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# THE COMPANY SECRETARY

The role and importance of position of the Company Secretary in the Corporate Sector

By

*Amanullah*

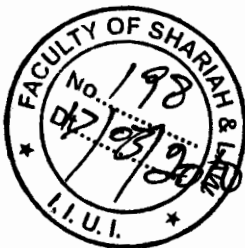
*A thesis submitted in partial fulfillment  
of the requirement for the degree of  
MASTER OF LAWS (CORPORATE LAW)*

*15<sup>th</sup> January, 2010 A.D.*

*Muharram, 1431 A.H.*

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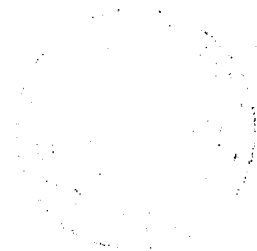
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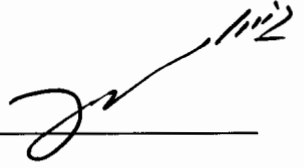
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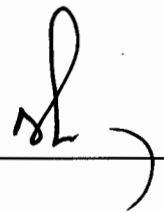
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## **DEDICATION**

**I dedicate this humble piece of work to my parents especially my mother who always prayed for my success and a source of encouragement for me.**

## **ACKNOWLEDGEMENTS**

While I bow my head in extreme humility before Allah Almighty, who is most beneficent and most merciful, who bestowed me the blessing of health and time to complete this thesis, I express my heartfelt gratitude for all those who in any way provided me guidance or support in completing this assignment.

I am extremely grateful to my friend like brother Imtiaz Ahmed Khan, Lecturer Bahauddin Zakariya University, Multan, LLM (Corporate Law) Gold Medalist from I.I.U Islamabad for his extra ordinary help and guidance provided to me not only during thesis writing but throughout my LLM Course. I wish to acknowledge that it was his guidance and encouragement which made me a student of LLM Corporate Law and finally enabled to write this thesis.

I owe special thanks for Mr. Musharraf Khan, Additional Registrar, Securities and Exchange Commission of Pakistan (SECP) for accepting my supervision and Col. (Retd.) Muhammad Younus, Assistant Professor, IIUI and Muhammad Siddique, Additional Registrar, SECP for evaluating my thesis as internal examiner and external examiner respectively despite their very busy schedule.

I am also grateful to all my friends, brothers and colleagues who helped and encouraged me during my studies and research especially my friends Mr. Muhammad Abrar, LLM (Corporate Law), IIUI, Mr. Iqbal Ghaus, Executive Officer, SECP and Brother Mr. Muhammad Kaleemullah.

It would be unfair if I do not acknowledge and appreciate my wife Raheela Aman and son Muhammad Ihsanullah Rao for their co-operation and patience exhibited during this research work.

May Allah reward them all for their help and Co-operation.

Amanullah

Islamabad

13<sup>th</sup> January, 2010

## **THESIS STATEMENT:**

**The role and importance of position of the Company Secretary in the Corporate Sector**

## **INTRODUCTION:**

The role of company secretary is very important for a company. He is responsible for all the secretarial matters and also other day to day affairs of the company. The role in the recent times has been increased and it is realized that a full time company secretary is important for the betterment of the company and consequently for the shareholders who are ultimately the owners of the company.

Earlier, there was concept of part-time company secretary but now a full-time company secretary is considered to be important. The Companies Ordinance, 1984 prescribes that the company secretary is compulsory for the public listed companies as per provisions of the Companies Ordinance, 1984. However after the promulgation of Single Member Companies Rules, 2003 the appointment of company secretary has been made compulsory for the Single Member companies as well.

The thesis will be discussed chapter wise as under: -

The first chapter will discuss the history of the company and company law in Pakistan and then the background of the concept of the company secretary. There are

prescribed qualifications of the Company Secretary depending upon the nature of the company.

In second chapter the emphasis will be on the role of company secretary viz a viz the day to day affairs of the company secretary will be discussed and an effort will be made to see how much important is the role of the secretary in these areas.

In third chapter will discuss the role of company secretary in the sphere of secretarial duties. This is primary function of the secretary for which he is appointed but in practice he does other matters in the day to day affairs of the company.

At the end some suggestions will be offered after final conclusion, which inter alia includes bottlenecks and problems. What are the remedial measures and at the end some proposals will be offered for further improvement of the concept.



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## CHAPTER NO.1

### MEANING AND BACK GROUND OF THE COMPANY

#### 1.1 Definitions and interpretations:

In this thesis unless there is any thing repugnant in the subject or context:-

- a. **"articles"** means the articles of association of a company as originally framed or as altered in accordance with the provisions of any previous Companies Act, or of the Companies Ordinance, 1984 (the Ordinance) including, so far as they apply to the company, the regulations contained in Table A in the First Schedule;
- b. **"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;
- c. **"Commission"** means the Securities and Exchange Commission of Pakistan established under section 3 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);

- d. **"company"** means a company formed and registered under the Ordinance or an existing company;
- e. **"company limited by shares"** means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them;
- f. **"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 winding up;
- g. **"director"** includes any person occupying the position of a director, by whatever name called;
- h. **"document"** includes summons, notice, requisition, order, other legal process, voucher and register;
- i. **"form"** means a form set out in any of the schedules or prescribed;

j. **"member"** means, in relation to a company having share capital, a subscriber to the memorandum of the company and every person to whom is allotted, or who becomes the holder of, any share, scrip or other security which gives him a voting right in the company and whose name is entered in the register of members, and, in relation to a company not having a share capital, any person who has agreed to become a member of the company and whose name is so entered;

k. **"memorandum"** means the memorandum of association of a company as originally framed or as altered from time to time in pursuance of the provisions of any previous Companies Act or of the Ordinance;

l. **"private company"** means a company which, by its articles,—

- (i) restricts the right to transfer its shares, if any;
- (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 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;

- m. **"registrar"** means a registrar, an additional registrar, a joint registrar, a deputy registrar or an assistant registrar, performing under the Ordinance the duty of registration of companies;
- n. **"secretary"** means any individual appointed to perform the secretarial, administrative or other duties ordinarily performed by the secretary of a company;
- o. **"share"** means share in the share capital of a company;
- p. **"special resolution"** means a resolution which has been passed by a majority of not less than three-fourths of such members entitled to vote as are present in person or by proxy at a general meeting of which not less than twenty-one 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 twenty-one days notice has been given;<sup>1</sup>

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<sup>1</sup> The Companies Ordinance, 1984

‘union or association of persons for carrying on a commercial or industrial enterprise, a partnership, corporation, association, joint stock company’.<sup>2</sup>

1.1.1.1.2 **The Oxford Advanced Learner’s Dictionary:**

A group of people working together for business or commercial purposes; a business organization: a manufacturing company or an insurance company.<sup>3</sup>

It has also been defined as a business organization that makes money by producing or selling goods or services<sup>4</sup>.

1.1.1.2 **The Ordinance meaning:**

The Ordinance has not defined the term specifically rather it simply says "company" means a company formed and registered under the Ordinance or an existing company.<sup>5</sup>

An existing company means the company formed under previous Acts like Companies Act, 1913 as amended in 1936. This is not exhaustive definition rather we can understand

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<sup>2</sup> Black’s Law Dictionary by Henry Campbell Black M.A., Sixth edition, Centennial edition, (1891-1991), edition 1991.

<sup>3</sup> Oxford Advanced Learner’s Dictionary by A.S. Hornby, fifth edition, Oxford University Press.

<sup>4</sup> [http://www.oup.com/oald-bin/web\\_getald7index1a.pl](http://www.oup.com/oald-bin/web_getald7index1a.pl), 15.03.2009

<sup>5</sup> The Companies Ordinance, 1984

it with reference to its characteristics. The following may be the prime characteristics of a company:

1.1.1.2.1 **Free association:**

By free association we mean that when the company is formed it is formed with free consent of the parties. As the common understanding of a company (Now with introduction of single member company the concept has changed where a single person can make a company without association of other persons) it means an association of persons but this should be with free consent. As far as formation of company is concerned, it is formed by law after fulfilling certain formalities.

1.1.1.2.2 **Limited liability:**

This is basic characteristic of a company. The same is not available for other form of businesses like partnership or sole proprietorship. Under this concept the liability of its members is limited and their assets are not under the threat to be sold at the time of winding up while settling the liabilities of the company if liability exceeds the available assets of the company. Since the concept of the company is that it is separate from its members and it can own assets and liabilities that is why it owns such liabilities at the time of winding up of the



company. The liability of the members of the company is up to the amount unpaid, if any, on the shares held by them if the company is limited by shares and up to the amount undertaken by them to contribute to the assets of the company in the event of its winding up, if the company is limited by guarantee.

As far as other form of businesses is concerned like partnership or sole proprietorship, the partners have unlimited liability. They are bound to meet all the liabilities of the firm when the assets of the company exceed the available assets under the operation of the business; this is because the partnership is not a separate entity from its partners. The creditors of the partnership firm can execute the decree against the partners and their private property is always under threat.

