**Companies Act, 1956**

**Chapter 2 - Directors**

## Section 252 - Minimum number of directors

(1) Every 1 [public company (other than a public company which has become such by virtue of section 43A)]2 [***]shall have at least three directors:

3 [Provided that a public company having, -

(a) a paid-up capital of five crore rupees or more;

(b) one thousand or more small shareholders,

may have a director elected by such small shareholders in the manner as may be prescribed.

Explanation. -For the purpose of this sub-section "small shareholders" means a shareholder holding shares of nominal value of twenty thousand rupees or less in a public company to which this section applies.]

(2) Every 4 [other] company 5 [***] shall have at least two directors.

(3) The directors of a company collectively are referred to in this Act as the "Board of directors" or "Board".

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**1.** Substituted by Act 31 of 1965, Section 29, for "public company" (w.e.f. 15-10-1965).

**2.** The words "and every private company which is a subsidiary of a public company" omitted by Act 65 of 1960, Section 81 (w.e.f. 28-12-1960).

**3.** Inserted by Act 53 of 2000, Section 128 (w.e.f. 15-10-1965).

**4.** Substituted by Act 31 of 1965, Section 29, for "private" (w.e.f. 15-10-1965).

**5.** The words "which is not a subsidiary of a public company" omitted by Act 65 of 1960, Section 81 (w.e.f. 28-12-1960).

## Section 253 - Only individuals to be directors

No body corporate, association or firm shall be appointed director of a1[***] company, and only an individual shall be so appointed.

2[Provided that no company shall appoint or re-appoint any individual as director of the company unless he has been allotted a Director Identification Number under section 266B.].

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**1.** The words "public or private" omitted by Act 65 of 1960, Section 82 (w.e.f. 28-12-1960).

2. Inserted by Companies (Amnendment) Act, 2006 (23 of 2006), w.e.f. 01.11.2006.

## Section 254 - Subscribers of memorandum deemed to be directors

In default of and subject to any regulations in the articles of a company, subscribers of the memorandum who are individuals, shall be deemed to be the directors of the company, until the directors are duly appointed in accordance with section 255.

## Section 255 - Appointment of directors and proportion of those who are to retire by rotation

( 1)1[Unless the articles provide for the retirement of all directors at every annual general me eting, not less than two-thirds] of the total number of directors of a public company, or of a private company which is a subsidiary of a public company, shall -

(a) be persons whose period of office is liable to determination by retirement of directors by rotation; and

(b) save as otherwise expressly provided in this Act, be appointed by the company in general meeting.

(2) The remaining directors in the case of any such company, and the directors generally in the case of a private company which is not a subsidiary of a public company, shall in default of and subject to any regulations in the articles of the company, also be appointed by the company in general meeting.

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**1.** Substituted by Act 65 of 1960, Section 83, for "Not less than two-thirds" (w.e.f. 28-12-1960)

## Section 256 - Ascertainment of directors retiring by rotation and filling of vacancies

( 1 ) At the first annual general me eting of a public company, or a private company which is a subsidiary of a public company held next after the date of the general me eting at which the first directors are appointed in accordance with section 255 and at every subsequent annual general me eting, one-third of such of the directors for the time being as are liable to retire by rotation, or if their number is not three or a multiple of three, then, the number nearest to one-third, shall retire from office.

( 2 ) The directors to retire by rotation at every annual general me eting shall be those who have been longest in office since their last appointment, but as between persons who became directors on the same day, those who are to retire shall, in default of and subject to any agreement among themselves, be determined by lot.

( 3 ) At the annual general me eting at which a director retires as aforesaid, the company may fill up the vacancy by appointing the retiring director or some other person thereto.

( 4 ) (a) If the place of the retiring director is not so filled up and the me eting has not expressly resolved not to fill the vacancy, the me eting shall stand adjourned till the same day in the next week, at the same time and place, or if that day is a public holiday, till the next succeeding day which is not a public holiday, at the same time and place.

(b) If at the adjourned me eting also, the place of the retiring director is not filled up and that me eting also has not expressly resolved not to fill the vacancy, the retiring director shall be deemed to have been re-appointed at the adjourned me eting, unless -

(i) at that me eting or at the previous me eting a resolution for the re-appointment of such director has been put to the me eting and lost;

(ii) the retiring director has, by a notice in writing addressed to the company or its B oard of directors, expressed hi s unwillingness to be so re-appointed;

(iii) he is not qualified or is disqualified for appointment;

(iv) a resolution, whether special or ordinary, is required for hi s appointment or re-appointment in virtue of any provisions of this Act; or

(v) the proviso to sub-section ( 2 ) of section 263[1][***] is applicable to the case.

[2][***]

[3][Explanation. -In this section and in section 257, the expression "retiring director" means a director retiring by rotation.]

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**1.** The words, brackets and figures "or sub-section (3) of section 280" omitted by Act 31 of 1965, section 30 (w.e.f. 15-10-1965).

**2.** Sub-section (5) omitted by Act 31 of 1965, section 30 (w.e.f. 15-10-1965).

**3.** Inserted by Act 65 of 1960, section 84 (w.e.f. 28-12-1960).

## Section 257 - Right of persons other than retiring directors to stand for directorship

( 1 ) A person who is not a retiring director shall, subject to the provisions of this Act, be eligible for appointment to the office of director at any general me eting, if he or some me mber intending to propose hi m has, not less than fourteen days before the me eting, left at the office of the company a notice in writing under hi s hand signifying hi s candidature for the office of director or the intention of such me mber to propose hi m as a candidate for that office, as the case may be,[1][along with a deposit of five hundred rupees which shall be refunded to such person or, as the case may be, to such me mber, if the person succeeds in getting elected as a director.]

[2][( 1 A) The company shall inform its me mbers of the candidature of a person for the office of director or the intention of a me mber to propose such person as a candidate for that office, by serving individual notices on the me mbers not less than seven days before the me eting:

Provided that it shall not be necessary for the company to serve individual notices upon the me mbers as aforesaid if the company advertises such candidature or intention not less than seven days before the me eting in at least two newspapers circulating in the place where the registered office of the company is located, of which one is published in the English language and the other in the regional language of that place.]

( 2 ) Sub-section ( 1 ) shall not apply to a private company, unless it is a subsidiary of a public company.

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**1.** Inserted by Act 31 of 1988, Section 45 (w.e.f. 15-6-1988).

**2.** Inserted by Act 65 of 1960, Section 85 (w.e.f. 28-12-1960).

## Section 258 - Right of company to increase or reduce the number of directors

[1][***] Subject to the provisions of sections 252 , 255 and 259 , a company in general me eting may, by ordinary resolution, increase or reduce the number of its directors within the limits fixed in that behalf by its articles.

**1.** The brackets and figure "(1) omitted by Act 36 of 1957, Section 3 and Schedule II."

### Section 259 - Increase in number of directors to require Government sanction

In the case of a public company or a private company which is a subsidiary of a public company, any increase in the number of its directors, except-

(a) in the case of a company which was in existence on the 21 st day of July, 1951 , an increase which was within the permissible maximum under its articles as in force on that date, and

(b) in the case of a company which came or may come into existence after that date, an increase which is within the permissible maximum under its articles as first registered,

shall not have any effect unless approved by the Central Government; and shall become void if, and insofar as, it is disapproved by that Government:

[1][Provided that where such permissible maximum is twelve or less than twelve, no approval of the Central Government shall be required if the increase in the number of its directors does not make the total number of its directors more than twelve.]

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**1.** Added by Act 31 of 1965, Section 31 (w.e.f. 15-10-1965).

### Section 260 - Additional directors

Nothing in sections 255, 258 or 259 shall affect any power conferred on the Board of directors by the articles to appoint additional directors:

Provided that such additional directors shall hold office only up to the date of the next annual general meeting of the company:

Provided further that the number of the directors and additional directors together shall not exceed the maximum strength fixed for the Board by the articles.

### Section 261 - Certain persons not to be appointed directors, except by special resolution [Repealed]

Rep. by the Companies (Amendment) Act, 2000 (53 of 2000), sec. 129 (w.e.f. 13-12-2000).

### Section 262 - Filling of casual vacancies among directors

(1) In the case of a public company or a private company which is a subsidiary of a public company, if the office of any director appointed by the company in general meeting is vacated before his term of office will expire in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of directors at a meeting of the Board.

(2) Any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated as aforesaid.

### Section 263 - Appointment of directors to be voted on individually

( 1 ) At a general me eting of a public company or of a private company which is a subsidiary of a public company, a motion shall not be made for the appointment of two or more persons as directors of the company by a single resolution, unless a resolution that it shall be so made has first been agreed to by the me eting without any vote being given against it.

( 2 ) A resolution moved in contravention of sub-section ( 1 ) shall be void, whether or not objection was taken at the time to its being so moved:

> Provided that where a resolution so moved is passed, no provision for the automatic re-appointment of1[the director retiring by rotation] in default of another appointment shall apply.

( 3 ) For the purposes of this section, a motion for approving a person's appointment, or for nominating a person for appointment, shall be treated as a motion for hi s appointment.

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**1.** Substituted by Act 65 of 1960, Section 87, for "retiring directors" (w.e.f. 28-12-1960).

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**Section 263A - Sections 177, 255, 256, and 263 not to be apply in relation to companies not carrying business for profit etc.**

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**1[ 263A . Sections 177 , 255 , 256 and 263 not to apply in relation to companies not carrying business for profit, etc.**

Nothing contained in sections 177 , 255 , 256 and 263 shall affect any provision in the articles of a company for the election by ballot of all its directors at each annual general me eting if such company does not carry on business for profit or prohibits the payment of a dividend to its me mbers.]

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**1.** Inserted by Act 65 of 1960, section 88 (w.e.f. 28-12-1960).

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**Section 264 - Consent of candidate for directorship to be filed with the company and consent to act as director to be filed with the Registrar**

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**1[ 264 . Consent of candidate for directorship to be filed with the company and consent to act as director to be filed with the Registrar**

( 1 ) Every person2[other than a director retiring by rotation or otherwise or a person] who has left at the office of the company a notice under section 257 signifying hi s candidature for the office of a director) proposed as a candidate for the office of a director shall sign, and file with the company, hi s consent in writing to act as a director, if appointed.

3[( 2 ) A person other than-

> (a) a director re-appointed after retirement by rotation or immediately on the expiry of hi s term of office, or
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> (b) an additional or alternate director or a person filling a casual vacancy in the office of a director under section 262 , appointed as a director or re-appointed as an additional or alternate director, immediately on the expiry of hi s term of office, or
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> (c) a person named as a director of the company under its articles as first registered,

shall not act as a director of the company unless he has within thirty days of hi s appointment signed and filed with the Registrar hi s consent in writing to act as such director.]

( 3 ) This section shall not apply to a private company unless it is a subsidiary of a public company.]

**1.** Substituted by Act 65 of 1960, Section 89, for section 264 (w.e.f. 28-12-1960).

**2.** Substituted by Act 31 of 1965, Section 32, for "other than a person" (w.e.f. 15-10-1965).

**3.** Substituted by Act 31 of 1965, Section 33, for sub-section (2) (w.e.f. 15-10-1965).

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## Section 265 - Option to company to adopt proportional representation for the appointment of directors

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Notwithstanding anything contained in this Act, the articles of a company may provide for the appointment of not less than two-thirds of the total number of the directors of a public company or of a private company which is a subsidiary of a public company, according to the principle of proportional representation, whether by the single transferable vote or by a system of cumulative voting or otherwise, the appointments being made once in every three years and interim casual vacancies being filled in accordance with the provisions, mutatis mutandis, of section 262.

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## Section 266 - Restrictions on appointment or advertisement of director

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( 1 ) A person shall not be capable of being appointed director of a company by the articles, and shall not be named as a director or proposed director of a company in a prospectus issued by or on behalf of the company, or as proposed director of an intended company in a prospectus issued in relation to that intended company, or in a statement in lieu of prospectus filed with the Registrar by or on behalf of a company, unless, before the registration of the articles, the publication of the prospectus, or the filing of the statement in lieu of prospectus, as the case may be, he has, by hi mself or by hi s agent authorised in writing,-

(a) signed and filed with the Registrar a consent in writing to act as such director; and

(b) either-

(i) signed the me morandum for shares not being less in number or value than that of hi s qualification shares, if any; or

(ii) taken hi s qualification shares if any, from the company and paid or agreed to pay for them; or

(iii) signed and filed with the Registrar an undertaking in writing to take from the company hi s qualification shares, if any, and pay for them; or

(iv) made and filed with the Registrar an affidavit to the effect that shares, not being less in number or value than that of hi s qualification shares, if any, are registered in hi s name.

( 2 ) Where a person has signed and filed as aforesaid an undertaking to take and pay for hi s qualification shares, he shall, as regards those shares, be in the same position as if he had signed the me morandum for shares of that number or value.

( 3 ) References in this section to the share qualification of a director or proposed director shall be construed as including only a share qualification required within a period determined by reference to the time of appointment, and references therein to qualification shares shall be construed accordingly.

1[***]

( 5 ) This section shall not apply to-

(a) a company not having a share capital;

(b) a private company;

(c) a company which was a private company before becoming a public company; or

(d) a prospectus issued by or on behalf of a company after the expiry of one year from the date on which the company was entitled to commence business.

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**1.** Sub-section (4) omitted by Act 31 of 1965, Section 33 (w.e.f. 15-10-1965).

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**Section 266A - Application for allotment of Director Identification Number**

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**1[266A. Application for allotment of Director Identification Number**

Every--

(a) individual, intending to be appointed as director of a company; or

(b) director of a company appointed before the commencement of the Companies (Amendment) Act, 2006,

shall make an application for allotment of Director Identification Number to the Central Government in such form, and manner (including electronic form) alongwith such fee, as may be prescribed:

Provided that every director, appointed before the commencement of the Companies (Amendment) Act, 2006, shall make, within sixty days of the commencement of the said Act, such application to the Central Government:

Provided further that every applicant, who has made an application under this section for allotment of a Director Identification Number, may be appointed as a director in a company, or, hold office as director in a company till such time such applicant has been allotted the Director Identification Number.

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**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

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**Section 266B - Allotment of Director Identification Number**

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**1[266B. Allotment of Director Identification Number**

The Central Government shall, within one month from the receipt of the application under section 266A, allot a Director Identification Number to an applicant, in such manner as may be prescribed.

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**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

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**Section 266C - Prohibition to obtain more than one Director Identification Number**

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**1[266C. Prohibition to obtain more than one Director Identification Number**

No individual, who had already been allotted a Director Identification Number under section 266B, shall apply, obtain or possess another Director Identification Number.

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**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

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**Section 266D - Obligation of director to intimate Director Identification Number to concerned**

**company or companies**

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**1[266D. Obligation of director to intimate Director Identification Number to concerned company or companies**

Every existing director shall, within one month of the receipt of Director Identification Number from the Central Government, intimate his Director Identification Number to the company or all companies wherein he is a director.

