

---

## **UNIT-6    MEANING & TYPES OF SHARE**

---

### **Structure**

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Meaning & Nature of Share
- 6.3 Shares V/s Stock
- 6.4 Types of Shares
- 6.5 Preference Shares
- 6.6 Equity Shares
- 6.7 Equity Shares with differential rights
- 6.8 Sweat Equity Shares
- 6.9 Deferred Shares
- 6.10 Let's sum up
- 6.11 Key Words
- 6.12 Further Readings
- 6.13 Terminal Questions

---

### **6.0 OBJECTIVES**

---

After reading this unit, you will be able to

- Know the meaning and nature of share
- Differentiate between Stock and Share
- Understand kinds of shares

---

### **6.1 INTRODUCTION**

---

Share capital of a company is divided into units. Each unit is called share. That means share is a fractional part of the capital of the company. There are different kinds of shares. The Board of Directors of a company has the power to issue shares.

---

## **6.2 MEANING & NATURE OF SHARE**

---

The Companies Act defines a share as “a share in the share capital of a company and includes stock” [Sec. 2 (84)]. A share is the interest of a shareholder in the company measured by a sum of money, for the purpose of liability and interest thereto and also consists of a series of mutual covenants entered into by all the shareholders inter se in accordance with the provisions of the Companies Act and the Articles of Association. A person holding a share is entitled to enjoy not only the contractual rights but also those rights, which have been given to him by the Companies Act. It secures to its owner the right to receive a proportionate part of the profits, if any, and proportionate part of the assets of the company upon liquidation. On the other hand the shareholder may also be required to pay the full value (amount unpaid on a share held by him) on winding up. Shares or other interest of any member in a company is movable property, transferable in the manner provided by the articles of the company. Each share in a company having a share capital is distinguished by its appropriate number, called distinctive number unless the shares held are with a depository in a demat form (Section 45). A share cannot be further subdivided. Directors have the power to issue shares on behalf of a company subject to the provisions of the Articles of Association. They must, however, use this power bona fide for the benefit of the company.

---

## **6.3 SHARES V/S STOCK**

---

Stock is the aggregate consolidated holding of the share capital of a person in the company. It can be divided and transferred in any fractions and sub-divisions without regard to the original face value of the shares. Fully paid up share capital may, if the Articles so permit, be converted into stock by passing an ordinary resolution in the general meeting of the company. Conversion of shares into stock does not alter the relationship between the holder and the company. The holder still remains a member. The holders of stock shall, according to the amount of stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the company and other matters, as if they held the shares from which the stock arose, but no such privilege or advantage (except participation in the dividends and profits of the company and in the assets on the winding up) shall be conferred by an amount of stock which, if existing in shares, would not have conferred the privilege or advantage.

Stock may be reconverted into shares again by an ordinary resolution. Conversion of shares into stocks or vice versa is not prevalent in India.

### **Difference between Share and Stock**

1. A share may not be fully paid up, but a stock is always fully paid up.

2. A share has a nominal value, whereas a stock has no nominal value.
3. A share cannot be transferred in small fractions, while a stock can be transferred in any fractions.
4. All shares bear distinctive numbers (except when held in demat form), while stocks disclose the consolidated value of the share capital. Fractions of the stock do not bear any number.
5. All shares are of equal denomination. Stock may be of unequal amounts.
6. Unlike shares, stock cannot be directly issued in the first instance. Only fully paid up shares can be converted into stock

---

## 6.4 TYPES OF SHARES

---

As per section 43 of the Companies Act 2013, a company limited by shares (both public company and private company) may issue following kinds of shares:

- Preference Shares
- Equity Shares
- Equity Shares with Differential Rights
- Sweat Equity Shares

---

## 6.5 PREFERENCE SHARES

---

Preference shares, with reference to any company limited by shares, are those which carry the following preferential rights over other classes of shares: (a) a preferential right in respect of a fixed dividend—it may consist of a fixed amount or a fixed rate, (b) a preferential right as to repayment of capital in the case of the winding up of the company in priority to other classes of shares.

### **Types of Preference shares :**

**Cumulative preference shares:** A cumulative preference share has a right to claim the fixed dividend of the current year out of future profits. The dividend, in these shares, accumulates unless paid. The accumulated arrears of dividend is to be paid before anything is paid out of the profits to the holders of any other class of shares. If a company is unable to earn sufficient profits in any year to pay dividend on preference shares, the deficiency is made good out of the profits of the subsequent years. Preference shares are always cumulative unless otherwise expressly stated in the Articles of Association.

**Non-cumulative preference shares:** Dividend on non-cumulative preference shares can be paid only out of the profits of that very year, and is not allowed to accumulate to be paid out of the profits of the future years. The right to claim dividend will lapse if there are no profit in a particular year.

**Participating preference shares:** Besides a fixed rate of dividend, the holders of these shares are also entitled to participate with the equity shareholders in the surplus profits which remain after paying dividend to equity shareholders up to a certain limit. They may also be entitled to get a share in the surplus assets of the company on its winding up. Unless expressly provided in the articles, preference shares shall be presumed to be non-participating.

**Non-participating preference shares:** The holders of these shares are entitled only to a fixed rate of dividend and do not share in the surplus profits. The whole of the surplus profits will, thus, go to the equity shareholders.

**Convertible preference shares:** The holders of the shares have a right to get converted their preference shares into equity shares within a certain period.

**Non-convertible preference shares:** These preference shares do not carry the right of conversion into equity shares.

**Redeemable preference shares:** Shares which can be redeemed after a fixed period or after giving a certain notice at any time at the will of the company out of the profits of the company or the sale proceeds of the new shares are called redeemable shares.

**Irredeemable preference shares:** They are of the nature of a permanent and perpetual liability which cannot be redeemed during the lifetime of the company. The Companies Act does not permit a company to issue any preference shares which are irredeemable or redeemable after 20 years from the date of the issue.

---

## **6.6 EQUITY SHARES**

---

Equity shares, with reference to any company limited by shares, are those which are not preference shares. They do not carry any preferential rights. For the purposes of dividend and the repayment of capital, they rank after the preference shares. They have the right to participate in the decision making of the company. They are entitled to voting rights. They receive dividends out of profits as declared in the annual general meeting, only after preference shares have been paid their fixed dividend.

---

## **6.7 EQUITY SHARES WITH DIFFERENTIAL RIGHTS**

---

As per the Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001, a company limited by shares may issue shares with differential rights as to dividend, voting or otherwise subject to the following rules:

- The articles of association of the company authorize the issue of these shares.
- A company is allowed to issue equity shares with differential rights only to the extent of 25% of the total issued share capital.
- Approval of the shareholders is obtained by passing of an ordinary resolution at the general meeting. A listed public company is required to pass the resolution through postal ballot.
- The company has distributable profits in terms of section 205 of the Companies Act, for the 3 financial years preceding the year in which it was decided to issue such shares;
- The Company has not defaulted in filing annual accounts and annual returns, for the 3 financial years preceding the year in which it was decided to issue such shares; and
- The company did not fail to repay its deposits or interest thereon on the due date or redeem its debentures on the due date or pay dividends.
- The company has not been convicted of an offence under the SEBI Act, Securities Contracts (Regulation) Act or the FEMA Act.
- The company has not defaulted in meeting investors' grievances.
- A person holding any equity shares with differential voting rights shall be entitled to bonus shares, right shares of the same class.
- A register of members with all relevant particulars of the shares so issued and the shareholders should be maintained.

---

## **6.8 SWEAT EQUITY SHARES**

---

“Sweat equity shares” means equity shares issued by a company to its employees or directors at a discount (to the market price) or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.” According to section 54, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled.

- (a) the issue is authorised by a special resolution passed by the company;
- (b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (c) one year should have elapsed, at the date of such issue, since the date on which the company had commenced business; and
- (d) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares should be issued in accordance with the regulations made

by SEBI and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

---

## 6.9 DEFERRED SHARES

---

A deferred share is a share that does not have any rights to the assets of a company undergoing bankruptcy until all common and preferred shareholders are paid. It may also be a share that is issued to company founders that restricts their receipt of dividends until dividends have been distributed to all other classes of shareholders. Deferred shares can also be awarded to venture capital and other private investor groups as part of a long-term investment in a company.

---

## 6.10 LET'S SUM UP

---

- Share is a fractional part of the capital of the company.
- Share includes stock. Stock is the aggregate consolidated holding of the share capital of a person in the company.
- A company limited by shares (both public company and private company) may issue Preference Shares; Equity Shares; Equity Shares with Differential Rights, and; Sweat Equity Shares

---

## 6.11 KEY WORDS

---

- **Share:** Shares are units of ownership interest in a corporation or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends.
- **Stock:** Stocks are an equity investment that represents part ownership in a corporation and entitles you to part of that corporation's earnings and assets.
- **Preference Share:** A share which entitles the holder to a fixed dividend, whose payment takes priority over that of ordinary share dividends
- **Equity Share:** Equity share is a main source of finance for any company giving investors rights to vote, share profits and claim on assets.

