Chapter 3: Directors

1 Chapter Roadmap

INTRODUCTION & ELIGIBILITY (Sec. 1) → ELECTION, NOMINATION & CASUAL VACANCY (Sec. 2) → VACATION OF OFFICE & REMOVAL (Sec. 3) → POWERS & DUTIES (Sec. 4) → PROCEEDINGS (Sec. 5) → RESTRICTIONS, PROHIBITIONS & LIMITATIONS (Sec. 6)

Theme: who can be a director, how directors are elected, nominated, replaced or removed, what the board may (and may not) do, how board meetings run, and the restrictions on dealings between a company and its directors.

2 Who is a Director?

Director [Section 2(25)]
"Director" includes any person occupying the position of a director, **by whatever name called**. The test is **function and position**, not designation – "director" in a job title does not make a person a director.

Board [Section 2(8)]
"Board", in relation to a company, means the **board of directors**. Their meetings are **board meetings** in which they decide on behalf of the company.

Person (ABC Limited)	Designation	On the board & takes part in decisions?	Director?
Faisal (Ex. 01)	Human Resource Director	No	NO
Naveed (Ex. 02)	General Manager Operations	Yes	YES

3 Basic Rules for Directors

Natural person only [s.154]
A company or body corporate (even a subscriber or member) **cannot** be a director. ABC Ltd (80% of XYZ Ltd) cannot be XYZ's director – but may **elect natural persons** of its choice (Ex. 03).

To be a member
Directors must be members, except where the law allows non-members. One vote each on the board – but as members in a general meeting, votes depend on shares held.

Equal authority
Directors act **collectively or by majority** – in a board meeting or by resolution by circulation; **one vote each**. A director is a director "in entirety" – cannot escape responsibility for a decision he was "not concerned with".

Fiduciary relationship
Agents of the company; must decide in the best interest of the company and stakeholders, be vigilant and not negligent. If the court declares a person **lacking fiduciary behaviour** → cannot be a director for **5 years**.

Consent in writing [s.167]
No one is appointed / nominated as director or chief executive without his **written consent**. Company files it with the **registrar within 15 days** of appointment / nomination (also for a creditor's nominee).

Qualifications by articles
Articles may fix conditions – e.g. **qualification shares** (minimum shareholding) or specific educational requirements.

4 Minimum Number of Directors [Section 154]

SMC	Other private	Public unlisted	Public listed
1	2	3	7

Exam clue: Articles may require a **larger** number. The Act does **not** specify a **maximum** number of directors for any company.

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5 Ineligibility to be a Director [Section 153]

No person shall be appointed as a director if he:

(a) is a **minor**

(b) is of **unsound mind**

(c) has applied to be adjudicated an insolvent and the application is **pending**

(d) is an **undischarged insolvent**

(e) is convicted for an offence involving **moral turpitude** (conduct contrary to community standards of honesty, good morals or justice)

(f) is **debarred** from holding such office under the Companies Act

(g) is declared by the court as **lacking fiduciary behaviour** during the preceding **5 years**

(h) does not hold a **National Tax Number** (Commission may exempt)

(i) is **not a member** (subject to the exceptions below)

Non-member CAN be a director if he is...

- a person representing a member that 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.

Babar – senior employee appointed to the board → whole-time (executive) director (Ex. 05).

Additional – LISTED companies only

a. declared by a court as **defaulter in repayment of loan to a financial institution**;

b. engaged in **brokerage**, or is a **spouse** of such a person, or is a sponsor, director or officer of a corporate brokerage house.

Undischarged insolvent acting as CEO / director [s.177]: imprisonment up to **2 years**, or fine, or both.