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**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

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### Section 266E - Obligation of company to inform Director Identification Number to Registrar

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**1[266E. Obligation of company to inform Director Identification Number to Registrar**

(1) Every company shall, within one week of the receipt of intimation under section 266D, furnish the Director Identification Number of all its directors to the Registrar or any other officer or authority as may be specified by the Central Government.

(2) Every intimation under sub-section (1) shall be furnished in such form and manner as may be prescribed.

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**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

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### Section 266F - Obligation to indicate Director Identification Number

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**1[266F. Obligation to indicate Director Identification Number**

Every person or company, while furnishing any return, information or particulars as are required to be furnished under this Act, shall quote the Director Identification Number in such return, information or particulars in case such return, information or particulars relate to the director or contain any reference of the director.

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**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

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### Section 266G - Penalty for contravention of provisions of section 266A or section 266C or section 266D or section 266E

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**1[266G. Penalty for contravention of provisions of section 266A or section 266C or section 266D or section 266E**

If any individual or director, referred to in section 266A or section 266C or section 266D or a company referred to in section 266E, contravenes any of the provisions of those sections, every such individual or director or the company, as the case may be, who or which, is in default, shall be punishable with fine which may extend to five thousand rupees and where the contravention is a continuing one, with a further fine which may extend to five hundred rupees for every day after the first during which the contravention continues.

Explanation.--For the purposes of sections 266A, 266B, 266C, 266D, 266E and 266F, the Director Identification Number means an identification number which the Central Government may allot to any individual, intending to be appointed as director or to any existing directors of a company, for the purpose of his identification as such.".

**1.** Inserted by Companies (Amendment) Act, 2006, w.e.f. 01.11.2006.

## Section 267 to 269 - Managing directors, etc.

## Section 267 - Certain persons not to be appointed managing directors

No company shall, after the commencement of this Act, appoint or employ, or continue the appointment or employment of, any person as its managing or whole-time director who -

(a) is an undischarged insolvent, or has at any time been adjudged an insolvent;

(b) suspends, or has at any time suspended, payment to hi s creditors, or makes, or has at any time made, a composition with them; or

(c) is, or has at any time been, convicted by a Court[1][***] of an offence involving moral turpitude.

**1.** The words "in India" omitted by Act 65 of 1960, Section 90 (w.e.f. 28-12-1960).

## Section 268 - Amendment of provision relating to managing, whole-time or non-rotational directors to require Government approval

In the case of a public company or a private company which is a subsidiary of a public company, an amendment of any provision relating to the appointment or re-appointment of a managing or whole-time director or of a director not liable to retire by rotation, whether that provision be contained in the company's memorandum or articles, or in an agreement entered into by it or in any resolution passed by the company in general meeting or by its Board of directors, shall not have any effect unless approved by the Central Government; and the amendment shall become void if, and insofar as, it is disapproved by that Government.

## Section 269 - Appointment of managing or whole-time director or manager to require Government approval only in certain cases

**[1][ 269 . Appointment of managing or whole-time director or manager to require Government approval only in certain cases**

( 1 ) On and from the commencement of the Companies (Amendment) Act, 1988 , every public company, or a private company which is a subsidiary of a public company, having a paid up share capital of such sum as may be prescribed, shall have a managing or whole-time director or a m anager.

( 2 ) On and from the commencement of the Companies (Amendment) Act, 1988 , no appointment of a person as a managing or whole-time director or a manager in a public company or a private company which is a subsidiary of a public company shall be made except with the approval of the Central Government unless such appointment is made in accordance with the conditions specified in Parts I and II of Schedule XIII (the said Parts being subject to the provisions of Part III of that Schedule) and a return in the prescribed form is filed within ninety days from the date of such appointment.

( 3 ) Every application seeking approval to the appointment of a managing or whole-time director or a manager shall be made to the Central Government within a period of ninety days from the date of such appointment.

( 4 ) The Central Government shall not accord its approval to an application made under sub-section ( 3 ), if it is satisfied that

(a) the managing or whole-time director or the manager appointed is, in its opinion, not a fit and proper person to be appointed as such or such appointment is not in the public interest; or

(b) the terms and conditions of the appointment of managing or whole-time director or the manager are not fair and reasonable.

( 5 ) It shall be competent for the Central Government while according approval to an appointment under sub-section ( 3 ) to accord approval for a period lesser than the period for which the appointment is proposed to be made.

( 6 ) If the appointment of a person as a managing or whole-time director or a manager is not approved by the Central Government under sub-section ( 4 ), the person as appointed shall vacate hi s office as such managing or whole-time director or manager on the date on which the decision of the Central Government is communicated to the company, and if he omits or fails to do so, he shall be punishable with fine which may extend to2[five thousand rupees] for every day during which he omits or fails to vacate such office.

( 7 ) Where the Central Government suo motu or on any information received by it is, prima facie, of the opinion that any appointment made under sub-section ( 2 ) without the approval of the Central Government has been made in contravention of the requirements of Schedule XIII, it shall be competent for the Central Government to refer the matter to the3[Tribunal] for decision.

( 8 ) The3[Tribunal] shall, on receipt of a reference under sub-section ( 7 ), issue a notice to the company, the managing or whole-time director or the manager, as the case may be, and the director or other officer responsible for complying with the requirements of Schedule XIII, to show cause as to why such appointment shall not be terminated and the penalties provided under sub-section ( 10 ) shall not be imposed.

( 9 ) The3[Tribunal] shall, if, after giving a reasonable opportunity to the company, the managing or whole-time director or the manager, or the officer who is in default, as the case may be, comes to the conclusion that the appointment has been made in contravention of the requirements of Schedule XIII, made an order declaring that a contravention of the requirements of Schedule XIII has taken place.

( 10 ) On the making of an order by the3[Tribunal] under sub-section ( 9 ),-

(a) the company shall be liable to a fine which may extend to4[fifty thousand rupees];

(b) every officer of the company who is in default shall be liable to a fine of5[one lakh rupees]; and

(c) the appointment of the managing or whole-time director or manager, as the case may be, shall be deemed to have come to an end and the person so appointed shall, in addition to being liable to pay a fine of5[one lakh rupees], refund to the company the entire amount of salaries, commissions and perquisites received or enjoyed by hi m between the date of hi s appointment and the passing of such order.

( 11 ) If a company contravenes the provisions of sub-section ( 10 ) or any direction given by the3[Tribunal] under that sub-section every officer of the company who is in default and the managing or whole-time director or the manager, as the case may be, shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to a fine which may extend to6[five hundred rupees] for every day of default.

( 12 ) All acts done by a managing or whole-time director or a manager, as the case may be, purporting to act in such capacity and whose appointment has been found to be in contravention of Schedule XIII, shall, if the acts so done are valid otherwise, be valid notwithstanding any order made by the3[Tribunal] under subsection ( 9 ).

Explanation. In this section "appointment" includes re-appointment and "whole-time director" includes a director in the 'whole-time employment of the company'.]

**1.** Section 269 substituted by Act 65 of 1960, sec. 91 (w.e.f. 28-12-1960) and again substituted by Act 31 of 1988, sec. 46 (w.e.f. 15-6-1988).

**2.** Substituted by Act 53 of 2000, sec. 130, for "five hundred rupees" (w.e.f. 13-12-2000).

**3.** Substituted by Act 11 of 2003, sec. 33, for "Company Law Board".

**4.** Substituted by Act 53 of 2000, sec. 130, for "five thousand rupees" (w.e.f. 13-12-2000).

5.Substituted by Act 53 of 2000, sec. 130, for "ten thousand rupees" (w.e.f. 13-12-2000).

6. Substituted by Act 53 of 2000, sec. 130, for "fifty rupees" (w.e.f. 13-12-2000).

## Section 270 to 273 - Share qualifications

## Section 270 - Time within which share qualification is to be obtained and maximum amount thereof

(1) Without prejudice to the restrictions imposed by section 266, it shall be the duly of every director who is required by the articles of the company to hold a specified share qualification and who is not already qualified in that respect, to obtain his qualification within two months after his appointment as director.

(2) Any provision in the articles of the company (whether made before or after the commencement of this Act) shall be void insofar as it requires a person to hold the qualification shares before his appointment as a director or to obtain them within a shorter time than two months after his appointment as such.

(3) The nominal value of the qualification shares shall not exceed five thousand rupees, or the nominal value of one share where it exceeds five thousand rupees.

(4) For the purpose of any provision in the articles requiring a director to hold a specified share qualification, the bearer of a share warrant shall not be deemed to be the holder of the shares specified in the warrant.

## Section 271 - Filing of declaration of share qualification by director [Repealed]

Rep. by the Companies (Amendment) Act, 1965(31 of 1965), Section 34 (w.e.f. 15-10-1965).

## Section 272 - Penalty

If, after the expiry of the said period of two months, any person acts as a director of the company when he does not hold the qualification shares referred to in section 270 , he shall be punishable with fine which may extend to1[five hundred rupees] for every day between such expiry and the last day on which he acted as a director.

**1.** Substituted by Act 53 of 2000, sec. 131, for "fifty rupees" (w.e.f. 13-12-2000).

## Section 273 - Saving

Sections 2701[and 272 ] shall not apply to a private company, unless it is a subsidiary of a public company.

**1.** Substituted by Act 31 of 1965, sec. 35, for "272" (w.e.f. 15-10-1965).

**Section 274 - Disqualifications of directors**

Disqualifications of directors

( 1 ) A person shall not be capable of being appointed director of a company, if -

(a) he has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;

(b) he is an undischarged insolvent;

(c) he has applied to be adjudicated as an insolvent and hi s application is pending;

(d) he has been convicted by a court[1][***] of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months, and a period of five years has not elapsed from the date of expiry of the sentence;

(e) he has not paid any call in respect of shares of the company held by hi m, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call; or

(f) an order disqualifying hi m for appointment as director has been passed by a court in pursuance of section 203 and is in force, unless the leave of the court has been obtained for hi s appointment in pursuance of that section.

[2](g) such person is already a director of a public company which, -

(A) has not filed the annual accounts and annual returns for any continuous three financial years commencing on and after the first day of April, 1999 ; or

( B ) has failed to repay its deposit or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continues for one year or more:

Provided that such person shall not be eligible to be appointed as a director of any other public company for a period of five years from the date on which such public company, in which he is a director, failed to file annual accounts and annual returns under sub-clause (A) or has failed to repay its deposit or interest or redeem its debentures on due date or pay dividend referred to in clause ( B ).

( 2 ) The Central Government may, by notification in the Official Gazette, remove -

(a) the disqualification incurred by any person in virtue of clause (d) of subsection ( 1 ), either generally or in relation to any company or companies specified in the notification; or

(b) the disqualification, incurred by any person in virtue of clause (e) of subsection ( 1 ).

( 3 ) A private company which is not a subsidiary of a public company may, by its articles, provide that a person shall be disqualified for appointment as a director on any grounds in addition to those specified in sub-section ( 1 ).

**1.** The words "in India" omitted by Act 65 of 1960, sec. 93 (w.e.f. 28-12-1960).

**2.** Inserted by Act 53 of 2000, sec. 132 (w.e.f. 13-12-2000).

**Section 275 to 279 - Restrictions on number of directorships**

## Section 275 - No person to be a director of more than fifteen companies

### 275. No person to be a director of more than 1[fifteen companies]

After the commencement of this Act, no person shall, save as otherwise provided in section 276 , hold office at the same time as director in more than 1[fifteen companies].

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**1.** Substituted by Act 53 of 2000, sec. 133, for "twenty companies" (w.e.f. 13-12-2000).

## Section 276 - Choice to be made by director of more than fifteen companies at commencement of Act

### 276. Choice to be made by director of more than 1[fifteen] companies at commencement of Act

( 1 ) Any person holding office as director in more than 1[fifteen] companies immediately before the commencement of this Act shall, within two months from such commencement, -

(a) choose not more than 1[fifteen] of those companies, as companies in which he wishes to continue to hold the office of director;

(b) resign hi s office as director in the other companies; and

(c) intimate the choice made by hi m under clause (a) to each of the companies in which he was holding the office of director before such commencement, to the Registrar having jurisdiction in respect of each such company, and also to the Central Government.

( 2 ) Any resignation made in pursuance of clause (b) of sub-section ( 1 ) shall become effective immediately on the dispatch thereof to the company concerned.

( 3 ) No such person shall act as director -

(a) in more than 1[fifteen] companies, after the expiry of two months from the commencement of 2 [the Companies (Amendment) Act, 2000 ]; or

(b) of any company after dispatching the resignation of hi s office as director thereof, in pursuance of clause (b) of sub-section ( 1 ).

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**1.** Substituted by Act 53 of 2000, sec. 134, for "twenty" (w.e.f. 13-12-2000).

**2.** Substituted by Act 53 of 2000, sec. 134, for "this Act" (w.e.f. 13-12-2000).

## Section 277 - Choice by person becoming director of more than fifteen companies after commencement of Act

(1) Where a person already holding the office of director in 1[fifteen companies] is appointed, after the commencement of 2[the Companies (Amendment) Act, 2000], as a director of any other company, the appointment -

(a) shall not take effect unless such person has, within fifteen days thereof, effectively vacated his office as director in any of the companies in which he was already a director, and

(b) shall become void immediately on the expiry of the fifteen days if he has not, before such expiry, effectively vacated his office as director in any of the other companies aforesaid.

(2) Where a person already holding the office of director in[3][fourteen companies] or less is appointed, after the commencement of[2][the Companies (Amendment) Act, 2000], as a director of other companies, making the total number of his directorships more than[4][fifteen], he shall choose the directorships which he wishes to continue to hold or to accept, so however that the total number of the directorships, old and new, held by him shall not exceed[4][fifteen].

None of the new appointments of director shall take effect until such choice is made; and all the new appointments shall become void if the choice is not made within fifteen days of the day on which the last of them was made.

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**1.** Substituted by Act 53 of 2000, sec. 135, for "twenty companies" (w.e.f. 13-12-2000).

**2.** Substituted by Act 53 of 2000, sec. 135, for "this Act" (w.e.f. 13-12-2000).

**3.** Substituted by Act 53 of 2000, sec. 135, for "nineteen companies" (w.e.f. 13-12-2000).

**4.** Substituted by Act 53 of 2000, sec. 135, for "twenty" (w.e.f. 13-12-2000).

## Section 278 - Exclusion of certain directorships for the purposes of sections 275, 276 and 277

(1) In calculating, for the purposes of sections 275, 276 and 277, the number of companies of which a person may be a director the following companies shall be excluded, namely:

(a) a private company which is neither a subsidiary nor a holding company of a public company;

(b) an unlimited company;

(c) an association not carrying on business for profit or which prohibits the payment of a dividend;

(d) a company in which such person is only an alternate director, that is to say, a director who is only qualified to act as such during the absence or incapacity of some other director.

(2) In making the calculation aforesaid, any company referred to in clauses (a), (b) and (c) of sub-section (1) shall be excluded for a period of three months from the date on which the company ceases to fall within the purview of those clauses.