---

## 6.12 FURTHER READINGS

---

- M.M. Sulphery & Az-Har Basheer, LAWS FOR BUSINESS, Phi Learning Pvt. Ltd. Delhi, 2011

- Maheshwari & Maheswari, MERCANTILE LAW, Himalaya Publishing House. Mumbai
- Rudder dutt & Sundaram, INDIAN ECONOMY, Vikas Publishing House, New Delhi.
- Veena Keshav Pailwar, ECONOMIC ENVIRONMENT OF BUSINESS, Phi Learning Pvt. Ltd, New Delhi, 2010

---

### **6.13 TERMINAL QUESTIONS**

---

- Q1 What do you mean by Share ?
- Q2 Differentiate between Stock and Share
- Q3 Discuss the meaning and types preference shares
- Q4 Explain Equity Share. How it is different from preference share?
- Q5 Write a short note on sweat equity share.

---

## **UNIT-7    ISSUE & ALLOTMENT OF SHARES**

---

### **Structure**

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Why do Company issue shares
- 7.3 Types of Issue of Shares
- 7.4 Allotment of Shares
- 7.5 General Principles for Allotment
- 7.6 Statutory Provision for Allotment
- 7.7 Let's Sum up
- 7.8 Key Words
- 7.9 Further Readings
- 7.10 Terminal Questions

---

### **7.0    OBJECTIVES**

---

After reading this unit, you will able to

- Learn the meaning of allotment of shares
- Identify the general principles and statutory provisions of allotment of shares
- Know the types of issue of shares

---

### **7.1    INTRODUCTION**

---

A share is that smallest part, into which the overall capital of the company is divided. Issue of shares is a process through which the company allocates fresh shares to the new or existing shareholders. The issue of shares is made to both individuals, institutions or body corporates.

---

### **7.2    WHY DO COMPANY ISSUE SHARES**

---

Companies issue shares to raise money from investors who tend to invest their money. This money is then used by companies for the development and growth of their businesses. Company issues different types of shares namely; preference shares, ordinary shares, shares without voting rights or any other shares as are approved under

the law. These allow the shareholders a stake in the company's equity as well as a share in its profits, in the form of dividends, and the aptitude to vote at general meetings of shareholders

---

### 7.3 TYPES OF ISSUE OF SHARES

---

There are a number of ways in which the shares of a company can be issued, as discussed below:

- **Public Issue:** Public issue or public offering refers to the issue of shares or convertible securities in the primary market by the company's promoters, so as to attract new investors for a subscription. In a public issue, the shares are offered for sale in order to raise capital from the general public, for which the company issues a prospectus. The investors who want to subscribe for the shares make an application to the company, which then allots shares to them. The entity which makes an issue is called an Issuer.
  - **Initial Public Offer:** Otherwise called an IPO, as its name suggests it is the sale of company's shares to the public at large for the very first time. It is an offer in which an unlisted or privately held company makes a fresh issue of shares or convertible securities, or an already listed company makes an issue of existing shares or convertible securities, for the first time to the public at large. In this way the unlisted or budding company lists its shares in the recognized stock exchange and goes public, to raise funds for running the business. On the other hand, established entities make IPO facilitate owners to sell some or all of their ownership to the public.
  - **Further Public Offer:** If an already listed company, which has gone through an IPO offers new or in better words, additional shares to the public for sale, so as to expand their equity base or pay off debts, it is known as Follow-up Public Offer or Further Public Offer (FPO)
- **Right Issue:** In a right issue, shares or convertible securities are offered to the existing shareholders at a concessional rate, on a stipulated date, fixed by the company itself. The main aim of issuing right shares is to raise additional funds by offering shares to the existing equity shareholders, in the proportion of their holdings, rather than making a fresh issue.
- **Composite Issue:** A composite issue is one in which an already listed company offers shares on the public-cum-rights basis and makes concurrent allotment of the shares.

- **Bonus Issue:** As the name itself suggests, it is the free additional shares distributed to the current shareholders in the proportion of the fully paid-up equity shares held by them on a particular date. The issue of these shares is made out of the company's free reserves or securities premium account.
  
- **Private Placement:** If a company offers shares to a selected group of investors which can be mutual funds, banks, insurance companies, pension funds and so forth, to raise capital, is called private placement.
  - **Preferential Issue:** Preferential allotment is one in which a publicly listed enterprise allots shares to a selected group of investors such as individuals, venture capitalists, companies on preferential basis.
  - **Qualified Institutional Placement (QIP):** If a listed organization offers equity shares or non-convertible securities to a qualified institutional buyer for sale to raise capital. Here qualified institutional buyer includes mutual funds, venture capital funds, public financial institutions, insurance funds, scheduled commercial banks, pension funds, etc.
  - **Institutional Placement Programme (IPP):** If a publicly listed company makes a follow-on offer of equity shares or the promoters offers shares for sale, wherein the shares are allotted to the QIB's only, with the aim of achieving minimum public shareholding.

The company issues shares in order to raise funds from the general public, so as to apply these funds in business operations. However, they can also be issued to serve other purposes also, as the money can be utilized in repaying debts, funding a new project, acquiring another company.

---

## 7.4 ALLOTMENT OF SHARES

---

Prospectus issued by a company is an invitation to the public to make offer (i.e. to apply) for the company's shares. Application for shares is the offer from the applicant to purchase shares. An application for shares does not give rise to a binding contractual obligation between the company and the applicant because it is offered in response to an invitation to the public by the company to subscribe for securities. Allotment of shares is acceptance by the company of the offer. The communication of acceptance of this offer by an allotment order or notice gives rise to a valid contract between both the parties i.e. the company and the shareholder.

Allotment means "the appropriation out of the previously inappropriate share capital of the company". Allotment is the acceptance by the company of the offer to take up shares. Allotment of shares is usually done by a resolution of the board of directors.

---

## 7.5 GENERAL PRINCIPLES FOR ALLOTMENT

---

Allotment of shares is a contract between the company and the person to whom the shares are allotted (allottee). The allotment to be valid must comply with the following general principles regarding allotment:

1. Allotment should be made by proper authority. The duty of allotting shares is of the board of directors of the company. The board should pass a resolution of allotment at its meeting.
2. It should be made within a reasonable time. Allotment must be made within a reasonable period of time otherwise the offer or may refuse to take the shares. What is 'reasonable time' is a question of fact in each case.
3. It must be communicated. There can be no binding contract unless acceptance to the offer is properly communicated to the applicant. Posting of a properly addressed letter of allotment will be taken as a valid communication even if it is delayed or lost in the course of transit.
4. It should be absolute and unconditional. Allotment must be absolute, unconditional and must conform to the terms and conditions of the application, otherwise the applicant will not be bound by the allotment.

---

## 7.6 STATUTORY PROVISION FOR ALLOTMENT

---

Company Law does not impose any restrictions upon a private company to allot its shares. But a public company offering shares or debentures to the public for subscription cannot proceed to make a valid allotment unless it complies with the requirements of Sections 39-40 of the Companies Act 2013.

- **Minimum Subscription (Sec 39(1)):** A company cannot allot securities to the public unless the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on application for the amount stated have been received by the company by cheque or other instrument.
- **Application Money (Sec 39 (2)):** A sum of at least 5% of the nominal value of shares must have been received in cash by the company as application money or as may be specified by the Securities and Exchange Board by making regulations in this behalf.
- **Money to be kept in a scheduled bank(Section 40(3)) :** All application money received from the public for subscription to the securities shall be kept in a separate bank account in a scheduled bank and shall be utilized only for— (a) for adjustment against allotment of securities where the securities have been permitted to be dealt with in the stock exchanges specified in the prospectus; or (b) for the repayment of

monies received from applicants within the time specified by the Securities and Exchange Board, where the company is for any other reason unable to allot securities.

- **Return of Application Money (Sec 39(3)):** If the stated minimum amount has not been subscribed and the sum payable on application is not received within a period of thirty days from the date of issue of the prospectus, the amount received from applicants shall be returned within such time and manner as may be prescribed.
- **Return of Allotment (Sec 39 (4)):** Whenever a company having a share capital makes any allotment of securities, it shall file with the Registrar a return of allotment in such manner as may be prescribed. The return of allotment should state the number and nominal amount of the shares comprised in the allotment, the names, addresses and occupations of the allottees, and the amount, if any, paid or due or payable on each share.
- **Penalty:** In case of any default, the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less.
- **Securities to be dealt with in stock exchanges( Section 40) :**

Application to recognized stock exchange: Every company making public offer shall, before making such offer, should make an application to one or more recognised stock exchanges and obtain permission for the securities to be dealt with in such stock exchanges.

Names of stock exchange to be stated in Prospectus: Where a prospectus states that an application to a stock exchange has been made, such prospectus shall also state the name or names of the stock exchange in which the securities shall be dealt with.

Any conditions purporting to require or bind any applicant for securities to waive compliance with any of the requirements of section 40 shall be void.

Penalty: If a default is made in complying with the provisions of this section, the company shall be punishable with a fine which shall not be less than five lakh rupees but which may extend to fifty lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees, or with both.

---

## 7.7 LET'S SUM UP

---

- Share is a fractional part of the capital of the company.
- Share includes stock. Stock is the aggregate consolidated holding of the share capital of a person in the company.
- A company limited by shares (both public company and private company) may issue Preference Shares; Equity Shares; Equity Shares with Differential Rights, and; Sweat Equity Shares
- Allotment of share is acceptance by the company of the offer/application to take shares in the company.
- Allotment to be valid must fulfill general principles and statutory provisions.
- Every company making public offer shall, before making such offer, should make an application to one or more recognised stock exchanges and obtain permission for the securities to be dealt with in such stock exchanges.
- If the stated minimum amount has not been subscribed and the sum payable on application is not received within a period of thirty days from the date of issue of the prospectus, the amount received from the applicants shall be returned within such time and manner as may be prescribed.

