subsidiaries more than one-half of voting securities in the following manner:

DL itself holds $[(3,800 \div 20,000) \times 100]$	19.00%
Through subsidiaries:	
EL 60% (W-1) $[(4,000 \div 20,000) \times 100]$	20.00%
AL 70% (W-2) $[(10,200 \div 20,000) \times 100]$	51.00%
Total voting securities of BPL, controlled by DL	90.00%

W-1: $30,000 \div 50,000 \times 100 = 60\%$

W-2: $[35\%(3,500 \div 10,000 \times 100) \text{ DL itself} + 35\%(3,500 \div 10,000 \times 100) \text{ through EL}] = 70\%$

Part (a) (ii) Relationship between CPL and AL:

AL shall be deemed to be a subsidiary of CPL because CPL controls itself or together with its subsidiaries more than one-half of voting securities in the following manner:

CPL itself holds $[(3,000 \div 10,000) \times 100]$	30.00%
Through subsidiaries:	
DL 72% (W-1) $[(3,500 \div 10,000) \times 100]$	35.00%
EL (Note-1) $[(3,500 \div 10,000) \times 100]$	35.00%
Total voting securities of AL, controlled by CPL	100.00%

W-1: $288,000 \div 400,000 \times 100 = 72\%$

Note-1: EL is subsidiary of DL as established in (i) above, hence it shall be deemed to be the subsidiary of CPL as well.

Related party relationship:

CPL being holding company of AL, BPL and DL as established in (i) and (ii) above, shall be considered as related parties of each other under the provisions of the Companies Act, 2017.

Part (b)

According to the provisions of the Companies Act, 2017 AL, CPL and DL being the holding companies as established in (a) above shall be required to prepare consolidated financial statements at the end of each financial year at which their financial statements are made out.

► *Practice Question 17:*

Nickel Motors Limited (NML) is considering the acquisition of 70% shares of Copper Tyres Limited (CTL), a public unlisted company having three members, all of whom are also its directors. The shares that NML intends to buy, are held by Naeem (40%) and Waqas (30%).

The board advised the Company Secretary to present responses of the following matters in the next meeting:

- i. Assess the potential implications of acquiring shares of Naeem and Waqas in CTL and devise strategies to effectively address any consequences that may arise.
- ii. Consider appointing Kamran, the son of one of NML's directors, as CTL's CEO. Some directors believe that Kamran may not be eligible as he is not a member of CTL.

In light of the provisions of the Companies Act, 2017, prepare the response to be submitted to the board of directors.

► *Solution:*

Following is the response to be submitted to NML's board of directors in accordance with the provisions of the Companies Act, 2017 (the Act):

Response to matter (i)

The potential implications resulting from the acquisition of CTL's shares from Naeem and Waqas are as follows:

Effect on CTL with respect to number of members

After the proposed acquisition of CTL's shares, NML will replace Naeem and Waqas as a member. This will reduce the number of CTL's members from three to two. However, the Act requires a public company to have a minimum of three members.

NML could address the aforementioned implication by transferring one of CTL's share from its own investments to any of its nominees, thereby increasing the number of members to the statutory limit.

Though the Act requires NML to hold all shares of CTL in its own name, since NML will become the holding company of CTL by holding 70% shares (= 40% + 30%), NML is permitted to hold a portion of its shares in the name of its nominee(s).

Effect on CTL with respect to the number of directors

Once Naeem and Waqas ceases to be members of CTL, they will ipso facto cease to hold the office of directors as well. As a result, the number of CTL's directors will be reduced from three to one. However, the Act requires a public company to have at least three directors.

NML could address the aforementioned implication by nominating at least two natural persons as its nominee directors. For this purposes, NML is permitted to register or hold jointly in its own name and in the name of such nominee, or in the name of such nominee alone, a number of CTL's shares not exceeding the nominal value of the qualification shares required to be held by a director of CTL as per CTL's article of association.

While nominating a person as a director, NML must ensure that those persons do not hold the position of director in more than seven companies.

Effect on NML upon the appointment of a nominee member

To fulfil the criteria for the minimum number of members i.e. 3, NML will need to transfer shares with a total value not exceeding the nominal value of the qualification shares required to be held by a director. Therefore, NML will have to hold CTL's shares either jointly in its own name and in the name of such person or nominee, or solely in the name of such person or nominee.

Subsequently, NML will need to enter the shares held in the name of the nominee in a register maintained for such shares at its registered office, providing the nature, value and other necessary particulars of the CTL shares to fully identify them.

