



Corporate Laws

Final Examination
Summer 2014
Module E

4 June 2014
100 marks - 3 hours
Additional reading time - 15 minutes

Q.1 ABC Limited and its subsidiary are unlisted companies. ABC Limited holds 60% shares in the subsidiary. The subsidiary is involved in the research and development of a new product for which it needs funded and non-funded financing facilities. The directors of ABC Limited are considering to facilitate the subsidiary in this regard through one of the following options:

Option I Making an equity investment amounting to Rs. 20 million; or

Option II Facilitating the subsidiary in the following manner:

- Granting loan of Rs. 15 million which would be repayable in ten equal instalments over a period of six years. The mark-up shall be chargeable at KIBOR plus 1 % per annum payable on quarterly basis. A grace period of one year would be allowed during which only 50% mark-up would be charged.
- Furnishing a guarantee of Rs 5 million to the subsidiary's bankers against LC facility.

ABC Limited is availing financing facilities from conventional banks.

In the light of provisions of Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012 advise the directors of ABC Limited regarding the conditions to be complied with under each of the above options. (11)

Q.2 A group of shareholders of RAK Limited holding 13% of the voting power are of the view that the company is being mismanaged by the directors. Consequently, the company is incurring losses and that the company had never declared any dividend even when the profits were available in the past years. Majority of the directors have been nominated by its parent company which holds 82% of the voting power.

Being a Corporate Consultant of the group of shareholders, you are required to advise on the following in light of the provisions of the Companies Ordinance, 1984:

- (a) The authority with whom the shareholders may lodge their complaint and the action which that authority may take in respect thereof. (04)
- (b) The possible consequences for the management of RAK Limited in the above situation. (04)

Q.3 A shareholder who holds 500 shares of a listed company intends to propose XY & Company, Chartered Accountants as the new auditors in place of present auditors of the company.

In light of the provisions of the Companies Ordinance, 1984 explain:

- (a) Whether the shareholder can propose a change of the auditors of the company and the procedure that is required to be followed in this regard. (03)
- (b) The responsibility of the company if a change of auditors is proposed. (07)

Q.4 Name the authorities who can file a petition for winding up of a company. Narrate the conditions required to be complied with in this regard. **(10)**

Q.5 Suleman is the Senior Manager Marketing of Premier Textile Limited (PTL), a listed company. He purchased 100,000 shares of PTL 30 days prior to the close of financial year and sold them 15 days after the declaration of annual results at a profit of Rs. 1.2 million.

An increase of 15% in the share price of PTL has been noted within 7 days of the announcement of the annual results.

In light of the provisions of the Securities and Exchange Ordinance, 1969:

- (a) Explain how you would evaluate whether the above transaction falls in the ambit of insider trading. **(06)**
- (b) State the possible consequences if Suleman is found involved in insider trading. **(03)**

Q.6 In light of the provisions of the Companies Ordinance, 1984 advise the directors of KM Limited on the following matters:

- (a) Faisal, one of the directors, wishes to assign his office to Saeed as Faisal is going abroad for personal work. **(04)**
- (b) The CEO has refused the personal loan application of Y, who is also employed as a technical director, on the premise that grant of any loan to directors is prohibited under the law. **(04)**

Q.7 The alteration in the memorandum of association shall not take effect until and except in so far as it is confirmed by the Commission on petition. The petition shall be submitted and signed by a responsible officer not later than sixty days from the date on which the special resolution was passed.

In light of the provisions of the Companies (General provisions and forms) Rules, 1985 identify:

- (a) The persons who are covered under the definition of responsible officer. **(03)**
- (b) Documents to be attached with the petition. **(05)**

Q.8 Narrate the provisions contained in the Companies Ordinance, 1984 and the Listing Regulations in respect of each of the following:

- (a) Announcement of dividend. **(03)**
- (b) Payment of dividend including issuance of dividend warrants. **(06)**

Q.9 (a) Farid is a shareholder of a listed company. He intends to contest the upcoming election of the directors. Before filing his application with the company he has requested for inspection of the register of directors' shareholdings.

In light of the provisions of the Companies Ordinance, 1984 explain his right to inspect the register. **(04)**

- (b) State the provisions contained in the Companies Ordinance, 1984 under which a member may give notice of a resolution and what steps would the member be required to take in this regard. **(04)**

Q.10 A company is planning to register as a non-banking finance company. It has provided you the following information:

- (i) It wants to carry out the following businesses:
 - investment advisory business
 - investment finance services
 - asset management services
 - housing finance services.
- (ii) Its paid up capital is Rs.80 million out of which Rs. 16 million is held by promoters of the company.
- (iii) The promoters have pledged their shares with a scheduled bank to obtain a loan for its associated company.
- (iv) A change in the memorandum of association is due to be made within the next six months.
- (v) The company is a member of AL-Shaban Group of Companies.
- (vi) Mr. X is to be appointed as chief executive who was employed as a CFO in another NBFC owned by the group in 2008 and is presently a director in that NBFC.
- (vii) It is expected that the company would start its business from the next financial year.

In light of the provisions of the NBFC Rules, 2003 evaluate whether the company may apply to the Commission for granting of licence to carry on the NBFC business. **(12)**

Q.11 A listed company is considering the issue of 100% right shares at a premium of 20%.

Advise the directors of the company about the conditions required to be complied with, for the issuance of right shares under the Companies (Issue of Capital) Rules, 1996. **(07)**

(THE END)



Corporate Laws

Final Examination
Winter 2013
Module E

4 December 2013
100 marks - 3 hours
Additional reading time - 15 minutes

- Q.1 Details of loans obtained by Al-Hamd Engineering Limited (AHEL) from commercial banks are as follows:

Name of bank	Date of borrowing	Amount borrowed	Security
Alpha Bank Limited	1 July 2010	Rs. 80 million	Hypothecation charge on stock in trade and receivables
Beta Bank Limited	15 May 2012	Rs. 45 million	Hypothecation charge on stock in trade and receivables

In August 2013, AHEL defaulted on its loan repayment obligations towards both banks.

It has now been discovered by Alpha Bank Limited that the Bank's legal adviser who had been assigned to register the charge had failed to deposit the required documents, which were duly signed by both the parties, with the Registrar of Companies.

The charge in favour of Beta Bank Limited was duly registered.

Under the provisions of the Companies Ordinance, 1984:

- (a) Advise Alpha Bank Limited about the effect of non-submission of the charge documents with the registrar and how would it affect its position vis-a-vis Beta Bank Limited. (05)
- (b) Explain whether Alpha Bank Limited can now register the charge with the Registrar of Companies. (04)

- Q.2 Family Supermarket (Private) Limited (FSPL) is a successful family owned company and has seven members. Due to personal reasons, one of its members, Hamid, who holds 20% shares, wants to move abroad and sell all his shareholdings in FSPL. He has received an attractive offer from a member of the company. However, Hamid believes that he would obtain a higher price if he sells the shares to the general public.

State the conditions which Hamid would need to comply with under the provision of the Companies (Issue of Capital) Rules, 1996 if he decides to sell his shareholdings to the general public. (06)

- Q.3 ABX Limited is a listed company. In its annual general meeting, ABX Limited announced the distribution of shares of its unlisted subsidiary company in the form of specie dividend and applied for registration of shares of the subsidiary at the Karachi Stock Exchange (KSE). However, the application was refused by KSE.

Describe the responsibility of ABX Limited in the above situation, in view of Listing Regulations of the Karachi Stock Exchange and the consequences of non-compliance thereof. (06)

- Q.4 Haris holds 3% shares in BYZ Limited whose shares are listed on the Lahore Stock Exchange. He has a plan to acquire substantial shareholding of BYZ Limited as follows:

S.#	Tentative date	% of shareholding to be acquired
1	15 January 2014	5
2	15 February 2014	5
3	31 January 2015	10
4	15 March 2015	10

Advise Haris about the conditions to be complied with in respect of each of the above acquisitions, under the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002. (08)

- Q.5 The Board of Directors of Star Limited (SL) has decided to appoint SKF Associates as legal advisers of all its group companies.

SKF Associates has two partners and are currently the legal adviser of the following entities:

- (i) Wise (Guarantee) Limited (WGL) whose members have undertaken to contribute Rs. 0.6 million each, in the event of company's winding up. However, WGL does not have a share capital.
- (ii) Nasir & Yasir, a partnership firm registered under the Partnership Act, 1932. The total capital of the firm is Rs. 5 million.
- (iii) Faraz Art Museum which is registered under the Societies Act, 1860.
- (iv) Nice (Pvt.) Limited having a share capital of Rs. 1.2 million.
- (v) Listed companies, A Limited, B Limited, C Limited and D Limited having share capital of Rs. 800,000, Rs. 600,000, Rs.400,000 and Rs. 200,000 respectively.

SL's group companies include two subsidiaries each having a share capital of Rs. 2 million and an associated company with a share capital of Rs. 600,000. The share capital of SL is Rs. 10 million.

Based on the requirements of the Companies (Appointment of Legal Advisers) Act, 1974, explain whether SKF Associates can be appointed as the legal adviser of SL and its group companies. (07)

- Q.6 Explain the terms 'Asset Management Services', 'Collective Investment Schemes' and 'Connected Persons' as referred to in the NBFC (Establishment and Regulations) Rules, 2003. (05)

- Q.7 Mars Investment Finance Limited (MIFL) is in the process of making provisions against non-performing loans. The loans provided by MIFL are secured against the following categories of assets:

Category A	Assets secured by registered mortgage
Category B	Assets secured by equitable mortgage
Category C	Stock pledged with MIFL
Category D	Assets having pari-passu charge
Category E	Assets which carries a floating charge over the stock-in-trade

MIFL has issued NOCs to some of its borrowers for creating further charge(s) on assets falling under Category B.

Discuss the matters that should be considered in determining the realizable value of the above assets, while making a provision against non-performing loans under the Non-Banking Finance Companies and Notified Entities Regulations, 2008. (06)

- Q.8 Kamran is the director of Amazing Paper Limited (APL) and Super Glue Limited (SGL). In a meeting, the board of directors of APL approved a contract for the purchase of Glue from SGL. Kamran voted in favour of the resolution. A shareholder of APL has objected that Kamran has unlawfully influenced the transaction to benefit SGL.