---

## 7.8 KEY TERMS

---

- **Share Allotment :** Allotment of shares refers to the distribution of shares among the shareholders who applied for the shares or submitted written the application for the allotment of shares. As soon as the company receives the applications for shares issued by means of a prospectus, it starts allotting shares on a preset basis
- **Initial Public Offerings :**An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance.
- **Further Public Offerings :** A follow-on offering is an issuance of stock subsequent to the company's initial public offering.

---

## 7.9 FURTHER READINGS

---

- Varma, Sindhu. "India: New Companies Act, 2013 – The Cat Is Finally Out". Mondaq. Archived from the original on 28 March 2014. Retrieved 27 March 2014.
- Sharma JP (2012), "An easy approach to Corporate Laws" Ane Books Pvt. Ltd. New Delhi, India
- Pathak, LEGAL ASPECTS OF BUSINESS, Tata Mcgraw- Hill Publishing Company Limited, New Delhi, 2010.

- Keith-davis & William Frederick, BUSINESS AND SOCIETY, McGraw-Hill, Tokyo.

---

## **7.10 TERMINAL QUESTIONS**

---

- Q1 What do you mean by allotment of shares
- Q2 Discuss the general principles and statutory provisions of allotment of shares.
- Q3 Why do companies issue shares ?
- Q4 What are the different types of issuing shares
- Q5 Write Short notes on
- Bonus Issue
  - IPO
  - FPO
  - Composite Issue

---

## **UNIT 8      TRANSFER OF SHARES & DEPOSITORY SYSTEM**

---

### **Structure**

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Free Transferability of shares of Public Company
- 8.3 Refusal of Transfer of Shares
- 8.4 Process of Transfer of Shares
- 8.5 Blank Transfer
- 8.6 Transmission of Shares
- 8.7 Difference between Transfer and Transmission of Shares
- 8.8 Depository System
  - 8.8.1 Features of Depository System
  - 8.8.2 Functioning of Depository System
  - 8.8.3 Benefits of Depository System
  - 8.8.4 The Depository Act
  - 8.8.5 Rights and Obligations
- 8.9 Summary
- 8.10 Key Words
- 8.11 Further Readings
- 8.12 Terminal Questions

---

### **8.0 OBJECTIVES**

---

After studying this module, you shall be able to know

- The mechanism for transfer of securities
- Learn the reliefs available in case of refusal by a company to register transfer of securities Identify the need for emergence of Depository system
- Evaluate the benefits of depository system
- Analyse the functioning of depository system

---

## **8.1 INTRODUCTION**

---

Shares of a company are movable property and can be transferred by the shareholders in the manner prescribed by the Articles. Right to transfer shares is absolute and inherent in the ownership of the shares. Articles cannot take away the rights of members to transfer shares, thus making shares non-transferable. Shares of a public company are freely transferable (Section 58), whereas a private company is required to restrict the right of the members to transfer the shares. The articles of association of private companies contain the kind of restrictions on transferability of shares. Generally, the restriction put by a private company is that of pre-emption whereby the members are required to offer their shares first to the existing members of the company before offering them to the outsiders.

---

## **8.2 FREE TRANSFERABILITY OF SHARES OF PUBLIC COMPANY**

---

Section 58 of the Companies Act provides that shares of a public company (both listed and unlisted) are freely transferable. A public company cannot put any restrictions on transferability of shares. The boards of directors of a public company, or a depository in case shares are in demat form, cannot refuse or withhold transfer of securities. However, if the transfer of shares is in contravention of any of the provisions of the Securities and Exchange Board of India Act, 1992, or regulations made thereunder or the Sick Industrial Companies (Special Provisions) Act, or any other law for the time being in force, then a depository, company, participant or investor or SEBI can preferred an application to the Company Law Board (Tribunal, after it is constituted) to enquire about the contraventions. After conducting the inquiry, if the Company Law Board (Tribunal) is of the opinion that such contravention has taken place, it shall direct the depository or the company to rectify its register or record. Pending the enquiry, the Company Law Board (Tribunal) may suspend the voting rights of the transferee of shares. However, transferee will continue to have the right to receive dividend and bonus shares, if declared by the company in the period pending enquiry. Transferee of shares may also transfer those shares to another person while the enquiry is pending.

---

## **8.3 Refusal of Transfer of Shares**

---

- If a private company limited by shares refuses to register the transfer or transmission of the right to, any securities or interest of a member in the company, it shall within a period of thirty days from the date on which the instrument of transfer, or the intimation of such transmission, was delivered to the company, send a notice of the refusal to the transferor and the transferee or the person giving intimation of such transmission, giving reasons for such refusal.

- The securities or other interest of any member in a public company shall be freely transferable which means that any contract or arrangement between two or more persons in respect of transfer of securities shall be enforceable as a contract.
- The transferee may appeal to the Tribunal against the refusal within a period of thirty days from the date of receipt of the notice or in case no notice has been sent by the company, within a period of sixty days from the date on which the instrument of transfer or the intimation of transmission was delivered to the company.
- If a public company without sufficient cause refuses to register the transfer of securities within a period of thirty days from the date on which the instrument of transfer or the intimation of transmission, is delivered to the company, the transferee may, within a period of sixty days of such refusal or where no intimation has been received from the company, within ninety days of the delivery of the instrument of transfer or intimation of transmission, appeal to the Tribunal.
- The Tribunal may, after hearing the parties, either dismiss the appeal, or by order—
  - (a) direct that the transfer or transmission shall be registered by the company and the company shall comply with such order within a period of ten days of the receipt of the order; or
  - (b) direct rectification of the register and also direct the company to pay damages ,if any, sustained by any party aggrieved.
- If a person contravenes the order of the Tribunal under this section, he shall be punishable with imprisonment for a term which shall not be less than one year but which may extend to three years and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

---

#### **8.4 PROCESS OF TRANSFER OF SHARES**

---

- A company shall register a transfer of securities or interest of members only when such a proper instrument of transfer; duly stamped, dated and executed by or on behalf of the transferor and transferee and specifying the name, address and occupation has been delivered to the company by either party within a period of sixty days from the date of execution, along with the certificate of security or the letter of allotment of securities. Where, instrument of transfer has been lost or has not been delivered, the company may register the transfer on an indemnity bond.
- On receipt of intimation, a company has the power to register transmission of any right to securities by operation of law from any person to whom such right has been transmitted.

- Where an application is made by transferor alone and relates to partly paid shares, the transfer shall be registered by the company only after giving notice of the application to the transferee, and transferee gives no objection to the transfer within two weeks from receipt of notice.
- The transfer of any security or other interest of a deceased person in a company made by his legal representative shall be valid as if he had been the holder at the time of the execution of the instrument of transfer. 5. Every company shall, unless prohibited by any provision of law or any order of court, Tribunal or other authority, deliver the certificate of all securities allotted, transferred or transmitted –
  - Within a period of two months from the date of incorporation, in case of subscribers to the memorandum;
  - Within a period of two months from the date of allotment, in case of any allotment of any of its shares;
  - Within a period of one month from the date of receipt by the company of the instrument of transfer or intimation of transmission; and
  - Within a period of six month from the date of allotment in case of any allotment of debentures.

However, where the securities are dealt with in a depository; the company shall intimate the details of allotment of securities to depository immediately on allotment of such securities.

---

## **8.5 Blank Transfer**

---

Blank transfer means a transfer form signed by the transferor of shares and completed in all respects except the name and signatures of the transferee. It gives the right to the transferee of shares to get the shares registered to himself or to transfer the shares to any other person without undergoing the formalities of transfer of shares with respect to fresh transfer form and payment of stamp duty. A blank transfer can remain in circulation and valid only for a period of 60 days after it is signed by the prescribed authority or the company closes its register of members whichever is later.

---

## **8.6 Transmission of Shares**

---

- Transfer of shares on account of operation of law is termed transmission of shares. Transmission of shares occurs in case of death, insanity or insolvency of an individual member or, if the member is a limited company, on its liquidation. In all such cases the legal representative, administrator or the official assignee or receiver respectively shall be entitled to the shares. It also includes devolution of title of the shares on account of constitutional changes.

- The person claiming the title to the shares has to make an application to the company for transfer of shares in his name. Formal instrument of transfer is not required but the company may ask for probate, succession certificate, letter of administration, certificate of death etc.
- The transfer of any security or other interest of a deceased person in a company made by his legal representative shall, even if the legal representative is not a holder thereof, be valid as if he had been the holder at the time of the execution of the instrument of transfer.(section 56(5)). He is also entitled to dividends declared by the company, but he is not entitled to vote at the meetings of the company. However, if the company’s articles permit, the directors may withhold payment of dividend to compel a legal representative to elect whether he will or will not be a member of the company.
- A company can refuse to register a transmission if there is a provision to that effect in the Articles. But the power must be exercised by the directors in good faith. The aggrieved party can appeal to the Company Law Board (Tribunal) for relief.