Under the Ordinance it is possible to form a company with unlimited liability of its members then in that case the members will not enjoy the privilege of limited liability and their assets are always under threat and they are personally liable to contribute towards the assets of the company to satisfy the debts of the company whenever the liability exceeds the available assets of the company. That is why this concept is not favorable to the promoters. Because of this effect there are minimum numbers of companies formed under this category.

Another concept in the Ordinance is the company with limited liability but some of directors having unlimited liabilities. Under section 111 of the Ordinance, a

company may have directors having unlimited liability irrespective of the fact that the company have limited liability. This concept is mixture of limited and unlimited liability. This allows the creditors to satisfy their whole liability towards the company from the directors who are designated with their consent to have unlimited liability. It is therefore necessary to disclose this fact in the Memorandum as well as notice to those persons who are contesting the election or who accepts the office of director under unlimited liability. One of the primary and accepted motivations behind incorporating a company is to limit personal risks by obtaining the benefit of limited liability.<sup>6</sup>

#### 1.1.1.2.3 **Perpetual succession:**

The company being legal entity is brought into existence by law and it remained into existence for indefinite period unless dissolved earlier by law means according to the procedure laid down in the Ordinance. The change in ownership, death of members or management does not affect the existence of company and it remains into existence. The life span of company do not depends on the life span of members, directors or employees of company. It can only be dissolved after fulfilling the certain requirements of law.

#### 1.1.1.2.4 **Legal entity:**

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<sup>6</sup> Company Law by Avtar Singh, Irfan Law Book House, fourteenth edition, 2004, P.8

The company is formed after fulfilling certain requirements of law and then the company becomes legal entity distinct from its members. It can sue and can be sued in its name. It can own assets. This concept is not available in other forms of the business entities.

#### 1.1.1.2.5 **Free transferability:**

Another advantage of forming a company is that its ownership can be transferred freely. In case of private company some restrictions are mentioned in the articles of the company that members can not transfer their shares without approval of board of directors and board of directors may reject any transfer. The reason for such a restriction is very obvious because normally the private company is formed by the family members and it is not reasonable to allow any member to introduce any non family member without consent of the other members. Otherwise the shares of a company may change hands without any limitations and hence change in ownership of the company.

#### 1.1.1.2.6 **Centralized management:**

This signifies that all the members are not necessarily being active partners and manager of the company. It has management separate without direct intervention of the members. Some members are elected directors to run the affairs of the company. The

other members have indirect role in the management of the company. They can elect and even remove any director who working against the interest of the company and consequentially against the interest of the members of the company who are the actual owners of the company. The directors are responsible for day to day affairs of the company and at the end of the year present the annual accounts of the company before the Annual General Meeting of the members. The members can remove or appoint new directors after following the procedure mentioned in the Ordinance.

1.1.1.2.7 **Limitation of activities:**

The Ordinance says that activities of the company are limited and it can't go beyond what is allowed by the memorandum. The promoters or member have to mention the activities of the company and it can not go beyond that. The guidelines are mentioned in the Ordinance that company can carry on the incidental and consequential business. If company carries a business not allowed by the memorandum then it will be ultra vires. A winding up proceedings may be initiated against the company in such a situation. This is one of the grounds mentioned in section 305 of the Ordinance for compulsory winding up.

1.1.1.2.8 **Not a citizen:**

After formation of a company according to procedure laid down in the Ordinance, it has all rights and liabilities of the legal person. But it is not a citizen means it does not have certain rights like fundamental rights which are conferred on natural persons under the constitution. For instance, right to vote; right to have Computerized National Identity Card (CNIC), Passport, and right to contest elections etc.

## 1.2 History of company:

Only a few centuries ago, the privately owned, for-profit business corporation did not exist. At the beginning of the nineteenth century, most business and commerce was conducted by proprietorships and partnerships. Today, however, the corporation is the dominant form of business organization.<sup>7</sup>

The word company has been derived from the Latin term 'companies'. It comprises of two parts i.e. 'com' and 'panies'. The word 'com' means 'together' and 'panies' means 'bread'. Thus a company in common words, means a group of persons associated for some common purpose which might be carrying on of business to earn profit or to promote any of the purpose useful to the society. An association of person may be incorporated under the law of the land.

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<sup>7</sup> Corporate Law by Robert Charles Clark, Published Little, Brown & Company (Canada) Ltd, P.1, Edition 1998

### 1.3 **England's History:**

The following were the formation of companies in England:-

#### 1.3.1 **Regulated Companies:**

At the end of sixteen century, the Crown gave the charter for formation of trading companies such as Levant Company, East India Company, the Hudson's Bay company and notorious South Sea Company. These companies were legal entities quite distinct from their members. These were regulated companies in which the members traded with theirs own stocks and commodities subject to the rules of the companies and had to contribute to the expenses of the companied from their profit.

#### 1.3.2 **Joint Stock Companies:**

At the end of seventeen century, joint stock companies were formed and even the regulated companies switched over to joint stock companies. Such companies had the joint stocks of the members and companies had to trade and pay dividends to the members. The companies could be formed through special Act of Parliament.

1.3.3 **Bubble Act, 1720:**

The Act was passed to regulate the activities of the joint stock companies.

1.3.4 **Bubble Companies etc. Act, 1825:**

Members were made personally liable for the debts of the companies to the extent, as the Crown should think proper. The Act repealed Bubble Act, 1720.

1.3.5 **Chartered Companies Act, 1837:**

The Crown was empowered to grant letter of patent.

1.3.6 **Joint Stock Companies Act, 1844:**

A provision was made for registration of joint stock companies instead of granting charter.

1.3.7 **Limited Liability Act, 1855:**

Members' liabilities were made limited up to his share in the capital.

1.3.8 **Joint Stock Companies Act, 1856:**

This introduced memorandum and articles to association of joint stock companies.

1.3.9 **Companies Act, 1862:**

This repealed and consolidated all previous Acts.

1.3.10 **Companies (Memorandum of Association) Act, 1862:**

This provided the procedure of alteration in object clauses of memorandum of association.

1.3.11 **Companies Act, 1867:**

This contained the power of reduction of capital.

1.3.12 **Directors' Liability Act, 1890:**

This introduced the principle of liability for directors.



#### 1.3.13 Companies Act, 1900:

This introduced prospectus, audit of accounts and registration of mortgage charges.

#### 1.3.14 Companies Act, 1907:

The provisions were provided for private companies.<sup>8</sup>

#### 1.4 History of Company Law in Pakistan:

After independence in 1947 the Companies Act, 1913 (as amended in 1936) was adopted as company law in Pakistan with necessary amendments. The said Act was based on British Companies Act, 1908 as amended from time to time. The company law was Provincial subject until 1973. After promulgation of Constitution of Islamic Republic of Pakistan on 14<sup>th</sup> August, 1973, the company matters were taken over by the Federal Government, since the company law was placed in Federal list. But the joint stock companies that had their operation within the jurisdiction of Provinces remained under the control and supervision of respective Provincial Governments.<sup>9</sup>

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<sup>8</sup> Practical Approach to the Companies Ordinance, 1984 by Nazir Ahmed Shaheen, edition 2004 P.1-2

<sup>9</sup> Imtiaz Ahmed Khan, A thesis on 'the Single Member Company', LL.M (Corporate Law), 2006, IIUI, page-11

The Constitution of Islamic Republic of Pakistan, 1973 under Part I of Fourth Schedule says;-

“Corporations, that is to say, the incorporation, regulation and winding up of trading corporations, including banking, insurance of financial corporations but not including corporation owned or controlled by a Province and carrying on business only within that Province or co-operative societies and of corporations whether trading or not with objects and confined to Province but not including universities.”<sup>10</sup>

But those who had their operation beyond Province were regulated under the Federal Govt. and subsequently were also registered under the Companies Act, 1913 and later on under Companies Ordinance, 1984. The Companies Ordinance, 1984 was promulgated on 8<sup>th</sup> October, 1984 and it repealed the Companies Act, 1913. The Schedule –VII to the Ordinance repealed the Companies Act, 1913 as a whole.

The Companies, which continued to work with their headquarters in Pakistan, after 15<sup>th</sup> August, 1947, were to be treated, as companies registered under the Companies Ordinance.<sup>11</sup>

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<sup>10</sup> The Constitution of Pakistan, 1973, as amended by Legal Framework Order, 2002, By Atta-ur-Rehman, Kausar Brothers Law Book Publishers & Sellers, edition 2001

<sup>11</sup> The Company Law by Shaukat Mahmood & Nadeem Shaukat, published by legal Research Centre, Vol-1, P.7, editin 1998

### 1.5 **Back ground of concept of position of Company Secretary :-**

The word 'Secretary' is a Latin word meaning 'confidential writer or notary'. Also it means the 'Confidential Officer'.<sup>12</sup>

In commercial terms, the secretary is an employee entrusted with confidential correspondence and record. The Ordinance has also defined the term in the following words 'any individual appointed to perform the secretarial, administrative or other duties ordinarily performed by the secretary of a company'.<sup>13</sup>

A Company Secretary is a senior position in a private company or public organization. In the United States it is known as a Corporate Secretary.<sup>14</sup>

Despite the name, the role is not a clerical or secretarial one in the usual sense. The company secretary ensures that an organization complies with relevant legislation and regulation, and also keeps board members informed of their legal responsibilities. Company Secretaries are the company's named representative on legal documents, and it is their responsibility to ensure that the company and its directors operate within the law. It is also their responsibility to register and communicate with shareholders, to ensure that dividends are paid and to maintain company records, such as lists of directors and shareholders, and annual accounts.