Upon NML's becoming holding company, it is essential to ensure that CTL's financial year coincides with its financial year, if not already in coincidence.

Response to matter (ii)

Regarding the appointment of Kamran as CTL's CEO and the concerns raised by some directors about his eligibility due to his non-membership in CTL, it is pertinent to note that the Act empowers the board of the company (i.e. CTL's board) to appoint any person, including an elected director, as CEO. This person shall be deemed to be a director and is not necessarily required to be a member of the company.

Based on the provisions of the Act, the concerns raised by some directors are incorrect, and Kamran can indeed be appointed as CTL's CEO.

4 DIRECTORS' REPORT AND STATEMENT OF COMPLIANCE

4.1 Duty to prepare directors' report and statement of compliance [Section 226]

Directors' report

The board shall prepare a directors' report for each financial year of the company other than a private company, not being a subsidiary of public company, having the paid up capital not exceeding Rs. 3 million.

Statement of compliance

The Commission may by general or special order, direct such class or classes of companies to prepare a statement of compliance. The board shall make out and attach to the financial statement such statement of compliance as may be specified.

4.2 Contents of directors' report [Section 227]

Minimum contents of directors' report

The directors shall make out and attach to the financial statements, a report with respect to:

- the state of the company's affairs and a fair review of its business;
- the amount (if any), that the directors recommend as dividend; and
- the amount (if any), they propose to carry to the Reserve Fund, General Reserve or Reserve Account.

► Example 07:

The state of the affairs may be summarised by the directors in one broad paragraph or it may be discussed by them at length, depending upon the quality of information available to share with the members of the company.

Additional contents of directors' report for certain companies

There are additional contents are required for following companies:

- Public company
- Private company, which is a subsidiary of public company

The additional contents are:

- the names of the persons who, at any time during the financial year, were directors of the company;
- the principal activities and the development and performance of the company's business during the financial year;
- a description of the principal risks and uncertainties facing the company;
- any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiaries, or any other company in which the company has interest;
- the information and explanation in regard to any contents of modification in the auditor's report;
- information about the pattern of holding of the shares in the form specified;
- the name and country of origin of the holding company, if such company is a foreign company;
- the earning per share;
- the reasons for loss if incurred during the year and future prospects of profit, if any;

- information about defaults in payment of any debts and reasons thereof;
- comments in respect of adequacy of internal financial controls;
- any material changes and commitments affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statement relates and the date of the report;
- disclosure with respect to remuneration package of each of the directors and chief executive including but not limited to salary, benefits, bonuses, stock options, pension and other incentives; and
- any other information as may be specified.

► **Example 08:**

Auditor's report of the company is addressed to the members of the company, if the auditor has pointed out any observation or has in any way modified his opinion, the directors should address the matter and provide the members with their version of situation so that the members can better assess the situation as highlighted by the auditor's report.

► **Example 09:**

Say, the year-end date of company is 30th June 2012 and directors' report is dated for 01st October 2012. On 3rd September company has entered into a major joint venture with a foreign company. This joint venture is a matter that needs to be discussed in the directors' report; similarly, if government has imposed certain additional taxation on the company between the end of financial year and the date of directors' report, directors' report would have addressed this matter as well.

Authentication

The directors' report and statement of compliance must be approved by the board and signed by the chief executive and a director of the company.

4.3 Business review section of directors' report [Section 227]

Business review of listed company

In the case of a listed company, the business review must, to the extent necessary for understanding the development, performance or position of the company's business, include:

- the main trends and factors likely to affect the future development, performance and position of the company's business;
- the impact of the company's business on the environment;
- the activities undertaken by the company with regard to corporate social responsibility during the year;
- directors' responsibility in respect of adequacy of internal financial controls as may be specified; and
- the legitimate reasons for not declaring dividend despite earning profits and future prospects of dividend, if any.

► **Practice Question 18:**

Under the provisions of Companies Act, 2017 it is the responsibility of the board to prepare directors' report for each financial year. The Act has further prescribed the minimum contents of such report.

In the above context, list the matters which are required to be included in the business review section of the directors' report of a listed company.

► *Solution:*

In the case of a listed company, the business review section must, to the extent necessary for understanding the development, performance or position of the company's business, include:

- the main trends and factors likely to affect the future development, performance and position of the company's business;
- the impact of the company's business on the environment;
- the activities undertaken by the company with regard to corporate social responsibility during the year;
- directors' responsibility in respect of adequacy of internal financial controls as may be specified; and
- the legitimate reasons for not declaring dividend despite earning profits and future prospects of dividend, if any.