---

**8.7 Difference between Transfer and Transmission of Shares**

---

<b>Transfer</b>	<b>Transmission</b>
Transfer of shares is a voluntary act a shareholder.	Transmission is by operation of law which takes place in the event of death, insolvency, lunacy of a member or on the insolvency of the company in case the company is the member
In case of transfer of shares, a formal instrument of transfer is required to be executed by both transferor and transferee of shares unless shares are held in demat form	Transmission does not require any formal instrument. Only intimation is to be given to the company along with the supporting proof of title.
Stamp duty is to be paid on transfer of shares unless it is in demat form.	Stamp duty is not payable on transmission of shares
Transfer of shares is not possible in case of restrictions being put by any regulation or law, e.g. lock-in-period	No such prohibition is applicable in case of transmission of shares.

---

## **8.8 DEPOSITORY SYSTEM**

---

The process of physical transfer of certificates has many demerits. In absence of a depository system:

1. Every share transfer is required to be accomplished by physical movement of share certificates and registration with the company concerned.
2. The process often involves long delays in settlements and a significant portion of transactions end up as 'bad delivery' due to faulty completion of paperwork.
3. Theft, forgery, mutilation of certificates and other irregularities.
4. The issuer has the right to refuse the transfer of a security. All this adds to costs and delays in settlement, restricted liquidity and made investor grievance redressal time consuming and, at times, intractable. Thus the limitations of having shares in physical form are:
5. High cost involved by way of postal charges, stamp duty, cost on paperwork etc.

Depository system is a system wherein the securities of investors are held in electronic form with the depository at the request of the investors and transfer of securities takes place by means of book entries on the ledger of the depository. The system is also referred to as the 'scripless trading system' as the system dispenses with the securities and its movement in the physical form.

### **8.8.1 Features of Depository System**

- Securities in Dematerialised Form – Depository system provides for maintenance of ownership record of the securities of the investor in a book entry form. The system immobilizes physical securities so that there is no physical certificate in existence.
- Fungibility - In the depository system, the securities dematerialized are not identified by distinctive numbers or certificate numbers as in the physical environment. Thus all securities in the same class are identical and interchangeable.
- Parties Involved - In a depository system, the parties involved are: (i) the depository, (ii) the depository participant (DP); (iii) the beneficial owner; (iv) the issuer. The depository renders service connected with the recording of allotment of securities or transfer of ownership of securities in its record. A depository functions through depository participants who are the agent of the depository through whom the investors avail of the depository service. In the depository system, the ownership of securities dematerialized is bifurcated between the Registered Owner and Beneficial Owner. For the securities dematerialized, depository is the Registered Owner in the books of the issuer (i.e. company);

- **Free Transferability of Shares:** Transfer of shares held in dematerialized form takes place freely through electronic book-entry system. The system dispenses with the transfer deed and other procedural requirements with respect to transfer of securities.
- **No Stamp Duty:** No stamp duty for transfer of securities in electronic form is payable. In case of transfer of physical shares, stamp duty of 0.5 percent is payable on the market value of shares transferred.
- **No Risk:** All risks associated with physical certificates such as delays, loss in transit, theft, bad deliveries, etc. eliminated in the depository system. Depositories curb the irregularities in the capital market and protect the interests of the investors and pave a way for an orderly conduct of the financial markets through the free transferability of securities with speed, accuracy, transparency, etc.

### **8.8.2 Functioning of Depository System**

#### **The depository system functions as under:**

- The system envisages setting up of one or more repositories to hold securities of investors in the electronic form.
- The depository functions through its agents, who are called Depository Participants (DP).
- The investor, who wants to avail the services of the Depository, has to open a beneficiary account with the Depository through a DP. The account known as the “Demat” account can be opened with more than one DP.
- After opening the demat account, the investor is required to dematerialize the securities held by him in the physical form. To dematerialize the securities, the investor has to fill the Dematerialisation Request Form (DRF) and submit the same to the DP along with the security certificate. The DP through the Depository will intimate the company/issuer and surrender the security certificate. The process known as ‘dematerialisation takes about 30 days.
- The issuer/company on receipt of the intimation shall cancel the security certificate and substitute the name of the Depository as the registered owner of the security.
- The Depository on being intimidated by the company/issuer, enters the name of the investor in its record as the beneficial owner of the security.
- Whenever any rights, bonus or dividend is announced by a company for its particular security, the Depository would furnish all the details of the investors having electronic holdings of that security on the record date. The disbursement of the rights, dividends etc will be done by the company based on the information provided.
- In case of sale of the security under this mode, the investor/transferor (the client) has to intimate the DP through issuing a Delivery Instruction Slip (DIS) duly signed

and containing the details of the security transaction. In case of purchase, the client will send the intimation to the DP giving details of the security purchased. The Depository on receiving the information through the DP will register the transfer of securities in the name of the transferee in its record.

- DP will also make book entries in the account of the investor to record sale/purchase of securities.
- DP is required to send statement of accounts to the clients at regular intervals, and update the account after each transaction.
- The client/investor has to pay charges to the Depository and the DP for availing the services

### **8.8.3 Benefits of Depository System**

The following are the benefits for the investors:

- Bad deliveries are almost eliminated.
- The risks associated with physical certificates such as loss, theft, mutilation of certificates etc. are eliminated.
- It eliminates handling of huge volumes of paperwork
- There is immediate transfer and registration of the securities (at the end of every settlement cycle, which is 4 working days i.e. T+3) and you need not have to suffer delays on account of processing time.
- It leads to faster settlement cycle and faster realisation of sale proceeds so the fund of the investor is not tied up unnecessarily.
- The system facilitates a faster disbursement of security holding benefits like rights shares, bonus shares etc.
- The stamp duty on transfer of securities, which is 0.25% of the consideration on transfer of shares in physical form is not applicable.
- Availability of periodical status report to investors on their holdings and transactions is disseminated by the depository.

### **8.8.4 The Depository Act**

The Depositories Act, 1996, which came into force from 20th September 1995, provides a legal framework for establishment of depositories to facilitate the holding of securities including shares in demat form (electronic form) and to effect transfer of shares through book entry in accounts maintained by the depository.

### **8.8.5 Rights and Obligations**

- **Agreement between depository and participant.** A depository shall enter into an agreement with one or more participants as its agent in the prescribed form. (section 4)

- **Services of depository.** Any person, through a participant, may enter into an agreement, in such form as may be specified by the bye-laws, with any depository for availing its services. (section 5)
- **Surrender of certificate of security.**
  - Any person who has entered into an agreement with the depository will have to surrender the certificate of security, for which he seeks to avail the services of a depository, to the issuer;
  - The issuer, on receipt of certificate of security shall cancel the certificate of security and substitute in its records the name of the depository as the registered owner in respect of that security and inform the depository accordingly; and
  - The depository, thereafter will enter the name of the person referred to in sub-section (1) in its records, as the beneficial owner. (section 6)
- **Registration of transfer of securities with depository.** Every depository shall, upon receipt of intimation from a participant, register the transfer of security in the name of the transferee. Further, if a beneficial owner or a transferee of any security seeks to have custody of such security the depository shall inform the issuer accordingly. (section 7)
- **Options to receive security certificate or hold securities with depository.** Every person subscribing to securities offered by an issuer shall have the option either to receive the security certificates or hold securities with a depository. (section 8)
- **Securities in depositories in fungible form.** All securities held by a depository shall be dematerialised and shall be in a fungible form. (section 9)
- **Rights of depositories and beneficial owner.** A depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. The depository as a registered owner shall not have any voting rights or any other rights in respect of securities held by it. The beneficial owner shall be entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depository. (section 10)
- **Register of beneficial owner.** Every depository shall maintain a register and an index of beneficial owners in the manner provided in Section 150, Section 151 and Section 152 of the Companies Act, 1956. (section 11)
- **Pledge or hypothecation of securities held in a depository.** A beneficial owner may with the previous approval of the depository create a pledge or hypothecation in respect of a security owned by him through a depository. Every beneficial owner shall give intimation of such pledge or hypothecation to the depository and such depository shall thereupon make entries in its records accordingly. (section 12)

- **Furnishing of information and records by depository and issuer.** Every depository is required to furnish to the issuer information about the transfer of securities in the name of beneficial owners at such intervals and in such manner as may be specified by the byelaws. Every issuer also has to make available to the depository copies of the relevant records in respect of securities held by such depository. (section 13)
- **Option to opt out in respect of any security.** If a beneficial owner seeks to opt out of a depository in respect of any security he shall inform the depository accordingly who will make appropriate entries in its records and shall inform the issuer. (Section 14)
- **Depositories to indemnify loss in certain cases.** The depository shall have to indemnify any loss caused to the beneficial owner due to its negligence or the participant. Where the loss due to the negligence of the participant is indemnified by the depository, the depository shall have the right to recover the same from such participant.
- **Systems and procedures.** Every depository shall have systems and procedures which will enable it to coordinate with the issuer or its agent, and the participants, to reconcile the records of ownership of securities with the issuer or its agent, as the case may be, and with participants, on a daily basis. (Regulation 30 of SEBI Regulations)
- **Internal monitoring, review and evaluation of systems and controls.** Every depository shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating the depository's controls, systems, procedures and safeguards.