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<sup>12</sup> [www.wikipedia.com](http://www.wikipedia.com), 18.04.2009

<sup>13</sup> The Companies Ordinance, 1984, Section 2 (33)

<sup>14</sup> [www.wikipedia.com](http://www.wikipedia.com), 18.04.2009

In many countries, private companies have traditionally been required by law to appoint one person as a company secretary, and this person will also usually be a senior board member.

Prior to the year 2002 the appointment of the Company Secretary was not compulsory and therefore most of the companies were not used to appoint the Company Secretary. However the listed companies were used to appoint Company Secretary for secretarial purposes. This was necessary for proper functioning of the companies because of involvement of public money. But later on through the Companies Amendment Ordinance, 2002 listed companies and Single Member Companies were required to appoint this position.<sup>15</sup>

All listed companies and the Single Member Companies must have company secretary while the rest of companies do not have obligations to appoint company secretary. The Section 204-A of the Ordinance says that the listed companies shall have whole time company secretary while the Single Member Company shall also have company secretary but it is not necessary for such companies to have whole time company secretary. It is optional for all other companies. These companies may appoint company secretary for proper working of the company.

The functions of the company secretary have not been defined specifically in the Ordinance. The relevant section simply says that the functions which are ordinarily

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<sup>15</sup> The Companies Amendment Ordinance, 2002

performed by the Company Secretary. This shows that there is no specific functions mentioned in the Ordinance.

The Company Secretary once appointed may be removed from the office. The removal of the Company Secretary is not again defined in the Ordinance. However it is obvious that the removal of the Company Secretary will be according to principles of the justice. Meaning thereby the authority who appointed him will have power to remove it. So the Company Secretary can be removed by the Chief Executive with the approval of the Board of Directors.

### **COMPANY SECRETARIES' RESPONSIBILITIES**

Under the Companies Ordinance, 1984 the private limited companies have not been obliged to appoint a company secretary unless the company's articles contain a reference to the company having a secretary. However, existing private limited companies may retain a company secretary if they wish and newly established companies can opt to appoint one.

If one is running a public limited company that must by law have a company secretary.<sup>16</sup>

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<sup>16</sup> The SECP Guide Series, Investor's Guide, Published in 2006

The company secretary usually acts as the chief administrative officer of the company, leaving the directors free to concentrate on running the business.

The company secretary doesn't have to be a director but they do share some of the directors' legal responsibilities. However, ultimate responsibility for ensuring the company is properly administered remains with the directors.

As against the private companies the single member companies are required to appoint the company secretary under the Single Member Companies Rules, 2003 which provides compulsion for a single member company to appoint the company secretary although such a company is private company under the Companies Ordinance, 1984 and the rules made there under.

There are certain qualifications for a person to be appointed as the Company Secretary under the Ordinance. These are discussed in detail in the next topic under the thesis under discussion.

It is pertinent to mention here that the legislature has not specified the role of the company secretary, therefore as per practice the company secretary may normally undertake the following duties as in practice according to prevailing circumstances in corporate sector:

- (a) duty to maintain the statutory registers of the company.

(b) to ensure that the company is filing the statutory information promptly and in time to the concerned registrar.

(c) the company is providing to the members and directors with notice of meetings of the members and the directors as the case may be.

(d) the company is providing to the members with proposed written resolutions and auditors with any passed resolutions in the meetings of the members and the directors as the case may.

(e) the company is sending copies of resolutions and agreements to Companies Registration Offices or the Commission as the case may be.

(f) The company is supplying the copies of the accounts to every member of the company who is entitled and who has applied for the same according to the procedure mentioned in the Articles and the Ordinance and as well as to every debenture holder and every person who is entitled to receive notice of general meetings.

g) to make it sure that the keeping, or arranging for the keeping, of copies of all members' resolutions (passed other than at general meetings), and minutes of all proceedings and general meetings which were held and that these are available for the inspection of the concerned members.

(h) to make it sure that people entitled to do so can inspect company records in accordance with the procedure mentioned in the Ordinance and the Articles.

(i) to keep in custody and use of the company seal whenever it is in need according to the requirement of the law by the company. It is pertinent to mention here that the Companies are no longer need to have a company seal according to the law however if they do, the secretary is usually responsible for its custody and use so that violation of law can be avoided.<sup>17</sup>

As the secretary is an officer of the company and he is responsible for day to day affairs of the company in accordance with the provisions of the law and therefore, they may be criminally liable for defaults committed by the company for those matters for which any imprisonment meaning thereby any criminal punishment has been prescribed by the Ordinance especially with reference to those matters where the interest of public is involved. Because the safeguard of the public interest is key for the betterment of the economic situation of the country otherwise this may harm the whole process of economic growth in the country.

For example failure to file those returns and information for which any time frame has been prescribed by the commission under the Ordinance and the default is made in that filing and any change in the details of the company's directors and secretary, and the

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<sup>17</sup> The Practical Approach to Companies Ordinance, 1984 by Nazir Ahmed Shaheen, P.213



company's annual return which may adversely affect the performance of the company and may create liabilities of the company.

#### **4. Does a company secretary have any powers?**

The question arises that whether the company secretary have any kind of powers under the Ordinance.

The answer is very clear that 'No' but they are able to sign most of the forms that companies need to submit to Companies Registration Offices and to the Securities and Exchange Commission of Pakistan.

#### **5. What rights does a company secretary have?**

Another important question which is relevant with regard to this study and thesis is that whether the person who is to be appointed has any kind of right under the Ordinance.

Again the answer to this question is very simple that it depends on the terms and conditions of the person who is going to be appointed as company secretary and the company.<sup>18</sup>

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<sup>18</sup> <http://www.companieshouse.gov.uk/about/gbhtml/gba1.shtml>, 23.04.2009

## 1.6 Qualification of the Company Secretary:

The qualification of the Company Secretary has been defined in the Companies Ordinance, 1984. The Section 204-A of the Ordinance empower the Commission to lay down the qualification according to nature of company. The Companies (General Provisions and Forms) Rules, 1985 (hereinafter called the Rules) prescribe the qualifications of the secretary.

The rule 14-B of the said Rules prescribes the following qualifications of the company secretary according to the nature of the company:-

It has been defined in the Companies (General Provisions and Forms) Rules, 1985 that the following shall be the qualifications of company secretary to be appointed in terms of section 204A namely:

- (a) member of a recognized body of professional accountants;
- (b) a member of a recognized body of corporate/chartered secretaries;
- (c) a person holding a masters degree in Business Administration or Commerce or being a Law Graduate from a university recognized by Higher Education Commission and having at least two years relevant experience:

Provided that a person already engaged by a company as secretary before the 26th October, 2002 may continue in that capacity if he has an experience of not less than five years in that position.<sup>19</sup>

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<sup>19</sup> The Companies Ordinance, 1984, Section 204 (A)

A further amendment was made in the Rules that a public listed company may engage a person as its company secretary who possess the following qualification that is to say 'a retired Government employee in BPS-19 or above having at least 15 years of service. The purpose of this amendment was to accommodate certain persons at key public sector companies which may include retired army officers having grade 19 and above. There may be some positive features of the amendment like a retired officer in BPS-19 and above having experience of corporate affairs who can contribute towards the corporate affairs but due to lack of fulfilling the strict criteria mentioned in the Ordinance could not do that. This may be positive purpose.<sup>20</sup>

This qualification is not directly related to the corporate affairs of the company but it is the duty of the management to appoint such person who can run the secretarial matters of the company in the best interest of the shareholders who are the ultimate owners of the company.

Besides these statutory requirements of the qualification there are general qualifications of the Company Secretary which are discussed below.<sup>21</sup>

The code of Corporate Governance requires that it is the duty of the Board of Directors that these make it sure that the Company Secretary is the person who knows about the corporate affairs and conduct the company in best proper way and fulfill the

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<sup>20</sup> The Companies (General Provision and Forms) Rules, 1985

<sup>21</sup> The Practical Approach to Companies Ordinance, 1984, by Nazeer Ahmed Shaheen, Federal Law House, Rawalpindi, Edition 2006

requirements of the Companies Ordinance, 1984 and also works for the interest of the shareholders and especially the minority shareholders. Since 21<sup>st</sup> July 2008, The Securities and Exchange Commission of Pakistan has introduced e-Services and therefore all the paper work will be terminated gradually and hence the incorporation and other statutory returns will be filed through internet.<sup>22</sup>

For this purpose the Commission has started functioning in this regard. It is therefore compulsory for the Company Secretary that he knows about e-Services and system to operate.