Advise Kamran on the validity of the shareholder's objections, and the consequences which Kamran may face under the Companies Ordinance, 1984. **(07)**

- Q.9 Beta Foods Limited, a listed company, has a paid up share capital of Rs. 20 million divided into two different classes of shares 'A' and 'B'. Class B shares do not have voting rights. In a recent general meeting of the company, a special resolution has been duly passed, to alter some of the rights associated with class B shares, which has aggrieved some of the class B shareholders.

Under the Companies Ordinance, 1984 explain to the holders of class B shares, as regard the following:

- (a) Remedy available to them. **(03)**
 (b) The conditions under which the decision of the company may be reversed. **(03)**

- Q.10 Paramount Limited (PL) is incorporated in United Kingdom and is listed on London Stock Exchange. In order to penetrate into Pakistan market, the company has recently established a branch office in Karachi. The company has duly complied with all the statutory requirements necessary for local registration.

Under the provisions of Companies Ordinance, 1984, briefly describe the obligations which PL is required to fulfil after establishing its business in Pakistan with respect to the following:

- (a) Maintenance of Register of Pakistani members, directors and officers **(02)**
 (b) Disclosure of name of the company and the country in which the company is incorporated, on companies' documents and at its places of business in Pakistan. **(04)**
 (c) Preparation of balance sheet and profit and loss account with regard to its operations in Pakistan. **(03)**

- Q.11 Strong Industries Limited (SIL) is a listed company and is engaged in the manufacturing of SIL cement. SIL's market share is around 23%. SIL's plans for the next year include the following:

- (a) Entering into negotiations for the merger of the company with Hard Industries Limited.
 (b) Launching a vigorous advertisement campaign which would involve television advertisements highlighting some of the unique features of SIL cement and how it is superior to the cement manufactured by other competitors.

Describe the steps that SIL should take and the matters that should be considered, in respect of the above, in order to ensure compliance with the provisions of Competition Act, 2010. **(11)**

- Q.12 Recently, the company secretary of Al-Falah Sugar Mill Limited (ASML) has received a letter from Ghalib, a shareholder whose holdings in the company's shares has increased to 14% during the year 2013, to seek appointment on ASML's board of directors. The company secretary has informed him that he cannot be admitted on the board till the next elections become due.

Not being satisfied with the response, Ghalib has asked you to advise on the above matter and explain the course of action available to him under the Companies Ordinance, 1984. **(05)**

- Q.13 (a) State the situations under which a company may be wound-up voluntarily. **(03)**
- (b) After incurring continuous losses, Hashim Cotton Mills Limited had decided to go into members' voluntary winding-up. Accordingly, a general meeting of the company was held on 1 December 2012 and Ahmed was appointed as the Liquidator on a remuneration of Rs. 500,000 of which 50% was paid at the time of his appointment. On 20 November 2013, while the process of winding-up was still in process, Ahmed received a lucrative offer of employment and is considering to resign as the liquidator of the company.

In the context of the provisions contained in the Companies Ordinance, 1984, you are required to explain the following:

- (i) The steps that Ahmed should take at the end of first year from the commencement of the winding-up. **(07)**
- (ii) The responsibilities of Ahmed, if he decides to resign. **(05)**

(THE END)



The Institute of Chartered Accountants of Pakistan

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5 June 2013
100 marks - 3 hours
Additional reading time - 15 minutes

- Q.1 (a) AVZ Limited has recently been converted into a listed company. Mr. Haq, representing minority shareholders, has submitted his papers to contest the election of the directors to be held after 30 days.
- Based on the regulations of the Code of Corporate Governance, 2012 you are required to advise the company in respect of:
- (i) Composition of the Board. (05)
- (ii) Steps that the company should take with regard to the request submitted by Mr. Haq. (03)
- (b) State the circumstances specified under the Code of Corporate Governance, 2012 in which a director is not considered as an independent director. (04)
- Q.2 Al-Saad Investment Limited (ASIL) is a non-banking financial company (NBFC) listed on all the stock exchanges in Pakistan. ASIL has been incurring substantial losses and its shareholders, not being satisfied with the performance of the Chief Executive, have referred the matter to the Commission for removal of the Chief Executive. Moreover, the shareholders have also expressed the apprehension that the time required to comply with the necessary procedures would delay the matter which would be detrimental to their interests.
- In the light of Companies Ordinance, 1984 you are required to state:
- (a) The grounds on which the Commission may order removal of the Chief Executive. (04)
- (b) The course of action available to the Commission if it wants to address the shareholders' apprehension regarding procedural delays. (04)
- Q.3 (a) Explain the terms "Book building process" and "Free float" as defined in the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited. (04)
- (b) Explain the following under the Listing Regulations of the Karachi Stock Exchange:
- (i) Issue of bonus shares (05)
- (ii) Sale or purchase of the company's shares by its chief executive. (03)
- Q.4 On 11 April 2013, Naveed had made a public announcement of his offer to acquire 10% voting shares of Seldom Industries Limited, a listed company, from Maqbool. Arshad is also desirous of making a competitive bid for purchase of shares to Maqbool.
- In the light of the provisions of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002:
- (a) State the conditions which Arshad would need to comply with while making a competitive bid. (03)
- (b) What would be the status of the offer made earlier by Naveed and the rights available to Naveed, if Arshad makes a valid competitive bid? (05)

Q.5 Briefly explain the restrictions imposed under NBFC Rules, 2003 as regards:

- (a) Purchase or sale transaction with a director.
- (b) Sale or transfer of ownership of shares in subsidiary or associated company.
- (c) Investment in subsidiary.
- (d) Transactions with a broker.

(08)

Q.6 Planet International (PI), a listed company, has planned to buy-back 10% of PI's outstanding shares from its minority shareholders. The board of directors has approved the buy-back of shares at a premium of 10 per cent above the current market price of Rs. 40 per share.

The summarized statement of financial position as on 31 March 2013 is as follows:

	2013	2012		2013	2012
	Rs. in million			Rs. in million	
Share capital (Rs. 10 each)	11,500	11,500	Non-current assets	35,195	34,486
Accumulated profit	10,960	4,899	Current assets	40,990	28,124
	22,460	16,399			
Long term liabilities	20,428	19,292			
Current liabilities	33,297	26,919			
	76,185	62,610		76,185	62,610

Required:

In the context of Companies (Buy-back of shares) Rules, 1999 and Companies Ordinance, 1984:

- (a) Evaluate and explain whether Planet International is eligible to buy-back the shares held by the minority shareholders. (05)
- (b) State the requirements with regard to auditor's certification in the above situation. (03)

Q.7 For the last three months, ANF Limited (ANFL) has been experiencing liquidity crisis and is unable to meet its financial obligations within the due date.

In the light of Companies Ordinance, 1984 narrate the circumstances under which ANFL would be deemed to be unable to pay its debts. (05)

Q.8 (a) SECP has the powers to appoint one or more persons as inspector(s) to investigate the affairs of a company. Such investigation may be initiated on receiving a request from any concerned person(s) or by the SECP on its own motion.

In the light of Companies Ordinance, 1984 you are required to:

- (i) List the parties on whose request SECP may appoint a person as inspector to investigate the affairs. (03)
- (ii) Narrate the circumstances in which SECP may appoint an inspector on its own motion. (07)

(b) Mr. Jameel was appointed as an inspector to carry out the investigation into the affairs of AM Limited. After preliminary investigations, Mr. Jameel is of the view that in order to verify certain related matters, it is necessary to extend the scope of investigation into the affairs of certain other related entities/persons.

In the light of Companies Ordinance, 1984 identify the entities or the individuals whom the inspector may include in his investigations and what measures would be required to be taken prior to issuance of notices in this regard. (05)

Q.9 On declaration of the result of voting in the Annual General Meeting (AGM) by the chairman of AS Limited, a public company, few shareholders demanded a poll. The chairman refused to hold the poll and declared the result of voting on show of hands.

In the light of Companies Ordinance, 1984,

- (a) How would you assess whether or not the Chairman's decision of not holding a poll was valid? **(04)**
- (b) Explain whether the Chairman can delay the holding of poll to a date subsequent to the date of AGM. **(03)**

Q.10 The election of directors of Nihal Motors Limited (NML), a listed company, was held at the Extraordinary General Meeting where seven out of nine candidates were to be elected as directors. After the meeting was over, an email was received at NML that Mr. Nihal had expired in a hospital in England. However, the time of Mr. Nihal's death was not mentioned. The result of the meeting shows that Mr. Nihal had received the sixth highest number of votes in the election.