Scenario	Eligible?	Why
Sami – declared lacking fiduciary behaviour by the court last year (Ex. 04)	NO	Only after 5 years from the court order
Zafar (HP Ltd, listed) – declared defaulter by the High Court	DEPENDS	Ineligible only if the default is in repaying a **loan to a financial institution**
Sajid (SE Ltd, **unlisted**) – wife is a broker on PSX	YES	Brokerage bar applies to **listed** companies only
Kamal – adjudicated undischarged insolvent	NO	Cannot offer himself until adjudicated solvent / discharged

6 Term of Directors [Sections 157, 158 & 161]

FIRST DIRECTORS names & number decided by **SUBSCRIBERS TO THE MOA** ; particulars filed with incorporation documents → **ADDITIONAL DIRECTORS** first directors may be increased in general meeting → **RETIRE** at the election in the **FIRST AGM** → **ELECTED DIRECTORS** hold office for **3 YEARS** (guarantee co. without share capital: may be less, per articles)

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7 When the Term Expires – Duties & Registrar's Power

Retiring directors continue until successors are elected, and must...

- take **immediate steps** to hold the election; and
- if there is any impediment, **report to the registrar** at least **45 days before** the due date of the AGM / EGM for the election.

Such AGM / EGM shall not be delayed more than **90 days** from its due date (or extended time allowed by the registrar, for recorded reasons) – only for exceptional circumstances beyond the directors' control or a court order.

Registrar may direct an AGM / EGM for election

On expiry of the period, either:

a. on its **own motion**; or
b. on representation of members holding at least **10% of total voting power** (share capital company); or
c. on representation of at least **10% of total members** (company without share capital),

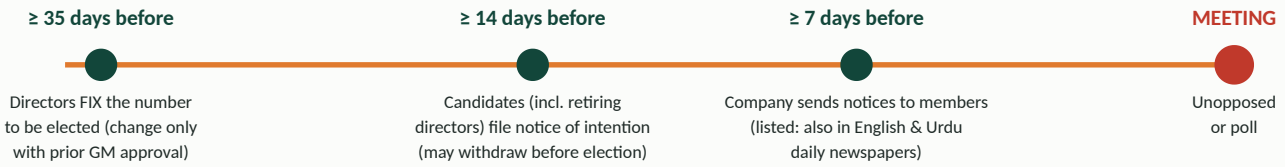
on the date and time specified in the order.

Worked Practice Q – Nance Limited (public unlisted; incorporated 1 Jan 2026)

Directors/members Ali, Sabra, Ubaid, Amir. Ali and Sabra die on **1 March 2026** → only 2 members and 2 directors (minimum 3 each).

- **Members:** induct at least one member within **180 days** → Day 1 = 2 Mar ... Day 180 = **28 August 2026**.
- **Directors:** fill the casual vacancy at the earliest – the Act sets **no time limit** for companies other than listed companies.

8 Election of Directors – Procedure [Section 159]



The notice of the meeting must state the **number of directors fixed** and the **names of retiring directors**. Guarantee company without share capital → election procedure as per its **articles**.

9 Unopposed Election, Votes & Result

Elected unopposed

If candidates are **not more than** the number fixed → all stand elected unopposed. 8 seats, 8 notices → all elected; 9+ notices → poll (Ex. 06).

Number of votes (cumulative)

Each member's votes = **voting shares × number of directors to be elected**. All to one candidate or divided as he likes.

All directors are equal

Highest votes elected first, then next highest... Once elected, **no superiority** based on votes – one vote each on the board.

Worked: votes available

Member	Shares	Seats	Votes
Ali (Ex. 07)	10,000	8	**80,000**
Arqam – Robust Ltd	100,000	9	**900,000**

Worked: result of polling (Ex. 08/09) – 3 seats

Rank	Candidate	Votes	Result
1	Adeel	75,000	ELECTED
2	Dawood	57,000	ELECTED
3	Babar	44,000	ELECTED
4	Ehsan	17,000	NO
5	Chandio	12,000	NO

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10 Nominee Directors [Sections 164 & 165]

Nominated by creditors
In addition to elected directors, a company may have directors nominated by its **creditors** or other special interests through contractual arrangements.

Nominated by Government / body corporate
Federal / Provincial Government, a body corporate or company that has **invested** in the company may nominate directors – they hold office **during the pleasure** of the nominating body. Votes proportionate to electing that director are **excluded** from the nominator's votes at an election.