Therefore it is the duty of the Board of Directors that the following qualifications are also present in the person who is to be appointed as Company Secretary: -

1. Sound general Academic qualification;
2. Special knowledge of secretarial practice;
3. Proficiency in language especially the business terminologies;
4. Knowledge of company law;
5. Knowledge of business law;
6. Knowledge of accountancy;

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<sup>22</sup> The Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan

7. Knowledge of taxation law;
8. Knowledge of information technology;
9. Knowledge of banking and finance;
10. Knowledge of organization of management;
11. Knowledge of business groups in general and concerned business group in particular; and
12. Legal knowledge.

All these qualification are necessary for the smooth running of the company's affairs although not mentioned in any statute. Let us discuss these briefly.

**Sound general Academic qualification:**

These are not as important in certain cases especially in the cases where the law has required professional qualifications like chartered accountants or corporate secretaries. These are important where only a bachelor degree has been recognized a valid degree with certain experience. In these circumstances it is necessary that person

should have sound academic qualification so that he can deal the company matters in an efficient manner.

**Special knowledge of secretarial practice:**

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This is one of the core issues about which the Company Secretary must know because it is his primary duty. The Company Ordinance defines the duties of the Company Secretary as under “secretary means any individual appointed to perform the secretarial, administrative or other duties ordinarily performed by the secretary of a company”<sup>23</sup>.

The most common duties of the company secretary relate to the filing of different statutory returns and these will be discussed in the later part of this thesis.

**Proficiency in language especially the business terminologies:**

Since the company secretary is frontline administrator and have to deal with Registrar concerned and with the Securities and Exchange Commission of Pakistan and have to present the company’s case before them therefore it is necessary that he should have proper knowledge of the language and especially with the business terminologies.

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<sup>23</sup> The Companies Ordinance, 1984, Section 2(33)

### **Knowledge of company law:**

The company law is the mother of all corporate laws it is therefore mandatory that he should have proper knowledge of the company law otherwise lack of knowledge may commit default on behalf of the company and consequences have to be beard by the owners. Since the ignorance of law is no excuse.

### **Knowledge of business law:**

Besides having knowledge of company law the company secretary must have knowledge of the business law because he has to perform different type of functions and also involves with business related activities hence he should have the knowledge of the business law as well.

### **Knowledge of accountancy:**

Although this is not a qualification mentioned in the Ordinance but since the person is to handle different issues which includes inter alia the accountancy related matter it is therefore necessary that he should have knowledge of accountancy. If he is well conversant with accountancy he is supposed to perform better.

### **Knowledge of Taxation law:**

The taxation is part and parcel of every business which a company has to pay to the Govt. and since the company secretary is to file different returns including the tax related returns it is therefore essential for him to have some knowledge of taxation of laws so that there may not be any default on behalf of the company with reference to the tax related matters.

### **Knowledge of information technology:**

The twentieth first century is the century of globalization and this means that the information technology is basic tool for it. Now the big transaction in the corporate sector are made through the internet and one can make any business transaction involving millions of rupees at his office and also the Securities and Exchange Commission of Pakistan introduced the E-filing since which will be fully operative in near future and company can file its annual returns and other statutory documents through internet and therefore the role of information technology has increase manifold and therefore it is of at most importance that the company secretary should have proper knowledge of information technology otherwise it will be sluggish attitude on behalf of the company to perform its day to day affairs.



**Knowledge of banking and finance:**

The banking and financial matters also form an important part of affairs of the company and therefore the person who is to be appointed as company secretary must have some knowledge of the banking and finance so that the company can be run accordingly so that there may not be any difficulty in the affairs of the company.

**Knowledge of organization of management:**

The company secretary is basically appointed to run the managerial functions of the company and therefore a company secretary must know about the organization of management so that he may be able to run the management functions smoothly. A good knowledge about the managerial functions can facilitate the running of the affairs of the company.

**Knowledge of business groups in general and concerned business group in particular:**

The company secretary should have proper knowledge of business groups in general and concerned business group in particular is beneficial for the company. The

company secretary must know because he has to deal with the company's affairs with the different groups therefore it may help for better performance on behalf of the company.

**Legal knowledge:**

It is said that the ignorance of law is no excuse. Also the company has to face different litigations besides fulfilling the legal requirements meant for the affairs of the company. Therefore a company secretary having good knowledge law can enhance the overall performance of the company. Therefore a person who holds law degree besides having other secretarial education is more beneficial for the company or at least he should have some practical knowledge of the legal proceeding so that he can act whenever the company requires his services.

Besides these qualifications there are certain qualities which should also be present in the person who is to be appointed as Company Secretary.<sup>24</sup>

A brief of the same are listed below: -

1. Impressive personality;
2. Hard working;
3. Man of high character;

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<sup>24</sup> The Practical Approach to Companies Ordinance, 1984 by Nazir Ahmed Shaheen, Published by Federal Law Book House, edition 2006

4. Man of integrity especially with regard to secrecy of the information of the company;
5. Alertness;
6. Honest;
7. Self motivated;
8. Initiativeness;
9. Foresightedness; and
10. Proactive.

**Impressive personality:**

When we talk about the Company Secretary it is presumption that he is of impressive personality. By this we mean that he should be of such personality which has strong favorable effect on other body and gains some bodies admiration and respect. This qualification is in fact a quality which bears good effect on the business of the company.

The twentieth first century is the century of globalization and this means that the information technology is basic tool for it. Now the big transaction in the

corporate sector are made through the internet and one can make any business transaction involving millions of rupees at his office and also the Securities and Exchange Commission of Pakistan introduced the E-filing since which will be fully operative in near future and company can file its annual returns and other statutory documents through internet and therefore the role of information technology has increase manifold and therefore it is of at most importance that the company secretary should have proper knowledge of information technology otherwise it will be sluggish attitude on behalf of the company to perform its day to day affairs.

**Hard working:**

This is another quality which in fact should be with each and every person who wants some success in the world. As far as business is concerned this quality is more important. Since the company secretary is an employee of the company and his role is very important in the corporate affairs it is therefore more important that he should be hard working personality otherwise the business will be badly effected.

**Man of high character:**

The character is very important in the corporate sector because a good character always give good results in any business meeting and transactions. If there is any person

with loose character he definitely may harm the business relationships and consequentially the business of the company. So this quality is also important when we discuss the qualities and qualification of the company secretary.

**Man of integrity especially with regard to secrecy of the information of the company:**

The company secretary is only the employee of the company and normally is not the owner of the company. It is possible that he is one of the director and hence a shareholder but it is not necessary. There is an exception in the rule that the company secretary who is like the director of the company and uses the powers of the director in certain circumstances can be non member.

Therefore it becomes very important that he is man of integrity and custodian of the secret information. Since he is the man who has direct and first hand information of the company and any leakage may harm the whole business of the company.

It is therefore important that he is loyal to the company and its business. So it is the duty of the directors of the company that they see that he meets the qualities. Since the directors are custodian of affairs of the company on behalf of the shareholders who are the ultimate owner of the company therefore it is very important that they safeguard the interest of the company.

**Alertness:**

This is another quality which is important like other qualities. It means he should act promptly according to the circumstances. He should not be a lazy person any way. This is necessary to avoid any loss.

**Honest:**

Honesty is always a key in every field and especially in the corporate sector. A honest person always a beneficial not only for himself but also for company. It is necessary to create a confidence whenever dealing with third party involve in any transaction with the company.

A honest company secretary can boost the confidence of the outsiders in the business affairs of the company. Moreover the shareholders who are the ultimate owners of the company's business needs a person who is honest who can take care their interest in better way.

**Self motivated:**

Self motivated company secretary is beneficial for the company. He should not be dependent on other person's initiative rather he should be self motivated.

**Initiativness:**

The person who has the nature of initiativness can benefit the company. The company can avoid many defaults if the company secretary is taking initiative rather than waiting for the decision of the board of directors. In many cases he should not wait for the decision of the board of directors because this may cause delay which may be harmful for the company in their business.

**Foresightedness:**

The company secretary should have quality of seeing the future happening so that he can avoid any untoward situation. If a company secretary lacks this ability then there may be irreparable loss to the company and ultimately to the owners.

**Proactive:**

Proactiveness is the quality which enhances the abilities of the company secretary. When the company secretary is proactive he can give immense benefits to the company. He can foresee the situation and can take pre-emptive measures and can avoid loss to the company and can be beneficial to the company.

All the presumed qualities of the person which should be present in a person who is to be appointed as Company Secretary of the Company. Therefore the directors must take into consideration all these things while appointing any person as Company Secretary of the company.



## **CHAPTER NO.2**

### **COMPANY SECRETARY AND AFFAIRS OF THE COMPANY**

#### **2.1 The Role of Company Secretary**

As far as the role of company secretary is concerned I will see what does a Corporate Secretary. In this regard I will first of all see this in the light of previous discussion in the last chapter and the rules and regulation which are enforced in Pakistan like the Companies Ordinance, 1984 and the rules made there under? Then I will explore it in detail. The basic duties of the Corporate Secretary can be defined easily in the light of above quoted sources:

‘The Corporate Secretary is responsible for the official documents of the corporation such as the official seal, records of shares issued, corporate bylaws, and minutes of all board and committee meetings<sup>25</sup>.