---

## 8.9 LET US SUM UP

---

- Shares of a public company are freely transferable whereas a private company is required to restrict the right of the members to transfer the shares
- A company shall register a transfer of shares when a proper instrument of transfer; duly stamped, dated and executed by or on behalf of the transferor and transferee is delivered to the company by either party within a period of sixty days from the date of execution, along with the certificate of security or the letter of allotment of securities.

- Blank transfer means a transfer form signed by the transferor of shares and completed in all respects except the name and signatures of the transferee.
- Transfer of shares on account of operation of law is termed transmission of shares.
- Depository system is a system wherein the securities of investors are held in electronic form with the depository at the request of the investors and transfer of securities takes place by means of book entries on the ledger of the depository.
- The Depositories Act, 1996, which came into force from 20th September 1995, provides a legal framework for establishment of depositories to facilitate the holding of securities including shares in demat form (electronic form) and to effect transfer of shares through book entry.

---

## 8.10 KEY WORDS

---

- **Depository System :** A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities.
- **Transfer of Shares :** A share transfer is the process of transferring existing shares from one person to another; either by sale or gift.
- **Transmission of Shares :** Transmission of shares is a process by operation of law where under the Shares are registered in a Company in the name of deceased person or an insolvent person are registered in the name of his legal heirs by the Company on proof of death or insolvency as the case may be
- **Blank Transfer :** A share transfer form in which the name of the transferee and the transfer date are left blank. The form is signed by the registered holder of the shares so that the holder of the blank transfer has only to fill in the missing details to become the registered owner of the shares

---

## 8.11 FURTHER READINGS

---

- "Business Portal of India : Starting a Business : Regulatory Requirements : Companies Act". *National Portal of India*. Government of India. Archived from the original on 20 June 2008. Retrieved 17 March 2016.
- Patrick J. Cihon and James O. Castagnera, Employment and Labor Law, South-Western College.

- Richard Schaffer, Beverley Earle, and Filiberto Agusti, International Business Law and Its Environment, South-Western College, 2005.
- Keith-davis & William Frederick, BUSINESS AND SOCIETY, McGraw-Hill, Tokyo.
- M.M. Sulphay & Az-Har Basheer, LAWS FOR BUSINESS, Phi Learning Pvt. Ltd. Delhi, 2011

---

## **8.12 MODEL QUESTIONS**

---

- Q1 Identify the need of Depository System
- Q2 Explain the functions of depository systems
- Q3 Discuss in detail the mechanism of transfer of securities
- Q4 Write the process of transfer of shares.
- Q5 State the difference between Transfer of Shares and Transmission of shares

---

## **UNIT-9      DECLARATION & PAYMENT OF DIVIDEND**

---

### **Structure**

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Legal Provisions regarding dividend
- 9.3 Revocation of Declared Dividend
- 9.4 Entitlement of Dividend
- 9.5 Legal Provisions regarding Payment of Dividend
- 9.6 Investor Education and Protection Fund
- 9.7 Interim Dividend
- 9.8 Let's Sum up
- 9.9 Key Words
- 9.10 Further Readings
- 9.11 Terminal Questions

---

### **9.0      OBJECTIVES**

---

After studying this module, you shall be able to know the meaning of Dividend

- Learn the legal provisions regarding declaration of dividend
- Identify the steps in payment of dividend
- Analyse the Investor Education and Protection Fund

---

### **9.1      INTRODUCTION**

---

The term 'dividend' is derived from the Latin word 'dividendum' which means 'that which is to be divided'. Dividend is that part of the profits of the company which is distributed amongst its shareholders. Dividend implies two things

- (i) payment out of profits, and
- (ii) actual release of some assets.

Issue of bonus shares or right shares to the existing members is not considered as dividend because the former does not involve release of any assets and the latter has no relation with the profits of the company. Articles of association of a company may regulate the manner in which the dividends are to be paid.

---

## 9.2 LEGAL PROVISIONS REGARDING DIVIDEND

---

### Declaration of Dividend

- (a) Dividend for a financial year may be declared only when the Balance-sheet and Profit and loss account of the company are presented to the shareholders at the annual general meeting.
- (b) It is the prerogative of the board of directors to recommend the rate of dividend to be distributed.
- (c) The members have the right to approve or lower the same. But in no case shareholders can increase the amount of dividend recommended by the Board.
- (d) Usually, dividend is declared at the annual general meeting. But a company which has not declared dividend at an annual general meeting may do so at a subsequent general meeting.
- (e) A company which has declared dividend at a general meeting, is not permitted to declare a dividend for the second time in that year.

Declaration of dividend to be out of the Profits As per Section 123, dividend by a company for any financial year can be paid or declared only out of:

- (a) Profits of the company of that year arrived at after providing for depreciation in accordance with the provisions of the Act, or
- (b) Profits of the company for any previous financial year or years after providing for depreciation as per the provisions of the Act, or
- (c) Out of both, or
- (d) Money provided by the Central or State Governments for the payment of dividends in pursuance of the guarantee given by that Government.

Provision for Depreciation Before any dividend can be paid out of profits of any financial year, a company is required to provide depreciation as per the provisions of the Schedule II of the Companies Act 2013. 3.4

Transfer of Profits to Reserves A company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company

Declaration of Dividend out of Reserves A company can pay dividend out of its 'reserve funds' created out of the undistributed profits of the company for any previous financial year or years (arrived at after providing for depreciation as required). As per the Companies (Payment and Declaration of Dividend) Rules 2014, in the event of

inadequacy or absence of profits in any year, a company may declare dividend out of free reserves subject to the fulfillment of the following conditions, namely:

- The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year: Provided that this rule shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.
- The total amount to be drawn from such accumulated profits shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which the dividend is declared before any dividend in respect of equity shares is declared.
- The balance of reserves after such withdrawal shall not fall below fifteen per cent of its paid up share capital as appearing in the latest audited financial statement.
- No company shall declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against the profit of the company of the current year

Payment of Dividend out of Capital Profits Profit arising out of the sale or revaluation of capital assets is termed as capital profit. Capital profits may be utilised for the purposes of declaration of dividend provided:

- (a) these have been realised in cash,
- (b) these remain as profits after revaluation of all the assets and liabilities, and
- (c) there is nothing in the Articles of Association of the company prohibiting their distribution amongst the shareholders in the shape of cash dividends.

---

### **9.3 REVOCATION OF DECLARED DIVIDEND**

---

Dividend declared with the approval of the shareholders creates a debt due to the shareholders. Generally, dividend declared cannot be revoked except with the approval of the shareholders in the event:

- of the intervening circumstances after the declaration, such as the outbreak of a war, massive fire destroying the properties of the company, imposition of taxes, or other causes diminishing the assets of the company.

- where a dividend has been declared illegally or violating the requirements of the law, the board of directors would be justified in revoking the dividend.

---

## **9.4 ENTITLEMENT OF DIVIDEND**

---

- **Equity Shareholders**

A company can pay dividend only to the shareholders of that company

- (i) In respect of shares held in electronic form, to those persons whose names appear as beneficial owners in the statement(s) furnished by the Depository(ies) as on the close of the market day prior to book closure or, in the case of Interim Dividend, on the record date; or
- (ii) In respect of shares held in physical form, to those shareholders whose names appear on the company's Register of Members after giving effect to all valid share transfers in physical form lodged with the company before the date of book closure or, in the case of Interim Dividend, on the record date; and

- **Preference Shareholders :**

Preference shares carry a preferential right as to dividend in accordance with the terms of the issue and the Articles, and hence preference shareholders are paid dividends before the dividend is paid to the equity shareholders of the company. (b) Preference shares may be cumulative or non-cumulative. Dividend in arrears on cumulative preference shares can be paid in a later year where there are profits to justify such payment. In the case of non-cumulative preference shares, if no dividend can be paid in a year, there is no right to receive it in future years. After paying the preference dividend and any arrears of dividend on cumulative preference shares, residual profit may be utilized for payment of dividend to equity shareholders. However, where participating preference shares have been issued, the holders thereof also have the right to participate in such residual profit.

---

## **9.5 LEGAL PROVISIONS REGARDING PAYMENT OF DIVIDEND**

---

A company which intends to declare and pay dividend should adopt the following procedures. Further, in case the company's shares are listed on the Stock Exchanges, additional requirements relating to Listing Agreements are to be followed.

➤ **Recommendation by Board of Directors**

Dividend can be declared only on the recommendation of the Board of Directors of the Company. The shareholders do not have any power to declare any dividend. The Board of Directors after considering and approving the financial statements of the company, determines the rate of dividend to be declared and then recommends the same to the shareholders. For this purpose, a Board Meeting shall be convened to pass the resolution for purposes of – rate of dividend and the amount of dividend to be paid – book closure date for dividend – date of annual general meeting – Bank with which the account shall be opened for the remittance of dividends.

➤ **Approval by the Shareholders**

The dividend recommended by the Board of Directors is declared by a resolution passed at the Annual General Meeting by the shareholders. The declaration of dividend should form part of an ordinary business item to be transacted in the notice of the Annual General Meeting. While approving the rate of dividend at the Annual General Meeting, the shareholders have the power to declare a lower rate of dividend than what is recommended by the Board but they have no power to increase the amount or the rate of dividend so recommended. Dividend when declared becomes debt against the company.