In the light of Companies Ordinance, 1984 state how the directors should deal with the above situation **(06)**

Q.11 State the criteria which the Key Executives of Non-Banking Finance Companies are required to fulfill under the Notified Entities Regulations, 2008 with regard to:

- (a) Competence and capability. **(05)**
- (b) Conflict of interest. **(06)**

(THE END)



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Final Examination
Winter 2012
Module E

5 December 2012
100 marks - 3 hours
Additional reading time - 15 minutes

- Q.1 The Secretary of ABC Limited is in the process of preparing the prospectus for public issue. The company has obtained loans from two financial institutions and has granted option to these institutions to convert up to 20% of the outstanding balance of the loans into ordinary shares.
- State the information required to be disclosed in the prospectus under the Companies Ordinance, 1984 regarding the option given to the financial institutions. **(05)**
- Q.2 (a) In the first meeting of Board of Directors of Hamid Textile Mills Limited (HTML), a listed company, the name of Mr. Imran was proposed for appointment as chief executive of the Company. Mr. Jamal opposed the proposal on the following grounds:
- (i) Mrs. Imran is the Chief Executive Officer of Fahad Textile Mills (Private) Limited.
 - (ii) Mr. Imran is involved in the business of stock brokerage.
 - (iii) Mr. Imran is not a member of HTML.
- Comment on the objections raised by Mr. Jamal in the light of the provisions of the Companies Ordinance, 1984. **(05)**
- (b) XY Limited (XYL) has recently commenced business. The company has appointed various distributors for the supply of its products. The distributors have placed amounts ranging between Rs. 2 - 5 million with XYL as security deposits.
- Briefly describe the relevant provisions of the Companies Ordinance 1984, which XYL would have to comply with. **(03)**
- Q.3 Mr. Bilal is the chief executive of Power Shipping Limited (PSL), a listed company. He has agreed to provide a personal loan of Rs. 5 million to his cousin for purchase of PSL's shares. The loan will be repaid after two years and would carry a mark-up of 5% per annum.
- Suggest the actions which Mr. Bilal should take to ensure that the provisions of the Companies Ordinance, 1984 and the Code of Corporate Governance, 2012 are complied with. **(07)**
- Q.4 The members of Tajamul Private Limited (TPL) have decided to go into voluntary winding-up.
- Advise TPL about the provisions of the Companies Ordinance, 1984 pertaining to:
- (a) Fixation of the remuneration to be paid to the liquidator. **(04)**
 - (b) Filling of vacancy in the event of resignation of the liquidator. **(04)**
- Q.5 (a) Nihal Limited (NL) is a listed company. Narrate the conditions which a director of NL would be required to comply with under the Companies Ordinance, 1984 in case he/she makes a gain on the sale of company's shares. **(03)**
- (b) Identify the persons other than the directors, to whom the above provisions are also applicable. **(03)**

- Q.6 New Chemicals Limited (NCL) is a listed company. The company is in the process of finalization of a financing facility with a bank. The bank requires a copy of the board resolution for approval of the terms of the financing. Since five out of seven directors of the company are currently out of the country, it is not possible for the secretary to convene the meeting of the board of directors.
- (a) In the light of the provisions of the Companies Ordinance, 1984 explain what alternative course of action is available to the company. (03)
 - (b) List the steps that NCL would be required to take, if nothing in this regard is stated in the Articles of Association of the Company. (03)
- Q.7 The Annual General Meeting of Trade Limited was held at 9:15 a.m on 31 October 2012. Certain shareholders of the company have lodged following complaints with the company's secretary.
- (i) Since the meeting could not commence at the scheduled time i.e. 9:00 a.m; it became invalid and should be called again.
 - (ii) A resolution passed in the meeting was approved by a show of hands. However, a poll should have been carried out.
 - (iii) Mr. A who voted for a resolution was represented through a proxy which was deposited at 5:01 p.m. i.e. after office hours on 29 October 2012. Further, since 30 October 2012 was a public holiday, the condition of depositing the proxy at least 48 hours before the commencement of the meeting, was not met.
 - (iv) Mr. G who holds 50,000 shares was represented by two proxies i.e. Mr. C (30,000 shares) & Mr. D (20,000 shares). Only proxy with 30,000 shares was counted for the purpose of voting.
 - (v) JKM Limited holding 20,000 shares of the company was represented by Mr Waheed, who is neither a director nor an employee of JKM Limited.
- (a) Comment on the validity of each of the above complaints in the light of Companies Ordinance, 1984. (07)
 - (b) Describe the circumstances under which a court may declare the resolution passed in the above meeting or the entire proceedings of the meeting as invalid under the Companies Ordinance, 1984. (04)
- Q.8 (a) Describe the requirements to be fulfilled by a company under the Companies (Appointment of Legal Advisers) Act, 1974 as regards the appointment of legal advisers. (03)
- (b) On 01 December 2012, Delta Cotton Mills Limited (DCML) appointed Mehtab & Co. as legal adviser of the company in place of Dilawer & Co. Explain the legal formalities which DCML would be required to comply with under the Companies (Appointment of Legal Advisers) Rules, 1975. (04)
- Q.9 Global Industries Limited (GIL) is a listed company which has a paid-up share capital consisting of 100 million shares of Rs. 10 each.
- GIL is planning to purchase heavy equipment costing Rs. 250 million from World Machineries Limited (WML) for its new project. In a meeting of GIL's Board of Directors, it was proposed to finance the cost of the equipment by issuing 20 million shares to WML at a premium of Rs. 2.50 per share. However, since a number of directors were of the opinion that the issuance of shares would enable WML to exercise significant influence on GIL's policies, the Board advised the CEO to look into the possibility of issuing non-voting ordinary shares.
- Required:**
In your capacity as Corporate Consultant of the company, advise the Board of Directors of GIL as regards the requirements of the Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000 and Companies (Issue of Capital) Rules, 1996 which GIL needs to comply with, in relation to the issuance of non-voting ordinary shares to WML. (10)

Q.10 Al-Rehman group comprises of the following companies:

- (i) Al-Rehman Leasing Company Limited
- (ii) Al-Rehman Investment Finance Services Limited
- (iii) Al-Rehman Housing Finance Services Limited

The majority shareholders/directors of the group have decided to merge all the above companies and bring them under the umbrella of a single corporate entity. It is envisaged that the decision to merge the individual companies into a single entity would help to achieve synergies, cost efficiencies and better utilization of the resources.

You are required to list the steps that would be required to merge all the companies into a single entity. **(09)**

Q.11 Under the provisions of the Central Depository Act, 1997 no director or officer of a central depository shall disclose any information or document relating to the affairs of any of the account-holders to any other person.

List the exceptions to the above provision of the Central Depository Act, 1997. **(09)**

Q.12 The meeting of the Board of Directors of AMZ Limited would be held on 25 January 2013 to consider declaration of final cash dividend. The Annual General Meeting in which the cash dividend is to be approved would be held on 04 March 2013.

List the information which AMZ would be required to provide to the concerned stock exchange(s) in Pakistan as regards the above meetings, and the timings thereof, according to the Listing Regulations. **(06)**

Q.13 Discuss the provisions of the Code of Corporate Governance, 2012 in respect of:

- Frequency of meetings of the audit committee **(04)**
- Attendance in the above meetings **(04)**

(THE END)



Corporate Laws

Final Examination
Summer 2012
Module E

6 June 2012
100 marks - 3 hours
Additional reading time - 15 minutes

- Q.1 On 29 April 2012, a memorandum of association of AB Limited was filed for registration in the office of Registrar. However, on 25 May 2012, a letter from the registrar office was received by the subscribers to the memorandum in which the registration was refused on the ground that the objects stated in the memorandum were inappropriate.
- Describe what course of action is available to AB Limited in the above situation, according to the Companies Ordinance, 1984. *(05 marks)*
- Q.2 The Company Secretary of AQ Limited realized on 29 May 2012 that particulars of charge created on the Company's properties in favour of AK Bank Limited on 2 May 2012 have not been filed for registration with the Registrar of Companies.
- Explain the procedure that would be required to be followed by AQ Limited in the above situation, for registration of charge with the Registrar of Companies. *(06 marks)*
- Q.3 List the conditions specified under the Companies Ordinance, 1984 which a listed company is required to comply with before placement of its quarterly accounts on its website. *(07 marks)*
- Q.4 The Board of Directors of KG Limited have decided to buy-back one million of its ordinary shares.
- You are required to describe the procedure to be followed by KG Limited to buy-back its shares in view of the provisions of the Companies Ordinance, 1984 and the Companies (Buy-back of Shares) Rules, 1999. *(07 marks)*
- Q.5 The Directors of BD Limited intend to wind up the company's business voluntarily. In the context of the Companies Ordinance, 1984 you are required to explain the following:
- (a) The requirement to file a declaration of solvency. *(08 marks)*
(b) The contents of declaration of solvency. *(02 marks)*
- Q.6 Based on the Listing Regulations of the Karachi Stock Exchange, state the following:
- (a) Whether an audit firm may be appointed as the auditor of a listed company, if one of its partners is found guilty of professional misconduct? *(04 marks)*
(b) Regulations relating to transfer of shares and closure of share transfer books. *(05 marks)*
- Q.7 Kevin Jason is a UK national but is residing in Australia. He intends to invest in securities listed at Karachi Stock Exchange. In the context of the provisions of Foreign Exchange Regulations, advise him in respect of the procedure to be followed for purchase and sale of shares of companies listed in Pakistan. *(06 marks)*

Q.8 According to the Competition Ordinance, 2010:

- (a) No undertaking shall enter into deceptive marketing practices.

List the practices which are deemed to fall under the purview of deceptive marketing practices. *(03 marks)*

- (b) No undertaking or association of undertakings shall enter into any agreement which have the object or effect of preventing, restricting or reducing competition within the relevant market.

Explain how and under what circumstances an undertaking may claim exemption from the application of the above provision. *(07 marks)*

Q.9 Apprehensions are widespread in the stock market that the affairs of JK Limited are being conducted in a manner which is prejudicial to the interest of the stakeholders. In the context of the provisions of the Companies Ordinance, 1984 you are required to explain the following :

- (a) Identify the persons who may file a suit in the Court with a request to intervene in the business of the company. *(05 marks)*
 (b) Decisions that the court may take in the above circumstances. *(04 marks)*

Q.10 (a) An open-end fund is being managed by LM Limited which is an NBFC.

List the persons who would be termed as “connected person” in relation to the above open-end fund. *(08 marks)*

- (b) Describe the provisions contained in the NBFC Rules, 2003 in respect of the following:
 (i) Credit rating. *(03 marks)*
 (ii) Appointment of internal auditor. *(04 marks)*
 (iii) Sale or purchase transaction between an NBFC and any of its directors. *(03 marks)*

Q.11 The Board of Directors of YZ Limited, a listed company, intends to issue 50% right shares.

Advise the directors about the conditions required to be complied with, for the issuance of right shares under the Companies (Issue of Capital) Rules, 1996. *(07 marks)*

Q.12 The general meeting of VX Limited, a listed company, was convened on 30 May 2012. However, only four shareholders turned up to attend the meeting.