► *Practice Question 19:*

The annual general meeting of Iqra Industries Limited (IQL), a listed company, is to be held on October 25, 20X3. In addition to the normal businesses, the company is planning to discuss a strategic business plan for the approval of the shareholders.

Explain the requirements of Companies Act, 2017 as regards the circulation of information/ documents to various stake holders, prior to the above meeting.

► *Solution:*

Following information/ documents are required to be circulated to various stake holders at least 21 days prior to the meeting.

Notice of meeting specifying the place and the day and hour of the meeting along with a statement of the business to be transacted at the meeting and in respect of the special business, statement setting out all material facts concerning the business, including, in particular the nature and extent of the interest therein, if any, of every director.

Every notice of a meeting of a company shall be accompanied by a proxy form.

The notice shall be sent to the following:

- All the members;
- All the directors;
- Any person entitled to a share in consequence of death of a member if the interest of such person is known to the company;
- The auditor or auditors of the company.

Copies of draft resolutions, which are proposed for consideration in the meeting. There shall be annexed to the notice of the meeting all material facts concerning that strategic business plan. Every company shall also send:

- copy of audited financial statements
- copy of auditors' report
- Directors report
- Chairman's report, in case of listed companies

The above, in case of a listed company, should be sent to the following:

- the registered address of every member of the company
- Securities & Exchange Commission
- Stock exchange
- Registrar

The above shall also be uploaded on the company's website.

► *Practice Question 20:*

Under the provisions of the Companies Act, 2017 list the matters which are required to be included in the business review section of the directors' report of a listed company.

► *Solution:*

Following matters are required to be included in the business review section of the directors' report of a listed company to the extent necessary for understanding the development, performance or position of the company's business:

- i. main trends and factors likely to affect the future development, performance and position of the company's business;
- ii. impact of the company's business on the environment;
- iii. activities undertaken by the company during the year with regards to corporate social responsibility; and
- iv. directors' responsibility in respect of adequacy of internal financial controls as may be specified.

► *Practice Question 21:*

List any ten contents of the directors' report of a public unlisted company as prescribed under the Companies Act, 2017.

► *Solution:*

Following are the contents of the directors' report of a public unlisted company:

- i. the state of the company's affairs;
- ii. a fair review of company's business;
- iii. the amount, if any, that the directors recommend should be paid by way of dividend;
- iv. the amount, if any, that directors propose to carry to Reserve Fund, General Reserve or Reserve Account;
- v. the names of the persons who, at any time during the financial year, were directors of the company;
- vi. the principal activities and the development and performance of the company's business during the financial year;
- vii. a description of the principal risks and uncertainties facing the company;
- viii. any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiaries, or any other company in which the company has interest;
- ix. the information and explanation in regard to any contents of modification in the auditor's report;
- x. information about the pattern of holding of the shares;

► *Practice Question 22:*

Under the provisions of the Companies Act, 2017, list any ten contents to be stated in the directors' report of a public unlisted company, which is required to be annexed with the annual financial statements.

► *Solution:*

The contents that must be stated in the directors' report of a public unlisted company, which is required to be annexed with the annual financial statements, are as follows:

- i. The state of the company's affairs and a fair review of its business
- ii. The amount (if any), that the directors recommend should be paid by way of dividend
- iii. The amount (if any), the directors propose to carry to the reserve fund, general reserve or reserve account

- iv. The names of the persons who, at any time during the financial year, were directors of the company;
- v. The principal activities and the development and performance of the company's business during the financial year;
- vi. A description of the principal risks and uncertainties facing the company;
- vii. Any changes that have occurred during the financial year concerning the nature of the business of the company or of its subsidiaries, or any other company in which the company has interest;
- viii. The information and explanation in regard to any contents of modification in the auditor's report;
- ix. Information about the pattern of holding of the shares in the form specified;
- x. The name and country of origin of the holding company, if such company is a foreign company;
- xi. The earning per share;
- xii. The reasons for loss if incurred during the year and future prospects of profit, if any;
- xiii. Information about defaults in payment of any debts and reasons thereof;
- xiv. Comments in respect of adequacy of internal financial controls;
- xv. Any material changes and commitments affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statement relates and the date of the report;
- xvi. Disclosure with respect to remuneration package of each of the directors and chief executive including but not limited to salary, benefits, bonuses, stock options, pension and other incentives; and
- xvii. Any other information as may be specified by the Commission through regulations under the Companies Act, 2017.

► *Practice Question 23:*

Under the provisions of the Companies Act, 2017, state the matters that are required to be included in the business review section of the directors' report for a listed company.