➤ **Dividend includes Interim Dividend**

As per the Companies Act, 2013, dividend includes interim dividend [Section 2(35)]. Interim dividend can be declared by the Board of Directors if they have authority to do so. Further, the provisions contained in Section 123, 124 and 127 shall apply to interim dividend.

➤ **Dividend to be deposited in a Separate Bank Account**

The company should deposit the dividend amount (including interim dividend) within 5 days of its declaration in the separate bank account opened for this purpose. The interim dividend will have to be deposited in a bank account within 5 days of the Board Meeting whereas final dividend will have to be deposited within 5 days from the date of Annual General Meeting in which it was approved by the shareholders.

**Dividend to be paid by cheque or warrant**

Section 123(5) of the Companies Act, 2013 provides that the dividend payable in cash may be paid either by cheque or warrant or in any electronic mode to the shareholder entitled to the payment of dividends.

**Time frame for payment of Dividend**

As per Section 127 of the Companies Act, 2013, the dividend is to be paid or warrants in respect thereof shall be posted within 30 days from the date of declaration of dividend.

Transfer of Unpaid Dividend As per Section 124 of the Act, where a dividend has been declared by a company but has not been paid (or claimed) within 30 days from the date of declaration, the company shall within 7 days from the expiry of the period of 30 days to transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf with any Scheduled Bank which is called “Unpaid Dividend Account. Interest at the rate of 12% p.a. is payable by the company for delay in making the above transfer.

### **Transfer of unpaid or unclaimed dividend to the Investor Education and Protection Fund**

Any amount of dividend which remains unpaid or unclaimed for a period of 7 years from the date it became due for payment shall be transferred by the company to the Investor Education and Protection Fund [Section 124(5)]. When making a transfer to the Fund, the company shall furnish to the authority appointed by the Central Government, the details as prescribed in this respect. The said fund shall be utilised for promotion of investor awareness and protection of the interests of investors. In case of any default in complying with these provisions, the company and every officer of the company who is in default shall be punishable with a fine as prescribed.

Penalty for Failure to Pay Dividends within 30 Days Where a dividend has been declared by a company but has not been paid, or the warrant in respect thereof has not been posted, within 30 days from the date of the declaration, to any shareholder entitled to the payment of the dividend, every director of the company knowingly a party to the default, shall be punishable with simple imprisonment for a term which may extend to 2 years and shall also be liable to a fine of R 1000 for every day during which such default continues. The company shall also be liable to pay simple interest at the rate of 18% per annum during the period for which such default continues (Sec. 127). However, no offence shall be deemed to have been committed in the following cases:

- where a dividend is not legally declared or a declaration of dividend is legally untenable);
- where the dividends could not be paid by reason of the operation of any law;
- where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with;
- where there is a dispute regarding the right to receive the dividend;
- where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder; or
- where, for any other reason, the failure to pay the dividend or post the warrant within the period aforesaid was not due to any default on the part of the company.

---

## **9.6 INVESTOR EDUCATION AND PROTECTION FUND**

---

The Central Government has established a fund called the Investor Education and Protection Fund under Section 125. The following amounts are credited to the fund:

- the amount given by the Central Government by way of grants after due appropriation made by Parliament by law in this behalf for being utilised for the purposes of the Fund;
- donations given to the Fund by the Central Government, State Governments, companies or any other institution for the purposes of the Fund;
- the amount in the Unpaid Dividend Account of companies transferred to the Fund under sub-section (5) of section 124;
- the amount in the general revenue account of the Central Government which had been transferred to that account under sub-section (5) of section 205A of the Companies Act, 1956 (1 of 1956), as it stood immediately before the commencement of the Companies (Amendment) Act, 1999 (21 of 1999), and remaining unpaid or unclaimed on the commencement of this Act;
- the amount lying in the Investor Education and Protection Fund under section 205C of the Companies Act, 1956 (1 of 1956);
- the interest or other income received out of investments made from the Fund;
- the amount received under sub-section (4) of section 38;
- the application money received by companies for allotment of any securities and due for refund which has remained unclaimed for a period of seven years from the date it became due for payment.

### **Utilisation of Fund**

The Fund can be utilised for promotion of investors, awareness and protection of the interests of investors in accordance with the prescribed rules. As per Section 125(3) of the Companies Act, the Fund shall be utilized for:

- (a) the refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon;
- (b) promotion of investors' education, awareness and protection;
- (c) distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which had ordered disgorgement;

- (d) reimbursement of legal expenses incurred in pursuing class action suits under sections 37 and 245 by members, debenture-holders or depositors as may be sanctioned by the Tribunal; and
- (e) any other purpose incidental thereto.

---

## **9.7 INTERIM DIVIDEND**

---

Dividend declared by the board of directors of a company between two annual general meetings is called interim dividend. As per Section 2(35) of the Companies Act dividend includes interim dividend also. The Board of directors has the power to declare interim dividend. The board may from time to time pay to the members such interim dividends as appear to it to be justified by the profits of the company. An interim dividend is only a payment on account of the whole dividend for the year. If the working of the whole year results in loss, payment of interim dividend will amount to the payment of dividend out of capital and the directors will be personally liable to make good to the company the amount of interim dividend improperly disbursed.

It is prudent to prepare interim financial statements to ascertain the amount of profits earned and to see whether the profits for the accounting period up-to-date sufficiently justify the payment of an interim dividend. It is essential for a company to provide depreciation for the whole of the year and not proportionately for any fraction of the year before declaring interim dividend. This is because provision for depreciation is a condition precedent for declaration or payment of any dividend. While final dividend may be paid out of free reserves, no interim dividend should be paid by transfers out of any reserves. The Board should take into account the specified percentage required to be transferred to reserves before declaration of interim dividend. As per Section 123(3) of the Companies Act 2013, the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared:

### **Procedure to declare Interim Dividend**

- Articles of Association must authorise the directors to declare interim dividend.
- Meeting of the Board of Directors is to be called to declare interim dividend and decide the record date.
- Board of Director in their meeting has to pass a resolution declaring the interim dividend.
- Open a separate bank account and credit the amount of dividend within 5 days from the date of declaration of dividend.

- Make the payment or issue dividend warrant within 30 days from the date of declaration.
- Transfer the unpaid or unclaimed dividend to the 'Unpaid Dividend Account' within 7 days of the expiry of period of 30 days from the declaration.

---

## 9.8 LET'S SUM UP

---

- Dividend is that part of the profits of the company which is distributed amongst its shareholders.
- Dividend includes interim dividend.
- Dividend by a company for any financial year can be paid out of: Profits of the company of that year arrived at after providing for depreciation, or Profits of the company for any previous financial year or years after providing for depreciation, or Money provided by the Central or State Governments for the payment of dividends in pursuance of the guarantee given by that Government.
- Dividend can be declared only on the recommendation of the Board of Directors of the Company.
- Dividend declared with the approval of the shareholders creates a debt due to the shareholders.
- Dividend is to be paid within 30 days from the date of declaration of dividend.

Any amount of dividend which remains unpaid or unclaimed for a period of 7 years from the date it became due for payment shall be transferred by the company to the Investor Education and Protection Fund.

---

## 9.9 KEY WORDS

---

- **Dividend :** A sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).
- **Interim Dividend :** An interim dividend is a dividend payment made before a company's annual general meeting (AGM) and the release of final financial statements. This declared dividend usually accompanies the company's interim financial statements
- **Capital Protection Fund:** Capital Protection Funds invest meticulously in fixed income options and equity. These are closed-ended hybrid mutual fund schemes with a clear focus on debt to achieve capital protection.

- **Depreciation** : A reduction in the value of an asset over time, due in particular to wear and tear.
- **Preference Shareholders** : The preference shareholders are also part owners of the company like equity shareholders, but in general, they do not have voting rights.
- **Equity Shareholders** : Equity shares are also known as ordinary shares. They are the form of fractional or part ownership in which the shareholder, as a fractional owner, takes the maximum business risk.

---

## 9.10 FURTHER READINGS

---

- Rudder dutt & Sundaram, INDIAN ECONOMY, Vikas Publishing House, New Delhi.
- Veena Keshav Pailwar, ECONOMIC ENVIRONMENT OF BUSINESS, Phi Learning Pvt. Ltd, New Delhi, 2010
- David Needle., Business In Context: An Introduction To Business And Its Environment (Revised Edition), Thomas Rennie, 2004.
- "Commencement Notification Of Companies Act 2013"(PDF). Ministry of Corporate Affairs, India. Archived (PDF)from the original on 11 January 2014. Retrieved 11 January 2014.
- Varma, Sindhu. "India: New Companies Act, 2013 – The Cat Is Finally Out". Mondaq. Archived from the original on 28 March 2014. Retrieved 27 March 2014.