Explain how VX Limited should deal with the above situation in the light of Companies Ordinance, 1984. *(06 marks)*

(THE END)



Corporate Laws

Final Examination
Winter 2011
Module E

7 December 2011
100 marks – 3 hours
Additional reading time – 15 minutes

- Q.1 As a result of an application filed by the members of MMB Limited, its affairs are under investigation by the Securities and Exchange Commission of Pakistan (SECP). The members claim that the company had allotted shares to an investor against inadequate consideration and that they had not received the notice of meeting in which the decision was approved. They have requested SECP to restrict the transfer of these shares till such time that the investigation is in process.

In the light of the provisions of the Companies Ordinance, 1984 you are required to state:

- (a) Whether and under what conditions the SECP may impose restrictions on the transfer of shares? *(04 marks)*
(b) What would be the effects of such restrictions on the company and the concerned investors? *(06 marks)*

- Q.2 Mr. Asif is a director of Arif Textiles Limited (ATL), a listed company. He has entered into the following transactions in the shares of ATL:

S.#	Date	Purchases/(Sales) No. of shares	Purchase/Sale price per share(Rs.)	Remarks
1.	15.01.2011	5000	18	Purchased from the market
2.	25.02.2011	2000	21	Purchased from the market
3.	26.02.2011	3000	20	Purchased from the market
4.	27.02.2011	1000	-	Bonus shares received
5.	30.04.2011	(2000)	22	Sold in the market
6.	21.05.2011	(5000)	24	Sold in the market
7.	30.06.2011	(1000)	23	Sold in the market
8.	01.09.2011	(2000)	25	Sold in the market

In the light of the provisions of the Companies (General Provisions and Forms) Rules 1985, you are required to:

- (a) Compute the amount of gain or loss to be tendered to the company by Mr. Asif. *(06 marks)*
(b) The treatment of the amount paid by Mr. Asif on account of brokerage, stamp duty etc. *(02 marks)*

- Q.3 ABC Limited has appointed Mr. Saleem as a trustee, under a trust deed, for securing an issue of debentures. Subsequent to his appointment, Mr. Saleem is of the opinion that ABC Limited has failed to meet its obligations under the trust deed, whereas the management denies any wrong doings. Consequently, Mr. Saleem intends to take appropriate action against the company.

Narrate the circumstances specified under the Companies Ordinance, 1984 on account of which Mr. Saleem may initiate legal action against the company. *(06 marks)*

- Q.4 Based on the provisions of the Central Depositories Act, 1997:

- (a) Briefly explain the term "Participant". *(03 marks)*
(b) Identify the purposes for which issuer of a security may request the Central Depository Company to provide a list of the names and other relevant details of the account holders and sub-account holders of its securities. *(06 marks)*

- Q.5 Nihal Associates is an association of persons and is involved in charitable and other social activities for the welfare of the general public. It intends to register itself as a limited company but does not want to include the word "Limited" in its name.

In view of the provisions of the Companies (General Provisions and Forms) Rules 1985, you are required to identify the conditions that Nihal Associates would need to fulfill in order to get the required permission from the Securities and Exchange Commission of Pakistan. **(06 marks)**

- Q.6 A number of shareholders of Nazeer Industries Limited want to hold an extraordinary general meeting to discuss an important matter relating to the company.

In view of the provisions contained in the Companies Ordinance, 1984 explain:

- (a) The conditions under which it would become mandatory for the company to convene the meeting. **(03 marks)**
 (b) The rights of the concerned shareholders in case the company fails to convene the meeting. **(05 marks)**

- Q.7 Ryan Industries Limited (RIL) has been incurring losses for the last few years and has therefore not declared any dividends. Consequently, the market price of its shares has declined and this has also adversely affected the prices of shares of other group companies. The directors of RIL have therefore decided to opt for voluntary de-listing of the shares of RIL and to offer the purchase of shares from the market.

Who will determine the offer price and what would be the basis for determination of the offer price under the listing regulations? **(05 marks)**

- Q.8 (a) Al-Faizan Investment Limited (AFIL), is a non banking financial institution (NBFC) listed on the Lahore Stock Exchange. It intends to make investment in unquoted shares of Folks Resorts (Pvt) Limited.

Narrate the conditions that AFIL would need to comply with under the NBFC Rules, 2003 while making the above investment. **(05 marks)**

- (b) With reference to Non- Banking Finance Companies and Notified Entities Regulations, 2008:
 (i) List the persons who are included in the definition of Key Executive. **(06 marks)**
 (ii) Identify the circumstances under which a Director is considered to have a Conflict of Interest. **(06 marks)**

- Q.9 The Board of Directors of Ujala Industries Limited, a recently incorporated listed company, intends to hold a meeting of the Directors for approval of the annual accounts, declaration of dividend and to make other important decisions relating to the company.

At the request of the directors, you being the company secretary, are required to explain the provisions of the Securities and Exchange Ordinance, 1969 as to what constitutes:

- (a) Inside information **(04 marks)**
 (b) Insider trading **(05 marks)**

- Q.10 Bilal Garments Limited (BGL) has recently been incorporated in Pakistan. However, prior to obtaining the certificate of commencement of business, BGL has entered into an agreement with Taqi Engineering Limited (TEL) for the supply and installation of machinery at its factory. BGL has also signed an agreement with a commercial bank for a short term finance facility for payment of advance to TEL.

In the light of the provisions of the Companies Ordinance, 1984 comment on the legality and the implication of entering into the above agreements. **(05 marks)**

Q.11 A group of creditors of XYZ Limited has lodged a complaint with the Registrar of Companies on the ground that the management is indulging in destruction and falsification of the accounting records of the company. The complainants have requested the Registrar to take immediate steps in this regard.

In the light of the provisions of the Companies Ordinance, 1984 explain the powers and responsibilities of the Registrar in the above circumstances. *(08 marks)*

Q.12 (a) Mr. Babar is currently working as a Marketing Manager in ST Limited (STL). The management intends to appoint him as the Chief Executive of the company. He is willing to accept the offer and has requested for a loan of Rs. 10 million. Moreover, he had also taken a loan in 2009, of which Rs.1 million is still outstanding.

State the conditions as specified in the Companies Ordinance, 1984 which STL would need to comply with, in respect of the above loans. *(05 marks)*

(b) “All investment made by a company on its own behalf shall be made and held by it in its own name.” Explain the exceptions to this general rule, under the Companies Ordinance, 1984. *(04 marks)*

(THE END)

**Corporate Laws**Final Examination
Module E – Summer 2011**Reading time – 15 minutes**June 8, 2011
100 marks – 3 hours

Q.1 As on April 1, 2010 Mr. Faisal owned one million shares in Delton Chemicals Limited (DCL), a listed company. He has made the following transactions in the shares of DCL during the year ended March 31, 2011:

S. No.	Date	Addition/(Deletion) No. of shares (in million)	Remarks
1.	31.05.2010	45	Purchased from the market
2.	15.07.2010	15	Purchased from the market
3.	30.08.2010	(5)	Sold in the market at a profit
4.	15.09.2010	(1)*	Sold in the market at a profit
5.	20.11.2010	5	Bonus shares

**These shares were acquired on March 15, 2010 in good faith from Mr. Yaseen in satisfaction of a debt.*

The paid-up capital of DCL is 500 million shares.

Required:

- (a) Discuss Mr. Faisal's responsibilities under the Companies Ordinance, 1984 in respect of the above transactions. **(08 marks)**
- (b) Briefly discuss the powers of the SECP in case Mr. Faisal fails to carry out his responsibilities as referred to in (a) above. **(04 marks)**

Q.2 Substantial operating losses sustained by Legend Ceramics Limited (LCL) have forced its directors to proceed for company's voluntary winding up. Accordingly, a general meeting of LCL was held on July 1, 2010 and Mr. Ateeq was appointed as the Liquidator.

In the context of the provisions contained in the Companies Ordinance, 1984 you are required to explain the following:

- (a) The steps that Mr. Ateeq should take if the winding up is not completed till June 30, 2011. **(05 marks)**
- (b) Mr. Ateeq's responsibilities as regards final meeting and dissolution of the company. **(05 marks)**

Q.3 On January 1, 2011 Landmark Limited (LML), a company incorporated in Mauritius, established a branch office in Pakistan and commenced its business with the permission of the Board of Investment, Pakistan.

On February 10, 2011 LML received a notice from the registrar's office for non-filing of certain documents.

In the light of the provisions contained in the Companies Ordinance 1984, you are required to:

- (a) give a list of the documents that LML was required to submit to the Registrar before completion of 30 days from the date of establishment of the branch. **(05 marks)**
- (b) explain the effect of non-filing of these documents on the validity of the agreements or contracts entered into by LML during the above period and on the rights of the respective parties to initiate legal proceedings against each other. **(04 marks)**

Q.4 Briefly explain the term 'dominant position' and list the practices which constitute an abuse of dominant position, under the provisions of the Competition Act, 2010. **(09 marks)**

Q.5 RK Limited (RKL), a listed company, holds 6.3 million ordinary shares of TK (Private) Limited (TKPL) whose paid-up capital consists of 10 million ordinary shares of Rs. 10 each. The remaining shares are held by Mr. Adnan and his family. The Board of TKPL consists of eight directors of which five directors represent RKL while the remaining three directors, including the chief executive, are representatives of Mr. Adnan and his family.

RKL is presently considering the following proposals:

- (a) to appoint one of the directors representing RKL, as the chief executive of TKPL, in place of the existing chief executive. *(05 marks)*
- (b) to appoint BL & Co., Chartered Accountants, as auditors of TKPL in the forthcoming annual general meeting. The spouse of one of the partners of BL Associates holds one hundred thousand shares in TKPL. *(03 marks)*
- (c) to pledge TKPL's inventories as security against a loan to be obtained by an associated company of TKPL. *(03 marks)*

Comment on the above proposals in the light of provisions contained in the Companies Ordinance, 1984.

Q.6 The board of directors of EFI Textile Mills Limited, a listed company, plans to buy-back 10% shares of the company. In the light of the provisions contained in the Companies (Buy-back of Shares) Rules, 1999, specify the conditions that the company should be in compliance with, before it proceeds to buy-back the shares. *(04 marks)*

Q.7 The Directors of SQL Limited, a listed company, has decided to issue 50% right shares.