Worked Example 10 – excluded votes

Nominator's votes: 100,000 shares × 12 seats	1,200,000
Less: votes of the lowest successful candidate at the immediately preceding election	(230,000)
Votes the nominating body may still cast	**970,000**

11 Fresh Election on Requisite Shareholding [Section 162]

PERSON ACQUIRES REQUISITE SHAREHOLDING enough to get himself elected → **REQUISITION** to the company to hold fresh election → **BOARD** as soon as practicable, **NOT LATER THAN 30 DAYS**, proceeds to fresh election → **NUMBER OF DIRECTORS** fixed at the preceding election **SHALL NOT BE DECREASED** (listed: SECP procedure)

Requisite shareholding = total votes ÷ number of directors, i.e. **100% ÷ number of directors** of the voting shares.

Worked PQ – ABC Ltd (Shahid)

Total votes: 10m shares × 5 directors	50m
Votes needed per seat: 50m ÷ 5	10m
Shahid: 2.5m shares × 5	**12.5m**

12.5m > 10m → **can** require fresh election.

Worked PQ – Goldfish Ltd (Zakir Hussain)

20m shares × 7 directors (42+28+21+14+14+14+7)	140m votes
Requisite shareholding: 100% ÷ 7	14.28%
Zakir: 3m ÷ 20m	**15%**

15% > 14.28% → demand **valid**; he must also not be ineligible under s.153.

Procedure for Goldfish Ltd: board meets forthwith → fresh election within **30 days** of requisition (AGM if due within 30 days, otherwise EGM) → notice ≥ **21 days** stating number of directors (same as preceding election unless members increase it) → contestants' notices sent ≥ **7 days** before → poll if contestants exceed seats, else elected unopposed. Ghalib (14% in Al-Falah Sugar) likewise need not wait for the next election. A casual vacancy may also be filled by appointing him.

12 Court May Declare Election Invalid [Section 160]

WHO members holding at least **10% OF VOTING POWER**

WHEN within **30 DAYS** of the date of election

GROUND court satisfied there was **MATERIAL IRREGULARITY** in holding the election

Applied MCQ – Rhinestone Ltd: capital Rs. 4m ÷ Rs. 10 = 400,000 shares → 10% = **40,000 voting shares**; election 5 March 2021 → apply within 30 days → **by 4 April**.

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13 Validity of Acts of Directors [Section 168]

Acts already done are valid
...even if it is later discovered that there was a **defect in appointment**, he was **disqualified**, or he had **ceased** to hold office.

Once the defect is noticed
The director shall **not exercise** the rights of his office until the defect is removed.

Practice Q – Junaid (Abid Limited): votes were counted twice in his election. Meetings attended and acts done so far are **valid**; he must stop exercising his office immediately – acts after that are not valid.

14 Casual Vacancy [Sections 161 & 155]

Who fills & term
Filled by the **directors**; the appointee holds office for the **remainder of the term** of the director he replaces.

Not necessary
If directors remaining are still **≥ the minimum**, they may complete the term without filling it.

Time limit
Listed: at the earliest, not later than **90 days** from the vacancy. **Others:** no time limit in the Act.

Practice scenario	Answer
Alpha Securities Ltd (public): directors elected 30 Oct 2018; Qasim dies 2 Feb 2019 – only 2 directors left	Abid & Tariq fill the vacancy; appointee holds office till **30 October 2021** (remainder of 3-year term)
Lalazar Ltd (public unlisted, 8 directors): Javed dies; Aslam appointed	8 ≥ 3 → compliant; directors fill vacancy; Aslam serves **remainder of Javed's term**

15 Vacation of Office [Section 171]

① He becomes **ineligible** to be appointed as a director

② Absent from **three consecutive board meetings** without seeking **leave of absence**

③ He, his partnership firm, or a private company where he is a director, accepts a **loan or guarantee** from the company in contravention of the Act

④ Accepts an **office of profit** (other than chief executive or legal / technical adviser) without sanction of the general meeting

Office is vacated **ipso facto** (automatically). The articles may add further grounds. Missing the AGM has no such consequence.