---

## 9.11 MODEL QUESTIONS

---

- Q1 Write the meaning of Dividend
- Q2 What are the steps in payment of dividend?
- Q3 Discuss the legal provisions regarding declaration of dividend
- Q4 Write Short Notes on
- Utilisation Fund
  - Interim Dividend
  - Preference Shareholders
  - Equity Shareholders

---

## **UNIT-10 SHAREHOLDER'S MEETING**

---

### **Structure:**

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Types of Meetings
- 10.3 Annual Meetings
- 10.4 Extraordinary Meetings
- 10.5 Procedure and Requisite of a Valid Meeting
- 10.6 Resolution
- 10.7 Ordinary Resolution
- 10.8 Special resolution
- 10.9 Let us sum up
- 10.10 Key Words
- 10.11 Further Readings
- 10.12 Terminal Questions

---

### **10.0 OBJECTIVES**

---

After reading this unit you will be able to

- Know the kinds of meetings
- Learn the requisites of a valid meeting
- Identify the procedure of holding a meeting

---

### **10.1 INTRODUCTION**

---

The rights of members of a company to participate in fundamental corporate decision making and appoint their representatives as directors to run the company on their behalf are ensured by the general meetings of the company. General meetings - meetings of shareholders of the company are required to be held from time to time.

---

### **10.2 TYPES OF MEETINGS**

---

There are two kinds of General Meetings

- (1) Annual General Meeting (AGM)
- (2) Extraordinary General Meeting (EGM)

---

### 10.3 ANNUAL GENERAL MEETINGS

---

- **Meaning and Purpose**

Annual General Meeting is a regular meeting of the members of a company which is held annually. This meeting provides an opportunity to the members of the company to review the working of the company and express their views on the management of the company. The purpose of calling the meeting is to transact the ordinary business of the company. The ordinary business consists of:

- (a) the passing of the annual accounts,
- (b) declaration of dividends,
- (c) election of directors in place of those who are retiring by rotation,
- (d) appointment and the fixation of the remuneration of auditors of the company.

- **Statutory requirement**

It is a statutory requirement on every company to call and hold an annual general meeting every year. The first annual general meeting of a company must be held within 9 months from the closing of the first financial year of the company. Subsequent annual general meeting must be held by the company each year within 6 months after the close of the financial year but the interval between any two annual general meetings must not be more than 15 months. Registrar may, however, for any special reason, extend the time within which any annual general meeting (not being the first annual general meeting) shall be held, by a period not exceeding 3 months.

There should be one annual general meeting in every calendar year and, therefore, there must be as many general meetings as the number of calendar years for which the company had been carrying on business.

- **Time and Place of the meeting.**

Company must call the annual general meeting on a working day during business hours i.e. from 9 AM to 6 PM either at the registered office of the company or at some other place within the city in which the registered office of the company is situated.

- **Default in holding the annual general meeting.** If default is made in holding an annual general meeting in accordance with section 96, the Tribunal (Company Law Board) may on the application of any member of the company, call, or direct the calling of a general meeting of the company and give such ancillary or

consequential directions as the Tribunal thinks expedient in relation to the calling, holding and conducting of the meeting. If default is made in holding a meeting of the company in accordance with section 96, or in complying with any directions of the Tribunal, the company, and every officer of the company who is in default, shall be punishable with fine which may extend to Rs 1,00,000 and in the case of a continuing default, with a further fine which may extend to Rs 5,000 for every day after the first during which such default continues.

---

## **10.4 EXTRAORDINARY GENERAL MEETINGS**

---

All general meetings other than the annual general meetings are known as extraordinary general meetings.

### **When and By Whom EGM may be called**

**Extraordinary general meeting may be called under the following circumstances:**

- **By the Board:** When the directors have to transact some immediate and emergent business for which they cannot wait till the next annual general meeting, i.e. the board of directors of a company may call this meeting whenever it thinks the need of it.
- **By the Board on the requisition:** The board of directors may also call an extraordinary general meeting on the requisition of given number of members. The given number of members is-
  - (a) In the case of a company having a share capital, members or members holding not less than 1/10 of the paid up share capital of the company carrying voting rights regarding the matter of requisition.
  - (b) In the case of a company not having a share capital, member or members holding at least 1/10 of the total voting power of all the members at the date of the deposit of the requisition regarding that matter. Matters, for the consideration of which the meeting is called shall be stated in the requisition and those matters alone shall be considered at the meeting. Requisition must be duly signed by the requisitioners and deposited at the registered office of the company. Board of Directors must proceed to call a meeting for the consideration of the matters notified by the requisitionists within 21 days of the deposit of requisition at the registered office of the company. In all cases the meeting must be held by the directors on a day not later than 45 days from the date of the deposit of the requisition.

- **By the Requisitionists:** On default of the directors to call the meeting within 45 days of deposit of the requisition, the meeting may be called by the requisitionists themselves and held within 3 months of the date of the deposit of the requisition. Requisitionists shall not be allowed to hold the meeting after the expiry of three months from the date of the deposit of the requisition except a meeting which was duly convened within three months of the requisition but was adjourned to some other day which falls after the expiry of the said three months.

Requisitionists shall call the meeting in the same manner as nearly as possible, to that in which meetings are to be called by the Board of Directors. Notice of such meeting shall be given in the same manner as for the regular meetings. If the registered office is not made available to them, they may hold the meeting anywhere else. Requisitionists shall be entitled to claim all the expenses from the company, of calling a meeting on the default of the directors to do so. The company shall be entitled to indemnify itself and to deduct any sums so paid to the requisitionists to meet out the expenses of calling a meeting on the default of the directors to do so out of the fees or remuneration of those directors who were in default. Resolution, properly passed at a meeting called by requisitionists, shall be binding upon the company.

- **By the Tribunal (Company Law Board).** The Tribunal may also under certain circumstances call, hold and conduct the meeting of a (a) When it is impractical to call a meeting of the company in the manner in which meetings of the company may be called, or (b) When it is not possible to hold or conduct the meeting of the company in the manner prescribed by the Act or the Articles of Association of the company. The Tribunal may order for the calling, holding and conducting such a meeting either (a) of its own motion or (b) on the application of any director of the company or (c) of any member of the company who would be entitled to vote at the meeting.

---

## **10.5 PROCEDURE AND REQUISITE OF A VALID MEETING**

---

The following are the requisites for calling and conducting the valid general meeting:

### **A. Proper authority**

The authority to call a general meeting is the board of directors of the company. The notice of the meeting should be issued under their authority, granted at a duly constituted meeting of the board or passing a resolution by circulation. A single director has no power to convene a meeting. The secretary of the company has no authority to call a general meeting unless the Board resolves and authorises him to do so. However, under certain circumstances, the requisitionists, the Tribunal may call a general meeting in the case of default by the directors.

## **B. Notice**

Notice of every meeting should be given to the following persons: (i) Every member of the company. (ii) Every person entitled to a share in consequence of the death or insolvency of a member. (iii) Auditor or auditors of the company (iv) Every director of the company Deliberate omission to give notice to a single member may invalidate the meeting. However, an accidental omission to give notice to or non-receipt of it, by a member will not invalidate the meeting.

### **Length of notice.**

A proper notice in writing to every member of the company is required by law for the holding of every valid meeting. Notice must be fair and clear. It must disclose the purpose for which the meeting is called. It must be given at least 21 clear days before the date of the meeting. In calculating 21 days, the date of receipt of notice and the date of the meeting should be excluded. Articles may provide for a notice longer than 21 days, but not for a notice shorter than 21 days. The notice shall be deemed to have been received by a member at the expiration of 48 hours from the time of posting. A general meeting may be called at short notice, if,

- (a) if the company has a share capital, members holding 95% of the paid-up share capital carrying voting rights exercisable at the meeting agree,
- (b) if the company does not have a share capital, members holding at least 95% of the total voting power exercisable at the meeting agree.

The consent of the members for shorter notice may be obtained either in writing or through electronic mode at the meeting or before the meeting.

**Service of Notice.** Company may serve notice on the members either personally or by prepaid post or by electronic mode by advertisement in the newspaper. It must be properly addressed. Service of notice by advertisement shall be deemed to be complete when the advertisement appears in the newspaper on both resident and non-resident members.

### **Contents of the notice. The notice must contain the following particulars:**

It should specify the name of the meeting, the place, day and hour of the meeting and the meeting to be valid must be held at the place and time specified. (ii) It should also specify the nature of the business to be conducted at the meeting ie.

- a) **General business.** In case of annual general meeting all business relating to (i) the consideration of annual accounts, (ii) the declaration of a dividend, (iii) the appointment of directors in place of those retiring, and (iv) the appointment of, and the fixing of remuneration of the auditors, are considered as general business.

- b) **Special business.** Any other business at an annual general meeting and all business in case of any other meeting are regarded as special business. In special business is to be transacted, an ‘explanatory statement’ giving all the material facts of the item of special business including the particulars of interest, in any of every director or other managerial personnel, must be annexed to the notice.

### **C. Quorum**

Minimum number of members required to constitute a valid meeting and to transact business legally therein is called ‘quorum’. No meeting can be valid without quorum. Any resolution passed at a meeting without a quorum shall be invalid.

Section 103 (1) of the Companies Act provides as follows:

- 1) Unless the articles of the company provide for a larger number,—
  - a) in case of a public company,—
    - i) five members personally present if the number of members as on the date of meeting is not more than one thousand;
    - ii) fifteen members personally present if the number of members as on the date of meeting is more than one thousand but up to five thousand;
    - iii) thirty members personally present if the number of members as on the date of the meeting exceeds five thousand;
  - b) in the case of a private company, two members personally present, shall be the quorum for a meeting of the company.
- 2) If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company—
  - a) the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine; or
  - b) the meeting, if called by requisitionists under section 100 shall stand cancelled:
- 3) If at the adjourned meeting also, a quorum is not present within half-an-hour from the time appointed for holding meeting, the members present shall be the quorum.