You are required to explain the conditions that SQL will have to comply with, in each of the following situations if:

- (a) the shares are to be issued at a premium of Rs. 6 per share. *(08 marks)*
- (b) the employees of SQL Limited are also holding shares on account of preferential allocation. *(04 marks)*

Q.8 (a) XYZ Limited, an NBFC, is in the process of classification and provisioning of its non-performing assets. You are required to advise the company about the criteria for determining the realizable value of mortgaged, pledged, leased or collaterally held assets in the light of provisions contained in Non-Banking Finance Companies and Notified Entities Regulations, 2008. *(07 marks)*

(b) Explain the terms Open-end Scheme and Close-end Scheme as included in the NBFC Rules, 2003. *(05 marks)*

Q.9 On May 21, 2011, Mr. Salman made a public announcement of his offer to acquire 45% voting shares of Imtiaz Industries Limited (IIL) from Mr. Kalam. On May 31, 2011 Mr. Sadiq also made a public announcement of his offer to Mr. Kalam for the acquisition of the same number of shares at a higher price. Both, Mr. Salman as well as Mr. Sadiq already own more than 10% shares in IIL.

In the light of the provisions of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008 you are required to advise Mr. Salman about the course of action which he would have to follow if he still wants to acquire the shares owned by Mr. Kalam. *(05 marks)*

Q.10 State the conditions specified under the listing regulations in respect of each of the following:

- (a) Declaration of financial results and announcement of dividend. *(06 marks)*
- (b) Issuance and despatch of dividend warrants and payment of dividend. *(06 marks)*

Q.11 Under the Code of Corporate Governance, what are the conditions under which a person becomes ineligible to be appointed as the director of a listed company? *(04 marks)*

(THE END)



The Institute of Chartered Accountants of Pakistan

Corporate Laws

Final Examinations – Winter 2010
Module E

December 8, 2010
100 marks - 3 hours

- Q.1 (a) Belfast Pakistan Limited (BPL), engaged in real estate business, is a wholly owned subsidiary of Belfast International (BI). The company was incorporated in April 2007 with a paid-up capital of Rs. 100 million. After first three years of unsuccessful operations, BPL has accumulated losses to the tune of Rs. 34 million.

In order to revive the company, management intends to venture into a new business and wants to cancel its existing paid-up share capital which has been lost or unrepresented by available assets.

Under the provisions of the Companies Ordinance, 1984 state the steps that need to be taken for reducing the share capital of the company. *(12 marks)*

- (b) On submission of the report by the inspector appointed by SECP to investigate the affairs of XYZ Limited, SECP is of the opinion that the financial position of the company is such that it endangers its solvency and as such has filed a petition in the Court for taking necessary action against the management of the company.

Under the provisions of Companies Ordinance, 1984 describe various actions which the Court may order against the management of XYZ Limited. *(04 marks)*

- Q.2 Mr. Hameed, who is a director in ABC Limited, a listed company, is planning to move to Europe for one year to set up his own business. In the light of Companies Ordinance, 1984 you are required to:

- (a) Respond to his request for advice, as regards his responsibilities, under the Companies Ordinance 1984, in respect of:

- (i) attending the annual general meeting of the company. *(02 marks)*
(ii) attending the board meetings of the company. *(04 marks)*

- (b) Discuss the conditions under which he may be allowed to assign his office to another person. *(04 marks)*

- (c) State the procedure and the conditions to be complied with if the company wants to remove Mr. Hameed from the directorship of the company, under each of the following assumptions:

- (i) He was elected as a director of the company.
(ii) He became the director of the company by subscribing to the memorandum of association of the company. *(06 marks)*

- Q.3 (a) Western Cement Limited (WCL) has recently formed a provident fund for the benefit of its employees.

In view of the provisions contained in the Companies Ordinance, 1984 you are required to advise (i) the directors of WCL and (ii) the trustees of Provident Fund about their responsibilities with respect to the amount to be contributed to the fund and investment thereof. *(09 marks)*

- (b) State the provisions contained in the appointment of Legal Advisers Act, 1974 relating to the eligibility for appointment as legal advisers. *(03 marks)*

Q.4 The paid-up capital of Jupiter Technologies Limited consists of 100 million ordinary shares of Rs. 10 each. The directors are now planning to issue two classes of preference shares to the existing shareholders, for Rs. 100 million.

In the light of the provisions of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 you are required to advise the directors, as regards the following:

- (a) The conditions which must be complied with, for issuing different classes of preference shares.
- (b) The nature of variation in rights and privileges that can be associated with different classes of shares. *(11 marks)*

Q.5 EFL has recently been incorporated as a non-banking financial institution and plans to carry out more than one form of business. You are required to advise it in respect of the following:

- (a) Any eight conditions specified under the NBFC rules 2003 for the grant of licence. *(08 marks)*
- (b) The provisions as regards validity and renewal of licence granted to the NBFC. *(04 marks)*

Q.6 Narrate the provisions contained in the Code of Corporate Governance relating to:

- (a) Orientation Courses / Directors Educational Program. *(03 marks)*
- (b) The responsibility of CEO and CFO of a listed company as regards endorsement and approval of financial statements prior to their circulation. *(03 marks)*
- (c) Secretarial Compliance Certificate. *(03 marks)*

Q.7 Yasir (Private) Limited is part of a large group of companies including listed as well as unlisted entities. It is considering to get itself listed on the Karachi Stock Exchange. As the CFO of the Company, you are cognizant of the fact that the responsibilities of the company would increase significantly after it gets itself listed. Consequently, you are required to make a report for presentation to the directors as regards the following:

- (a) Conditions required to be complied with by Yasir (Private) Limited under the listing regulations of the Karachi Stock Exchange, to be eligible for listing. *(08 marks)*
- (b) Additional information to be disclosed in the Directors' report of a listed company. *(08 marks)*
- (c) Circulation of quarterly accounts. *(04 marks)*

Q.8 The Board of Directors of Modern Textile Mills Limited (MTML) recommended the issue of 20% bonus shares for the year ended September 30, 2010. The register of members for determining the entitlements was closed from October 22, 2010 to October 29, 2010 (both days inclusive). The company is listed on Karachi and Lahore Stock Exchanges and its securities are entered in the Central Depository System.

State the responsibility of MTML and the Central Depository upon issuance of bonus shares under the Central Depositories Act, 1997. *(04 marks)*

(THE END)



June 9, 2010

CORPORATE LAWS

(MARKS 100)
(3 hours)

Q.1 An equitable mortgage was created on the factory building of Asif Textile Mills Limited, a listed company, to secure a long term loan obtained from Mrs. Wasif, who is the spouse of a director of the company. All the eight directors of the company were informally aware about Mr. Wasif's interest in the transaction. The board of directors approved the transaction in their meeting which was attended by five directors.

Upon inspection of the register of contracts in which directors are interested, a member of the company filed an appeal with the SECP, claiming that the mortgage is invalid because Mr. Wasif, who is an interested director, had also voted on the matter and therefore the contract is void.

In the light of the provisions of Companies Ordinance, 1984 you are required to:

- (a) Evaluate the above situation and comment thereon in the light of the provisions of the Companies Ordinance, 1984. (07)
- (b) Explain the manner in which a general notice, regarding disclosure of interest in a contract, may be given by directors of a company. (05)

Q.2 A foreign investor had acquired majority shares in Marine Steel Services Limited (MSSL) in the year 2006. Due to global recession, MSSL has incurred heavy losses and a major portion of its equity has been wiped out. Consequently, the investor intends to wind up the operations of the company voluntarily.

- (a) In the light of the Companies Ordinance, 1984, advise the management as regards the following:
 - (i) When would the voluntary winding up process be deemed to commence and what would be its effect on the operations of MSSL. (03)
 - (ii) How could the directors ensure that the requirements of making a declaration of solvency have been complied with? (06)
- (b) In order to minimize the winding up expenses, the Board wants to appoint one of the directors as the liquidator, on a monthly remuneration of Rs. 50,000. Advise the Board as regards the requirements of Companies Ordinance, 1984 with respect to the appointment and remuneration of liquidator, in the above situation. (04)

Q.3 List the circumstances, as referred to in the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited, under which a listed company may be placed in:

- (a) Defaulter's segment. (07)
- (b) Non-Compliant segment. (03)

Q.4 An Extraordinary General Meeting of Mastermind Technologies Limited (MTL), a listed company, was scheduled to be held on October 31, 2009. The directors adjourned the meeting for the next week as the quorum was not present within fifteen minutes of the scheduled time.

Based on the provisions of the Companies Ordinance, 1984, you are required to comment on the following:

- (a) The decision of the directors to adjourn the meeting, assuming:
 - (i) the meeting was called upon the requisition of the members. (03)
 - (ii) the meeting was called by the directors. (03)
- (b) The impact of the adjournment on the validity and rights of proxies which were deposited with the company before adjournment. (02)
- (c) The validity of the resolution passed at the adjourned meeting. (02)

Q.5 Karachi Telecommunication (Private) Limited (KTL) was incorporated on 1st March, 2009 under the Companies Ordinance, 1984. Its directors have decided to hold the first Annual General Meeting (AGM) of the company on August 10, 2010, for placing the first audited financial statements for the period ended March 31, 2010, for approval.

Comment on the decision of the directors, in the light of provisions contained in the Companies Ordinance, 1984. (05)

- Q.6 (a) The Board of Directors of Pioneer Leasing Limited is in the process of appointing a new Head of Investment. List down the criteria specified in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 for assessing the person being appointed with respect to:
- (i) Integrity and track record (06)
 - (ii) Financial soundness (06)
- (b) Explain the term "Independent Director" and narrate the provisions related to appointment of such directors, as specified under NBFC (Establishment and Regulation) Rules, 2003. (06)

Q.7 Explain the provisions of the Code of Corporate Governance in respect of the following:

- (a) Appointment of the chairman of the company. (02)
- (b) Meeting of the board of directors and minutes thereof. (06)

Q.8 The company secretary of Nayar Textiles Limited, a listed company, has resigned. The directors are in the process of appointing a new secretary and few candidates with varied backgrounds have been short listed for the position.