► *Solution:*

The business review section of the directors' report for a listed company should include the following matters, to the extent necessary for understanding the development, performance or position of the company's business:

- i. Main trends and factors that are likely to affect the future development, performance and position of the company's business;
- ii. The impact of the company's business activities on the environment;
- iii. Activities undertaken by the company during the year with regards to corporate social responsibility;
- iv. The directors' responsibility regarding the adequacy of internal financial controls, as may be specified; and
- v. The legitimate reasons for not declaring dividend despite earning profits and future prospects of dividend, if any.

5 ANNUAL RETURN

5.1 Requirements as to annual return [Section 130]

It is a snapshot of general information about a company as on a specific date, giving details of its chief executive, directors, chief financial officer, secretary, legal adviser and auditors, registered office address, members and share capital.

Date of annual return

The annual return is prepared as on the date of the annual general meeting or, where no such meeting is held or if held is not concluded, on the last day of the calendar year.

► *Example 10:*

ABC Limited recent financial year ended on 30th June 2025 and AGM was held on 24th October 2025. The particulars of annual return shall be prepared as on 24th October 2025.

► *Example 11:*

DEF Limited recent financial year ended on 30th June 2025 and AGM was not held in contravention of Companies Act, 2017. The particulars of annual return must be prepared as on 31st December 2025. Failure to file such annual return shall be another contravention of the law.

Requirement and specified form

Every company in each year prepare and file with the registrar an annual return containing the particulars in a specified form as on the date of annual return.

The annual return shall contain the particulars as given in following specified forms:

- Form A – Company having share capital
- Form B – Company not having share capital

Time limit

The annual return shall be filed with the registrar within 30 days from the date of annual return. However, in the case of a listed company, the registrar may for special reasons extend the period of filing of such return by a period not exceeding 15 days.

► *Example 12:*

ABC Limited recent financial year ended on 30th June 2025 and AGM was held on 24th October 2025. The particulars of annual return shall be prepared as on 24th October 2025. The annual return must be filed with the registrar by 22nd November 2025.

► *Example 13:*

DEF Limited financial year ended on 30th June 2025, however, its AGM was not held, and hence it shall be a contravention of the provisions of the Companies Act, 2017. Even if AGM was not held the particulars of annual return must be prepared by DEF Limited as on 31st December 2025 and must be filed with the registrar. Failure to file such annual return by 29th January 2026 shall be another contravention of the law.

Record in registers

All the particulars required to be submitted in the annual return shall have been previously entered in one or more registers kept by the company for the purpose.

No change of particulars since the last return

The above provisions shall not apply to following companies, in case there is no change of particulars in the last annual return filed with the registrar:

- A single member company.
- A private company having paid up capital of not more than Rs. 3 million.

All other companies shall inform the registrar in a specified manner (Form C) that there is no change of particulars in the last annual return filed with the registrar.

► Example 14:

ABC Limited recent financial year ended on 30th June 2025 and AGM was held on 24th October 2025. There is no change since in any particulars of annual return since the last date of annual return. ABC Limited must inform the registrar on Form C by 22nd November 2025 that there is no change of particulars in the last annual return filed with the registrar.

Penalty

Any contravention or default in complying with above requirements shall be an offence liable:

- a) in case of a listed company, to a penalty of level 2 on the standard scale; and
- b) in case of any other company, to a penalty of level 1 on the standard scale.

► Practice Question 24:

Assume that the today's date is 15 December 2024.

Bluefish Limited (BL) scheduled its annual general meeting for 30 November 2024, but unforeseen circumstances led to its adjournment, and it is unlikely to be convened by 31 December 2024. Jaleel Khan seeks clarification on the following:

- i. The deadline for filing BL's annual return for the year 2024.
- ii. The process for obtaining an extension for filing the annual return and what would be the new filing deadline.

Under the provisions of the Companies Act, 2017, advise Jaleel Khan on the above matters.

► Solution:

Deadline for filing annual return

Since it is unlikely that AGM will be convened by 31 December 2024, BL must file its annual return within 30 days from the last day of calendar year. Therefore, the deadline for filing the annual return is 30 January 2025.

Process for obtaining extension

As a listed company, BL must have to apply to the registrar, and the registrar may for special reasons extend the period of filing the return.

New filing deadline

If the registrar is satisfied it may grant the extension for a period not exceeding 15 days, accordingly the new filing deadline would be 14 February 2025.