## Section 279 - Penalty

Any person who holds office, or acts, as a director of more than[1][fifteen companies] in contravention of the foregoing provisions shall be punishable with fine which may extend to[2][fifty thousand rupees] in respect of each of those companies after the first twenty.

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**1.** Substituted by Act 53 of 2000, sec. 136, for "twenty companies" (w.e.f. 13-12-2000).

**2.** Substituted by Act 53 of 2000, sec. 136, for "five thousand rupees" (w.e.f. 13-12-2000).

## Section 280 to 282 - Retiring age of directors

## Section 280 - Age Limit [Repealed]

Rep, by the Companies (Amendment) Act, 1965 (31 of 1965), Section 36 (w.e.f. 15-10-1965).

## Section 281 - Age limit not to apply if company so resolves [Repealed]

Rep. by the Companies (Amendment) Act, 1965(31 of 1965), Section 37(w.e.f. 15-10-1965).

## Section 282 - Duty of director to disclose age [Repealed]

Rep. by the Companies (Amendment) Act, 1965 (31 of 1965), Section 38 (w.e.f. 15-10-1965).

## Section 283 to 284 - Vacation of office by directors

## Section 283 - Vacation of office by directors

( 1 )1The office of a director shall become vacant if-

(a) he fails to obtain within the time specified in sub-section ( 1 ) of section 270 , or at any time (he reafter ceases to hold, the share qualification, if any, required of hi m by the articles of the company;

(b) he is found to be of unsound mind by a court of competent jurisdiction;

(c) he applies to be adjudicated an insolvent;

(d) he is adjudged an insolvent;

2(e) he is convicted by a court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months;]

(f) he fails to pay any call in respect of shares of the company held by hi m whether alone or jointly with others, within six months from the last date fixed for the payment of the call3[unless the Central Government has, by notification in the Official Gazette, removed the disqualification incurred by such failure];

(g) he absents hi mself from three consecutive me etings of the B oard of directors, or from all me etings of the B oard for a continuous period of three months, whichever is longer, without obtaining leave of absence from the B oard;

(h )4[he (whether by hi mself or by any person for hi s benefit or on hi s account), or any firm in which] he is a partner or any private company of which he is a director, accepts a loan, or any guarantee or security for a loan, from the company in contravention of section 295 ;

(i) he ads in contravention of section 299 ;

(j) he becomes disqualified by an order of court under section 203 ;5[***]

(k) he is removed in pursuance of section 284 ;3[or]

(l) having been appointed a director by virtue of hi s holding any office or other employment in the company,6[***] he ceases to hold such office or other employment in the company7[***].

( 2 ) Notwithstanding anything in clauses (d), (e) and (j) of sub-section ( 1 ), the disqualification referred to in those clauses shall not take effect -

(a) for thirty days from the date of the adjudication, sentence or order;

(b) where any appeal or petition is preferred within the thirty days aforesaid against the adjudication, sentence or conviction resulting in the sentence, or order until the expiry of seven days from the date on which such appeal or petition is disposed of; or

(c) where within the seven days aforesaid, any further appeal or petition is preferred in respect of the adjudication, sentence, conviction, or order, and the appeal or petition, if allowed, would result in the removal of the disqualification, until such further appeal or petition is disposed of.

8( 2 A) Subject to the provisions of sub-sections ( 1 ) and ( 2 ), if a person functions as a director when he knows that the office of director held by hi m has become vacant on account of any of the disqualifications, specified in the several clauses of subsection ( 1 ), he shall be punishable with fine which may extend to9[five thousand rupees] for each day on which he so functions as a director.]

( 3 ) A private company which is not a subsidiary of a public company may, by its articles, provide, that the office of director shall be vacated on any grounds in addition to those specified in sub-section ( 1 ).

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**1.** Substituted by Act 65 of 1960, sec 95, for "The office of a director shall be vacated if-" (w.e.f.28-12-1960).

**2.** Substituted by Act 65 of 1960, sec. 95, for clause (e) (w.e.f. 28-12-1960).

**3.** Added by Act 65 of 1960, sec, 95 (w.e.f. 28-12-1960).

**4.** Substituted by Act 65 of 1960, sec. 95, for "he or any firm in which" (w.e.f. 28-12-1960).

**5.** The word "or" omitted by Act 65 of 1960, sec, 95 (w.e.f. 28-12-1960).

**6.** The words "or a nominee of the managing agent of the company", omitted by Act 53 of 2000, sec. 137 (w.e.f. 13-12-2000).

**7.** The words "or, as the case may be, the managing agency comes to an end" omitted by Act 53 of 2000, sec. 137 (w.e.f. 13-12-2000).

**8.** Inserted by Act 65 of 1960, sec. 95 (w.e.f. 28-12-1960).

**9.** Substituted by Act 53 of 2000, sec. 137, for "five hundred rupees" (w.e.f. 13-12-2000).

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**Section 284 - Removal of directors**

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( 1 ) A company may, by ordinary resolution, remove a director (not being a director appointed by the Central Government in pursuance of section 408 ) before the expiry of hi s period of office:

Provided that this sub-section shall not, in the case of a private company, authorise the removal of a director holding office for life on the 1 st day of April, 1952 , whether or not he is subject to retirement under an age limit by virtue of the articles or otherwise:

Provided further that nothing contained in this sub-section shall apply where the company has availed itself of the option given to it under section 265 to appoint not less than two-thirds of the total number of directors according to the principle of proportional representation.

( 2 ) Special notice shall be required of any resolution to remove a director under this section, or to appoint somebody instead of a director so removed at the me eting at which he is removed.

( 3 ) On receipt of notice of a resolution to remove a director under this section, the company shall forthwith send a copy thereof to the director concerned, and the director (whether or not he is a me mber of the company) shall be entitled to be heard on the resolution at the me eting.

( 4 ) Where notice is given of a resolution to remove a director under this section and the director concerned makes with respect thereto representations in writing to the company (not exceeding a reasonable length) and requests (he ir notification to me mbers of the company, the company shall, unless the representations are received by it too late for it to do so, -

(a) in any notice of the resolution given to me mbers of the company state the fact of the representations having been made; and

(b) send a copy of the representations to every me mber of the company to whom notice of the me eting is sent (whether before or after receipt of the representations by the company);

and if a copy of the representations is not sent as aforesaid because they were received too late or because of the company's default, the director may (without prejudice to hi s right to be heard orally) require that the representations shall be read out at the me eting:

Provided that copies of the representations need not be sent out and the representations need not be read out at the me eting if, on the application either of the company or of any other person who claims to be aggrieved, the[1][Central Government] is satisfied that the rights conferred by this sub-section are being abused to secure needless publicity for defamatory mailer; and the[1][Central Government] may order the company's costs on the application to be paid in whole or in part by the director notwithstanding that he is not a party to it.

( 5 ) A vacancy created by the removal of a director under this section may, if he had been appointed by the company in general me eting or by the B oard in pursuance of section 262 , be filled by the appointment of another director in hi s stead by the me eting at which he is removed, provided special notice of the intended appointment has been given under sub-section ( 2 ).

A director so appointed shall hold office until the date up to which hi s predecessor would have held office if he had not been removed as aforesaid.

( 6 ) If the vacancy is not filled under sub-section ( 5 ), it may be filled as a casual vacancy in accordance with the provisions, so far as they may be applicable, of section 262 , and all the provisions of that section shall apply accordingly:

Provided that the director who was removed from office shall not be re-appointed as a director by the B oard of directors.

( 7 ) Nothing in this section shall be taken -

(a) as depriving a person removed there under of any compensation or damages payable to hi m in respect of the termination of hi s appointment as director or of any appointment terminating with that as director; or

(b) as derogating from any power to remove a director which may exist apart from this section.

**1.** Substituted by Act 31 of 1988, sec. 67, for "Court" (w.e.f. 31-5-1991) and again substituted by Act 11 of 2003, sec. 34, for "Company Law Board".

## Section 285 to 290 - Meetings of board

## Section 285 - Board to meet at least once in every three calender months

### 1[ 285 . B oard to me et at least once in every three calendar months

In the case of every company, a me eting of its B oard of directors shall be held at least once in every2 [three months and at least four such me etings shall be held in every year]:

Provided that the Central Government may, by notification in the Official Gazette, direct that the provisions of this section shall not apply in relation to any class of companies or shall apply in relation thereto subject to such exceptions, modifications or conditions as may be specified in the notification.]

**1.** Substituted by Act 65 of 1960, sec. 96, for section 285 (w.e.f. 28-12-1960).

**2.** Substituted by Act 31 of 1965, sec. 39, for certain words (w.e.f. 15-10-1965).

## Section 286 - Notice of meetings

( 1 ) Notice of every me eting of the B oard of directors of a company shall be given in writing to every director for the time being in India, and at hi s usual address in India to every other director.

( 2 ) Every officer of the company whose duty it is to give notice as aforesaid and who fails to do so shall be punishable with fine which may extend to1[one thousand rupees].

**1.** Substituted by Act 53 of 2000, sec. 138, for "one hundred rupees" (w.e.f. 13-12-2000).

## Section 287 - Quorum for meetings

( 1 ) In this section -

(a) "total strength" me ans the total strength of the B oard of directors of a company as determined in pursuance of this Act, after deducting therefrom the number of the directors, if any, whose places may be vacant at the time; and

(b) "interested director" me ans any director whose presence cannot, by reason of section 300 , count for the purpose of forming a quorum at a me eting of the B oard, at the time of the discussion or vote on any matter.

( 2 ) The quorum for a me eting of the B oard of directors of a company shall be one-third of its total strength (any fraction contained in that one-third being rounded off as one), or two directors whichever is hi gher:

Provided that where at any time the number of interested directors exceeds or is equal to two-thirds of the total strength, the number of the remaining directors, that is to say, the number of the directors who are not interested,1[present at the me eting being not less than two], shall be the quorum during such time.

1. Inserted by Act 65 of 1960, sec. 97 (w.e.f. 28-12-1960).

**Section 288 - Procedure where meeting adjourned for want of quorum**

(1) If a meeting of the Board could not be held for want of quorum, then, unless the articles otherwise provide, the meeting shall automatically stand adjourned till the same day in the next week, at the same time and place, or if that day is a public holiday, till the next succeeding day which is not a public holiday, at the same time and place.

(2) The provisions of section 285 shall not be deemed to have been contravened merely by reason of the fact that a meeting of the Board which had been called in compliance with the terms of mat section could not be held for want of a quorum.

**Section 289 - Passing of resolutions by circulation**

No resolution shall be deemed to have been duly passed by the Board or by a committee thereof by circulation, unless the resolution has been circulated in draft, together with the necessary papers, if any, to all the directors, or to all the members of the committee, then in India (not being less in number than the quorum fixed for a meeting of the Board or committee, as the case may be), and to all other directors or members at their usual address in India, and has been approved by such of the directors as are then in India, or by a majority of such of them, as are entitled to vote on the resolution.

**Section 290 - Validity of acts of directors**

Acts done by a person as a director shall be valid, notwithstanding that it may afterwards be discovered that his appointment was invalid by reason of any defect or disqualification or had terminated by virtue of any provision contained in this Act or in the articles:

Provided that nothing in this section shall be deemed to give validity to acts done by a director after his appointment has been shown to the company to be invalid or to have terminated.

**Section 291 to 293 - Board's powers and restrictions thereon**

**Section 291 - General powers of Board**

(1) Subject to the provisions of this Act, the Board of directors of a company shall be entitled to exercise all such powers, and to do all such acts and things, as the company is authorised to exercise and do:

Provided that the Board shall not exercise any power or do any act or thing which is directed or required, whether by this or any other Act or by the memorandum or articles of the company or otherwise, to be exercised or done by the company in general meeting:

Provided further that in exercising any such power or doing any such act or thing, the Board shall be subject to the provisions contained in that behalf in this or any other Act, or in the memorandum or articles of the company, or in any regulations not inconsistent therewith and duly made thereunder, including regulations made by the company in general meeting.

(2) No regulation made by the company in general meeting shall invalidate any prior act of the Board which would have been valid if that regulation had not been made.

## Section 292 - Certain powers to be exercised by Board only at meeting

( 1 ) The B oard of directors, of a company shall exercise the following powers on behalf of the company, and it shall do so only by me ans of resolutions passed at me etings of the B oard:-

(a) the power to make calls on shareholders in respect of money unpaid on their shares;

1(aa) the power to authorise the buy-back referred to in the first proviso to clause (b) of sub-section (2) of section 77A;

(b) the power to issue debentures;

(c) the power to borrow moneys otherwise than on debentures;

(d) the power to invest the funds of the company; and

(e) the power to make loans:

2[Provided that the B oard may, by a resolution passed at a me eting, delegate to any committee of directors, the managing director,3[***] the manager or any other principal officer of the company or in the case of a branch office of the company, a principal officer of the branch office, the powers specified in clauses (c), (d) and (e) to the extent specified in sub-sections ( 2 ), ( 3 ) and ( 4 ) respectively, on such conditions as the B oard may prescribe:

Provided further that the acceptance by a banking company in the ordinary course of its business of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise, or the placing of moneys on deposit by a banking company with another banking company on such conditions as the B oard may prescribe, shall not be deemed to be a borrowing of moneys or, as the case may be, a making of loans by a banking company within the me aning of this section.

Explanation I. -Nothing in clause (c) of sub-section ( 1 ) shall apply to borrowings by a banking company from other banking companies or from the Reserve B ank of India, the State B ank of India or any other banks established by or under any Act.

Explanation II. -In respect of dealings between a company and its bankers, the exercise by the company of the power specified in clause (c) of sub-section ( 1 ) shall me an the arrangement made by the company with its bankers for the borrowing of money by way of overdraft or cash credit or otherwise and not the actual day to day operation on overdraft, cash credit or other accounts by me ans of which the arrangement so made is actually availed of.]

( 2 ) Every resolution delegating the power referred to in clause (c) of sub-section ( 1 ) shall specify the total amount4[outstanding at any one time] up to which moneys may be borrowed by the delegate.

( 3 ) Every resolution delegating the power referred to in clause (d) of subsection ( 1 ) shall specify the total amount up to which the funds may be invested, and the nature of the investments which may be made, by the delegate.

( 4 ) Every resolution delegating the power referred to in clause (e) of sub-section ( 1 ) shall specify the total amount up to which loans may be made by the delegate, the purposes for which the loans may be made, and the maximum amount of loans which may be made for each such purpose in individual cases.

( 5 ) Nothing in this section shall be deemed to affect the right of the company in general me eting to impose restrictions and conditions on the exercise by the B oard of any of the powers specified in sub-section ( 1 ).

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**1.** Inserted by Act 57 of 2001, sec. 3 (w.r.e.f. 23-10-2001).

**2.** Substituted by Act 65 of 1960, sec. 98, for the proviso (w.e.f. 28-12-1960).

**3.** The words "the managing agent, secretaries and treasures," omitted by Act 53 of 2000, sec. 139 (w.e.f. 13-12-2000).