Scenario	Effect
Kalim abroad 1 Oct 2025 – 15 Feb 2026; missed 5 board meetings	Ceases to hold office unless he had sought **leave of absence**
Wasim Yasin (GLL) mentally incapacitated after accident on 2 March 2024	May cease to hold office from 2 March 2024 if his condition makes him ineligible (unsound mind)
Aziz Bahadur (BSL, listed) – no board meeting attended since Aug 2023	Ceases at the conclusion of the **third** consecutive meeting missed without leave (two quarterly meetings → no effect yet)
Faraz Ghani (VBL, listed) – Rs. 2m loan granted by the board only	Needed members' resolution + Commission's approval → contravention → **ceases** to hold office

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16 Removal of Directors [Section 163]

Members may remove a director by **resolution in general meeting**. He is **NOT removed** if the votes **against** removal are equal to or more than:

Elected director (contested poll)

The **minimum votes** with which a person was elected a director at the **immediately preceding election** (i.e. the last successful candidate's votes).

Elected unopposed · fresh election · first director · casual vacancy

$$\text{Average votes} = \frac{\text{No. of directors for the term} \times \text{No. of voting shares}}{\text{No. of directors for the time being}}$$

17 Removal – Worked Answers

Case	Working	Votes against removal needed
Aslam – elected; last successful candidate got 1.5m (ABC Ltd)	Minimum votes at last election	**1,500,000**
Babar – elected (80,000 / 70,000 / 68,000 / **63,000**; Ehsan 57,000 lost)	Lowest successful candidate	**63,000**
Aslam – casual vacancy; 2m shares, 7 directors	7 × 2,000,000 ÷ 7	**2,000,000**
Aga Kirmani – unopposed; Rs. 50m ÷ Rs. 500 = 100,000 shares; 8 directors	8 × 100,000 ÷ 8	**100,000**
Lalazar – Bader (elected; Dawood lowest 220,000)	Minimum votes at last election	**220,000**
Lalazar – Aslam (casual); Rs. 100m ÷ Rs. 10 = 10m shares; 8 directors	8 × 10,000,000 ÷ 8	**10,000,000**
CML – Adnan elected (5.5m; Tehami 5m; **Abdullah 2.5m**; Armughan lost)	Lowest successful candidate	**2,500,000**
CML – if Adnan were unopposed; Rs. 500m ÷ Rs. 100 = 5m shares; 3 directors	3 × 5,000,000 ÷ 3	**5,000,000**
Sunstone – Nasir (casual); Rs. 40m ÷ Rs. 100 = 400,000 shares; 9 for term, 8 for the time being (one seat vacant)	9 × 400,000 ÷ 8	**450,000**

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18 Powers of the Board [Section 183]

General rule

The business is managed by the **board**, which may exercise all powers of the company that are **not** required by the Act, the articles or a special resolution to be exercised by the company in **general meeting**.

Exercised only by BOARD RESOLUTION (in meeting)

- issue shares, debentures / redeemable capital; borrow money; **invest** funds
- **make loans** (not for a banking company lending in ordinary course)
- approve annual & periodical **accounts**; approve **bonus** for employees
- **capital expenditure** on a single item / dispose of a fixed asset (within specified limit)
- **leasing** obligations above the notified amount
- declare **interim dividend**
- authorise sale / purchase / supply / service contracts with a **director**, his firm or partner, or a private company where he is member / director
- if material (per GAAP): write off bad debts, advances, receivables, inventories & other assets; compromise law suits / release claims
- **take over a company** or acquire a controlling / substantial stake
- any other specified matter

Needs consent of the GENERAL MEETING

- **sell, lease or dispose of the undertaking** or a sizeable part (unless that is the main business)
- **sell or dispose of a subsidiary**
- **remit / relieve / extend time** for a debt owed by a director (of the company or its holding company) or his relatives

Listed company: cannot dispose of an undertaking leading to closure / winding up without a **viable alternate business plan** authenticated by the board.
Lapse: a GM authorisation not implemented within **one year** of passing stands lapsed.

Applied: Rahbar Refineries' shareholders objecting to use of funds are referring to board-resolution powers – invest funds, make loans, capital expenditure / disposals, leasing, interim dividend, contracts with interested parties, bonus, take-overs. Selling all shares of a subsidiary → needs **members' approval** (board cannot).