6 OBJECTIVE BASED Q&A

1. Books of accounts must be preserved in good order under the requirement of Companies Act, 2017 for a period of
 - a) At least 10 years
 - b) At least 15 years
 - c) Maximum 20 years
 - d) Maximum 10 years
2. Books of accounts must be kept at the registered office of the company, however, these books may be kept at some other place by the decision of:
 - a) The members of the company
 - b) The directors of the company
 - c) The creditors of the company
 - d) The Auditors of the company
3. The books of accounts may be inspected by the
 - a) Directors of the company during business hours
 - b) Members of the company during business hours
 - c) Creditors of the company during business hours
 - d) Promoters of the company during business hours
4. In case of first financial statements of the company, it shall be presented before the meeting within
 - a) 12 months from the date of incorporation of the company
 - b) 14 months from the date of incorporation of the company
 - c) 16 months from the date of incorporation of the company
 - d) 24 months from the date of incorporation of the company
5. As a token of approval of financial statements, the chief executive and at least one director of the company put their signatures on the financial statements and in case of a listed company also by the
 - a) Company secretary
 - b) Auditors of the company
 - c) Chief financial officer
 - d) Chief operating officer
6. The financial statements of a single member company shall be signed by
 - a) Chief executive
 - b) One director
 - c) Chief executive and one director
 - d) Chief executive and two director
7. The requirement of filing of accounts shall not apply to a private company having paid up capital not exceeding
 - a) RS 10 million or such higher amount as notified by the Commission
 - b) RS 05 million or such higher amount as notified by the Commission
 - c) RS 03 million or such higher amount as notified by the Commission
 - d) RS 01 million or such higher amount as notified by the Commission

8. Financial statements shall be audited by the auditor of the company but this requirement of audit is not applicable to a private company having paid up capital not exceeding
- Rs. 01 million or such higher amount as may be notified by the Commission
 - Rs. 05 million or such higher amount as may be notified by the Commission
 - Rs. 10 million or such higher amount as may be notified by the Commission
 - Rs. 15 million or such higher amount as may be notified by the Commission
9. Directors of every company shall make out and attach to the accounts, a report containing following particulars
- Statements regarding the state of the affairs of the company
 - Particulars of any amount recommended as dividend
 - Particulars of any amount transferred or proposed to be transferred to any reserve account
 - All of the above
10. The requirement of preparing a director's report is not applicable a private company, not being a subsidiary of public company, have the paid up capital not exceeding
- Rs. 1 million
 - Rs. 03 million
 - Rs. 05 million
 - Rs. 10 million
11. The directors report of a public company shall address all the material changes occurred during the financial year which affect
- The business of the company
 - Any other company in which the company has interest
 - Any of its subsidiaries
 - All of the above
12. Directors report and the statements of compliance must be approved by the board and signed by the
- CEO
 - Director of the company
 - CEO and CFO of the company
 - CEO and a director of the company
13. The quarterly financial statements of a listed company shall be transmitted electronically within the specified period to
- The Commission
 - The Securities exchange
 - The Registrar
 - All of the above
14. The directors of a company have decided to keep the books of account at a place other than the registered office of the company. In this case, they are required to file a notice to the registrar of the full address of that place within
- 14 days of such decision.
 - 21 days of such decision.
 - 30 days of such decision.
 - 7 days of such decision

15. Copy of audited financial statements, auditors' report and directors' report shall be sent to every member at his registered address at least
- 14 days before the meeting
 - 21 days before the meeting
 - 30 days before the meeting
 - None of the above is correct
16. ABC Limited is a listed company and prepares its annual financial statements every year on 30th June. It is required to file the quarterly financial statements for the quarter ending 31st December 2021 by:
- 30 January 2022
 - 31 January 2022
 - 28 February 2022
 - 1 March 2022
17. Where the financial year of a subsidiary precedes the day on which the holding company's financial year ends by more than _____, such subsidiary shall make an interim closing, on the day on which the holding company's financial year ends, and prepare financial statements for consolidation purposes.
- Three months
 - Four months
 - 90 days
 - 120 days
18. ABC Limited is holding company of XYZ Limited and their financial years do not coincide. In order to request extension of financial year the application to the Commission may be made by:
- ABC Limited
 - XYZ Limited
 - Either ABC Limited or XYZ Limited
 - Both ABC Limited and XYZ Limited, together
19. XYZ Limited financial year ended on 30th June 2019 and AGM was planned on 28th October 2019 but was not held. The particulars of annual return must be prepared as on _____ and it shall be filed with the registrar by_____.
- 28 October 2019 & 29 January 2020
 - 28 October 2019 & 27 November 2019
 - 31 October 2019 & 29 November 2019
 - 31 December 2019 & 29 January 2020
20. XYZ (Private) Limited has paid up capital of Rs. 2 million only. Which of the following is correct if there is no change in particulars of annual returns last filed with the registrar:
- It should file the annual return as usual repeating the same particulars.
 - It should file the annual return as usual repeating the same particulars and additionally intimate the registrar that there is no change in the particulars.
 - It need not file annual return or any other form.
 - It need not file annual return but must inform the registrar that there is no change in particulars in specified manner (Form C)