**4.** Inserted by Act 65 of 1960, sec. 98 (w.e.f. 28-12-1960).

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## Section 292A - Audit Committee

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### 1[ 292A . Audit Committee

( 1 ) Every public company having paid-up capital of not less than five crores of rupees-shall constitute a committee of the B oard knows as Audit Committee which shall consist of not less than three directors and such number of other directors as the B oard may determine of which two-thirds of the total number of me mbers shall be directors, other than managing or whole-time directors.

( 2 ) Every Audit Committee constituted under sub-section ( 1 ) shall act in accordance with terms of reference to be specified in writing by the B oard.

( 3 ) The me mbers of the Audit Committee shall elect a chairman from amongst themselves.

( 4 ) The annual report of the company shall disclose the composition of the Audit Committee.

( 5 ) The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at me etings of me Audit Committee but shall not have the right to vote.

( 6 ) The Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half-yearly and annual financial statements before submission to the B oard and also ensure compliance of internal control systems.

( 7 ) The Audit Committee shall have authority to investigate into any matter in relation to the items specified in this section or referred to it by the B oard and for this purpose, shall have full access to information contained in the records of the company and external professional advice, if necessary.

( 8 ) The recommendations of the Audit Committee on any matter relating to financial management including the audit report, shall be binding on the B oard.

( 9 ) If the B oard does not accept the recommendations of the Audit Committee, it shall record the reasons therefor and communicate such reasons to the shareholders.

( 10 ) The chairman of the Audit Committee shall attend the annual general me etings of the company to provide any clarification on matters relating to audit.

( 11 ) If a default is made in complying with the provisions of this section, the company, and every officer who is in default, shall be punishable with imprisonment for a term which may extend to one year, or with fine which may extend to fifty thousand rupees, or with both.]

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**1.** Inserted by Act 53 of 2000, sec. 140 (w.e.f. 13-12-2000).

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## Section 293 - Restrictions on powers of Board

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( 1 ) The B oard of directors of a public company, or of a private company which is a subsidiary of a public company, shall not, except with the consent of such public company or subsidiary in general me eting, -

(a) sell, lease or otherwise dispose of the whole, or substantially the whole, of the undertaking of the company, or where the company owns more than one undertaking, of the whole, or substantially the whole, of any such undertaking;

(b) remit, or give time for the re-payment of, any debt due by a director[1][except in the case of renewal or continuance of an advance made by a banking company to its director in the ordinary course of business];

(c) invest, otherwise than in trust securities,[2][the amount of compensation received by the company in respect of the compulsory acquisition, after the commencement of this Act], of any such undertaking as is referred to in clause (a), or of any premises or properties used for any such undertaking and without which it cannot be carried on or can be carried on only with difficulty or only after a considerable time;

(d) borrow moneys after the commencement of this Act, where the moneys to be borrowed, together with the moneys already borrowed by the company (apart from temporary loans obtained from the company's bankers in the ordinary course of business), will exceed the aggregate of the paid-up capital of the company and its free reserves, that is to say, reserves not set apart for any specific purpose; or

(e) contribute after the commencement of this Act, to charitable and other funds not directly relating to the business of the company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed[3][fifty thousand rupees], or five per cent, of its average net profits as determined in accordance with the provisions of sections 349 and 350 during the three financial years immediately preceding whichever is greater.

[4][Explanation I. -Every resolution passed by the company in general me eting in relation to the exercise of the power referred to in clause (d) or in clause (e) shall specify the total amount up to which moneys may be borrowed by the B oard of directors under clause (d) or as the case may be, the total amount which may be contributed to charitable and other funds in any financial year under clause (e).

Explanation II. -The expression "temporary loans" in clause (d) me ans loans repayable on demand or within six months from the date of the loan such as short term, cash credit arrangements, the discounting of bills and the issue of other short- term loans of a seasonal character, but does not include loans raised for the purpose of financing expenditure of a capital nature.]

Explanation[5][III]. -Where a portion of a financial year of the company falls before the commencement of this Act, and a portion falls after such commencement, the latter portion shall be deemed to be a financial year within the me aning, and for the purposes, of clause (e).

( 2 ) Nothing contained in clause (a) of sub-section ( 1 ) shall affect -

(a) the title of a buyer or other person who buys or takes a lease of any such undertaking as is referred to in that clause, in good faith and after exercising due care and caution; or

(b) the selling or leasing of any property of the company where the ordinary business of the company consists of, or comprises, such selling or leasing.

( 3 ) Any resolution passed by the company permitting any transaction such as is referred to in clause (a) of sub-section (I) may attach such conditions to the permission as may be specified in the resolution, including conditions regarding the use, disposal or investment of the sale proceeds which may result from the transaction:

Provided that this sub-section shall not be deemed to authorise the company to effect any reduction in its capital except in accordance with the provisions contained in that behalf in this Act.

( 4 ) The acceptance by a banking company, in the ordinary course of its business, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise, shall not be deemed to be a borrowing of moneys by the banking company within the me aning of clause (d) of sub-section ( 1 ).

( 5 ) No debt incurred by the company in excess of the limit imposed by clause (d) of sub-section ( 1 ) shall be valid or effectual, unless the lender proves that he advanced the loan in good faith and without knowledge that the limit imposed by that clause had been exceeded.

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**1.** Added by Act 65 of 1960, sec. 99 (w.e.f. 28-12-1960).

**2.** Substituted by Act 65 of 1960, sec. 99, for certain words (w.e.f.28-12-1960).

**3.** Substituted by Act 46 of 1977, sec. 6, for "twenty-five thousand rupees" (w.e.f. 24-12-1977).

**4.** Inserted by Act 65 of 1960, sec. 99 (w.e.f. 28-12-1960).

**5.** Former Explanation re-numbered as Explanation III by Act 65 of 1960, sec. 99 (w.e.f. 28-12-1960).

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### Section 293A to 293B - Political contributions

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**1Political contributions**

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**1.** Added by Act 35 of 1985, sec. 2 (w.e.f. 24-5-1985).

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### Section 293A - Prohibitions and restrictions regarding political contributions

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**1 [293A. Prohibitions and restrictions regarding political contributions**

(1) Notwithstanding anything contained in any other provision of this Act,-

(a) no Government company; and

(b) no other company which has been in existence for less than three financial years,

shall contribute any amount or amounts, directly or indirectly,-

(i) to any political party; or

(ii) for any political purpose to any person.

(2) A company, not being a company referred to in clause (a) or clause (b) of subsection (1), may contribute any amount or amounts directly or indirectly, -

(a) to any political party, or

(b) for any political purpose to any person:

Provided that the amount or, as the case may be, the aggregate of the amounts which may be so contributed by a company in any financial year shall not exceed five per cent of its average net profits determined in accordance with the provisions of sections 349 and 350 during the three immediately preceding financial years.

Explanation. -Where a portion of a financial year of the company falls before the commencement of the Companies (Amendment) Act, 1985, and a portion falls after such commencement, the latter portion shall be deemed to be a financial year within the meaning, and for the purposes of this sub-section:

Provided further that no such contribution shall be made by a company unless a resolution authorising the making of such contribution is passed at a meeting of the Board of Directors and such resolution shall, subject to the other provisions of this section, be deemed to be justification in law for the making and the acceptance of the contribution authorised by it.

(3) Without prejudice to the generality of the provisions of sub-sections (1) and (2) -

(a) a donation or subscription or payment caused to be given by a company on its behalf or on its account to a person who, to its knowledge, is carrying on any activity which, at the time at which such donation or subscription or payment was given or made, can reasonably be regarded as likely to effect public support for a political party shall also be deemed to be contribution of the amount of such donation, subscription or payment to such person for a political purpose;

(b) the amount of expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed, -

(i) where such publication is by or on behalf of a political party, to be a contribution of such amount to such political party, and

(ii) where such publication is not by or on behalf of but for the advantage of a political party, to be a contribution for a political purpose to the person publishing it.

(4) Every company shall disclose in its profit and loss account any amount or amounts contributed by it to any political party or for any political purpose to any person during the financial year to which that account relates, giving particulars of the total amount contributed and the name of the party or person to which or to whom such amount has been contributed.

(5) If a company makes any contribution in contravention of the provisions of this section,-

(a) the company shall be punishable with fine which may extend to three times the amount so contributed; and

(b) every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to fine.]

2 [Explanation. -- For the purposes of this section, "political party" means a political party registered under section 29A of the Representation of the People Act, 1951(43 of 1951).]

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**1.** Section 293A inserted by Act 65 of 1960, sec. 100 (w.e.f. 28-12-1960) and substituted by Act 17 of 1969, sec. 3 (w.e.f. 28-5-1969) and again substituted by Act 35 of 1985, sec. 2 (w.e.f. 24-5-1985).

**2.** Inserted by Act 46 of 2003, sec, 7 (w.e.f. 11-9-2003).

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**Section 293B - Power of Board and other persons to make contributions to the National, Defence Fund, etc.**

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**1[293B. Power of Board and other persons to make contributions to the National, Defence Fund, etc.**

(1) The Board of directors of any company or any person or authority exercising the powers of the Board of directors of a company or of the company in general meeting, may, notwithstanding anything contained in sections 293 and 293A or any other provision of this Act or the memorandum, articles or any other instrument relating to the company, contribute such amount as it thinks fit to the National Defence Fund or any other Fund approved by the Central Government for the purpose of national defence.

(2) Every company shall disclose in its profits and loss account the total amount or amounts contributed by it to the Fund referred to in sub-section (1) during the financial year to which the amount relates.]

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**1.** Inserted by Act 80 of 1971, Section 2 ( w.r.e.f. 3-12-1971).

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**Section 294 to 298 - Appointment of sole selling agents**

## 1 Appointment of sole selling agents

**1.** Inserted by Act 65 of 1960, Section 101 ( w.e.f. 28-12-1960).

## Section 294 - Appointment of sole selling agents to require approval of company in general meeting

1 (1) No company shall, after the commencement of the Companies (Amendment) Act. I960 (65 of 1960), appoint a sole selling agent for any area for a term exceeding five years at a time:

Provided that nothing in this sub-section shall be deemed to prohibit the re-appointment, or the extension of the term of office, of any sole selling agent by further periods not exceeding five years on each occasion.

(2) After the commencement of the Companies (Amendment) Act, 1960 (65 of 1960), the Board of directors of a company shall not appoint a sole selling agent for any area except subject to the condition that the appointment shall cease to be valid if it is not approved by the company in the first general meeting held after the date on which the appointment is made.

(2A) If the company in general meeting as aforesaid disapproves the appointment, it shall cease to be valid with effect from the date of that general meeting.]

(3) Where before the commencement of this Act, a company has appointed a sole selling agent for any area for a period of not less than five years, the appointment shall be placed before the company in general meeting within a period of six months from such commencement; and the company in general meeting may, by resolution,-

(a) if the appointment was made on or after the 15th day of February, 1955, terminate the appointment forthwith or with effect from such later date as may be specified in the resolution; and

(b) if the appointment was made before the date specified in clause (a), terminate the appointment with effect from such date as may be specified in the resolution, not being earlier than five years from the date on which the appointment was made, or the expiry of one year from the commencement of this Act, whichever is later.

2 [***]

3 [(5) (a) Where a company has a sole selling agent (by whatever name called) for an area and it appears to the Central Government that there is good reason so to do, the Central Government may require the company to furnish to it such information regarding the terms and conditions of the appointment of the sole selling agent as it considers necessary for the purpose of determining whether or not such terms and conditions are prejudicial to the interests of the company;

(b) if the company refuses or neglects to furnish any such information, the Central Government may appoint a suitable person to investigate and report on the terms and conditions of appointment of the sole selling agent;

(c) if after perusal of the information furnished by the company or, as the case may be, the report submitted by the person appointed under clause (b), the Central Government is of the opinion that the terms and conditions of appointment of the sole selling agent are prejudicial to the interests of the company, the Central Government may, by order, make such variations in those terms and conditions as would in its opinion make them no longer prejudicial to the interests of the company;

(d) as from such date as may be specified by the Central Government in the order aforesaid, the appointment of the sole selling agent shall be regulated by the terms and conditions as varied by the Central Government.

(6) (a) Where a company has more selling agents than one (by whatever name called) in any area or areas and it appears to the Central Government that there is good reason so to do, the Central Government may require the company to furnish to it such information regarding the terms and conditions of appointment of all the selling agents as it considers necessary for the purpose of determining whether any of whose selling agents should be declared to be the sole selling agent for such area or any of such areas;

(b) if the company refuses or neglects to furnish any such information, the Central Government may appoint a suitable person to investigate and report on the terms and conditions of appointment of all the selling agents;

(c) if after perusal of the information furnished by the company or, as the case may be, the report submitted by the person appointed under clause (b), the Central Government is of the opinion that having regard to the terms and conditions of appointment of any of the selling agents and to any other relevant factors, that selling agent is to all intents and purposes the sole selling agent for such area, although there may be one or more other selling agents of the company operating in that area, the Central Government may by order declare that selling agent to be the sole selling agent of the company for that area with effect from such date as may be specified in the order and may make suitable variations in such of the terms and conditions of appointment of that selling agent as are in the opinion of the Central Government prejudicial to the interests of the company;

(d) as from the date specified in clause (c) the appointment of the selling agent declared to be the sole selling agent shall be regulated by the terms and conditions as varied by the Central Government.

(7) It shall be the duty of the company -

(a) to produce to the person appointed under clause (b) of sub-section (5) or clause (b) of sub-section (6), all books and papers of, or relating to, the company which are in its custody or power; and

(b) otherwise to give to that person all assistance in connection with the investigation which the company is reasonably able to give.

(8) If a company refuses or neglects -

(a) to furnish the information required by the Central Government under clause (a) of sub-section (5) or clause (a) of sub-section (6), or

(b) to produce to the person appointed under clause (b) of sub-section (5) or clause (b) of sub-section (6) any books and papers which are in its custody or power or otherwise to give to that person any assistance which it is reasonably able to give,

the company and every officer of the company who is in default shall be punishable with fine which may extend to 4 [fifty thousand rupees] and with a further fine of not less than 5 [five hundred rupees] for every day after the first during which such refusal or neglect continues.]

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**1.** Substituted by Act 65 of 1960, Section 101, for sub-sections (1) and (2) (w.e.f. 28-12-1960).

**2.** Sub-section (4) Inserted by Act 65 of 1960, Section 101 (w.e.f. 28-12-1960) and omitted by act 53 of 2000, sec. 141 (w.e.f. 13-12-2000).