19 Duties of Directors [Section 204]

① Act per articles
Act in accordance with the articles of the company.

② Good faith
Promote objects for members as a whole, in best interests of the company, employees, shareholders, community & environment.

③ Care, skill, diligence
Due and reasonable care, skill and diligence; exercise **independent judgment**.

④ No conflict
Not involve in a situation of direct / indirect interest conflicting (or possibly conflicting) with the company.

⑤ No undue gain
No undue gain for himself, relatives, partners or associates – if guilty, **pays an amount equal to the gain** to the company.

⑥ No assignment ⑦ Commission
Shall not **assign his office** (void). Commission may specify further duties and role.

Breach & ratification: breach, default or negligence contrary to the articles, a policy or a board decision may be **ratified by special resolution** (subject to restrictions specified by the Commission). **Code of corporate governance [s.156]:** the Commission may frame good-governance requirements – directors must act in line with them.

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20 Liability, Indemnity & Protection

Indemnity is VOID [Section 180]

Any provision (articles, contract or otherwise) exempting or indemnifying an **officer or auditor** against liability for **negligence, default, breach of duty or breach of trust** is **void**.

Rashid (CEO, Chalaak Ltd) signs a contract to be indemnified for not paying dividends to minority shareholders → contract **void**.

Exception – allowed

Company may indemnify a director, CEO or officer for liability incurred in **defending proceedings** (civil or criminal) where **judgment is in his favour** or he is **acquitted**.

Bilal (CFO, Shining Star Ltd) acquitted in a criminal case; paid Rs. 500,000 legal fee → company **may indemnify** him.

Protection to independent & non-executive directors [Section 181]

In a **listed company** or **public sector company**, they are liable only for acts of omission / commission that occurred **with their knowledge**, attributable through board processes, and **with their consent or connivance**, or where they did **not act diligently**.

Non-executive director – a person on the board who...

- is not from the executive management team (may or may not be independent)
- is expected to lend an **outside viewpoint**
- does not devote whole working time / not involved in managing affairs
- is not a **beneficial owner** of the company or its associated companies / undertakings
- draws **no remuneration** except the **meeting fee**

Mohsin (ETL, listed): having no pecuniary relationship is not enough – he must meet all five features; and he is liable only within s.181.

21 Independent Director [Section 166]

Definition

A director not connected and with no other relationship, pecuniary or otherwise, with the company, its associated companies, subsidiaries, holding company or directors, and who can reasonably be perceived as exercising **independent business judgment** without conflict of interest. An **executive director can never be independent**.

NOT independent if...	Other companies	Public sector co.
(a) employee of the company, its subsidiary or holding company within the last...	3 years	2 years
(b) CEO of a subsidiary, associated company / undertaking or holding company in the last...	3 years	2 years
(c) material business relationship – directly, or as partner, **major shareholder (10%+)** or director of a body with such relationship – within the last...	3 years	2 years
(d) received remuneration in the 3 years before appointment, or extra remuneration (excluding retirement benefits) besides director's fee, or stock option / performance pay	Applies	
(e) **close relative** (spouse, lineal ascendants & descendants, siblings) of promoters, directors or major shareholders	Applies	
(f) cross-directorships / significant links with other directors (except via licensed not-for-profit associations)	Applies	
(g) served on the board for more than ... consecutive terms (independent again after a lapse of one term)	3 terms	2 terms
(h) **nominated** as a director by creditors, Government or a body corporate	Applies	

Public sector company: an independent director also shall not be in the service of Pakistan or of any Government-owned / controlled statutory body or institution.

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Selection – data bank

Selected from a **data bank** of eligible and willing persons (names, addresses, qualifications) kept by an institute / body notified by the Commission and posted on its website. **Due diligence** is the responsibility of the company / Government appointing. No one is put on the data bank without **written consent**.

Election, relaxation & regulations

In a listed company, elected **like other directors**; the statement of material facts with the notice justifies the choice. The Commission may **relax** requirements on justified application. Manner of selection: **Companies (Manner and Selection of Independent Directors) Regulations, 2018**.