Advise the directors as regards their responsibility while appointing the Company Secretary, in the light of the provisions of the Companies (General Provisions and Forms) Rules 1985. (04)

Q.9 FM Textiles Limited is a company listed on the Karachi Stock Exchange. Its directors have decided that the company would buy back 20% of its shares.

List down the steps to be taken for the buy-back of shares as specified in the Companies (Buy-back of shares) Rules, 1999. (10)

Q.10 ABC Limited is a major supplier of furnace oil to SUB Power Limited which is facing financial crunch and has been unable to make timely payments to ABC Limited.

The directors of ABC Limited intend to request the SECP for appointment of an Administrator to manage the affairs of SUB Power Limited.

In the light of provisions of the Companies Ordinance, 1984 describe the conditions under which ABC Limited may request the SECP to appoint the Administrator. (08)

Q.11 Mr. Yaqoob is a nominee of Foundation Bank Limited on the Board of Saad Textile Mills Limited (STML). In a meeting of the board of directors of STML, the company secretary was not able to offer satisfactory clarifications in respect of the following matters:

(a) STML had received a loan of Rs. 1.5 billion from Trust Bank Limited which was secured by a first mortgage on the company's fixed assets. The company had repaid the loan to the extent of Rs. 250 million but did not send any intimation to the registrar as regards the partial re-payment of the loan. (02)

(b) A foreign currency loan of US \$ 75 million was obtained from Apex Bank Limited which was secured by a first mortgage on company's fixed assets ranking pari passu with the charge created in favour of Trust Bank Limited. The foreign currency loan has been paid in full but the company has not approached the registrar for vacating the charge because confirmation of repayment has not been received from Apex Bank Limited. (03)

On behalf of Mr.Yaqoob advise the company in the context of Companies Ordinance 1984.

(THE END)



December 9, 2009

CORPORATE LAWS

(MARKS 100)

(3 hours)

- Q.1 The prospectus of FC Textiles Limited included a statement which was misleading in its form and content. On the faith of the prospectus and believing it to be true, Asif subscribed for shares and sustained losses. Can Asif file a suit for compensation of the loss incurred by him? If so, who may be sued for such a loss? (06)
- Q.2 There are allegations in the press and serious charges have been levelled against STR Petroleum Limited about misuse of public funds by the management. Zafar, a director of the company wants to inspect the books of account, in order to ascertain whether the allegations are true. As Zafar does not have adequate knowledge of accounting, he intends to examine the books of account in the presence of his friend Arif, who is a chartered accountant.
- You are required to advise the company in respect of the above matter under the provisions of the Companies Ordinance, 1984. (05)
- Q.3 (a) After incurring continuous losses Shaheen Private Limited had decided to go into members' voluntary winding up. Mr. Sajjad was appointed as a liquidator on a remuneration of Rs. 200,000 of which 25% was paid at the time of his appointment. However, in June 2009, Mr. Sajjad tendered his resignation as a liquidator.
- In the light of the provisions contained in the Companies Ordinance, 1984 explain the rights and liabilities of Mr. Sajjad, in the above situation. (05)
- (b) Identify the persons who are eligible to file a petition for winding up of a limited company in the Court. (04)
- Q.4 Mr. Waleed has acquired 3 million ordinary shares of Acquired Limited whose paid up share capital consists of 22 million ordinary shares of Rs. 10 each. The election of the directors of the company has recently been concluded. Mr. Waleed, being confident of holding a sufficient number of shares to be elected as a director, has requested the management to arrange a fresh election.
- Based on the provisions contained in the Companies Ordinance, 1984 explain whether and under what conditions a fresh election of the directors may be held. (08)
- Q.5 ABZ Limited, a company incorporated in a foreign country, has established an office in Pakistan by the name of Search International. You are required to explain the requirements of the Companies Ordinance, 1984 as regards filing of the annual balance sheet and profit and loss account of ABZ Limited and Search International. (10)
- Q.6 The annual general meeting (AGM) of Nizam Industries Limited was held on November 16, 2009. Some of the shareholders are not satisfied with the decisions taken at the meeting and are of the opinion that the directors have manipulated the situation in order to obtain certain approvals in the annual general meeting.
- You are required to explain how and under what conditions can the proceedings of the AGM be declared as invalid. (05)

(2)

Q.7 Explain the provisions contained in the Code of Corporate Governance as regards the appointment of external auditors. (05)

Q.8 MP Pakistan is a branch of MPGH (a company registered in Germany) and is engaged in the software export business. It requires working capital finance to support its operations and intends to borrow funds from its head office i.e. MPGH on a repatriable basis.

You are required to briefly explain the conditions which MP Pakistan would have to comply with under the Foreign Exchange Regulations of the State Bank of Pakistan. (09)

Q.9 (a) The following statements may contain certain discrepancies with respect to issuance of right shares by a listed company. You are required to identify the discrepancies, if any, and specify the correct position.

(i) A listed company cannot issue right shares within two years of its incorporation.

(ii) Where a company wishes to charge premium on a right issue in excess of 50% of the face value of shares, it shall require an approval from the Commission and the stock exchange on which the company is listed.

(iii) A company which incurred a loss during its last financial year or a company whose market price is below its par value cannot issue right shares.

(iv) If a company announces a right issue as well as a bonus issue at the same time, the right shares shall also be entitled to the bonus. (12)

(b) The board of directors of Munawwar Industries Limited, a listed entity, is considering the issuance of bonus shares. You are required to explain (i) the term 'Free Reserves'; and (ii) the conditions related to maintenance of free reserves for issuance of bonus shares; as contained in the Companies (Issue of Capital) Rules, 1996. (08)

Q.10 (a) Explain the terms 'asset management services' and 'investment finance services' as included in the NBFC Rules, 2003. (04)

(b) Briefly explain the restrictions that have been placed on the NBFCs under the NBFC Rules, 2003 in respect of the following:

(i) appointment of directors from the same family;

(ii) transfer of ownership of controlling shares; and

(iii) employing a person as a broker. (07)

Q.11 In the annual general meeting of Sabzazar Limited held on September 29, 2009 some of the shareholders have raised the following objections:

(a) Notice of the annual general meeting was not received by them although they are resident in Pakistan and their registered addresses have also been provided to the company.

(b) The company has issued shares to a scheduled bank against a part of the outstanding balance of a loan without offering them to the shareholders by way of a right issue.

(c) Shareholders were not allowed to make extracts from the register of members on the day on which the election of directors was held.

(d) 10,000 shares of a subsidiary, which are the property of the company, are held in the name of a director of the company.

(e) The surplus on revaluation of fixed assets was credited to the reserves of the company and later used to pay dividend.

(f) One of the directors is not a member of the company.

You are required to satisfy the shareholders by explaining the relevant provisions, if any, as contained in the Companies Ordinance, 1984.

(You may make appropriate assumptions in your answer to clarify the company's position.) (12)

(THE END)



June 3, 2009

CORPORATE LAWS

(MARKS 100)

(3 hours)

Q.1 Marhaba Engineering (Pvt.) Limited (MEPL), holds 15% voting shares in Pasban Engineering Limited (PEL), a company listed on Karachi Stock Exchange. MEPL intends to increase its holding to 29.5% by acquiring additional voting shares in PEL through public offer and has made a public announcement of its intentions. However, the financial due diligence of PEL revealed that the company is facing financial difficulties and it is anticipated that the directors may sell a sizeable business segment of the company.

In the light of the provisions of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008 you are required to advise the board of directors of MEPL as regards the following:

- (a) The circumstances under which a public announcement of intention can be withdrawn and the procedure to be followed in this regard. **(05)**
- (b) The restrictions which will apply on PEL after making the public announcement of its intentions. **(03)**

Q.2 Cannon Industries Limited, a listed company, wishes to change its name to Reliance Foods Limited because the management feels that the change in name would help in re-branding and rebuilding the image of the company and in attracting more customers.

You are required to explain the requirements of the Companies Ordinance, 1984 which the company is required to comply with, in this regard. Also describe the effect of such change on the rights and obligations of the company. **(09)**

Q.3 Tasty Foods (Pvt.) Limited (TFPL) has been incorporated with the objective of taking over entire business assets and liabilities of Tasty Biscuits, a partnership firm, at an agreed cut off date i.e. December 31, 2008. The partners in the firm are also the directors in the newly incorporated company. Pursuant to an agreement executed between the company and the partnership firm all the assets and liabilities were transferred to the company on the agreed date. 7.8 million shares of the company were allotted to the partners in consideration of the transfer of firm's property. This allotment however, was made by the directors without considering the requirements of the Companies (Issue of Capital) Rules, 1996 on the contention that these Rules are applicable to the listed companies only.

Comment on the decision of the directors and state the conditions specified (if any), under the Companies Ordinance, 1984 and Companies (Issue of Capital) Rules, 1996, related to the issuance of shares as mentioned in the above situation. **(10)**

Q.4 (a) The Securities and Exchange Commission of Pakistan (SECP), on its own motion, is contemplating appointment of an Inspector to investigate the affairs of Crown Properties Limited and has issued a notice for the same narrating the reasons thereof. The directors of the company are contending that the said action is without any justified cause. You are required to narrate the circumstances specified in the Companies Ordinance, 1984 wherein the SECP may appoint an Inspector. (07)

(b) Assuming that after necessary opportunity afforded by the SECP, Crown Properties Limited is subjected to the Investigation, describe the powers that the Inspector can exercise under the Companies Ordinance 1984, while investigating affairs of the company. (05)

Q.5 In order to protect general public, depositors and other stakeholders, Khyber Steel Mills Limited has been declared as a sick unit by the Federal Government which has appointed Mr. Sohail Hamdani to prepare a rehabilitation plan for the re-organization of the company.