**3.** Inserted by Act 65 of 1960, Section 101 (w.e.f. 28-12-1960).

**4.** Substituted by Act 53 of 2000, sec. 141 for "five thousand rupees" (w.e.f 13-12-2000).

**5.** Substituted by Act 53 of 2000, sec. 141 for "fifty rupees" (w.e.f. 13-12-2000).

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## Section 294A - Prohibition of payment of compensation to sole selling agents for loss of office in certain cases

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**1[294A. Prohibition of payment of compensation to sole selling agents for loss of office in certain cases**

(1) A company shall not pay or be liable to pay to its sole selling agent any compensation for the loss of his office in the following cases: -

(a) where the appointment of the sole selling agent ceases to be valid by virtue of sub-section (2A) of section 294;

(b) where the sole selling agent resigns his office in view of the reconstruction of the company or of its amalgamation, with any other body corporate or bodies corporate and is appointed as the sole selling agent of the reconstructed company or of the body corporate resulting from the amalgamation;

(c) where the sole selling agent resigns his office, otherwise than on the reconstruction of the company or its amalgamation as aforesaid;

(d) where the sole selling agent has been guilty of fraud or breach of trust in relation to, or of gross negligence in the conduct of his duty as the sole selling agent;

(e) where the sole selling agent has instigated or has taken part directly or indirectly in bringing about, the termination of the sole selling agency.

(2) The compensation which may be paid by a company to its sole selling agent for loss of office shall not exceed the remuneration which he would have earned if he had been in office for the unexpired residue of his term, or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which his office ceased or was terminated, or where he held his office for a lesser period than three years, during such period.]

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**1.** Inserted by Act 31 of 1965, Section 40 (w.e.f. 15-10-1965 ).

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## Section 294AA - Power of Central Government to prohibit the appointment of sole selling agents in certain cases

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**1 [294AA. Power of Central Government to prohibit the appointment of sole selling agents in certain cases**

(1) Where the Central Government is of opinion that the demand for goods of any category, to be specified by that Government, is substantially in excess of the production or supply of such goods and that the services of sole selling agents will not be necessary to create a market for such goods, the Central Government may, by notification in the Official Gazette, declare that sole selling agents shall not be appointed by a company for the sale of such goods for such period as may be specified in the declaration.

(2) No company shall appoint any individual, firm or body corporate, who or which has a substantial interest in the company, as sole selling agent of that company unless such appointment has been previously approved by the Central Government.

(3) No company having a paid-up share capital of rupees fifty lakh or more shall appoint a sole selling agent except with the consent of the company accorded by a special resolution and the approval of the Central Government.

(4) The provisions of sub-sections (5), (6) and (7) of section 294 shall, so far as may be, apply to the sole selling, or the sole purchasing or buying, agents of a company.

(5) A company seeking approval under this section shall furnish such particulars as may be prescribed.

(6) Where any appointment has been made of a sole selling agent by a company before the commencement of the Companies (Amendment) Act, 1974, and the appointment is such that it could not have been made except on the authority of a special resolution passed by the company and the approval of the Central Government, if sub-section (2), sub-section (3) and sub-section (8), were in force at the time of such appointment, the company shall obtain such authority and approval within six months from such commencement; and if such authority and approval are not so obtained, the appointment of the sole selling agent shall stand terminated on the expiry of six months from such commencement.

(7) If the company in general meeting disapproves the appointment referred to in sub-section (3), such appointment shall, notwithstanding anything contained in subsection (6), cease to have effect from the date of the general meeting.

(8) The provisions of this section except those of sub-section (1) shall apply so far as may be to the appointment by a company of a sole agent for the buying or purchasing of goods on behalf of the company.

Explanation.-- In this section,--

(a) "appointment" includes "re-appointment";

(b) "substantial interest",--

(i) in relation to an individual, means the beneficial interest held by such individual or any of his relatives, whether singly or taken together, in the shares of the company, the aggregate amount paid-up on which exceeds five lakhs of rupees or five per cent of the paid-up share capital of the company, whichever is the lesser;

(ii) in relation to a firm, means the beneficial interest held by one or more partners of the firm or any relative of such partner, whether singly or taken together, in the shares of the company, the aggregate amount paid-up on which exceeds five lakhs of rupees or five per cent of the paid-up share capital of the company whichever is the lesser;

(iii) in relation to a body corporate, means the beneficial interest held by such body corporate or one or more of its directors or any relative of such director, whether singly or taken together, in the shares of the company, the aggregate amount paid-up on which exceeds five lakhs of rupees or five per cent of the paid-up share capital of the company, whichever is the lesser.]

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**1.** Inserted by Act 41 of 1974, Section 27 (w.e.f. 1-2-1975).

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**Section 295 - Loans to directors, etc.**

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(1) Save as otherwise provided in sub-section (2), no company (hereinafter in this section referred to as "the lending company) 1 [without obtaining the previous approval of the Central Government in that behalf shall directly or indirectly,] make any loan to, or give any guarantee or provide any security in connection with a loan made by any other person to, or to any other person by,--

(a) any director of the lending company or of a company which is its holding company or an partner or relative of any such director;

(b) any firm in which any such director or relative is a partner;

(c) any private company of which any such director is a director or member;

(d) any body corporate at a general meeting of which not less than twenty-five per cent of the total voting power may be exercised or controlled by any such director or by two or more such directors together; or

(e) any body corporate, the Board of directors, managing director, 2 [***] or manager whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or directors, of the lending company.

3 [(2) Sub-section (1) shall not apply to -

(a) any loan made, guarantee given or security provided -

(i) by a private company unless it is a subsidiary of a public company, or

(ii) by a banking company;

4 [(b) any loan made by a holding company to its subsidiary company;]

5 [(c) any guarantee given or security provided by a holding company in respect of any loan made to its subsidiary company.]

(3) Where any loan made, guarantee given or security provided by a lending company and outstanding at the commencement of this Act could not have been made, given or provided, without the previous approval of the Central Government, if this section had then been in force, the lending company shall, within six months from the commencement of this Act or such further time not exceeding six months as the Central Government may grant for that purpose, either obtain the approval of the Central Government to the transaction or enforce the repayment of the loan made, or in connection with which the guarantee was given or the security was provided, notwithstanding any agreement to the contrary.

(4) Every person who is knowingly a party to any contravention of sub-section (1) or (3) including in particular any person to whom the loan is made or who has taken the loan in respect of which the guarantee is given or the security is provided, shall be punishable either with fine which may extend to 6 [fifty thousand rupees] or with simple imprisonment for a term which may extend to six months:

Provided that where any such loan, or any loan in connection with which any such guarantee or security has been given or provided by the lending company, has been repaid in full, no punishment by way of imprisonment shall be imposed under this sub-section; and where the loan has been repaid in part, the maximum punishment which may be imposed under this sub-section by way of imprisonment shall be proportionately reduced.

(5) All persons who are knowingly parties to any contravention of sub-section (1) or (3) shall be liable, jointly and severally, to the lending company for the repayment of the loan or for making good the sum which the lending company may have been called upon to pay in virtue of the guarantee given or the security provided by such company.

(6) No officer of the lending company or of the borrowing body corporate shall be punishable under sub-section (4) or shall incur the liability referred to in sub-section (5) in respect of any loan made, guarantee given or security provided 7 [after the 1st day of April, 1956] in contravention of clause (d) or (e) of sub-section (1), unless at the time when the loan was made, the guarantee was given or the security was provided by the lending company, he knew or had express notice that that clause was being contravened thereby.

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**1.** Substituted by Act 65 of 1960, Section 102, for certain words (w.e.f. 28-12-1960).

**2.** The words "managing agent, secretaries and treasurers," omitted by The Companies (Amendment) Act, 2000, Section 142 (w.e.f.13 -12-2000).

**3.** Substituted by Act 65 of 1960, Section 102, for sub-section (2) (w.e.f. 28-12-1960).

**4.** Substituted by The Companies (Amendment) Act, 2000, Section 142, for clause (b) (w.e.f.-2000).

**5.** Substituted by The Companies (Amendment) Act, 2000, Section 142, for clause (c) (w.e.f.-2000).

**6.** Substituted by The Companies (Amendment) Act, 2000, Section 142, for "five thousand rupees" (w.e.f. 13-12-2000).

**7.** Inserted by Act 65 of 1960, Section 102 w.e.f. 28-12-1960 (w.e.f. 28-12-1960).

## Section 296 - Application of section 295 to book debts in certain cases

**1[296. Application of section 295 to book debts in certain cases**

Section 295 shall apply to any transaction represented by a book debt which was from its inception in the nature of a loan or an advance.]

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**1.** Substituted by Act 65 of 1960, Section 103, for section 296 (w.e.f. 28-12-1960).

## Section 297 - Board's sanction to be required for certain contracts in which particular directors are interested

(1) Except with the consent of the Board of directors of a company, a director of the company or his relative, a firm in which such a director or relative is a partner, any other partner in such a firm, or a private company of which the director is a member or director, shall not enter into any contract with the company--

(a) for the sale, purchase or supply of any goods, materials or services; or

(b) after the commencement of this Act, for underwriting the subscription of any shares in, or debentures of, the company:

1 [Provided that in the case of a company having a paid-up share capital of not less than rupees one crore, no such contract shall be entered into except with the previous approval of the Central Government.]

2 [(2) Nothing contained in clause (a) of sub-section (1) shall affect--

(a) the purchase of goods and materials from the company, or the sale of goods and materials to the company, by any director, relative firm, partner or private company as aforesaid for cash at prevailing market prices; or

(b) any contract or contracts between the company on one side and any such director, relative, firm, partner or private company on the other for sale, purchase or supply of any goods, materials and services in which either the company or the director, relative, firm, partner or private company, as the case may be, regularly trades or does business:

Provided that such contract or contracts do not relate to goods and materials the value of which, or services the cost of which, exceeds five thousand rupees in the aggregate in any year comprised in the period of the contract or contracts; or

(c) in the case of a banking or insurance company any transaction in the ordinary course of business of such company with any director, relative, firm, partner or private company as aforesaid.

(3) Notwithstanding anything contained in sub-sections (1) and (2), a director, relative, firm, partner or private company as aforesaid may, in circumstances of urgent necessity, enter, without obtaining the consent of the Board, into any contract with the company for the sale, purchase or supply of any goods, materials or services even if the value of such goods or cost of such services exceeds five thousand rupees in the aggregate in any year comprised in the period of the contract; but in such a case, the consent of the Board shall be obtained at a meeting within three months of the date of which the contract was entered into.

(4) Every consent of the Board required under this section shall be accorded by a resolution passed at a meeting of the Board and not otherwise; and the consent of the Board required under sub-section (1) shall not be deemed to have been given within the meaning of that sub-section unless the consent is accorded before the contract is entered into or within three months of the date on which it was entered into.

(5) If consent is not accorded to any contract under this section, anything done in pursuance of the contract shall be avoidable at the opinion of the Board.

(6) Nothing in this section shall apply to any case where the consent has been accorded to the contract before the commencement of the Companies (Amendment) Act, 1960 (65 of 1960).]

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**1.** Inserted by Act 41 of 1974, Section 28 (w.e.f. 1-2-1975).

**2.** Substituted by Act 65 of 1960, Section 104, for sub-sections (2), (3), (4) and (5) (w.e.f. 28-12-1960).

## Section 298 - Power of directors to carry on business when managing agent or secretaries and treasures are deemed to have vacated office, etc. [Repealed]

[Repealed by the Companies (Amendment) Act, 2000 (53 of 2000), section 143 (w.e.f. 13-12-2000)]

## Section 299 to 302 - Procedure, etc., where director interested

## Section 299 - Disclosure of interests by director

(1) Every director of a company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement, or proposed contract or arrangement, entered into or to be entered into, by or. on behalf of the company, shall disclose the nature of his concern or interest at a meeting of the Board of directors.

(2) (a) In the case of a proposed contract or arrangement, the disclosure required to be made by a director under sub-section (1) shall be made at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, or if the director was not, at the date of that meeting, concerned or interested in the proposed contract or arrangement, at the first meeting of the Board held after he becomes so concerned or interested.

(b) In the case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the director becomes, concerned or interested in the contract or arrangement.

(3) (a) For the purposes of sub-sections (1) and (2), a general notice given to the Board by a director, to the effect that he is a director or a member of a specified body corporate or is a member of a specified firm and is to be regarded as concerned or interested in any contract or arrangement which may, after the date of the notice, be entered into with that body corporate or firm, shall be deemed to be a sufficient disclosure of concern or interest in relation to any contract or arrangement so made.

(b) Any such general notice shall expire at the end of the financial year in which it is given, but may be renewed for further periods of one financial year at a time, by a fresh notice given in the last month of the financial year in which it would otherwise expire.

(c) No such general notice, and no renewal thereof, shall be of effect unless either it is given at a meeting of the Board, or the director concerned takes reasonable steps to secure that it is brought upon and read at the first meeting of the Board after it is given.

(4) Every director who fails to comply with sub-section (1) or (2) shall be punishable with fine which may extend to 1 [fifty thousand rupees].

(5) Nothing in this section shall be taken to prejudice the operation of any rule of law restricting a director of a company from having any concern or interest in any contracts or arrangements with the company.

[2] [(6) Nothing in this section shall apply to any contract or arrangement entered into or to be entered into between two companies where any of the directors of the one company or two or more of them together holds or hold not more than two per cent of the paid-up share capital in the other company.]

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**1.** Substituted by Act 53 of 2000, section 144, for "five thousand rupees" (w.e.f. 13-12-2000).

**2.** Inserted by Act 65 of 1960 Section 106, (w.e.f.28-12-1960).

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## Section 300 - Interested director not to participate or vote in Board's proceedings

(1) No director of a company shall, as a director, take any part in the discussion of, or vote on, any contract or arrangement entered into, or to be entered into, by or on behalf of the company, if he is in any way, whether directly or indirectly, concerned or interested in the contract or arrangement; nor shall his presence count for the purpose of forming a quorum at the time of any such discussion or vote; and if he does vote, his vote shall be void.

(2) Sub-section (1) shall not apply to--

(a) a private company which is neither a subsidiary nor a holding company of a public company;

(b) a private company which is a subsidiary of a public company, in respect of any contract or arrangement entered into, or to be entered into, by the private company with the holding company thereof;

(c) any contract of indemnity against any loss which the directors, or any one or more of them, may suffer by reason of becoming or being sureties or a surety for the company;

(d) any contract or arrangement entered into or to be entered into with a public company, or a private company which is a subsidiary of a public company, in which the interest of the director aforesaid[1][consists solely--

(i) in his being a director of such company and the holder of not more than shares of such number or value therein as is requisite to qualify him for appointment as a director thereof, he having been nominated as such director by the company referred to in sub-section (1), or

(ii) in his being a member holding not more than two per cent of its paid-up share capital;]

(e) a public company, or a private company which is a subsidiary of a public company, in respect of which a notification is issued under sub-section (3), to the extent specified in the notification.

(3) In the case of a public company or a private company which is a subsidiary of a public company, if the Central Government is of opinion that having regard to the desirability of establishing or promoting any industry, business or trade, it would not be in the public interest to apply all or any of the prohibitions contained in sub-section (1) to the company, the Central Government may, by notification in the Official Gazette, direct that that sub-section shall not apply to such company, or shall apply thereto subject to such exceptions, modifications and conditions as may be specified in the notification.

(4) Every director who knowingly contravenes the provisions of this section shall be punishable with fine which may extend to[2][fifty thousand rupees].