Practice – group of RHL (BSL & VBL listed, associated companies)	Independent?
Haseeb Ijaz for VBL – CEO of BSL from 2018 to 2021	Only if his CEO role ended **before May 2021** (3 years before the May 2024 election)
Bahram Hasan for VBL – director of VBL 2013 to 2022	Not if paid as executive director in the preceding 3 years, or if he already served 3 consecutive terms as independent director
Daniyal Ehtisham for BSL – creditor's nominee Jan 2023 – Feb 2024	Possibly – if no partnership, significant shareholding, directorship or material business relationship with BSL (via the creditor) in the last 3 years

Purpose (MCQ): independent directors **oversee management**, provide independent judgment and protect shareholder interests.

22 Proceedings of the Board [Section 176]

Quorum – listed company

Not less than **one-third of the number of directors or four, whichever is greater**. Participation by **video conferencing** or other audio-visual means counts. Other companies: as per **articles**.

Listed – directors	1/3	Quorum
7 (Ex. 11)	2.33	**4**
12	4	**4**
17 (Ex. 12)	5.67 → 6	**6**

Casual vacancy situation

If too few directors for a quorum to fill a casual vacancy, **all remaining directors** form a quorum **for that purpose only**. (7 directors, 4 die → remaining 3 can fill vacancies – Ex. 13.)

Frequency

Board of a **public company** shall meet at least **once in each quarter** of a year.

Trap (MCQ – 7-director listed company): one director by **audio** conferencing + three in person is **NOT** a quorum (per the answer key, audio-only participation is not counted); three by video + one in person **is**.

23 Resolution by Circulation & Board Records [Sections 179 & 178]

Resolution by circulation [s.179]

- Approved in writing by a **majority** of directors (or committee) entitled to notice → as valid as one passed at a meeting.
- Circulated with necessary papers to **all** directors.
- Noted at the next meeting and made part of its **minutes**.
- A director's agreement, once approved, **cannot be revoked**.

Haider Ltd needs a board resolution for bank financing with directors abroad → pass it by circulation.

Records [s.178]

- Keep all resolutions by circulation and **minutes** of board / committee meetings with names of participants.
- Authenticated by the chairman of that meeting or of the next meeting → **evidence** of proceedings.
- Draft minutes to every director within **14 days**.
- Kept at the **registered office**, in physical and electronic form: **10 years** physical, **permanently** electronic.

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24 Remuneration & Assignment of Office [Sections 170 & 174]

Remuneration [s.170]

For attending meetings (board / committee): not exceeding the scale approved by the company or the board, per the articles.
For extra services (incl. office of **chairman**): determined by the **board** or the company in **general meeting**, per the articles – **not** by the chief executive.

No assignment [s.174]

A director shall not assign his office – any such appointment is **void ab initio** (under any circumstances).

ABSENCE FROM PAKISTAN not less than **90 DAYS** → **ALTERNATE / SUBSTITUTE DIRECTOR** appointed by the director, with **APPROVAL OF THE BOARD** – not an assignment → **VACATES OFFICE** when the appointing director **RETURNS TO PAKISTAN**

Scenario	Advice
Faisal (KM Ltd) wants to assign his office to Saeed while abroad	Assignment void; alternate allowed (board approval) if absence ≥ 90 days; Saeed vacates on Faisal's return
Dawood (RCL, listed) wants his brother in his place during vacation	Absence ≥ 90 days; board approves leave & alternate; brother must be a member and not ineligible
Mr. Hameed moving to Europe for one year	AGM attendance not mandatory; missing 3 consecutive board meetings without leave → vacates office; may appoint an alternate
Farhan (Melon Guarantee Ltd) leaves for China on 15 Sep 2025	Alternate allowed only if he returns on or after **15 December 2025** (MCQ answer)

25 Transactions with Directors [Section 211]

Cash transactions

All cash transactions with directors only through **banking channels**.

