Chapter 8: Distribution of Profits

1 Chapter Roadmap

DECLARATION OF DIVIDEND
implied power · restrictions (Sec. 1)
→
PAYMENT OF DIVIDEND
form · period · manner · book closure · no withholding (Sec. 2)
→
OBJECTIVE BASED Q&A
(Sec. 3)

Theme: dividends are payments to members out of distributable profits. The board recommends, members declare (never more than recommended), and the chief executive must pay within a strict deadline – with only limited, approved exceptions.

2 Who Does What?

BOARD
recommends / proposes final dividend; declares **INTERIM** dividend
→
MEMBERS IN AGM
approve final dividend by **ORDINARY RESOLUTION** – may accept, reduce or reject, **NEVER INCREASE**
→
CHIEF EXECUTIVE
responsible for **PAYING** within **10 WORKING DAYS**

Implied power to declare dividend
Unless the memorandum / articles restrict it (e.g. an **association not for profit** prohibits dividends), every company has an implied power to use its profits to pay dividends.

Not more than recommended [Section 240]
The company in general meeting may declare dividends, but **no dividend shall exceed the amount recommended by the board**. The CEO does not "declare" dividend – he informs members of the board's recommendation.

3 Profits that CANNOT be Distributed [Section 240]

① Profit on sale of capital assets

No dividend out of profit on sale / disposal of **immovable property**, assets of a **capital nature** or any undertaking – **unless both**:

- the company's business (wholly or partly) is **buying and selling** such property / assets; and
- the profit is first **set off against losses** on sale of such property / assets.

② Unrealised gain on investment property

A fair-value increase credited to profit and loss on an investment property **not yet sold** is unrealised – it cannot be used for dividend.

Ex. 03: bought Rs. 100m, fair value Rs. 120m → Rs. 20m gain **not distributable**.

Case	Working	Distributable?
Manufacturer sells factory building – profit Rs. 20m (Ex. 01)	Not in property business	NO
Property developer – profit on land Rs. 10m, loss on another property Rs. 3m (Ex. 02)	10 – 3	Rs. 7m (subject to other law)
Pear Ltd – b/f profit Rs. 100m; business profit Rs. 300m; land gain Multan Rs. 150m; land loss Jhelum Rs. (350m)	Land gain set off against land loss → net loss (200m); 100 + 300 – 200	Rs. 200m maximum

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4 Payment of Dividend [Sections 241 & 242; Distribution of Dividends Regulations, 2017]

Form
Only out of **profits** – in **cash** or in **kind**. Dividend in kind may only be **shares of a listed company** held by the distributing company.

To whom
Only to **registered shareholders** or to their order, within the period and manner specified – **Companies (Distribution of Dividends) Regulations, 2017**.

Dividend	Deemed declared on	Pay within (by CEO)
Final dividend	Date of the **general meeting** (AGM) approving it	**10 working days** from the date of declaration (working day = any day banks are open)
Interim – with book closure	Date book closure **starts** (for entitlement)	
Interim – without book closure	Date the **board approves** it	

Listed company: book closure for interim dividend must **start within 15 days** of the board's approval. **Ashanti Ltd:** board declares on 18 Sep 2025, book closure 28 Sep – 3 Oct → deemed declared **28 Sep 2025** → pay within 10 working days of 28 Sep. **Peach Ltd:** no book closure → deemed declared on the **date of board approval** (9 Sep 2022).

5 Manner of Payment

Listed company
Cash dividend **only through electronic mode**, directly into the bank account designated by the shareholder.

Other companies [Reg. 4]
Obtain a **dividend mandate** when a person becomes a shareholder – one of: (i) **direct bank transfer**; (ii) **dividend warrant** (works like a crossed cheque, credited to the member's account); (iii) **crossed cheque**. Mandate may be changed any time by written request.

Paying agent
A company may appoint a **paying agent** – a bank or entity (incl. share registrar, central depository) with **SBP approval** – to pay cash dividend directly into bank accounts. Banks may act as their own paying agent.

6 Book Closure [Section 125]

Purpose
A period in which the company does **not register share (or debenture) transfers** – to fix the cut-off for who receives a **notice of meeting** or **dividend** (or interest). Persons holding shares at the start of book closure are treated as the members.

Notice	Maximum	Extension	Penalty
at least **7 days** before	**30 days** in total in each year	Commission may extend by **15 days**	Default → **level 2**

Applies to the register of **members** (or any class) and of **debenture-holders**. **Listed:** notice advertised in one **English and one Urdu** daily newspaper with wide circulation. Notice served like other notices (registered address, first-named joint holder, legal representative).