You are required to discuss the following:

(a) The measures which Mr. Sohail is empowered to propose as part of the rehabilitation plan.
 (b) If the rehabilitation plan is approved by the Federal Government, what impact would it have on the rights and liabilities of various stake-holders? (12)

Q.6 Pills Limited is an unlisted public company. It intends to appoint MM Associates, a registered firm of lawyers with two partners, as its legal advisers. MM Associates are already the legal advisors of the following 6 companies:

- (i) ABC Limited and XYZ Limited having share capital of less than Rs. 500,000.
- (ii) Rose Limited and Bee Limited having share capital of more than Rs. 500,000 but less than Rs. 1 million.
- (iii) Crown (Pvt.) Limited with share capital of Rs 1.2 million; and,
- (iv) Dice (Guarantee) Limited with a share capital of Rs. 1.5 million.

Based on the requirements of the Companies (Appointment of Legal Advisers) Act, 1974, explain whether MM Associates can be appointed as the legal advisors of Pills Limited. (05)

Q.7 The balance sheet of Montana Textile Mills Limited for the year ended June 30, 2008 shows the non-current liabilities as under :

Non-current liabilities	Rupees
Long term finance from Sponsors / Directors	61,000,000
Long term finance from related party	150,000,000
Long term finance from Banks	572,000,000
	783,000,000

To improve the debt equity ratio, the company wants to convert all non-current liabilities into equity by the issuance of ordinary shares.

Required:

(a) Discuss the provisions contained in the Companies Ordinance, 1984 under which the company may proceed to issue shares against the above non-current liabilities.
 (b) With reference to the above provisions, advise the extent to which the above liabilities may be converted into equity. (07)

Q.8 The association of leading fertilizer manufacturing companies in their 21st annual general meeting reached an understanding to control the prices of fertilizers and their respective market shares by territories, in order to save the local industry from growing dominance of foreign suppliers. This understanding however, is not intended to be enforced by legal proceedings and has not been put into writing.

You are required to state whether such verbal understanding can be regarded as an agreement under the relevant provisions of the Competition Ordinance, 2007 and whether such an agreement is in violation of the provisions of the Ordinance. Also list down some of the agreements which are prohibited under the said Ordinance. (07)

Q.9 PQR holds more than ten percent of the shares of Rahat Technologies Limited (RTL), a company listed on Lahore Stock Exchange. The company intends to dilute its investment in RTL by offering such shares for sale to the public. In the light of the provisions of the Companies (Issue of Capital) Rules, 1996, describe the conditions which must be fulfilled by PQR before such a sale may be made. (05)

Q.10 National Travels Limited (NTA), is a listed company, and operates throughout Pakistan. In order to finalize a running finance arrangement with a bank, it requires a copy of the board resolution approving the terms of financing. Since five out of eight directors are currently out of the city, it is not possible for the secretary to convene the meeting of the board of directors.

In light of the provisions of Companies Ordinance, 1984 you are required to state, whether the above resolution can be passed by circulation and the steps required to be taken to pass such a resolution. (08)

Q.11 (a) Under the Companies Ordinance, 1984 describe the circumstances in which proceedings of a general meeting may be declared invalid by the court. Who is eligible to make petition in this regard. (03)

(b) Explain the provisions of the Companies Ordinance, 1984 with regard to the quorum of a general meeting of a company listed on stock exchange. (03)

Q.12 (a) MZE Limited, an NBFC engaged in leasing business, is currently facing serious financial crisis. SECP is not satisfied with the financial management of the company and has ordered a special audit of the company. In the light of the relevant provisions of the Companies Ordinance, 1984 relating to NBFCs you are required to explain whether the Commission is empowered to make such an order. Also describe the rights of the Commission in this regard? (06)

(b) Describe the conditions applicable to a NBFC relating to the appointment of internal auditor, under the NBFCs (Establishment And Regulation) Rules, 2003. (05)

(THE END)



December 3, 2008

CORPORATE LAWS

(MARKS 100)

(3 hours)

Q.1 Friends Textiles Limited has suffered heavy losses and has almost ceased its operations due to global recession. The directors foresee no improvement in the company's financial health and are of the opinion that the company should be liquidated now, as otherwise, in view of the deepening economic crises, it would be difficult for the company to fetch a good value for its assets.

Required:

- (a) Narrate the circumstances in which a company may be wound up voluntarily? (03)
- (b) Advise the directors of the company about the steps that need to be taken to wind up the company voluntarily. (10)
- (c) State the requirements and the procedure to be followed for making a Declaration of Solvency under members' voluntary winding up. (05)

Q.2 The Board of Directors of ABC Limited, a company listed on Karachi and Lahore Stock Exchanges, has resolved to transmit its quarterly financial statements to the members of the company through its corporate website. You are required to discuss the requirements of Companies Ordinance, 1984 regarding placement of the quarterly accounts on the web. (07)

Q.3 (a) List the types of businesses that NBFCs are permitted to carry out under the relevant provisions of Companies Ordinance 1984. (03)

(b) In order to reap benefits of large scale operations, the Board of Directors of Moonlight Leasing Limited and Dream Leasing Limited intend to amalgamate the operations of the two companies.

State the procedure which should be followed for the merger of the two companies and the approvals required to be obtained for this purpose, under the provisions relating to establishment and regulation of NBFCs. (08)

Q.4 Mr. Khan, chief executive of Prosperous Engineering Limited, is assessing the possibility of setting up a new project in Gwadar in collaboration with a prospective foreign investor. He is confident that the proposed project will reap significant benefits to the company. Since he does not wish to dilute his holding and voting rights, he is planning to issue class B shares to the investor along with 16% TFCs with a floating charge on the book debts of the company and a fixed charge on its machinery in the manufacturing department. He wants to have your advice on the issue.

Required:

- (a) Explain to Mr. Khan various rights and privileges which shareholders may have in case of more than one class of share capital, under the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000. (06)
- (b) Explain the important characteristics of a fixed charge and floating charge and their registration requirements. (05)

- Q.5 GP Pharma Limited, a family owned company with zero debt, has witnessed rapid growth during the past 5 years. In order to carry on the successful growth pattern and fulfill the ever increasing customers demand, the board of directors of the company is planning to establish another manufacturing facility at a cost of Rs. 200 million. To meet the cost of the project, the company needs to raise capital and therefore has decided to go public.

Required:

Advise the Board about the conditions to be complied with for the issuance of capital under the Companies (Issue of Capital) Rules, 1996. (09)

- Q.6 Fiber Leasing Limited has recently lost one of its Directors and the Chief Executive in a tragic car accident. The company wants to appoint Mr. Big and Mr. Smart in place of its late director and chief executive respectively. With reference to NBFC and Notified Entities Regulations, 2007, state the considerations which SECP would take into account while assessing their competence and capability as Director and Chief Executive. (09)

- Q.7 Mega Projects Limited is presently facing financial crunch. In order to overcome this crisis and to improve profitability, the Board of Directors is considering to raise funds through capital injection. The existing shareholders and the potential investors may not be willing to invest at par value which is Rs.10 per share. However, it is estimated that the company could get just about Rs. 7 per share. The directors have therefore decided to issue shares at discount.

Being a Company Secretary, you are required to advise the directors about the procedure to be followed in this regard, under the Companies Ordinance, 1984. (10)

- Q.8 (a) In view of large decline in the value of shares in Asian markets, a group of US investors believe that now is the opportune time to invest in such markets as they have almost reached their lowest limits. One such investor, Mr. NR is interested in buying securities listed on Karachi Stock Exchange.

With reference to relevant provisions of Foreign Exchange Manual, you are required to advise Mr. NR on the following:

- (i) The procedure to be followed in order to trade in listed shares in Pakistan.
(ii) Whether Mr. NR would be entitled to receive dividends on such securities and are there any restrictions on repatriation of funds outside Pakistan? (09)

- (b) Explain the meaning of “a person resident outside Pakistan” as referred to in the Foreign Exchange Regulations. (03)

- Q.9 Sigma Industries Limited is a company listed on Karachi Stock Exchange. Its financial year ends on December 31. The final dividend for the year 2007 was approved in the AGM held on March 31, 2008. To maintain its good payout ratio, the company declared two interim dividends of 10% and 12% in January and February 2008 respectively. The books were closed for a period of 12 days and 18 days respectively. The directors of Sigma Industries Limited have now proposed a final dividend of 20% which is to be approved in the forthcoming AGM of the company. The directors intend to close the share transfer register from March 25, 2009 for determining shareholders entitlement for the purpose of dividend, meeting, etc.

In the light of Companies Ordinance, 1984 you are required to advise the directors as regards the following :

- (a) The maximum period for which the books of Sigma Industries Limited can be closed and the procedure that should be followed in this regard. (05)
(b) The last date up to which Sigma Industries Limited can hold its AGM. (03)
(c) The procedure relating to sending of notices, annual report and audited accounts to the members and concerned authorities. (05)

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN



Final Examinations Summer 2008

June 4, 2008

CORPORATE LAWS

(MARKS 100)
(3 hours)

- Q.1 During the past 12 months Mr. Sohail's holding in shares of ABC Ltd (a listed company) has increased to 13%. Recently, he has written a letter to the company seeking appointment on its Board of Directors. The company secretary had advised that since the election of directors was held in the preceding annual general meeting, he cannot be admitted on the board till the next elections become due. Mr. Sohail is not satisfied with the response and has sought your advice on the matter. You are required to briefly discuss what course of action is available to him. (07)
- Q.2 (a) Arif & Co., Chartered Accountants were to be re-appointed as auditors at the Annual General Meeting of Rose Limited, an unlisted company. The meeting was held on October 31, 2007 but stood adjourned without discussing the appointment of auditors. Explain the legal position of the auditors in such a situation. (02)
- (b) An equity investment of Rs. 275 million has been offered by KA group of companies to Rose Limited. In order to expand the business activities of the company, the management is inclined to accept the proposal. However, the shares to be issued would not rank pari passu with the current shares and shall be termed as Class "B" shares.