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**1.** Substituted by Act 65 of 1960, Section 107, for certain words (w.e.f. 28-12-1960).

2. Substituted by The Companies (Amendment) Act, 2000, Section 145, for "five thousand rupees" (w.e.f. 13 -12-2000).

## Section 301 - Register of contracts, companies and firms in which directors are interested

1 [(1) Every company shall keep one or more registers in which shall be entered separately particulars of all contracts or arrangements to which section 297 or section 299 applies, including the following particulars to the extent they are applicable in each case, namely:--

(a) the date of the contract or arrangement;

(b) the names of the parties thereto;

(c) the principal terms and conditions thereof;

(d) in the case of a contract to which section 297 applies or in the case of a contract or arrangement to which sub-section (2) of section 299 applies, the date on which it was placed before the Board;

(e) the names of the directors voting for and against the contract or arrangement and the names of those remaining neutral.

(2) Particulars of every such contract or arrangement to which section 297 or, as the case may be, sub-section (2) of section 299 applies, shall be entered in the relevant register aforesaid--

(a) in the case of a contract or arrangement requiring the Board's approval, within seven days (exclusive of public holidays) of the meeting of the Board at which the contract or arrangement is approved,

(b) in the case of any other contract or arrangement, within seven days of the receipt at the registered office of the company of the particulars of such other contract or arrangement or within thirty days of the date of such other contract or arrangement whichever is later;

and the register shall be placed before the next meeting of the Board and shall then be signed by all the directors present at the meeting.

(3) The register aforesaid shall also specify, in relation to each director of the company, the names of the firms and bodies corporate of which notice has been given by him under sub-section (3) of section 299.

(3A) Nothing in sub-sections (1), (2) and (3) shall apply--

(a) to any contract or arrangement for the sale, purchase or supply of any goods, materials or services if the value of such goods and materials or the cost of such services does not exceed one thousand rupees in the aggregate in any year; or

(b) to any contract or arrangement (to which section 297 or, as the case may be, section 299 applies) by a banking company for the collection of bills in the ordinary course of its business or to any transaction referred to in clause (c) of sub-section (2) of section 297.]

(4) If default is made in complying with the provisions of sub-section (1), (2) or (3), the company, and every officer of the company who is in default, shall, in respect of each default, be punishable with fine which may extend to 2 [five thousand rupees].

(5) The register aforesaid shall be kept at the registered office of the company; and it shall be open to inspection at such office, and extracts may be taken therefrom and copies thereof may be required, by any member of the company to the same extent, in the same manner, and on payment of the same fee, as in the case of the register of members of the company; and the provisions of section 163 shall apply accordingly.

**1.** Substituted by Act 65 of 1960, Section 108, for sub-sections (1), (2) and (3) ( w.e.f. 28-12-1960).

**2.** Substituted by Act 53 of 2000, section 146, for "five hundred rupees" (w.e.f. 13-12-2000).

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### Section 302 - Disclosure to members of director's interest in contract appointing manager, managing director

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**302. Disclosure to members of director's interest in contract appointing manager, managing director,1 [***]**

(1) Where a company--

(a) enters into a contract for the appointment of a manager of the company, in which contract any director of the company is in any way, whether directly or indirectly, concerned or interested; or

(b) varies any such contract already in existence and in which a director is concerned or interested as aforesaid;

the company shall, within twenty-one days from the date of entering into the contract or of the varying of the contract, as the case may be, send to every member of the company an abstract of the terms of the contract or variation, together with a memorandum clearly specifying the nature of the concern or interest of the director in such contract or variation.

(2) Where a company enters into a contract for the appointment of a managing director of the company, or varies any such contract which is already in existence, the company shall send an abstract of the terms of the contract or variation to every member of the company within the time specified in sub-section (1); and if any other director of the company is concerned or interested in the contract or variation, a memorandum clearly specifying the nature of the concern or interest of such other director in the contract or variation shall also be sent to every member of the company with the abstract aforesaid.

2[***]

(4) Where a director becomes concerned or interested as aforesaid in any such contract as is referred to in sub-section (1), (2) or (3) after it is made, the abstract and the memorandum, if any, referred to in the said sub-section shall be sent to every member of the company within twenty-one days from the date on which the director becomes so concerned or interested.

(5) If default is made in complying with the foregoing provisions of this section, the company, and every officer of the company who is in default, shall be punishable with fine which may extend to3 [ten thousand rupees].

(6) All contracts entered into by a company for the appointment of a manager, managing director,4 [***] shall be kept at the registered office of the company; and shall be open to the inspection of any member of the company at such office; and extracts may be taken therefrom and copies thereof may be required by any such member, to the same extent, in the same manner and on payment of the same fee, as in the case of the register of members of the company; and the provisions of section 163 shall apply accordingly.

(7) The provisions of this section shall apply in relation to any resolution5[***] of the Board of directors of a company appointing a manager or a managing or whole-time director, or varying any previous contract or resolution of the company relating to the appointment of a manager or a managing or whole-time director, as they apply in relation to any contract6[***] for the like purpose.

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**1.** The words "managing agent or secretaries and treasurers," omitted by Act 53 of 2000 (w.e.f. 13-12-2000).

**2.** Sub-section (3) omitted by Act 53 of 2000, Section 147 (w.e.f. 13 -12-2000).

3. Substituted by Act 53 of 2000, Section 147, for "one thousand rupees" (w.e.f. 13-12-2000).

4. The words "managing agent or secretaries and treasurers," omitted by Act 53 of 2000, Section 147 (w.e.f. 13-12-2000).

5. The words "or proposed resolution" omitted by Act 65 of 1960, Section 109 (w.e.f. 28-12-1960).

6. The words "or proposed contract" omitted by Act 65 of 1960, Section 109 (w.e.f. 28-12-1960).

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## Section 303 to 306 - Register of directors, etc.

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## Section 303 - Register of directors, etc.

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**303. Register of directors[1][***] etc.**

(1) Every company shall keep at its registered office a register of its directors, managing director,[1] [***] manager and secretary, containing with respect to each of them the following particulars, that is to say:--

(a) in the case of an individual, his present name and surname in full; any former name or surname in full;[2][his father's name and surname in full or where the individual is a married woman, the husband's name and surname in full] his usual residential address; his nationality; and, if that nationality is not the nationality of origin, his nationality of origin; his business occupation, if any; if he holds the office of director, managing director,[3][***] manager or secretary in any other body corporate, the particulars of each such office held by him; and except in the case of a private company which is not a subsidiary of a public company, the date of his birth;

(b) in the case of a body corporate, its corporate name and registered or principal office; and the full name, address, nationality, and nationality of origin, if different from that nationality[4][the father's name or where a director is a married woman, the husband's name] of each of its directors; and if it holds the office of[1][***] manager or secretary in any other body corporate, the particulars of each such office;

(c) in the case of a firm, the name of the firm, the full name, address, nationality, and nationality of origin, if different from that nationality[4][the father's name or where a partner is a married woman, the husband's name] of each partner; and the date on which each became a partner; and if the firm holds the office of[1][***] manager or secretary in any other body corporate, the particulars of each such office;

(d) if any director or directors have been nominated by a body corporate, its corporate name; all the particulars referred to in clause (a) in respect of each director so nominated, and also all the particulars referred to in clause (b) in respect of the body corporate;

(e) if any director or directors have been nominated by a firm, the name of the firm, all the particulars referred to in clause (a) in respect of each director so nominated, and also all the particulars referred to in clause (c) in respect of the firm.

Explanation.--For the purposes of this sub-section--

(1) any person in accordance with[5][whose directions or instructions], the Board of directors of a company is accustomed to act shall be deemed to be a director of the company;

(2) in the case of a person usually known by a title different from his surname, the expression "surname" means that title; and

(3) references to a former name or surname do not include--

(i) in the case of a person usually known by an Indian title different from his surname, the name by which he was known previous to the adoption of, or succession to, the title;

(ii) in the case of any person, a former name or surname, where that name or surname was changed or disused before the person bearing the name attained the age of eighteen years, or has been changed or disused for a period of not less than twenty years; and

(iii) in the case of a married woman, the name or surname by which she was known previous to the marriage.

(2) The company shall, within the periods respectively mentioned in this subsection, send to the Registrar6[a return in duplicate in the prescribed form] containing the particulars specified in the said register and7[a notification in duplicate in the prescribed form] of any change among its directors managing directors,1[***] managers or secretaries8[***], specifying the date of the change.

The period within which the said return is to be sent shall be a period of9[thirty] days from the appointment of the first directors of the company and the period within which the said notification of a change is to be sent shall be9[thirty] days from the happening thereof;

10[***]

(3) If default is made in complying with sub-section (1) or (2), the company, and every officer of the company who is in default, shall be punishable with fine which may extend to11[five hundred rupees] for every day during which the default continues.

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**1.** The words "managing agent, secretaries and treasurers," omitted by Act 53 of 2000, Section 148 (w.e.f. 13-12-2000).

**2.** Inserted by Act 65 of 1960, Section 110 (w.e.f. 28-12-1960) (w.e.f. 13-12-2000).

**3.** The words "managing agent" omitted by Act of 53 of 2000, Section 148 (w.e.f. 13-12-2000).

**4.** Inserted by Act 65 of 1960, Section 110 ( w.e.f. 28-12-1960).

**5.** Substituted by Act 65 of 1960, Section 110, for "whose instruction" ( w.e.f. 28-12-1960).

**6.** Substituted by Act 65 of 1960, Section 110, for "a return in the prescribed form" ( w.e.f. 28-12-1960).

**7.** Substituted by Act 65 of 1960, Section 110, for "a notification in the prescribed form" ( w.e.f. 28-12-1960).

**8.** The words "or in any of the particulars contained in the register" omitted by Act 31 of 1965, Section 41 ( w.e.f. 15-10-1965).

**9.** Substituted by Act 31 of 1965, Section 62 and Schedule, for "twenty-eight" ( w.e.f. 15-10-1965).

**10.** Proviso omitted by Act 31 of 1965, Section 41 ( w.e.f. 15-10-1965).

**11.** Substituted by The Companies (Amendment) Act, 2000, Section 148, for "fifty rupees" (w.e.f. 13-12-2000).

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**Section 304 - Inspection of the register**

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(1) The register kept under section 303 shall be open to the inspection of any member of the company without charge and of any other person on payment of one rupee for each inspection during business hours subject to such reasonable restrictions as the company may by its articles or in general meeting impose, so that not less than two hours in each day are allowed for inspection.

(2) If any inspection required under sub-section (1) is refused,--

(a) the company, and every officer of the company who is in default, shall be punishable with fine which may extend to1[five hundred rupees]; and

(b) the2[Central Government or Tribunal, as the case may be] may, by order, compel an immediate inspection of the register.

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**1.** Substituted by Act 53 of 2000, Section 149, for "fifty rupees" (w.e.f. 13-12-2000).

**2.** Substituted by Act 31 of 1988, Section 67, for "Court" ( w.e.f. 31-5-1991) and again substituted by Act 11 of 2003, section 35, for "Company Law Board".

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**Section 305 - Duty of directors, etc., to make disclosure**

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**1[305. Duty of directors, etc., to make disclosure**

(1) Every director, managing director,2[***] manager or secretary of any company, who is appointed to or relinquishes, the office of director, managing director,2[***] manager or secretary of any other body corporate, shall, within twenty days of his appointment to, or as the case may be, relinquishment of, such office, disclose to the company aforesaid the particulars relating to the office in the other body corporate which are required to be specified under sub-section (1) of section 303; and if he fails to do so, he shall be punishable with fine which may extend to3[five thousand rupees].

(2) The provisions of sub-section (1) shall also apply to a person deemed to be a director of the company by virtue of the Explanation to sub-section (1) of section 303 when such person is appointed to, or relinquishes, any of the offices in the other body corporate referred to in sub-section (1).]

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**1.** Substituted by Act 65 of 1960, Section 111, for section 305 (w.e.f. 28-12-1960).

**2.** The words "managing agent, secretaries and treasurers," omitted by Act 53 of 2000, Section 150 (w.e.f. 28-12-2000).

**3.** Substituted by The Companies (Amendment) Act, 2000, Section 150, for "five hundred rupees" (w.e.f. 13-12-2000).

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**Section 306 - Register to be kept by Registrar and inspection thereof**

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(1) The Registrar shall keep a separate register or registers in which there shall be entered the particulars received by him under sub-section (2) of section 303 in respect of companies, so however that all entries in respect of each such company shall be together.

(2) The register or registers aforesaid shall be open to inspection by any member of the public at any time during office hours, on payment of the prescribed fee.

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**Section 307 to 308 - Register of directors' shareholdings**

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**Section 307 - Register of directors' shareholdings, etc.**

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(1) Every company shall keep a register showing, as respects each director of the company, the number, description and amount of any shares in, or debentures of, the company or any other body corporate, being the company's subsidiary or holding company, or a subsidiary of the company's holding company, which are held by him or in trust for him, or of which he has any right to become

the holder whether on payment or not.

(2) Where any shares or debentures have to be recorded in the said register or to be omitted therefrom, in relation to any director, by reason of a transaction entered into after the commencement of this Act and while he is a director, the register shall also show the date of, and the price or other consideration for, the transaction:

Provided that where there is an interval between the agreement for any such transaction and the completion thereof, the date so shown shall be that of the agreement.

(3) The nature and extent of any interest or right in or over any shares or debentures recorded in relation to a director in the said register shall, if he so requires be indicated in the register.

(4) The company shall not, by virtue of anything done for the purposes of this section, be affected with notice, of, or be put upon inquiry as to, the rights of any person in relation to any shares or debentures.

(5) The said register shall, subject to the provisions of this section, be kept at the registered office of the company, and shall be open to inspection during business hours (subject to such reasonable restrictions as the company may, by its articles or in general meeting, impose, so that not less than two hours in each day are allowed for inspection) as follows:--

(a) during the period beginning fourteen days before the date of the company's annual general meeting and ending three days after the date of its conclusion, it shall be open to the inspection of any member or holder or debentures of the company; and

(b) during that or any other period, it shall be open to the inspection of any person acting on behalf of the Central Government or of the Registrar.

In computing the fourteen days and the three days mentioned in this sub-section any day which is a Saturday, a Sunday or a public holiday shall be disregarded.

(6) Without prejudice to the rights conferred by sub-section (5), the Central Government or the Registrar may, at any time require a copy of the said register, or any part thereof.

(7) The said register shall also be produced at the commencement of every annual general meeting of the company and shall remain open and accessible during the continuance of the meeting to any person having the right to attend the meeting.

If default is made in complying with this sub-section the company, and every officer of the company who is in default, shall be punishable with fine which may extend to1[five thousand rupees].

(8) If default is made in complying with sub-section (1) or (2), or if any inspection required under this section is refused, or if any copy required thereunder is not sent within a reasonable time, the company, and every officer of the company who is in default, shall be punishable with fine which may extend to2[fifty thousand rupees] and also with a further fine which may extend to3[two hundred rupees] for every day during which the default continues.