Non-cash transactions

Prior approval by **resolution of the general meeting** needed where a director of the company or of its holding / subsidiary / associated company (or a person connected with him) acquires assets from, or sells assets to, the company for **consideration other than cash**. If he is a director of the **holding company**, approval of the holding company's general meeting is **also** required.

Notice for the resolution must give particulars of the arrangement and the value of assets calculated by a **registered valuer**. A contravening arrangement is **voidable** at the company's option – unless restitution is no longer possible, or rights were acquired in good faith without notice.

Practice scenario	Approvals needed
Ahmed (director of KL and its holding co. NIL) swaps his Zone 2 plot for KL's Zone 1 land	GM of **KL** + GM of **NIL**; valuer's values in notice
Ahmad Laiq (brother of KL director; director of KL's holding co.) sells machinery Rs. 2.5m for 20,000 KL shares	GM of KL + GM of holding company
BL Proposal A – Bahram (BL director) gives unlisted shares for BL's land	GM of **BL**
BL Proposal B – Jawed (director of holding co. SIL) swaps Jhelum land	GM of **BL** + GM of **SIL**; if paid in cash → banking channels only
HPL: SL holds 25% directly + 26% via its subsidiary FL = **51%** → HPL is SL's subsidiary; Saleem Tariq (NED of SL) pays in Flying Fish shares	GM of **HPL** + GM of **SL**; valuer's values of court and shares

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26 Loans to Directors [Section 182]

Restriction

Unless approved by the **members by resolution**, a company shall not: make a loan to a director of the company or its **holding company** or his relatives (**spouse and minor children**); or give a **guarantee / security** for a loan to them by any person.
Listed company: approval of the **Commission** is also required.

Exception & consequence

Does not apply to a company that, in the **ordinary course of business**, provides loans / guarantees / securities.
On contravention, all parties are **jointly and severally liable** to repay the lending company, with markup not less than its **borrowing cost**.

Practice scenario	Answer
Shams (GM Operations, Shah Ltd – listed) becomes a director with Rs. 0.8m employee loan outstanding	Loan becomes **immediately payable** unless approved by GM resolution **and** the Commission
Mr. Majnou (director, Azad Ltd – listed) wants an interest-free 5-year loan	Only with members' approval **and** Commission's approval
CEO of TS Ltd refuses Yasir's (technical director) loan as "prohibited"	Not prohibited – allowed with members' resolution (+ SECP if listed)

27 Other Prohibitions

Political contribution [s.184]: a company shall not contribute any amount or allow use of its assets for any **political party** or for any political purpose to any individual or body.

Gifts [s.185]: a company shall not distribute **gifts in any form** to its members in its meeting.

28 Time Limits & Numbers – Master Table

Requirement	Limit	Section
File director's written consent with registrar	**15 days**	167
Bar after court declares lack of fiduciary behaviour	**5 years**	153
Undischarged insolvent acting as director / CEO – imprisonment up to	**2 years**	177
Term of elected directors	**3 years**	161
Report impediment to election to registrar – before AGM / EGM due date	**45 days**	161
Maximum delay of election meeting (exceptional cases)	**90 days**	161
Directors fix number to be elected – before the meeting	**35 days**	159
Candidates' notice of intention – before the meeting	**14 days**	159
Company transmits candidates' notices to members – before the meeting	**7 days**	159
Fresh election after requisition	**30 days**	162
Apply to court against election (10% voting power)	**30 days**	160
Fill casual vacancy – listed company	**90 days**	155
Consecutive board meetings missed without leave → vacation	**3**	171
Draft board minutes to every director	**14 days**	178
Keep board records – physical / electronic	**10 yrs / permanent**	178
Absence from Pakistan for an alternate director	**≥ 90 days**	174
GM authorisation lapses if not implemented within	**1 year**	183

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29 Exam Question Patterns & MCQ Quick Clues

"Names and number of first directors are decided by..."	→	**Subscribers to the memorandum**
"Ineligibility that applies only to listed companies"	→	**Defaulter on loan to a financial institution**
"Maximum number of directors of a public company"	→	**Not specified by the Act**
"Quorum of a listed company's board"	→	**1/3 of number or 4, whichever is greater**
"Board cannot do this without the general meeting"	→	**Sell / dispose of a subsidiary**
"Remuneration of the chairman is fixed by..."	→	**Board or company in general meeting**
"Cash transactions with directors must be..."	→	**Only through banking channels**
"Non-cash deal WITHOUT GM approval is possible when the director is of..."	→	**A competitor of the holding company**
"Statement about a director of a listed company"	→	**Can be a full-time employee**

⚠ CHAPTER 3 EXAM TRAPS

Trap: The number of directors is fixed **35 days** before the meeting – not 21. It can be changed only with **prior approval of the general meeting**.