However, the overall responsibilities of a Corporate Secretary, and the fit of the Secretary's role within senior management, are more difficult to explain.<sup>26</sup>

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<sup>25</sup> [www.companieshouse.co.uk](http://www.companieshouse.co.uk)

<sup>26</sup> *ibid*

If we review statutes and corporate by-laws and the rules and regulation prevalent in Pakistan we will see that, what kind of powers and duties of the Corporate Secretary and other corporate officers have been derived by the legal experts in the feiled of corporate law and one could conclude that the Corporate Secretary is expected to be a sort of combination of scrivener and custodian, but happily, this is not the case in practice in Pakistan and the world over.

The Corporate Secretary in today's world is a senior corporate officer with wide-ranging responsibilities provided in the different laws, who serves as a focal person of the company for communication with the board of directors, senior management and the company's shareholders, third parties in the transactions with the company and its management and who occupies a key role in the administration of critical corporate matters.

The Corporate Secretary is often confidant and counselor to the Chief Executive Officer and other members of senior management, especially on corporate governance and other affairs of the company.

To provide advice on corporate governance issues is an increasingly important role for corporate secretaries in Pakistan. Many shareholders, particularly institutional investors, view sound corporate governance as essential to board and company

performance. They are quite vocal in encouraging boards to perform frequent corporate governance reviews and to issue written statements of corporate governance principles.

The Corporate Secretary is usually the executive to assist directors in these efforts, providing information on the practices of other companies, and helping the board to tailor corporate governance principles and practices to fit the board's needs and expectations of investors.<sup>27</sup>

In some companies, the role of the Secretary as corporate governance adviser has been formalized, with a title such as Chief Governance Officer added to their existing title.

Several years ago, the leadership of the Society came up with a list of personal and professional attributes of a successful Corporate Secretary. Among these "core competencies" are: understanding the company's business thoroughly; having a basic knowledge of corporate and securities law; demonstrating a "presence" and being able to back it up with solid communication skills; being sensitive and intuitive to what the CEO and directors are thinking and feeling; being able to read signals on the horizon and provide early warning to management; being able to mediate and achieve consensus; knowing how to overcome bureaucratic thinking in the company; being detail-oriented;

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<sup>27</sup> [www.companieshouse.co.uk](http://www.companieshouse.co.uk), 31.04.2009

being flexible and creative; and, finally, maintaining a sense of humour and balance no matter how pressured a situation is.

Many corporate secretaries are generally accountants and lawyers and now by new amendments in the law a person having fifteen years experience in the government sector in BPS-19 and above can also be appointed as company secretary. But while a legal background is quite helpful in performing the role of Corporate Secretary, but it is not essential, therefore their scope is enhanced by amendment so that other professional can also join this section.<sup>28</sup>

In fact, at times, having a Corporate Secretary who also provides legal advice creates interesting questions as to whether particular communications made to management are legal advice - which may be subject to the attorney-client privilege - or general corporate/business advice, which is not. Thus, the "dual hat" Corporate Secretary/lawyer must always be careful to distinguish (and, as Corporate Secretary, record) which "hat" is being worn, and whether it is legal or managerial advice that is being given to directors and management.<sup>29</sup>

Depending on the corporation and the background of the Corporate Secretary, he or she may be responsible for or to play a major role in preparing and filing registration statements and reports to the Securities and Exchange Commission, insider trading

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<sup>28</sup> The Companies Amendment Ordinance, 2002

<sup>29</sup> *ibid*

reports, filings and amendments of state corporate documents, documents related to qualifications to do business, and other regulatory or legal filings. The Corporate Secretary is often the person responsible for pre-clearing purchases and sales of the corporation's securities by directors and officers. The Corporate Secretary may also play a role in preparing corporate communications on matters of significance to the corporation, including essential disclosures.

In some corporations, the Corporate Secretary is also responsible for compliance with state escheat laws and, occasionally, for general legal compliance for the company as a whole. Some Corporate Secretaries are involved in administering their corporation's code of corporate conduct and developing and administering other corporate-wide policies and policy manuals.

## 2.2 **Formation of Company**

The Company Secretary is normally appointed after the incorporation of the Company in the first Board of Director's meeting after incorporation of the company.<sup>30</sup> Therefore role of company secretary is established after the incorporation of the company and not at the time of its formation. The company is formed by the promoters and after completing the formalities of registration, the directors of the company appoint any person as company secretary keeping in view the prescribed qualifications. The role of

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<sup>30</sup> The Companies Ordinance, 1984

the secretary then starts in the day to day affairs of the company. These will be discussed in detail in the coming pages.<sup>31</sup>

However there are certain functions which are performed by the Company Secretary prior to the incorporation of the Company nevertheless he is appointed officially after the incorporation. These functions are performed by him if he is so entrusted by the promoters before incorporation. The gist of the same are listed below:-

1. To get Memorandum of Association prepared and printed according to statutory requirements;
2. To enter into preliminary contracts, if any;
3. To ascertain from the Registrar of the Companies if the proposed name of the company is available for registration;
4. To file the copy of the Memorandum of Association and Articles of Association to the Registrar of Companies and they must be properly stamped as required under the Law;
5. To attend the meetings of promoters, record the proceedings and keep the minutes of the meeting;

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<sup>31</sup> The Practical Approach to Companies Ordinance by Nazir Ahmed Shaheen

6. To deposit the registration fee; and
7. To file the preliminary statutory returns required for the incorporation of the company;

All these are the functions of the Company Secretary before incorporation. Generally the appointment of the Company Secretary is made after formation of the company but if the promoters of the company designate any person to be the Company Secretary they can do so and the Company Secretary can perform above quoted functions.

### 2.3 **Commencement of business**

The role of Company Secretary begins especially after the incorporation of company and commencement of business. The commencement of business is the procedure for the starting formal business of the company after incorporation. There is prescribed procedure mentioned for the public companies to obtain the commencement of business certificate from the Registrar concerned in accordance with the procedure laid down the Companies Ordinance, 1984.<sup>32</sup>

The private single member or multi-member company, public non-listed companies, and un-limited companies are not required to obtain the commencement of

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<sup>32</sup> The Companies Ordinance, 1984, Section 146

business certificate from the Registrar. The purpose definitely is to make a fair play because of involvement of public interest.

I briefly discuss the procedure and role of company secretary in this regard.

The company secretary besides the directors and other officers is also responsible to ensure that the requirements mentioned under section 146 of the Companies Ordinance, 1984 has been fulfilled. There are certain requirements for obtaining the certificate of commencement of business by the public company before starting the business or exercising the borrowing powers.

The same are briefly mentioned herewith:

- i) Minimum subscription has been paid
- ii) Directors have subscribed to the shares undertaken by them
- iii) Amount liable to be repaid to unsuccessful applicant or shares has been refunded
- iv) Declaration on Form-22 or Form-23 has been filed. Both forms are meant to submit prospectus and statement in lieu of prospectus respectively



- v) The statement in lieu of prospectus has been filed by the companies who are not subscribing to the public.<sup>33</sup>

When all these requirements have been fulfilled the Registrar will issue a certificate of commencement of business which will show that all the requirements have been fulfilled. The company then can commence business or exercise borrowing powers. This is responsibility of the company secretary to file these statutory requirements and if he fails to submit the same he will be responsible. The following penalty is mentioned in section 146 (5) of the Ordinance.

If any company commences business or exercises borrowing powers in contravention of this section, every officer and other person who is responsible for the contravention shall, without prejudice to any other liability, be liable to a fine not exceeding one thousand rupees for every day during which the contravention continues.<sup>34</sup>

#### 2.4 **Conversion of Companies:**

The other role of the company secretary is with regard to the conversion of the company either from public to private or from private to public. The company

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<sup>33</sup> The Practical Approach to Companies Ordinance, 1984 by Nazir Ahmed Shaheen

<sup>34</sup> The Companies Ordinance, 1984, Section 146 (5)

secretary has to fulfill the requirements for this purpose. As far as the conversion of private company into public company is concerned there are little requirements and company can be converted without approval of the Commission whereas the conversion of Public company into private company is some what difficult and hence the approval of the Commission is necessary in this regard. The reason behind is that this will change the substantial rights of the persons. Since in public company there may be more than fifty members and in private company there cannot be more than fifty members. Hence some of the members may cease to be the member and also some restrictions of the private company will also apply on the company like the restriction on the transfer of shares without approval of the Board of Directors.

We see what kind of role is of the company secretary in this regard. According to the Companies Ordinance, 1984 the conversion can be done only after the passing of special resolution in the general meeting of the members. The company secretary will definitely call the meeting of the members to pass the resolution. If the members give the consent then the company secretary has to record the minutes of the meeting and ensure that these are fulfilled in letter and spirit. Therefore he has to file certain returns with the Commission and to prepare these documents and also sign these. When the Commission is satisfied that all

the requirements of the conversion have been fulfilled, then the Commission will allow the company to be converted into private company.

The company secretary has to ensure that first the name of company is replaced not only on the Memorandum of Association and Articles of Association but also on all future correspondences which inter alia includes the vouchers, letters, notices, share certificates etc. It is pertinent to mention here that the addition of word (Pvt.) with the name of company will not be considered as change of name. Therefore when the name of the company is changed then that will not be considered as change of name within the meaning of change of name as enunciated under section 39 of the Company Ordinance, 1984.