Worked Practice Q – Bluefish Ltd (listed)
Closed 10 days (Jan) + 7 days (Apr) + 8 days (Jul) = **25 days** → only **5 days** left of 30. Jaleel's planned 8 days: either cut it to **5 days**, or apply to the Commission for an extension of at least **3 days**.

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7 Directors Cannot Withhold Declared Dividend [Section 243]

Rule

Once declared, it is **unlawful** for directors to **withhold or defer** payment; the **chief executive** is responsible for paying within the specified period.

Consequences of late payment – CEO

- Imprisonment up to **2 years and** fine up to **Rs. 5 million**.
- On conviction, ceases to be CEO from that day.
- **Ineligible for 5 years** to be CEO or director of **that or any other company**.

Akram Khan, convicted in January 2020 for late dividends, cannot be a director of Sardine Ltd until five years have passed.

No offence – if SECP permits withholding / deferral

On the company's application **within 45 days** of declaration (after hearing the shareholder), where:

- payment is barred by **operation of law**;
- a shareholder's **directions** cannot be complied with;
- there is a **dispute** over the right to receive it;
- it is **lawfully adjusted** against a sum due from the shareholder;
- failure was **not due to the company's default**.

Lawful withholding (no SECP approval needed): where the member has **not provided complete information or documents** specified by the Commission.

Practice Q – Dinar Ltd (listed): 100% final dividend recommended; huge losses after the AGM notice. (i) **Reduce to 25%** → allowed – members may reduce in the AGM. (ii) **Defer 75% for six months** → **not allowed** – once declared, payment cannot be deferred beyond the specified period.

8 Time Limits & Numbers

Requirement	Limit	Section / Reg.
Pay cash dividend from date of declaration	**10 working days**	Reg. 3
Listed – start book closure after board approves interim dividend	**15 days**	Reg. 3
Notice before book closure	**7 days**	125
Book closure in a year / SECP extension	**30 days / +15 days**	125
Apply to SECP to withhold / defer	**45 days** of declaration	243
CEO's punishment for late payment	**2 years · Rs. 5m · 5-year bar**	243

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9 Exam Question Patterns & MCQ Quick Clues

"Final cash dividend must be paid within..."	→	**10 working days**
"Members may ___ the dividend proposed by directors"	→	**Accept, reduce or reject**
"Members can never..."	→	**Increase the proposed dividend**
"Interim dividend is proposed and paid by..."	→	**The directors**
"Resolution to approve final dividend"	→	**Ordinary resolution in the AGM**
"Who is responsible for default in paying dividend?"	→	**Chief executive**
"Registers a listed company may close on 7 days' notice"	→	**Members and debenture-holders**
"Dividend warrants are credited into the account of..."	→	**A member**
"Primary purpose of paying dividends"	→	**Reward shareholders; steady income**

⚠ CHAPTER 8 EXAM TRAPS

Trap: Deadline is **10 working days** – not 30 days, not calendar days.

Trap: Interim dividend with book closure is deemed declared on the **first day of book closure** – not the board meeting date.

Trap: Profit on selling a factory is distributable only by a company that **deals in such property**, and only after **setting off losses**.

Trap: Dividend in kind = only **listed company shares** held by the company.

Trap: SECP approval to withhold must be sought **within 45 days**; withholding for **incomplete member documents** needs no approval.

Trap: Fine is **up to** Rs. 5 million (not minimum, not Rs. 50 million); the 5-year bar covers **any company**.

CAF-04 – CHAPTER 8 IN 60 SECONDS

- **Dividend** = payment to members out of distributable profits · implied power unless barred (not-for-profit).
- **Board recommends · members declare** (ordinary resolution) · never above the recommendation.
- **Not distributable:** capital profits (unless property-dealing business, after setting off losses) · unrealised investment-property gains.
- **Form:** cash or listed shares in kind · only to registered holders.
- **Deemed declared:** final – AGM date · interim – start of book closure / board approval.
- **Pay in 10 working days** · listed: electronic only · others: mandate (bank / warrant / crossed cheque) · paying agent.
- **Book closure:** 7 days' notice · 30 days a year (+15 by SECP) · listed: English & Urdu papers · level 2 penalty.
- **No withholding:** CEO – 2 years + Rs. 5m + 5-year bar · exceptions with SECP approval (45 days) · incomplete documents.

10 Chapter Memory Map

Implied Power | Board Recommends | Members Declare | Capital Profits | Unrealised Gains | Cash or Kind

Registered Holders | Deemed Declaration | 10 Working Days | Mandate & Paying Agent | Book Closure | No Withholding

CEO Penalty | SECP Permission – 45 Days