(9) In the case of any such refusal, the4[Central Government or Tribunal, as the case may be,] may also, by order, compel an immediate inspection of the register.

(10) For the purposes of this section--

(a) any person in accordance with whose directions or instructions the Board of directors of a company is accustomed to act, shall be deemed to be a director of the company; and

(b) a director of a company shall be deemed to hold, or to have an interest or a right in or over, any shares or debentures, if a body corporate other than the company holds them or has that interest or right in or over them, and either--

(i) that body corporate or its Board of directors is accustomed to act in accordance with his directions or instructions; or

(ii) he is entitled to exercise or control the exercise of one-third or more of the total voting power exercisable at any general meeting of that body corporate.

5[***]

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**1.** Substituted by Act 53 of 2000, Section 151, for "five hundred rupees" (w.e.f. 13-12-2000).

**2.** Substituted by Act 53 of 2000, Section 151, for "five thousand rupees" ( w.e.f. 13-12-2000).

**3.** Substituted by Act 53 of 2000, Section 151, for "twenty rupees" ( w.e.f. 13-12-2000).

**4.** Substituted by Act 31 of 1988, Section 67, for "Court" ( w.e.f. 31-5-1991) and again substituted by Act 11 of 2003, section 35, for "Company Law Board".

**5.** Sub-section (11) Inserted by Act 65 of 1960, Section 112 ( w.e.f. 28-12-1960) and omitted by Act 53 of 2000, Section 151 ( w.e.f. 13-12-2000).

## Section 308 - Duty of directors and persons deemed to be directors to make disclosure of shareholdings

(1) Every director of a company, and every person deemed to be a director of the company by virtue of sub-section (10) of section 307, shall give notice to the company of such matters relating to himself as may be necessary for the purpose of enabling the company to comply with the provisions of that section.

(2) Any such notice shall be given in writing, and if it is not given at a meting of the Board, the person giving the notice shall take all reasonable steps to secure that it is brought up and read at the meeting of the Board next after it is given.

(3) Any person who fails to comply with sub-section (1) or (2) shall be punishable with imprisonment for a term which may extend to two years, or with fine which may extend to1[fifty thousand rupees], or with both.

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**1.** Substituted by Act 53 of 2000, Section 152, for "five thousand rupees" ( w.e.f. 13-12-2000).

## Section 309 to 311 - Remuneration of directors

## Section 309 - Remuneration of directors

(1) The remuneration payable to the directors of a company, including any managing or whole-time director, shall be determined, in accordance with and subject to the provisions of section 198 and this section, either by the articles of the company, or by a resolution or, if the articles so require, by a special resolution, passed by the company in general meeting 1 [and the remuneration payable to any such director determined as aforesaid shall be inclusive of the remuneration payable to such director for services rendered by him in any other capacity:

Provided that any remuneration for services rendered by any such director in any other capacity shall not be so included if--

(a) the services rendered are of a professional nature, and

(b) in the opinion of the Central Government, the director possesses the requisite qualifications for the practice of the profession].

2 [(2) A director may receive remuneration by way of a fee for each meeting of the Board, or a committee thereof, attended by him:

Provided that where immediately before the commencement of the Companies (Amendment) Act, 1960, fees for meetings of the Board and any committee thereof, attended by a director are paid on a monthly basis, such fees may continue to be paid on that basis for a period of two years after such commencement or for the remainder of the term of office of such director, whichever is less, but no longer.

(3) A director who is either in the whole-time employment of the company or a managing director may be paid remuneration either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other:

Provided that except with the approval of the Central Government such remuneration shall not exceed five per cent of the net profits for one such director, and if there is more than one such director, ten per cent for all of them together.]

3 [(4) A director who is neither in the whole-time employment of the company nor a managing director may be paid remuneration--

(a) either by way of a monthly, quarterly or annual payment with the approval of the Central Government;

(b) or by way of commission if the company by special resolution authorises such payment:

Provided that the remuneration paid to such director, or where there is more than one such director, to all of them together, shall not exceed--

(i) one per cent of the net profits of the company, if the company has a managing or whole-time director, 4 [***] or a manager;

(ii) three per cent, of the net profits of the company, in any other case:

Provided further that the company in general meeting may, with the approval of the Central Government, authorise the payment of such remuneration at a rate exceeding one per cent or, as the case may be, three per cent, of its net profits.]

(5) The net profits referred to in sub-sections (3) and (4) shall be computed in the manner referred to in section 198, sub-section (1).

5 [(5A) If any director draws or receives, directly or indirectly, by way of remuneration any such sums in excess of the limit prescribed by this section or without the prior sanction of the Central Government, where it is required, he shall refund such sums to the company and until such sum is refunded, hold it in trust for the company.]

6 [(5B) The company shall not waive the recovery of any sum refundable to it under sub-section (5A) unless permitted by the Central Government.]

(6) No director of a company who is in receipt of any commission from the company and who is either in the whole-time employment of the company or a managing director shall be entitled to receive any commission or other remuneration from any subsidiary of such company.

(7) The special resolution referred to in sub-section (4) shall not remain in force for a period of more than five years; but may be renewed, from time to time, by special resolution for further periods of not more than five years at a time:

Provided that no renewal shall be effected earlier than one year from the date on which it is to come into force.

(8) The provisions of this section shall come into force immediately on the commencement of this Act or, where such commencement does not coincide with the end of a financial year of the company, with effect from the expiry of the financial year immediately succeeding such commencement.

(9) The provisions of this section shall not apply to a private company unless it is a subsidiary of a public company.

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**1.** Inserted by Act 31 of 1965, Section 42 (w.e.f. 15-10-1965).

**2.** Substituted by Act 65 of 1960, Section 113, for sub-sections (2) and (3) (w.e.f. 28-12-1960).

**3.** Substituted by Act 31 of 1965, Section 42, for sub-section (4) (w.e.f. 15-10-1965).

**4.** The words "a managing agent or secretaries and treasurers," omitted by Act 53 of 2000, Section 153 (w.e.f. 13-12-2000).

**5.** Inserted by Act 65 of 1960, Section 113 (w.e.f. 28-12-1960).

**6.** Substituted by Act 65 of 1960, Section 114, for certain words (w.e.f. 28-12-1960).

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## Section 310 - Provision for increase in remuneration to require Government sanction

1 [In the case of a public company, or a private company which is a subsidiary of a public company, any provision relating to the remuneration of any director including a managing or whole-time director, or any amendment thereof, which purports to increase] or has the effect of increasing, whether directly or indirectly, the amount thereof, whether that provision be contained in the company's memorandum or articles, or in an agreement entered into by it, or in any resolution passed by the company in general meeting or by its Board of directors 2 [shall not have any effect--

(a) in cases where Schedule XIII is applicable, unless such increase is in accordance with the conditions specified in that Schedule; and

(b) in any other case, unless it is approved by the Central Government:]

3 [Provided that the approval of the Central Government shall not be required where any such provision or any amendment thereof purports to increase, or has the effect of increasing the amount of such remuneration only by way of a fee for each meeting of the Board or a committee thereof attended by any such director and the amount of such fee after such increase does not exceed 4 [such sum as may be prescribed]:

5 [Provided further that where in the case of any private company which converts itself into a public company or becomes a public company under the provisions of section 43A, any provision relating to the remuneration of any director including a managing or whole-time director as contained in its memorandum or articles or in any agreement entered into by it or in any resolution passed by it in general meeting or by its Board of directors includes a provision for the payment of fee for each meeting of the Board or a thereof attended by any such director which is in excess of the sum specified under the first provision, such provision shall be deemed to be an increase in the remuneration of such director and shall not, after it ceases to be a private company, or, as the case may be, becomes a public company, have any effect unless approved by the Central Government.]

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**1.** Substituted by Act 65 of 1960, Section 114, for certain words ( w.e.f. 28-12-1960).

**2.** Substituted by Act 31 of 1988, Section 47, for certain words ( w.e.f. 15-6-1988).

**3.** Added by Act 31 of 1965, Section 43 ( w.e.f. 15-10-1965).

**4.** Substituted by Act 31 of 1988, Section 47, for "two hundred and fifty rupees" ( w.e.f. 15-6-1988).

**5.** Inserted by Act 31 of 1988, Section 47 ( w.e.f. 15-6-1988).

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## Section 311 - Increase in remuneration of managing director on re-appointment or appointment after

## Act to require Government sanction

In the case of a public company, or a private company which is a subsidiary of a public company, if the terms of any re-appointment or appointment of a managing or whole-time director, made after the commencement of this Act, purport to increase or have the effect of increasing, whether directly or indirectly, the remuneration which the managing or whole-time director or the previous managing or whole-time director, as the case may be, was receiving immediately before such re-appointment or appointment, the re-appointment or appointment and shall become void if, and insofar as it is disapproved by that Government1[shall not have any effect--

(a) in cases where Schedule XIII is applicable, unless such increase is in accordance with the conditions specified in that Schedule; and

(b) in any other case, unless it is approved by the Central Government.]

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**1.** Substituted by Act 31 of 1988, Section 48, for certain words ( w.e.f. 15-6-1988).

## Section 312 to 314 - Miscellaneous provisions

## Section 312 - Prohibition of assignment of office by directors

Any assignment of his office made after the commencement of this Act by any director of a company shall be void.

## Section 313 - Appointment and term of office of alternate directors

(1) The Board of directors of a company may, if so authorised by its articles or by a resolution passed by the company in general meeting, appoint an alternate director to act for a director (hereinafter in this section called "the original director") during his absence for a period of not less than three months from the State in which meetings of the Board are ordinarily held.

1[(2) An alternate director appointed under sub-section (1) shall not hold office as such for a period longer than that permissible to the original director in whose place he has been appointed and shall vacate office if and when the original director returns to the State in which meetings of the Board are ordinarily held.]

(3) If the term of office of the original director is determined before he so returns to the State aforesaid, any provision for the automatic re-appointment of retiring directors in default of another appointment shall apply to the original, and not to the alternate, director.

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**1 .** Substituted by Act 65 of 1960, Section 115, for sub-section (2) ( w.e.f. 28-12-1960).

## Section 314 - Director, etc. not to hold office or place of profit

1 [(1) Except with the 2 [consent] of the company accorded by a special resolution,--

(a) no director of a company shall hold any office or place of profit, and

(b) 3 [no partner or relative of such director, no firm in which such director, or a relative of such director, is a partner, no private company of which such director is a director or member, and no director or manager of such a private company shall hold any office or place of profit carrying a total monthly remuneration of 4 [such sum as may be prescribed],

except that of managing director or manager, banker, or trustee for the holders of debentures of the company--

(i) under the company; or

(ii) under any subsidiary of the company, unless the remuneration received from such subsidiary in respect of such office or place of profit is paid over to the company or its holding company:

5 [Provided that it shall be sufficient if the special resolution according the consent of the company is passed at the general meeting of the company held for the first time after the holding of such office or place of profit:

Provided further that where a relative of a director or a firm in which such relative is a partner, is appointed to an office or place of profit under the company or a subsidiary thereof without the knowledge of the director, the consent of the company may be obtained either in the general meeting aforesaid or within three months from the date of the appointment, whichever is later.]

Explanation.--For the purpose of this sub-section, a special resolution according consent shall be necessary for every appointment in the first instance to an office or place of profit and to every subsequent appointment to such office or place of profit on a higher remuneration not covered by the special resolution, except where an appointment on a time scale has already been approved by the special resolution,

(1A) Nothing in sub-section (1), shall apply where a relative of a director or a firm in which such relative is a partner holds any office or place of profit under the company or a subsidiary thereof having been appointed to such office or place before such director becomes a director of the company.]

6 [(1B) Notwithstanding anything contained in sub-section (1),--

(a) no partner or relative of a director or manager,

(b) no firm in which such director or manager, or relative of either, is a partner,

(c) no private company of which such a director or manager, or relative of either, is a director or member,

shall hold any office or place of profit in the company which carries a total monthly remuneration of not less than 7 [such sum as may be prescribed] except with the prior consent of the company by a special resolution and the approval of the Central Government:

8 [***]]

9 [(2) 10 [(a)] If any office or place of profit is held in contravention of the provisions of sub-section (1) the director, partner, relative, firm, private company, 11 [***] or the manager, concerned, shall be deemed to have vacated his or its office as such on and from the date next following the date of the general meeting of the company referred to in the first proviso or, as the case may be, the date of the expiry of the period of three months referred to in the second proviso to that sub-section, and shall also be liable to refund to the company any remuneration received or the monetary equivalent of any perquisite or advantage enjoyed by him or it for the period immediately preceding the date aforesaid in respect of such office or place of profit.]

6 [(b) The company shall not waive the recovery of any sum refundable to it under clause (a) unless permitted to do so by the Central Government.]

12 [(2A) Every individual, firm, private company or other body corporate proposed to be appointed to any office or place of profit to which this section applies shall, before or at the time of such appointment, declare in writing whether he or it is or is not connected with a director of the company in any of the ways referred to in subsection (t).]

6 [(2B) If, after the commencement of the Companies (Amendment) Act, 1974 any office or place of profit is held, without the prior consent of the company by a special resolution and the approval of the Central Government the partner, relative, firm or private company appointed to such office or place of profit shall be liable to refund to the company any remuneration received or the monetary equivalent of any perquisite or advantage enjoyed by him on and from the date on which the office was so held by him.]

6 [(2C) If any office or place of profit is held in contravention of the provisions of the proviso to sub-section (1B), the director, partner, relative, firm, private company or manager concerned shall be deemed to have vacated his or its office as such on and from the expiry of six months from the commencement of the Companies (Amendment) Act, 1974 of the date next following the dale of the general meeting of the company referred to in the said proviso, whichever is earlier, and shall be liable to refund to the company any remuneration received or the monetary equivalent of any perquisite or advantage enjoyed by him or it for the period immediately preceding the date aforesaid in respect of such office or place of profit.]

6 [(2D) The company shall not waive the recovery of any sum refundable to it under sub-section (2B) 13 [***] unless permitted to do so by the Central Government.]

(3) Any office or place 14 [***] shall be deemed to be an office or place of profit under the company 15 [within the meaning of this section]--

(a) in case the office or place is held by a director, if the director holding it 16 [obtains from the company anything] by way of remuneration over and above the remuneration to which he is entitled as such director, whether as salary. fees, commission, perquisites, the right to occupy free of rent any premises as a place of residence, or otherwise;

(b) in case the office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it 16 [obtains from the company anything] by way of remuneration whether as salary, fees, commission, perquisites, the right to occupy free of rent any premises as a place of residence, or otherwise.

6 [(4) Nothing in this section shall apply to a person, who being the holder of any office of profit in the company, is appointed by the Central Government, under section 408, as a director.]

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**1.** Substituted by Act 65 of 1960, Section 116, for sub-section (1) ( w.e.f. 28-12-1960).