There are different penalties mentioned in the Ordinance for non compliance of the provisions of the Ordinance and hence Company Secretary has to be very careful.

The interesting thing in this may be that the company after converting itself from public to private may remove the company secretary because it is not necessary to have a company secretary for a private company. It is only optional the private company may or may not have the company secretary.

## 2.5 Payment of Dividend:

First of all we try to know what is meant by the term dividend. The dividend is in fact the profit delivered to the members of the company by the directors. Some important things about the dividend is that this can be given only out of profit and can not be given by sale of fixed assets or by taking loan from the financial institutions. The members who are the ultimate owners of the company invest in the company for some gain and hence a company can have good reputation in the market if it delivered profit to the members regularly.

This is possible only when the company earns profit because for payment of dividend the profit is essential ingredients. So when a company performs better and earns profit then there are statutory requirements for payment of dividend within specified time. The Chief Executive has key responsibility so he is to be very responsible. He has to comply with the requirements of the Ordinance for this purpose. However as far as Company Secretary is concerned he is responsible to make proper payment of dividend to the members. According to Ordinance the dividend is to be paid according to following criteria: -

- i) The dividend is to be paid within forty five days from the date of declaration of dividend in case of listed company

- ii) And within thirty days in case of any other company
- iii) The reckoning will be from the date of closure of books in case the dividend is declared or approved in general meeting and where the register is not closed from the date when it is declared by the directors in their meeting.

The other requirements are that it is to be paid only to registered holders of such share or to his bankers or to a financial institution nominated by him for the purpose. The dividend warrant are signed and dispatched to the persons concerned. The warrants are either signed by the chief executive or by the company secretary and also to make convenient to pay to the persons who are entitled for it.

## 2.6 **Annual Returns:**

The company is not only required to submit regular returns but also returns on happening of certain events.

An annual return is a record of key company information which the management must provide by a designated date each year. Annual returns are sent to Companies

Registration Offices where they are filed and made publicly available, so that anyone can verify the details and legitimacy of any company.

It is important to know that how and when an annual return should be filed. It is necessary to know that who needs to file an annual return and how one can avoid making mistakes.

If one's business is a company either a limited company or company limited by guarantee or an unlimited company, he is obliged to make an annual return to Companies Registration Office of the Commission.

All unincorporated businesses are exempt from the legal obligation of making an annual return to Companies Registration Offices. This includes self-employed sole traders and ordinary partnerships.

A letter is issued to the company's registered office each year just before your annual return is due. If one files, or would like to file online via the Commission's website, the letter provides all the necessary information to enable to do so.

If, however, one wants to file on paper this can also be done by the concerned person. It is a record of general information about company, e.g. the address of registered office, details of your directors, secretary, shareholders and share capital.

Not more than ten per cent of companies now file their annual return online, which simply involves checking the information held on Commission's Office that whether or not the databases is correct and making any necessary amendments or updates. The fee for filing annual return online is half the fee which is required for making annual returns by post or in other words by the paper delivery.

The company's directors and company secretary are responsible for filing the annual return. Failing to do this within 45 days in case of Listed Companies and within 30 day for all other companies of the made-up date is a criminal offence, for which they can be prosecuted.

If one files returns online, that can protect his corporate identity by using the Commission website.

The Company Secretary or the Director of the concerned company must supply the following information on company's annual return form:

1. the name of the company
2. the company's registered number
3. the type of company - private or public

4. the company's registered address
5. the address where certain company registers are kept - if different from the registered address
6. the principal business activities of the company
7. the name and address of the company secretary (if your company has opted to appoint or retain one)
8. the name, residential address, date of birth, nationality and business occupation of all the company's directors
9. the company's made-up date

For private companies with share capital, additional information is required:

1. the nominal value of the total share capital issued
2. the number and type of shares issued to shareholders at the made-up date



3. the total value of each type of share issued at the made-up date

Private companies are no longer required to provide details of shareholders' addresses on the annual return. Different rules apply to certain public companies.

Before filing annual return, one must make sure that he has:

1. used the new, updated form if he is to apply online for
2. enclosed the Rs. 500 as annual document processing fee, if online and Rs.1000 if offline/by post.
3. checked the registered office address
4. checked the Register of Members address is correct, if one has included one
5. checked the Register of Debentures address is correct, if one has included one
6. filled in the business' principal activities

7. checked that all company director/secretary details are correct
8. included the share capital and checked that details are correct
9. enclosed your full list of members - if you have one, i.e. NGOs have only member but they have no shares.
10. signed the form

To notify Commission of any changes to the information already provided, certain statutory forms must be filled in and sent to Companies Registration Offices on the prescribed forms. These are indicated on the annual return form

#### 2.6.1 **Filing online and sending forms to Companies Registration Offices**

Businesses within Pakistan can use the Commission's Web Filing service to file a range of forms online, and the annual return form. So far minority of the annual returns received by Commission are filed online. By filing online one will pay a prescribed fee to file your Annual Return besides the fee for making one online with the Commission for digital signature etc. This is so after online system introduced by the Commission in the recent times.

### 2.6.2 **Sending forms by post, courier or by hand**

Documents can also be delivered by hand to all Companies Registration offices during office working hours. Outside working hours, annual returns can be delivered by hand to Companies Registration offices located at different big cities of the Pakistan.

### 2.7 **Mortgages / Charges**

A mortgage is the transfer of an interest in property (or in law the equivalent - a charge) to a lender as a security for a debt - usually a loan of money. While a mortgage in itself is not a debt, it is lender's security for a debt. It is a transfer of an interest in land (or the equivalent), from the owner to the mortgage lender, on the condition that this interest will be returned to the owner of the real estate when the terms of the mortgage have been satisfied or performed. In other words, the mortgage is a security for the loan that the lender makes to the borrower.

The term comes from the Old French "dead pledge," apparently meaning that the pledge ends (dies) either when the obligation is fulfilled or the property is taken through foreclosure.<sup>35</sup>

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<sup>35</sup> <http://en.wikipedia.org/wiki/Mortgage>

In most jurisdictions mortgages are strongly associated with loans secured on real estate by the companies for their business and there is proper procedure for its implementation. The role of the Company Secretary is very important in this regard. He is to prepare and file the documents with the concerned financial institution as well as with the Company Registration Office. The Form-10 is prescribed for this purpose and also the prescribed fee.

If company fails to file the documents this can also be done by the concerned financial institution because it is in the interest of the institution that the documents should have been filed by the company because it is important at the time of winding up of the company because if the documents are not filed with the Company Registration Office then the creditor will be considered as non-secured creditors and in that case that will be paid at the last after the payments to the secured creditors.

When the documents are filed by the creditors the cost of filing can be recovered by the financial institution. The role of the Company Secretary is important in this regard. If he fails to comply with the requirements of the Ordinance he has to face consequences in the form of fine etc.

The documents must be delivered within 21 days after the creation of the mortgage or charge to ensure its security in the event of liquidation. A court order may be required to enable registration outside the 21-days limit.

Companies need to notify the Registrar when they pay off (or 'satisfy') a registered charge because it is in their best interests to do so, and Commission enables companies to do this if they wish.

If a registrable charge is not registered in time, then it is void against the liquidator or administrator and any creditor of the company. This means that the debt for which the charge was given will remain payable, but it will be unsecured. If a company fails to deliver a registrable charge, and no interested party has registered it, then the company and every officer of the company who is in default are liable to a fine. If the default continues, they are liable to a daily default fine.<sup>36</sup>

The company need to inform Companies Registration Office that a charge has been fully or partly satisfied, because it is obviously in the company's own interests that potential investors and lenders know that all or part of the debt has been paid off. A director or secretary of the company may therefore make a statutory declaration that the charge or mortgage has been fully satisfied.

## **2.8 Allotment of Shares**

When people form a company, they decide whether to limit the members' liability by shares. The memorandum of association (a document required in the company's formation) must state:

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<sup>36</sup> <http://www.companieshouse.gov.uk/about/gbhtml/gba8.shtml>

- the amount of share capital the company will have; and
- the division of the share capital into shares of a fixed amount.

On registration of the company at Companies House, members of the company (the 'shareholders') must agree to take some, or all, of the shares. The memorandum of association must show the names of the people who have agreed to take shares and the number of shares each will take. These people are the subscribers.

A limited company's authorised share capital is the amount of capital with which it starts its life (but which it can alter subsequently) and which the memorandum of association states. A company's authorised share capital is not the same as its issued capital.

Any public or private company with share capital may give authority by ordinary resolution. Subject to an exception for private companies (noted in the following paragraph) authority must be for a fixed period which must not exceed five years and must set a limit on the amount of shares that the directors can allot under it. The company must deliver a copy of a resolution giving, varying, revoking or renewing an authority to allot shares to Commission within 15 days of passing it.

A private company with share capital may pass an elective resolution, authorising the directors to allot shares for an indefinite period or for a fixed period longer than five

years, though such a resolution must still set a limit on the amount of shares which the directors may allot. The company must deliver a copy of any elective resolution to Commission within 15 days of passing it. A public company cannot pass an elective resolution.