21. Which of the following is entitled to inspect the books of accounts?
- Directors at any time
 - Shareholders having more than 10% shares at any time
 - Directors during business hours
 - Shareholders having more than 10% shares during business hours
22. In the case of listed company, statement of compliance is required to be signed by:
- the chairman and a director
 - at least two directors
 - the chairman and the chief executive
 - the chief executive and a director
23. Aquamarine (Pvt) Limited (APL) was incorporated on 1 January 2020 with an authorized share capital of Rs. 500,000.
- APL is required to accompany an affidavit with its annual financial statements confirming that the financial statements:
- give a true and fair view of the company's affairs
 - have been approved by the Board
 - are prepared in accordance with the requirements of the Companies Act, 2017
 - are free from material misstatements
24. Which of the following companies are required to maintain particulars relating to utilisation of labour?
- Any company engaged in manufacturing or supplying
 - Any company engaged in production or distribution
 - Any company engaged in processing or mining
 - Any company engaged in service or hospitality
25. All the payment vouchers are required to be maintained by a company:
- for at least 10 years
 - for at least 15 years
 - for at least 20 years
 - Permanently
26. When the chief executive officer of a public unlisted company is not present in Pakistan, then the annual financial statements of such company shall be signed at least by:
- any two directors along with chief financial officer
 - a director and chief financial officer
 - any two directors
 - chairman of the board or a director
27. The annual financial statements of a public unlisted company shall be authenticated on behalf of the board by:
- at least one director and the CEO
 - any director or the CEO
 - at least one director and the CFO
 - the CEO and the CFO

28. Indigo Limited (IL) is a public company which holds 60% shares in Neon Limited (NL). The financial year of IL and NL ends on 30 June and 31 December respectively.
- Which of the following statements is NOT correct?
- a) Board of NL shall ensure that financial year of IL and NL coincides, except where in its opinion there are valid reasons against it
 - b) Board of IL shall ensure that financial year of IL and NL coincides, except where in its opinion there are valid reasons against it
 - c) The Commission may, on receiving application from IL, extend its financial year to 31 December
 - d) The Commission may, on receiving application from NL, extend its financial year to 30 June
29. Crimson Limited (CL) is listed on Pakistan Stock Exchange. CL's financial year ends on 30 June each year. Financial statements of CL for the quarter ended 31 March 2022 are:
- a) required to be submitted with the registrar on or before 15 April 2022
 - b) required to be submitted with the registrar on or before 30 April 2022
 - c) required to be submitted with the registrar on or before 30 May 2022
 - d) not required to be submitted with the registrar
30. On 8 September 2022, Lychee Limited (LL), a listed company, has uploaded its quarterly financial statements for the period ended 31 July 2022 on its website for the information of its members. Under the provisions of the Companies Act, 2017, LL is also required to transmit the said financial statements to:
- a) Registrar, Auditor and Securities Exchange
 - b) Commission, Securities Exchange and Auditor
 - c) Commission, Registrar and Auditors
 - d) Commission, Registrar and Securities Exchange
31. Lanvin Limited's management intended to hold its sixteenth annual general meeting (AGM) on 26 October 2022. However, due to non-availability of audited financial statements for the year ended 30 June 2022, the AGM was held on 25 January 2023. The company had to file with the registrar its annual return containing the particulars in specified form latest by:
- a) 30 July 2022
 - b) 24 November 2022
 - c) 29 January 2023
 - d) 24 February 2023
32. Under the provisions of the Companies Act, 2017, which of the following statements is correct about the directors' report of every company?
- a) it shall be approved by the board and signed by the chairman and the chief executive
 - b) It is not required to be prepared, by of a private company, not being a subsidiary of the public company, having the paid-up capital not exceeding Rs. 3 million
 - c) It shall only describe the principal risks and uncertainties facing the company
 - d) It shall state all the non-financial material information only
33. A company has multiple branch offices outside Pakistan. Which of the following is the correct way of keeping books of account at such branches in accordance with the Provisions of the Companies Act, 2017?
- a) Keep separate books of account at each branch office and send the entire records periodically to the head office
 - b) Keep separate books of account at each branch office and send summarized returns periodically to the registered office
 - c) Retain the books of account at each branch office and get them audited periodically
 - d) Merge each branch office's financial information with the main office's books of account periodically

34. In January 2024, Shoveler Limited (SL) acquired 85% stake in Pintail Limited (PL), whose financial year ends on 31 August, while SL's year-end is 31 December. PL's financial year-end of 31 August is beneficial for it due to the nature of its business.