**2.** Substituted by Act 31 of 1965, Section 44, for "previous consent" ( w.e.f. 15-10-1965).

**3.** Substituted by Act 41 of 1974, Section 29 for certain words ( w.e.f. 1-2-1975).

**4.** Substituted by Act 31 of 1988, Section 49, for "five hundred rupees or more" ( w.e.f. 15-6-1988).

**5.** Substituted by Act 31 of 1965, Section 44, for proviso ( w.e.f. 15-10-1965).

**6.** Inserted by Act 41 of 1974, Section 29 ( w.e.f. 1-2-1975).

**7.** Substituted by Act 31 of 1988, Section 49, for "three thousand rupees" ( w.e.f. 15-6-1988).

**8.** Proviso omitted by Act 31 of 1988, Section 49 ( w.e.f. 15-6-1988).

**9.** Substituted by Act 31 of 1965, Section 44, for sub-section (2) ( w.e.f. 15-10-1965).

**10.** Sub-section (2) re-lettered as clause (a) thereof by Act 41 of 1974, Section 29 ( w.e.f. 1-2-1975).

**11.** The words "managing agent, secretaries and treasurers," omitted by Act 53 of 2000, Section 154 (w.e.f. 13-12-2000).

**12.** Inserted by Act 65 of 1960, Section 116 ( w.e.f. 28-12-1960).

**13.** The words "or (2C), as the case may be," omitted by Act 31 of 1988, Section 49 ( w.e.f. 15-6-1988).

**14.** The words "in a company" omitted by Act 65 of 1960, Section 116 ( w.e.f. 28-12-1960).

**15.** Substituted by Act 41 of 1974, Section 29, for "within the meaning of sub-section (1)" ( w.e.f. 1-2-1975).

**16.** Substituted by Act 65 of 1960, Section 116, for "obtain anything" ( w.e.f. 28-12-1960).

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**Section 315 to 317 - Restrictions on appointment of managing directors**

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**Section 315 - Application of sections 316 and 317 [Repealed]**

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Rep. by the Companies (Amendment) Act, 1960 (65 of 1960), Section 117.

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**Section 316 - Number of companies of which one person may be appointed managing director**

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(1)1[No public company and no private company which is a subsidiary of a public company] shall, after the commencement of this Act, appoint or employ any person as managing director, if he is either the managing director or the manager of2[any other company (including a private company which is not a subsidiary of a public company)], except as provided in sub-section (2).

(2)3[A public company or a private company which is a subsidiary of a public company] may appoint or employ a person as its managing director, if he is the managing director or manager of one, and of not more than one,4[other company (including a private company which is not a subsidiary of a public company)] :

> Provided that such appointment or employment is made or approved by a resolution passed at a meeting of the Board with the consent of all the directors present at the meeting and of which meeting, and of the resolution to be moved thereat, specific notice has been given to all the directors then in India.

(3) Where, at the commencement of this Act, any person is holding the office either of managing director or of manager in more than5[two companies of which each one or at least one is a public company or a private company which is a subsidiary of a public company], he shall, within one year from the commencement of6[the Companies (Amendment) Act, 1960, choose not more than two of those companies as companies in which he wishes to continue to hold the office of managing director or manager, as the case may be; and the provisions of clauses (b) and (c) of sub-section (1) and of sub-sections (2) and (3) of section 276 shall apply mutatis mutandis in relation to this case, as those provisions apply in relation to the case of director.

(4) Notwithstanding anything contained in sub-sections (1) to (3), the Central Government may, by order, permit any person to be appointed as a managing director of more than two companies if the Central Government is satisfied that it is necessary that the companies should, for their proper working, function as a single unit and have a common managing director.

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**1.** Substituted by Act 65 of 1960, Section 118, for "No company" ( w.e.f. 28-12-1960).

**2.** Substituted by Act 65 of 1960, Section 118, for "any other company" ( w.e.f. 28-12-1960).

**3.** Substituted by Act 65 of 1960, Section 118, for "A company" ( w.e.f. 28-12-1960).

**4.** Substituted by Act 65 of 1960, Section 118, for "other company" ( w.e.f. 28-12-1960).

**5.** Substituted by Act 65 of 1960, Section 118, for "two companies" ( w.e.f. 28-12-1960).

**6.** Substituted by Act 65 of 1960, Section 118, for "this Act" ( w.e.f. 28-12-1960).

## Section 317 - Managing director not to be appointed for more than five years at a time

(1) No company shall after, the commencement of this Act, appoint or employ any individual as its managing director for a term exceeding five years at a time.

(2) Any individual holding at the commencement of this Act the office of managing director is a company shall unless his term expires earlier, be deemed to have vacated his office immediately on the expiry of five years from the commencement of this Act.

(3) Nothing contained in sub-section (1) shall be deemed to prohibit the re-appointment, re-employment, or the extension of the term of office, of any person by further periods not exceeding five years on each occasion:

Provided that any such re-appointment, re-employment or extension shall not be sanctioned earlier than two years from the date on which it is to come into force.

1[(4) This section shall not apply to a private company unless it is a subsidiary of a public company.]

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**1 .** Inserted by Act 65 of 1960, Section 119 ( w.e.f. 28-12-1960).

## Section 318 to 321 - Compensation for loss of office

## Section 318 - Compensation for loss of office not permissible except to managing or whole-time directors or to directors who are managers

(1) Payment may be made by a company, except in the cases specified in sub-section (3), and subject to the limit specified in sub-section (4), to a managing director, or a director holding the office of manager or in the whole-time employment of the company, by way of compensation for loss of office, or as consideration for retirement from office, or in connection with such loss or retirement.

(2) No such payment shall be made by the company to any other director.

(3) No payment shall be made to a managing or other director in pursuance of subsection (1), in the following cases, namely: -

(a) where the director resigns his office in view of the reconstruction of the company, or of its amalgamation with any other body corporate or bodies corporate, and is appointed as the managing director, 1 [***] 2 [***] manager or other officer of the reconstructed company or of the body corporate resulting from the amalgamation;

(b) where the director resigns his office otherwise than on the reconstruction of the company or its amalgamation as aforesaid;

(c) where the office of the director is vacated by virtue of section 203, 3 [***] or any of the clauses (a) to 4 [(1)], of sub-section (1) of section 283;

(d) where the company is being wound up, whether by 5 [order of the Tribunal] or voluntarily, provided the winding up was due to the negligence or default of the director;

(e) where the director has been guilty of fraud or breach of trust in relation to, or of gross negligence in or gross mismanagement of, the conduct of the affairs of the company or any subsidiary or holding company thereof;

(f) where the director has instigated, or has taken part directly or indirectly in bringing about, the termination of his office.

(4) Any payment made to a managing or other director in pursuance of sub-section (1) shall not exceed the remuneration which he would have earned if he had been in office for the unexpired residue of his term or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold the office, or where he held that office for a lesser period than three years, during such period:

Provided that no such payment shall be made to the director in the event of the commencement of the winding up of the company, whether before, or at any time within twelve months after, the date on which he ceased to hold office, if the assets of the company on the winding up, after deducting the expenses thereof, are not sufficient to repay to the shareholders the share capital (including the premiums, if any,) contributed by them.

(5) Nothing in this section shall be deemed to prohibit the payment to a managing director, or a director holding the office of manager, of any remuneration for services rendered by him to the company in any other capacity.

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**1.** The words "managing agent," omitted by Act 53 of 2000, Section 155 (w.e.f. 13-12-2000).

**2.** The words "secretaries and treasurers" omitted by Act 65 of 1960, Section 120 (w.e.f. 28-12-1960).

**3.** The word and figures "section 280" omitted by Act 31 of 1965, Section 45 (w.e.f. 15-10-1965).

**4.** Substituted by Act 65 of 1960, Section 120, for "(k)" (w.e.f. 28-12-1960).

**5.** Substituted by Act 11 of 2003, section 36, for "or subject to the supervision of the Court".

## Section 319 - Payment to director, etc., for loss of office, etc., in connection with transfer of undertaking of property

(1) No director of a company shall, in connection with the transfer of the whole or any part of any undertaking or property of the company, receive any payment, by way of compensation for loss of office, or as consideration for retirement from office, or in connection with such loss or retirement

(a) from such company; or

(b) from the transferee of such undertaking or property or from any other person (not being such company), unless particulars with respect to the payment proposed to be made by such transferee or person (including the amount thereof) have been disclosed to the members of the company and the proposal has been approved by the company in general meeting.

(2) Where a director of a company receives payment of any amount in contravention of sub-section (1), the amount shall be deemed to have been received by him in trust for the company.

(3) Sub-sections (1) and (2) shall not affect in any manner the operation of section 318.

## Section 320 - Payment to director for loss of office, etc., in connection with transfer of shares

(1) No director of a company shall, in connection with the transfer to any person of all or any of the shares in a company, being a transfer resulting from -

(i) an offer made to the general body of shareholders;

(ii) an offer made by or on behalf of some other body corporate with a view to the company becoming a subsidiary of such body corporate or a subsidiary of its holding company;

(iii) an offer made by or on behalf of an individual with a view to his obtaining the right to exercise, or control the exercise of, not less than one-third of the total voting power at any general meeting of the company; or

(iv) any other offer which is conditional on acceptance to a given extent,

receive any payment by way of compensation for loss of office, or as consideration for retirement from office, or in connection with such loss or retirement,-

(a) from such company; or

(b) except as otherwise provided in this section, from the transferees of the shares or from any other person (not being such company).

(2) In the case referred to in clause (b) of sub-section (1), it shall be the duty of the director concerned to take all reasonable steps to secure that particulars with respect to the payment proposed to be made by the transferees or other person (including the amount thereof) are included in, or sent with, any notice of the offer made for their shares which is given to any shareholders.

(3) If -

(a) any such director fails to take reasonable steps as aforesaid; or

(b) any person who has been properly required by any such director to include the said particulars in, or send them with, any such notice as aforesaid fails so to do,

he shall be punishable with fine which may extend to[1][two thousand five hundred rupees].

(4) If -

(a) the requirements of sub-section (2) are not complied with in relation to any such payment as is governed by clause (b) of sub-section (1); or

(b) the making of the proposed payment is not, before the transfer of any shares in pursuance of the offer approved by a meeting called for the purpose, of the holders of the shares to which the offer relates and other holders of shares of the same class (other than shares already held at the date of the offer by, or by a nominee for, the offerer, or where the offerer is a company, by, or by a nominee for, any subsidiary thereof) as any of the said shares,

any sum received by the director on account of the payment shall be deemed to have been received by him in trust for any persons who have sold their shares as a result of the offer made, and the expenses incurred by him in distributing that sum amongst those persons shall be borne by him and not retained out of that sum.

(5) If at a meeting called for the purpose of approving any payment as required by clause (b) of sub-section (4), a quorum is not present and, after the meeting has been adjourned to a later date, a quorum is again not present, me payment shall, for the purposes of that sub-section, be deemed to have been approved.

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**1.** Substituted by Act 53 of 2000, section 156, for "two hundred and fifty rupees" (w.e.f. 13-12-2000).

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**Section 321 - Provisions supplementary to sections 318, 319 and 320**

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(1) Wherein proceedings for the recovery of any payment as having, by virtue of sub-section (2) of section 319 or sub-section (4) of section 320, been received by any person in trust, it is shown that -

(a) the payment was made in pursuance of any arrangement entered into as part of the agreement for the transfer in question, or within one year before, or within two years after, that agreement or the offer leading thereto; and

(b) the company or any person to whom the transfer was made was privy to that arrangement,

the payment shall be deemed, except insofar as the contrary is shown, to be one to which that sub-section applies.

(2) If in connection with any such transfer as is mentioned in section 319 or in section 320,-

(a) the price to be paid, to a director of the company whose office is to be abolished or who is to retire from office, for any shares in the company held by him is in excess of the price which could at the time have been obtained by other holders of the like shares; or

(b) any valuable consideration is given to any such director;

the excess or the money value of the consideration, as the case may be, shall for the purposes of that section, be deemed to have been a payment made to him by way of compensation for loss of office, or as consideration for retirement from office, or in connection with such loss or retirement.

(3) References in sections 318, 319 and 320 to payments made to any director of a company by way of compensation for loss of office, or as consideration for retirement for office or in connection with such loss or retirement, do not include any bona fide payment by way of damages for breach of contract or by way of pension in respect of past services; and for the purposes of this sub-section the expression "pension" includes any superannuation allowance, superannuation gratuity or similar payment.

(4) Nothing in sections 319 and 320 shall be taken to prejudice the operation of any rule of law requiring disclosure to be made with respect to any such payments as are therein mentioned or with respect to any other like payments made or to be made to the directors of a company.

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**Section 322 to 323 - Directors with unlimited liability**

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**Section 322 - Directors, etc., with unlimited liability in limited company**

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(1) In a limited company, the liability of the directors or of any director1[***] or manager may, if so provided by the memorandum, be unlimited.

(2) In a limited company in which the liability of a director2[***] or manager is unlimited, the directors3[***] and the manager of the company, and the member who proposes a person for appointment to the office of director2[***] or manager, shall add to that proposal a statement that the liability of the person holding that office will be unlimited; and before the person accepts the office or acts therein, notice in writing that his liability will be unlimited, shall be given to him by the following or one of the following persons, namely, the promoters of the company, its directors,4[***] or manager, if any, and its officers.

(3) If any director,2[***] manager or proposer makes default in adding such a statement, or if any promoter director,2[***] manager or officer of the company makes default in giving such a notice, he shall be punishable with fine which may extend to5[ten thousand rupees] and shall also be liable for any damage which the person so appointed may sustain from the default; but the liability of the person appointed shall not be affected by the default.

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**1.** The words "or of the managing agent, secretaries and treasurers" omitted by Act 53 of 2000, Section 157 (w.e.f. 13-12-2000).

**2.** The words, "managing agent, secretaries and treasurers," omitted by Act 53 of 2000, Section 157 (w.e.f. 13-12-2000).

**3.** The words, "the managing agent, secretaries and treasurers," omitted by Act 53 of 2000, Section 157 (w.e.f. 13-12-2000).

**4.** The words, "its managing agent, secretaries and treasurers," omitted by Act 53 of 2000, Section 157 (w.e.f. 13-12-2000).

**5.** Substituted by The Companies (Amendment) Act, 2000, Section 157, for "one thousand rupees" (w.e.f. 13-12-2000).

## Section 323 - Special resolution of limited company making liability of directors, etc., unlimited

(1) A limited company may, if so authorised by its articles, by special resolution, alter its memorandum so as to render unlimited the liability of its directors or of any director[1][***] or manager.

(2) Upon the passing of any such special resolution, the provisions thereof shall be as valid as if they had been originally contained in the memorandum:

Provided that no alteration of the memorandum making the liability of any of the officers referred to in sub-section (1) unlimited shall apply to such officer, if he was holding the office from before the date of the alteration, until the expiry of his then term, unless he has accorded his consent to his liability becoming unlimited.

**1** . The words "or of its managing agent, secretaries and treasurers" omitted by Act 53 of 2000, Section 157 (w.e.f. 13-12-2000).