## **2.9 Transfer of shares**

Shares in a public company normally change hands through a broker dealing in the market appropriate to those shares, usually, the London Stock Exchange or the Alternative Investment Market. However, a seller may transfer shares directly to a buyer, and inform the company accordingly.

Shares in a private company usually change hands by private agreement between seller and buyer. However, in all cases one must complete a transfer document. The articles of association of private companies often place restrictions on the transfer of shares that the company must observe.

### **2.9.1 Transfer of shares to new owners.**

A broker usually deals with the transfer of shares in a public listed companies working in stock exchange.

To transfer shares in a private or unlimited company, a seller must complete the share certificate, to the new owner.

The new owner must then complete their section of the stock transfer form, pay an appropriate stamp duty to the Revenue of the Govt. of Pakistan and pass the completed form, and share certificate, to the company. The company secretary then arranges for the directors to authorise the change to the members' register and issues a share certificate in the new name.

## **2.10 Transmission of shares**

In some instances the operation of law 'transmits' ownership of shares. The main example is on the death of a registered shareholder or a registered shareholder being made bankrupt.

On death, shares held in the sole name of the deceased vest in the personal representative or executor of the deceased. This person should inform the company and provide the necessary evidence so that it can register the fact and the personal representative can receive all notices and dividends relating to the shares. The articles of association of companies often provide that a personal representative cannot exercise the votes attaching to the deceased's shares until he or she is registered as the holder of the shares.



On the winding up of the deceased's estate, the personal representative must inform the company of the beneficiary (or beneficiaries) of the shares so that it can make the necessary alterations to the register of members and issue new certificates.

If a share is jointly held, the survivor(s) will be the only person(s) recognised as having title to the share. The concerned person should inform the company immediately and give any necessary evidence of the death so that it can alter the register of members and issue a new share certificate.

The position of a shareholder who is made bankrupt is similar. Until a new member is registered, the rights to dividends vest in the trustee in bankruptcy. The bankrupt may remain a member and be able to vote, but only in accordance with the directions of the trustee. This is so where the name of the bankrupt shareholder remains on the register but the trustee generally has a right under the company's articles of association to apply to be registered as a member in respect of the bankrupt's shares.

Any restrictions on the transfer of shares contained in the company's articles will normally apply to a transfer or application resulting from the death or bankruptcy of a shareholder.

## **CHAPTER NO. 3**

### **COMPANY SECRETARY AND SECRETARIAL MATTERS**

The company has to perform certain matters through its management after its incorporation. The different persons have to perform different functions. There are some specific roles and some are general roles.

As discussed earlier some roles of the company secretary are mentioned in the Ordinance. As far as definition of the word company secretary is concerned there is no specific definition. However the role of the company secretary is based in the basis of usage in the corporate sector.

I will try to spell out some of them in detail which are discussed below one by one.

#### **3.1 Resolutions:**

A resolution is an agreement or decision made by the directors or members (or a class of members) of a company. When a resolution is passed, the company is bound by it.

A proposed resolution is a motion. If the necessary majority is not obtained, then the proposed resolution fails.

The vote on a resolution in a general meeting (or in a meeting of a class of members) is

taken according to the rules in the company's articles of association. Generally it is by a show of hands. But any member may demand a poll unless the company's articles say otherwise. A declaration by the chairman that the resolution is carried on a show of hands is all that is required for a resolution to be passed. The number of votes for or against need not be counted.

Notice of the intention to propose a resolution must be sent to company members. If a company has auditors, they must also be sent copies - or otherwise notified of the contents - of all proposed statutory written resolutions.<sup>37</sup>

A copy of every resolution or agreement listed below must reach Companies Registration office within 15 days after it has been passed.

Special resolutions and extraordinary resolutions are also, resolutions or agreements passed by unanimous agreement of all the members but which would otherwise have needed to be passed as special resolutions or as extraordinary resolutions.

There is another concept under the Ordinance that is the Class resolutions passed by unanimous agreement of all the members of a class of shareholders having interest in the affairs for which resolution is to be passed by them but which would otherwise have needed to be passed by a specific majority or in another manner.

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<sup>37</sup> [www.companieshouse.co.uk](http://www.companieshouse.co.uk)

Also, all resolutions or agreements that effectively bind all the members of any class of shareholders though they have not been agreed by all those members.

- i) Directors' resolutions
- ii) Ordinary resolutions
- iii) Resolutions for voluntary winding-up.

### **3.1.1 Types of resolutions:**

There are following eight types of resolution

#### **3.1.1.1 Directors' resolutions**

These are only used by directors at board meetings. The following directors' resolutions must be filed at Companies Registration Office:

a resolution to change the company's name

a resolution to alter the memorandum of association of a company

#### **3.1.1.1.1. Ordinary resolutions**

The following ordinary resolutions need to be filed at Companies Registration Office:

a resolution to give, vary, revoke or renew an authority to the directors to allot shares;

a resolution to give, vary, revoke or renew an authority to the company to make a market purchase of its own shares;

a resolution to prevent or reverse a directors' resolution to allow title of shares to be evidenced or transferred without a written document;

a resolution to authorise an increase of share capital.

#### **3.1.1.2 Extraordinary resolutions**

There is another type of resolution which are required for certain matters under the Ordinance, for example modifying the rights of classes of shareholders or winding-up.

They are passed by at least two third majority of the members who are present in person or through proxy and are entitled for vote and then they vote on the motion, in person or by proxy (where allowed) at a general meeting.

The length of notice required for an extraordinary resolution will depend on several factors, including the type of meeting to be held. They may be passed at short notice under the same arrangements as for special resolutions.

### 3.1.1.3 **Special resolutions**

These are passed at a general meeting of which at least 21 days' notice specifying the intention to propose a resolution as a special resolution has been given.

As with an extraordinary resolution, a special resolution requires a 75% majority. It is required for important matters such as alterations to the memorandum or articles of association, a change of name, or a reduction of capital to be approved by the court.

A meeting at which a special resolution (or an ordinary or Extraordinary Resolution) is to be proposed may be held at shorter notice with the agreement of the members entitled to attend and vote at the meeting. Agreement to short notice of the meeting and resolution must be by:

the majority of members in number who also hold at least 95% in nominal value of the shares giving voting rights; or

in the case of a company without share capital, the majority of members in number who also represent at least 95% of the total voting rights; or

in the case of a meeting called as the Annual General Meeting, all the members.

Private companies may pass an elective resolution to reduce the majority required to authorise short notice of a meeting and notice of a resolution, to not less than 90%.

When a resolution alters the memorandum or articles of association of a company, a copy of the amended document must also be filed at Companies Registration Office.

#### **3.1.1.4 Elective Resolution**

This type of resolution which is passed by private companies only and for five specific purposes is called elective resolutions and it has certain requirements under the law.<sup>38</sup>

'Elective resolutions' must be passed by unanimous agreement in general meeting of the company by all the members entitled to attend and vote at the meeting in person or by proxy. A period of 21 days' notice of the resolution(s) must be given unless all

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<sup>38</sup> idid

members entitled to attend and vote at the meeting agree to a shorter period.

Elective resolutions may be used for the following purposes only:

to amend the duration of the authority of directors to allot securities;

to dispense with the holding of annual general meetings;

to dispense with the laying of accounts and reports before the members in general meeting;

to allow the majority required to authorise short notice of a meeting and notice of a resolution to be reduced from 95% to a lower figure but not less than 90%;

to dispense with the annual appointment of auditors.

#### **3.1.1.5 Class resolution**

When a company proposes to pass a resolution that affects one class of share only, then it will usually need to obtain the consent of a majority of the holders of the class of share. This can be obtained in writing or by passing an extraordinary resolution at a separate class meeting.



### **3.1.1.6 Shareholder resolution**

A company has a duty to circulate resolutions proposed by shareholders and intended to be moved at an Annual General Meeting if a certain number of members request it. The number of members necessary is:

members having 5% of the voting power of the company; or

The resolution may be circulated at the expense of the members making the request, unless the company resolves otherwise.

The resolutions are sent to the Registrar concerned signed by the company secretary and chief executive and one director of the company.

If they fail to forward the resolutions to the Registrar then those will not take effect and the officer of the company who is in default may be fined in this regard.

## **3.2 General Meetings and Meetings of Directors:**

The Annual General Meeting takes place every year within four months after the close of the financial year according to latest amendment in the Ordinance. Whereas the Extraordinary General Meetings are convened whenever the Board of Directors or the Auditors consider it necessary and the matter is required discussion and the approval of

the members of the company and they can not wait until the Annual General Meeting of the members.

The General Meeting has the following powers. It establishes and amends the Articles of Association, elects the members of the Board of Directors, Auditors Legal Advisor.

In addition to this the shareholders at the General Meeting approve the annual report, the consolidated financial statements and the annual accounts and they decide on the appropriation of retained earnings.

The AGM gives the members of the Board of Directors and of the Group Executive Board a discharge concerning their administration and takes decisions on all matters reserved to the General Meeting by law or by the Articles of Association, or which are placed before it by the Board of Directors.