For the purposes of preparation of consolidated financial statements:

- a) PL shall make an interim closing on 31 December 2024 and prepare financial statements for consolidation purposes
 - b) PL's audited financial statements for the year ending 31 August 2024 shall be used for consolidation purposes
 - c) PL shall have to apply to the Commission to extend its year-end to coincide with the financial year-end of SL
 - d) SL shall have to apply to the Commission to use PL's audited financial statements for the year ending 31 August 2024 for consolidation purposes
35. Which of the following statements correctly defines the filing requirements with the registrar under the Companies Act, 2017 that differentiates a private company from a public unlisted company?
- a) Public unlisted companies must file the consolidated financial statements, whereas private companies are not required to comply with this requirement
 - b) Public unlisted companies are required to file directors' report, whereas private companies need not to comply with this requirement
 - c) Public unlisted companies need to file annual returns within 15 days of their annual general meeting, compared to 30 days for private companies
 - d) Public unlisted companies need to file audited financial statements, whereas every private company need not to comply with this requirement
36. Jaleel, one of the directors at Perch Limited (PL), discovers discrepancies between the summarized returns of the branch office and PL's books of accounts. Under the provisions of the Companies Act, 2017, which of the following actions is correct?
- a) He has no further responsibility but must request the branch manager to provide the correct summarized returns
 - b) He can raise concerns with the board and request a more detailed breakdown of the branch office's financial activities
 - c) He must raise concerns with the audit committee and ensure resubmission of the returns
 - d) He must take action to carry out investigation into the affairs of PL

ANSWERS

1	a)	Books of accounts for a period of at least 10 years immediately preceding a financial year must be preserved in good order.
2	b)	The directors of the company may opt to keep these books at some place other than registered office of the company.
3	a)	The directors are entitled to inspect the books of the accounts during business hours.
4	c)	The first financial statements of the company shall be presented before the meeting within 16 months from the date of incorporation.
5	c)	In case of a listed company, the financial statements shall also be signed by the chief financial officer of the company.
6	b)	The financial statements of a single member company shall be signed by one director.
7	a)	The requirement of filing of accounts shall not apply to a private company having paid up capital not exceeding Rs. 10 million.
8	a)	The requirement of audit is not applicable to a private company having paid up capital not exceeding Rs. 1 million.
9	d)	Director shall make a report containing statements regarding the state of the affairs of the company, any amount recommended as dividend and any amount transferred to any reserve account.
10	b)	The requirement of preparing a directors' report is not applicable a private company having the paid up capital not exceeding Rs. 3 million.
11	d)	The directors' report of a public company shall address all the material changes occurred during the financial year which affect the business of the company, any of its subsidiaries or any company in which the company has interest
12	d)	Director's report and the statements of compliance must be approved by the board and signed by the chief executive officer and a director of the company.
13	d)	The quarterly financial statements shall be transmitted electronically within the specified period to the Commission, Securities exchanges and Registrar.
14	d)	The directors are required to file a notice to the registrar within 7 days of passing the resolution in their meeting.
15	b)	Copy of audited financial statements, auditors' report and directors' report shall be sent to every member at his registered address at least 21 days before the meeting.
16	d)	The time limit for second quarter is 60 days. [Section 237]
17	c)	90 days [Section 228]
18	c)	Any of the company [Section 229]
19	d)	31 December 2019 & 29 January 2020 [Section 130]
20	c)	It need not file annual return or any other form. [Section 130]
21	c)	Directors during business hours
22	d)	the chief executive and a director
23	b)	have been approved by the Board
24	c)	Any company engaged in processing or mining
25	a)	for at least 10 years

26	c)	any two directors
27	a)	at least one director and the CEO
28	a)	Board of NL shall ensure that financial year of IL and NL coincides, except where in its opinion there are valid reasons against it
29	b)	required to be submitted with the registrar on or before 30 April 2022
30	d)	Commission, Registrar and Securities Exchange
31	c)	29 January 2023
32	b)	It is not required to be prepared, by of a private company, not being a subsidiary of the public company, having the paid-up capital not exceeding Rs. 3 million
33	b)	Keep separate books of account at each branch office and send summarized returns periodically to the registered office
34	a)	PL shall make an interim closing on 31 December 2024 and prepare financial statements for consolidation purposes
35	d)	Public unlisted companies need to file audited financial statements, whereas every private company need not to comply with this requirement
36	b)	He can raise concerns with the board and request a more detailed breakdown of the branch office's financial activities

STICKY NOTES

Books of accounts to be kept by a company

Relevant definitions: books and paper; books of account; financial year.