### **D. Chairman**

A general meeting of the company is to be presided over by a chairman who regulates and supervises the proper conduct of the business at a meeting. He decides all incidental questions arising in the course of the proceedings of the meeting. Chairman should act bonafide and in the best interest of the company as a whole. Articles usually provide the mode of appointment of the chairman of a meeting. If the articles do not provide otherwise, the members personally present at the meeting

shall elect one of themselves to be the chairman thereof on a show of hands. If a poll is demanded on the election of the chairman it must be taken forthwith and the chairman elected on a show of hands can exercise all the powers in this connection. If some other person is elected chairman as a result of the poll, he shall be the chairman for the rest of the meeting.

### **Power of a Chairman**

1. The chairman has prima facie authority to decide all questions which arise at a meeting and which require decision at the time.
2. The entry in the minutes book of the chairman's decision is evidence of the decision of the meeting.
3. The chairman has a right to decide priority amongst speakers, to demand poll, to exercise a casting vote, to expel an unruly member and he may, with the support of the majority, apply closure to a discussion after it has been reasonably debated.
4. He can also adjourn a meeting when it is impossible, by reason of disorder or other like causes, to conduct the meeting and complete business.

### **Casting Vote**

Articles of Association may give an additional or second vote to the chairman of the company, over and above his right to vote as an ordinary member. In the case of a tie, i.e., equality of votes the chairman may use the casting vote to decide the matter in one way or the other.

### **Duties of a Chairman**

- The chairman must take care to see that proper discipline is maintained at the meeting, that the proceedings are conducted in a proper manner, that proper opportunity is given to the members to express their views that the voting is fair and that the proceedings of the meeting are properly and correctly recorded in the minutes book.
- The chairman is expected to act bona fide according to his best ability and judgment and without any prejudices. He should see that the meeting is duly convened and properly held.

### **E. Proxy**

The term proxy has two meanings:

- (a) a personal representative of the member at a meeting i.e. the person authorised to act or vote for another at a meeting of the company, and
- (b) the instrument by which a person is appointed to act for another at a meeting of the company, since a representative may be appointed only in writing.

The following are the provisions of the Companies Act regarding appointment and rights of proxy:

Law entitles every member of a company to appoint another person as his proxy to attend and vote at company meeting instead of himself. However, a member of a company having no share capital does not have this right unless its articles otherwise provide. A member of a private company shall not be entitled to appoint more than one proxy to attend on the same occasion unless its articles provide otherwise. But a member of a public company may appoint more than one proxy i.e., he may appoint one proxy in respect of certain shares held by him and a different proxy for other shares held by him.

Any person can be appointed as a proxy whether he is or is not a member of the company. In case the proxy is not a member of the company, he shall have no right to speak at the general meeting unless the articles otherwise provide. There is, however, no provision preventing a proxy putting questions in writing and sending the same to the chairman for answer. A proxy is ordinarily entitled to vote only on a poll. But he may vote on voting by show of hands if the articles provide. Besides that, he may demand or join in demanding a poll. Proxy must be appointed by an instrument in writing, duly stamped and signed by the member of the company.

A blank but stamped proxy is valid and may be completed by the person authorised to do so. Proxy must be deposited with the company at least 48 hours before the commencement of the meeting. A company, however, cannot legally require proxies to be deposited with it earlier than 48 hours before the time of the meeting. After giving 3 days' notice to the company, members may inspect during business hours the proxies lodged with the company at any time during the period commencing 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting. Proxy lodged for the original meeting remains valid for the adjourned meeting also. Every notice of a meeting must appropriately mention that a member is entitled to appoint a proxy and that the proxy need not be a member.

A proxy is revocable. It can be revoked at any time. Death of the shareholder appointing a proxy will, in the absence of provisions in the Articles revoke the authority of the proxy. Shareholder may himself attend and vote at the meeting. Vote tendered by the proxy in such a case will not be accepted because the need for exercising the proxy had never arisen. Proxy in this case shall stand revoked impliedly.

#### **F. Voting at General Meeting**

The decisions at the meetings are taken by way of passing the resolutions at the meetings. Every proposed resolution is discussed by the members of the company. Members have the right to move amendments to the proposed resolutions provided the amendments are germane to the proposed resolution. After a proposed resolution has

been discussed it is put to vote. Every member has a right to vote on such resolutions. Shareholders may exercise their voting rights in their best interests with complete freedom. They are allowed to vote even if their interest is in conflict with the interest of the company. A director may vote in the shareholders' meeting even though his interest in the subject matter is opposed to the interest of the company. The preference shareholders have right to vote only on such resolutions which directly affect them; and when their dividends are in arrears for a specified number of years.

Voting by a show of hands. In the first instance, at any general meeting, voting takes place by a show of hands. On a show of hands, each member has only one vote. Proxies are not entitled to vote in case of such a voting unless the articles otherwise provide. The chairman's declaration on the result of voting by a show of hands is conclusive.

### **Voting by poll**

Voting in accordance with the voting rights as given to the members by the Articles of Association is called a 'Poll'. Ordinarily, it implies exercise of voting rights by members in proportion to their share of the paid up equity capital of a company. All decisions taken by voting by a show of hands will stand cancelled as soon as a demand for voting by poll is made. It is the demand for poll and not its result which will eradicate the decision by a show of hands. A poll can be demanded either before or after the declaration of the result of voting on a show of hands. A poll may be demanded by either of the following:

- (a) Chairman, on his own motion, or
- (b) In the case of a public company having share capital by any member or members, present in person or by proxy holding shares carrying not less than 1/10 of the total voting power in respect of the resolution or having paid up share capital of not less than Rs 500,000, or
- (c) In the case of any other company by any member or members present in person or by proxy and having not less than 1/10 of the total voting power. The demand for poll may be withdrawn at any time by the person or persons who made the demand. Poll must be held according to the provisions of the Articles of Association.

---

## **10.6 RESOLUTION**

---

A proposal, when passed and accepted by the members, becomes a resolution. The Companies Act provides for two types of resolutions:

1. Ordinary Resolution.
2. Special Resolution

---

## 10.7 ORDINARY RESOLUTION

---

It is passed (i) by a simple majority of votes at a general meeting, (ii) of which notice required by Section 114 (1) of the Companies Act has been duly given. Simple majority means that the votes cast either by a show of hands or on a poll in favour of a particular proposal, including the casting vote of the chairman, exceed the votes cast against it. An ordinary resolution is required to pass the annual accounts, to declare dividends, to hold elections of directors, to appoint auditors, to issue shares at a discount, etc.

---

## 10.8 SPECIAL RESOLUTION

---

It is passed by a majority of three-fourths of the votes in person or by proxy. In other words the votes cast in favour of the resolution must not be less than three times the number of votes cast against the resolution. The intention to propose the resolution as a special resolution must especially be mentioned in the notice issued for calling the meeting. It must be accompanied by an explanatory statement. It must be passed in exactly the same terms as specified in the notice for the meeting

---

## 10.9 LET US SUM UP

---

- There are two kinds of General Meetings: Annual General Meeting (AGM); and Extraordinary General Meeting (EGM)
- Annual general meeting is a regular meeting of shareholders of a company which is held annually.
- Extra-ordinary General Meeting may be called at any time by the directors of the company on their own or on the requisition of given number of members.
- A notice of at least 21 day is needed to call a general meeting.
- Members of a company have a right to appoint a proxy to attend the meeting on his behalf.
- Voting at a meeting takes place first by a show of hands and then by poll.
- Ordinary resolution is passed by a simple majority

---

## 10.10 KEY WORDS

---

**AGM :** Annual General Meeting is a regular meeting of the members of a company which is held annually.

**EDM :** All general meetings other than the annual general meetings are known as extraordinary general meetings.

**Quorum** : Minimum number of members required to constitute a valid meeting and to transact business legally therein is called 'quorum'.

**Proxy** : A personal representative of the member at a meeting i.e. the person authorised to act or vote for another at a meeting of the company

---

### **10.11 FURTHER READINGS**

---

- M.M. Sulphery & Az-Har Basheer, LAWS FOR BUSINESS, Phi Learning Pvt. Ltd. Delhi, 2011
- Maheshwari & Maheswari, MERCANTILE LAW, Himalaya Publishing House. Mumbai
- Rudder dutt & Sundaram, INDIAN ECONOMY, Vikas Publishing House, New Delhi.
- Veena Keshav Pailwar, ECONOMIC ENVIRONMENT OF BUSINESS, Phi Learning Pvt. Ltd, New Delhi, 2010
- David Needle., Business In Context: An Introduction To Business And Its Environment (Revised Edition), Thomas Rennie, 2004.
- David P. Baron, Business And Its Environment, Pearson Education, 2006.
- Thomas Childs Cochran And Harold I. Sharlin, Business And Its Environment: Essays For Thomas C. Cochran, Greenwood Press, 1983.

---

### **10.12 TERMINAL QUESTIONS**

---

- Q1 What are the requisites of a valid meeting ?
- Q2 Explain different kinds of meeting in a company
- Q3 What is the procedure of holding a meeting?
- Q4 Write Short Notes on
- a) Proxy
  - b) Quorum
  - c) Chairman
- Q5 Write about the Resolutions of the company.