An Extraordinary General Meeting, commonly abbreviated as EOGM, is a meeting of shareholders of a company, which occurs at an irregular time. The term is usually used where the group would ordinarily hold an AGM, but where an issue arises which requires the input of the entire membership and is too serious or urgent to wait until the next Annual General Meeting.

In some settings, this is known as a Special General Meeting or an Emergency General Meeting.

Within 21 days from the date of receipt of requisition the directors must send out a notice in order to convene a meeting within 28 days after the date of giving the notice.

The company secretary has a responsibility to file the appropriate documents to the Registrar at Companies Registration Office. This is the same type of responsibility the director holds.

Specific duties of the company secretary have not been defined in the Companies Ordinance but usually they are responsible with reference to the meetings of the members and meetings of the directors which inter alia include the following:

- i) Maintaining registers of directors and secretaries, shareholders, directors' interests, charges and mortgages.
- ii) Seeing that statutory documents are filed with the Registrar, at proper times, on appropriate forms.
- iii) Providing shareholder with any meeting times, changes to meeting times (21 days notice for AGM, 14 days for other.), and must supply copies of the annual accounts 21 days before the AGM (Annual General Meeting).

- iv) Copies of the resolutions and agreements must be sent to the Registrar.
- v) Official minute keeping of the director's meetings
- vi) Ensuring entitled parties (e.g. shareholders) have access to view various company documents. See the public can view the register of shareholders and that shareholders can view and get copies of meeting minutes.

If the company secretary fails to perform any of the aforementioned functions he is liable which includes different types of punishments and may also disqualification for him to be appointed as company secretary.

#### **4 Statutory Meetings :**

Statutory meeting is the first meeting of the members of the public limited company. It is held only once in life of a public company. It can be convened by the directors of the company only.

- i) By whom and when held
- ii) The statutory meeting is held by

- iii) Every public limited company limited by shares.
- iv) Every company limited by guarantee.
- v) Every private company converted into a public company.
- vi) How the meeting is convened?

It is provided in companies' ordinance that the directors shall send a notice of statutory meeting at least 21 days before the day of the meeting to all the shareholders of the company. The directors shall not send the statutory report duly certified by not less than three directors, one of whom shall be the chief executive of the company.

#### **4.1 Business of the meeting:**

The business of the meeting is to consider the statutory report. The statutory report contains a brief account of the state of company's affairs since its incorporation and the business plan. It describes the shares allotted by the company cash, cash received in respect of such shares allot, an abstract of the receipts and payments of a company, names, occupation of the directors, etc.

#### 4.2 **The documents to be filed by the company secretary**

The company secretary is to file the documents relating to the statutory meeting which includes the statutory report and any resolution passed in that meeting.

#### 5 **Statutory Books:**

Statutory books and records are documents kept by a company which detail important aspects of its operations and structure, for example, its current directors.

Every company is required by law to have a set of statutory books and records and to maintain them. Companies usually keep these official documents in a company register, where they can be ordered in a logical fashion.

##### 5.1 **Maintenance of Statutory Books and Records**

The maintenance of statutory books implies that the records are kept up to date and where necessary, are adjusted to reflect any changes that have taken place within the company.

Statutory books are in the public domain. A member of the public can request to view the records by providing reasonable notice at the business' registered office. The

company must then ensure that the request is satisfied and is permitted to render a nominal fee where justified.

## 5.2 **The Record of company:**

By law, a company statutory records and books should be kept at its registered office where commission will direct persons making a viewing enquiry to them.

In reality, requests to visit a registered office to view the statutory books and records are rarely made. Information that would be typically kept relating to any given company is now available electronically after providing prescribed fee in accordance with sixth schedule to the Companies Ordinance, 1984

It is often far more practicable for the persons seeking information (and the company itself) to have enquiries satisfied at the regional Companies Registration offices of the Commission rather than at the registered office.

The role of the company secretary in this regard is again very important. He is main officer of the company to keep the record of the company and to keep strict control on it. Keeping the proper record is the key in the management of the company especially a company who is public limited because there is public interest involved in it. The public can demand the copy of any document and also can inspect it by paying prescribed fee as mentioned in the Ordinance.

## **6. Auditor of the company**

The most general definition of an audit is an evaluation of a person, organization, system, process, project or product. Audits are performed to ascertain the validity and reliability of information, and also provide an assessment of a system's internal control. The goal of an audit is to express an opinion on the person / organization / system etc. under evaluation based on a test basis.

Due to practical constraints, an audit seeks to provide only reasonable assurance that the statements are free from material error. Hence, statistical sampling is often adopted in audits. In the case of financial audits, a set of financial statements are said to be true and fair when they are free of material misstatements - a concept influenced by both quantitative and qualitative factors.

Traditionally audits were mainly associated with gaining information about financial systems and the financial records of a company or a business (see financial audit).

However recently auditing has begun to include other information about the system, such as information about environmental performance. As a result there are now professions that conduct environmental audits.



In financial accounting, an audit is an independent assessment of the fairness by which a company's financial statements are presented by its management. It is performed by competent, independent and objective person or persons, known as auditors or accountants, who then issue an auditor's report on the results of the audit.

Such systems must adhere to generally accepted standards set by governing bodies that regulate businesses. It simply provides assurance for third parties or external users that such statements present 'fairly' a company's financial condition and results of operations.

The Auditor's report is a formal opinion, or disclaimer thereof, issued by either an internal auditor or an independent external auditor as a result of an internal or external audit or evaluation performed on a legal entity or subdivision thereof (called an "auditee"). The report is subsequently provided to a "user" (such as an individual, a group of persons, a company, a government, or even the general public, among others) as an assurance service in order for the user to make decisions based on the results of the audit.

An auditor's report is considered an essential tool when reporting financial information to users, particularly in business. Since many third-party users prefer, or even require financial information to be certified by an independent external auditor, many auditees rely on auditor reports to certify their information in order to attract

investors, obtain loans, and improve public appearance. Some have even stated that financial information without an auditor's report is "essentially worthless" for investing purposes.

## 7. Director of a company

The word director has been defined in the Companies Ordinance, 1984 as follows:

'Director included any person occupying the position of a director, by whatever name called'<sup>39</sup>

The director, or directors, must manage the company's affairs in accordance with its articles of association and the law. Certain responsibilities apply to all directors, whether executive or non-executive, and to all types of company whether trading or not. The company secretary has a few duties set out in the legislation, and may be given others by the articles or the directors.<sup>40</sup>

Private companies must have at least one director. Public limited companies must have at least two directors and a company secretary. A private limited company does not have to have a company secretary but it can choose to include in its articles a requirement to have one.

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<sup>39</sup> The Companies Ordinance, 1984

<sup>40</sup> [www.comapnieshouse.co.uk](http://www.comapnieshouse.co.uk), 12.05.2009

## 8. Board of Director

A board of directors is a body of appointed persons who jointly oversee the activities of a company or organization. The body sometimes has a different name, such as board of trustees, board of governors, board of managers, or executive board. It is often simply referred to as "the board."<sup>41</sup>

A board's activities are determined by the powers, duties, and responsibilities delegated to it or conferred on it by an authority outside itself.

The Company Secretary is responsible for conducting the meetings of the Board of Directors. The convening of the meeting of the board of directors is the responsibility of the company secretary. He is to prepare the agenda of the meeting and then send it the directors for the meeting.

He is to prepare the minutes of the meeting and then keep the record of it and also to send the same to the concerned persons.

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<sup>41</sup> ibid

9. **Chief Executive**

The word Chief Executive has been defined in the Ordinance as

‘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 what ever name called, and whether under a contract of service or otherwise’

A chief executive officer (CEO) or chief executive is typically the highest-ranking corporate officer (executive) or administrator in charge of total management of a corporation, company, organization, or agency, reporting to the board of directors. In internal communication and press releases, many companies capitalize the term and those of other high positions, even when they are not proper nouns.

All these are the important persons in the management of the company and called the officers of the company.

Their role is also significant in the sense that they are responsible for the affairs of the company. Their job is related with the job of the company secretary. He is to perform different functions with liaison with these officers of the company.

### **Conclusion and suggestions**

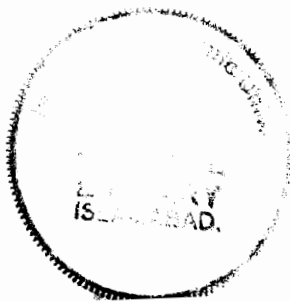
The role of the company secretary is very important and significant in the affairs of the company. There are qualifications of the company secretary in the Ordinance and some companies are required to appoint company secretary under the Ordinance. But the Ordinance has not specifically defined the responsibilities of the Company Secretary. So it is very important that he is assigned specific responsibilities and so that certain liabilities can be fixed on him so that to make some one made responsible for certain activities.

It is therefore necessary that to amend the law in this regard to make clear picture with regard the duties and responsibilities of the Company Secretary.

There is also need to establish an institute to provide necessary training for the persons to act as Company Secretary. This may be another way to produce quality company secretary especially for public listed companies keeping in view the public interest.

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