1. Requirement (to be kept at registered office, giving a true and fair view)
2. Cost accounts (if company is engaged in production, processing, manufacturing or mining activities)
3. Keeping books at place other than registered office (inform the registrar within 7 days of board's decision)
4. Records of branch offices (may be kept at branch and proper summarised return to be sent periodically to registered office or other place).
5. Inspection by directors (during business hours)
6. Inspection by members (no absolute right; the Act)
7. Time period (10 financial years immediately preceding a financial year)
8. Requirement for liquidator (same requirements apply)

Financial statements

Relevant definitions: financial statements; chief financial officer

1. Requirement (first: since incorporation; subsequent: since preceding FS)
2. Time limit (first: 16 months; Subsequent: once at least in every calendar year)
Within 120 days following close of financial year (30 days' extension may be allowed by Commission (listed company) or registrar (other company))
3. Duration of financial year (shall not exceed on year except with permission of registrar)
4. Audit (not applicable to private company having paid up capital not exceeding 1 million rupees).
5. Dispatch to members (with other reports at least 21 days before meeting)
6. Copy at registered office (for inspection of members)
7. Filing to Authorities by Listed company (also made available on website)

Approval and authentication of financial statements

1. Manner of authentication (approved by board, signed by CEO and one director, and in case of listed company also by CFO)
2. Chief executive not in Pakistan (signed by at least two directors)
3. Affidavit by certain private companies (paid up capital not exceeding Rs. 1 million)
4. Single member company (signed by one director)

Filing of financial statements with registrar (after AGM)

1. Requirement (file with registrar)
2. Time limit (30 days for listed company; 15 days other companies)
3. When members do not adopt financial statements (statement of that fact or the reasons therefor to be annexed)
4. Not applicable to (private company having paid up capital not exceeding Rs 10 million)

Quarterly financial statement of listed companies

1. Time period (30 days: 1st and 3rd Quarter & 60 days: 2nd Quarter)
2. Additional requirement for second quarter (half yearly & subject to limited scope review)
3. Posted on website and electronic filing with SECP, PSX and the registrar
4. Extension in time for first quarter (by the Commission upto 30 days with preceding annual financial statements)
5. Dispatch to member on request (without any fee)
6. Authentication (same as annual FS)

Consolidated financial statements

1. Requirement (to be attached to FS of holding company)
2. Exception (private company and its subsidiary where none has capital exceeding Rs. 1 million)
3. Additional interim financial statements (financial year difference of more than 90 days)
4. Audit (by the auditor of holding company)
5. Disclosure of certain material information
6. Authentication (same as annual FS)
7. Application of other sections (same application to holding company)
8. Relaxation by the Commission (on application by holding company)
9. Penalty (level 2 on standard scale)

Financial year of holding company and subsidiary

1. Financial year to coincide (except for good reasons against it)
2. Facilitation by the Commission (in extension of financial year)
3. Other related relaxations (as may be incidental or ancillary)

Duty to prepare directors' report and statement of compliance

1. Directors' report (Exception: Private company not being subsidiary of public company with paid up capital not exceeding Rs. 3 million)
2. Statement of compliance as specified by the Commission (to be attached with FS 1)

Contents of directors' report

1. Minimum contents (state of affairs, dividend, transfer to reserve)
2. Additional contents (for public companies or its subsidiaries)
3. Authentication (approved by board, signed by CEO and a director)
4. Business review section (listed company) to include certain particulars

Requirements as to annual return

1. Date of annual return (AGM or last day of calendar year if no AGM held or concluded)
2. Requirement and specified form (Form A for company having share capital and Form B for company not having share capital)
3. Time limit (30 days, extension by registrar of 15 days)
4. Record in registers to be maintained as well
5. No change of particulars since the last return (no filing for SMC or private company having paid up capital not exceeding Rs. 3 million; others companies to inform registrar on Form C)
6. Penalty (Level 2: listed company; Level 1: other company)

AT A GLANCE

SPOTLIGHT

STICKY NOTES

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