Trap: Cumulative voting – votes = shares × **seats to be filled**, not shares alone, and not the number of candidates.

Trap: Removal thresholds differ: elected (contested) → **lowest winning votes**; unopposed / fresh / first / casual → **average formula**. "Directors for the time being" excludes vacant seats.

Trap: Casual vacancy deadline of 90 days applies to **listed** companies only; for others there is no time limit.

Trap: Brokerage and loan-default bars apply only to **listed** companies.

Trap: Indemnity for negligence or breach is **void**; indemnity for defence costs after **acquittal / favourable judgment** is allowed.

Trap: "Relatives" for loans = **spouse and minor children**; a lending company in the ordinary course of business is exempt.

Chapter 3: Directors

30 Chapter Decision Tree – Director Questions

FACTS GIVEN → ① **Appointment?** natural person · member (or exception) · s.153 ineligibility (+ listed extras) · written consent filed in 15 days → ② **Election?** 35 / 14 / 7 days · unopposed or poll · votes = shares × seats → ③ **Mid-term entry?** requisite shareholding (100% ÷ directors) → fresh election in 30 days · or casual vacancy filled by directors → ④ **Leaving?** vacation (ineligible · 3 meetings · illegal loan · office of profit) or removal (lowest winning votes / average formula) → ⑤ **Decision?** board resolution vs general meeting (s.183) → ⑥ **Dealing with a director?** cash = bank · non-cash = GM (+ holding GM) + valuer · loan = members (+ SECP if listed) → **Conclude with section**

CAF-04 – CHAPTER 3 IN 60 SECONDS

- **Director** = function, not title · natural persons only · must be members (4 exceptions) · equal authority, one vote each.
- **Minimum:** SMC 1 · private 2 · public unlisted 3 · listed 7 · no maximum.
- **s.153:** 9 ineligibilities + 2 for listed (loan defaulter, brokerage) · consent filed in 15 days.
- **Term:** first directors till first AGM · elected 3 years · 45-day report, 90-day maximum delay, registrar may order election.
- **Election:** fix number 35 days · notices 14 days · circulate 7 days · cumulative votes · highest wins.
- **Fresh election** 30 days · **court** 10% / 30 days · acts valid despite defect · **casual vacancy** by directors (listed 90 days).
- **Vacation:** ineligible · 3 meetings without leave · illegal loan · office of profit. **Removal:** lowest winning votes or average formula.
- **Powers:** board resolution list vs GM consent (undertaking, subsidiary, director's debt relief) · **7 duties** · indemnity void except acquittal.
- **Independent director:** 3-year look-back (PSC 2) · max 3 terms · data bank · **NED** liable only with knowledge / consent.
- **Board:** listed quorum 1/3 or 4 · quarterly meetings · circulation by majority · minutes 14 days · 10 years / permanent.
- **Restrictions:** no assignment (alternate ≥ 90 days) · cash via bank · non-cash via GM · loans via members (+ SECP) · no political funds or gifts.

31 Chapter Memory Map

Director Definition | Natural Person | Minimum Directors | Ineligibility (s.153) | Consent – 15 Days | Term of Office
Election Procedure | Cumulative Voting | Nominee Directors | Fresh Election | Court – 10% / 30 Days | Casual Vacancy
Vacation of Office | Removal Formula | Board Powers | 7 Duties | Indemnity | Independent & NED | Quorum
Circulation & Minutes | Alternate Director | Cash / Non-cash Deals | Loans to Directors | Political Funds & Gifts