The current position of the company's capital and reserves is as under:

	Rupees (in million)
Share Capital:	
Authorized	500
Issued, subscribed & paid up	330
Capital Reserves:	
Share premium account	45
Revenue Reserves:	
Un-appropriated profit	20

- Identify the relevant provisions which Rose Limited will have to comply with and describe briefly the steps it would need to take, for issuance of shares. (10)
- Q.3 (a) Pioneer Services Inc., a branch office of a US company engaged in software business has decided to wind-up its operations in Pakistan. You are requested to guide the management about the necessary formalities to be carried out under the Companies Ordinance, 1984. (04)
- (b) What requirements would have to be complied with, by a foreign company having a branch office in Pakistan, if the company goes into liquidation in the country of its incorporation? (06)

- Q.4 In its meeting held on October 10, 2007 the Board of Directors of Snow White Limited, a listed company, decided to offer a 60% right issue at par value. You are required to explain:
- (a) The conditions that the Board will have to comply with in this regard. **(07)**
 - (b) The additional conditions which the Board will have to comply under each of the following situations:
 - (i) If the company's shares have been traded below par value during the past one year.
 - (ii) If the shares are to be issued at a premium of Rs. 5 per share. **(03)**
- Q.5 (a) Certain persons have been restricted from being appointed as legal adviser of a public limited company. Specify the restrictions imposed in this regard under Appointment of Legal Advisor's Rules 1975. **(02)**
- (b) State the particulars which are required to be specified in the Register of Legal Advisers. **(03)**
- Q.6 Explain the term "Foreign Controlled Company" as referred to in the Foreign Exchange Regulations. **(06)**
- Q.7 The Board of Directors of Iqra Industries Limited, a newly incorporated listed company, is in the process of formulating significant policies to govern the operations of the company.
- As a member of the Board, identify the significant policies which should be formulated, as advised under the Code of Corporate Governance. **(06)**
- Q.8 Mr. Overtaker has issued a public offer for the acquisition of M/s Undertaker Limited, a company listed on the Karachi and Lahore Stock Exchanges, at a price of Rs. 55 per share. The offer has not fetched results and Mr. Overtaker is worried that the offer will lapse without much success.
- Narrate the conditions he will have to comply with if he wishes to revise the offer upwards. **(05)**
- Q.9 (a) Express Limited, a company listed on the Karachi Stock Exchange has a paid-up capital of Rs. 100 million divided into 10 million shares of Rs. 10 each. The Board of Directors have approved the purchase of 100,000 treasury stocks at Rs. 15 each within 30 days, by a tender. As the Company Secretary, what procedure would you follow in this regard? **(11)**
- (b) The Board of Directors of Ghareeb Limited has decided to contribute a fixed amount every year to a charitable organization. The company secretary notified that a clause needs to be inserted in the object clause of the Memorandum of Association for the same.
- Draft a clause to be included in the Memorandum covering the permissibility of the proposed activity. **(02)**
- Q.10 A group of shareholders of Sky Blue Limited believes that certain business activities carried on by the company are prima facie against the interest of the company and its members. They have approached your firm and seek your guidance for applying to the SECP to carry out the investigation against the directors of the company.
- You are required to identify the conditions under which such an application may be filed and the procedure that will have to be followed in this regard. **(05)**

Q.11 (a) Explain the term “Participant” as defined under Central Depository Act, 1997. **(02)**

(b) The Securities of Shalimar Investment Company Limited (SICL) are registered in the name of Central Depository Company (CDC). List the steps which the CDC will have to take where a bonus issue is declared by SICL? **(05)**

Q.12 (a) See-green Limited, a public limited company, had convened a general meeting at 9:00 a.m. on March 25, 2008 to consider and if deemed fit, pass a special resolution approving the disposal of a part of the company’s undertaking.

The meeting commenced at 9:16 a.m. as the quorum was not present at the scheduled time and was attended by 100 members (including 10 members represented through proxies) holding 1,000,000 shares in aggregate.

After a heated debate, voting was held through show of hands and the chairman declared the resolution successful as 78 votes were casted in favour of the resolution.

On March 31, 2008, the shareholders who gave a dissenting vote in the meeting, lodged a protest with the company claiming that the resolution was invalid on account of the following reasons:

- (i) Mr. A who voted for the resolution was represented through a proxy which was deposited at 5:01 p.m. i.e. after office hours on March 22, 2008. Moreover, since March 23rd was a public holiday, the condition of depositing the proxy atleast 48 hours before the meeting, could not be met.
- (ii) Mr. B a shareholder with a holding of 50,000 shares was represented by two proxies i.e. Mr. C (30,000 shares) & Mr. D (20,000 shares). Both proxies were counted for the purpose of voting.
- (iii) JK (Pvt) Limited holding 20,000 shares of the company, were represented by Mr Sameer, who is neither the director nor the employee of the company. He also voted in favour of the resolution.
- (iv) The shareholders who lodged the protest hold 300,000 shares and therefore the resolution was approved by shareholders holding 70% voting rights only.
- (v) Since the meeting could not be held on time, it became invalid and should be called again.

Discuss the validity of the resolution under the Companies Ordinance 1984, in view of the complaint lodged by the dissenting shareholders. **(10)**

(b) In the first meeting of Board of Directors of Alif Cement Ltd a public listed company, Mr. Raof proposed the name of Mr. Haseeb for appointment as chief executive of the Company. Mr. Zahid opposed the proposal on the following grounds:

- (i) Mr. Haseeb is also the Chief Executive of Bay Cement (Pvt) Limited which holds 15% shares in Alif Limited.
- (ii) he is involved in the business of stock brokerage.

Comment on the statement of Mr Zahid in the light of the provisions of the Companies Ordinance, 1984. **(04)**

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN



Final Examinations Winter 2007

December 5, 2007

CORPORATE LAWS

(MARKS 100)
(3 hours)

- Q.1 Blossom Textiles Limited, a listed company, is in urgent need of increasing its paid up capital to improve balance sheet ratio and satisfy their bankers. The response from the existing shareholders and the underwriters is quite discouraging.
- (a) Mr. Majeed, an existing shareholder has shown his intention to purchase the whole issue at par. Describe the steps that the company will need to take if it wants to accept the offer by Mr. Majeed.
- (b) Assuming that Mr. Majeed's holding after the above purchase would exceed 10% of the company's total shareholding, what additional formalities would have to be completed by him? (07)
- Q.2 The CFO of ABC Limited realized on 23rd October that particulars of charge created on 13th October in favour of a bank were not filed with the Registrar of Companies for registration. Describe the procedure the company should follow to get the charge registered with the Registrar of Companies. Would the procedure be different if the charge was created on 29th September? (06)
- Q.3 A director of a listed company has proposed to nominate another person to act in his place as he would be going to Japan to undertake a technical training course. You are required to state the requirements to be complied with under the Companies Ordinance, 1984. (06)
- Q.4 A group of shareholders holding 24% shares in RST Limited, a listed company, wishes to file a petition with the Court against the management of the company and the majority shareholders, on the following grounds:
- (i) Loss of confidence in management.
(ii) Continuous losses being made by the company.
(iii) Failure to pay dividend.
(iv) Insider trading.
- Quote the relevant provisions of the Companies Ordinance, 1984 and comment on the advisability of the petition in each of the above case. (09)
- Q.5 Synthetic Holdings Limited wishes to close down one of its subsidiary companies listed on the Lahore Stock Exchange, as it is no more a viable unit. Their legal counsel has advised the preparation of a Declaration of Solvency as a starting point to wind up the subsidiary. In this context, you are required to explain:
- (a) What is a declaration of solvency and what must it contain? (03)
(b) When is it made and what is its purpose? (02)
(c) What consequences may follow if the declaration is subsequently found to be incorrect? (02)

Q.6 The members of XYZ (Private) Limited have resolved to make certain amendments in the object clause of its memorandum of association to enable it to expand its scope of activities.

- (a) Explain the procedure that the company will have to follow. (03)
 (b) List the information which will be required to be submitted in the application to the concerned authority. (07)

Q.7 FGH is a listed company and has not declared any dividend or bonus shares during the past few years. The board of directors is now considering distribution of bonus shares.

The Balance Sheet of the company prior to the issuance of bonus shares depicts the following position:

	Rs. in million
Share Capital (6.0 million shares of Rs. 10 each)	60
General Reserves	40
Share Premium	30
Revaluation Reserves	20
Intangible Assets	10
Tangible Assets	200

- (a) Advise the company whether it can issue 25% bonus shares out of the General Reserves, a part of which was accumulated in prior years. (04)
 (b) Can the bonus issue be made out of Share Premium account? (04)

Q.8 A large group based in Dubai wishes to set up a company for carrying out a vast spectrum of investment-related activities in Pakistan.

- (a) You are required to advise them on the various forms of investment related businesses referred to in section 282A of the Companies Ordinance, 1984.
 (b) List the activities that may be carried out under each of the above forms of businesses as specified in NBFC Rules 2003. (12)

Q.9 The board of directors of a listed textile weaving unit (KW Weaving Mills Limited) has approved a scheme of amalgamation with its fully owned subsidiary, KD Dyeing Mills Limited. The merger will result in economies of scale which would eventually increase the profitability of the company in the coming years. You are required to draft the relevant resolutions necessary to carry out the merger. (06)

Q.10 First Cosmopolitan Modaraba, having multipurpose objectives, is incurring losses for the past three years. Its accumulated losses as at June 30, 2007 were Rs. 4.5 million as compared to the present paid up capital of Rs. 6.0 million. You are required to explain:

- The basis on which a winding up application may be filed against the Modaraba in the above situation.
- Who can file such an application and the relevant authority with whom the application may be filed? (06)

Q.11 You have been appointed as the Chief Financial Officer of Shahbaz Insurance Limited, an unquoted company, which was incorporated on 10th November 2007. You are required to prepare a note for the forthcoming meeting of the Board of Directors, containing the following information:

- (a) The Committees which are to be established to meet the requirements of Code of Corporate Governance and the scope of activities of each Committee. **(10)**
 (b) Requirements as regards their composition and the frequency of the meetings. **(03)**

Q.12 Company A is in the process of being wound up. The following is a list of amounts payable by it:

	(Rs.000s)
Salaries and wages (staff strength 97; payable for last six months)	3,000
Utility bills	200
Property taxes (payable to City Government)	150
Fuel expenses payable to employees	150
Legal and professional fees	250
Sales tax payable	500
Penalty payable under the Income Tax Act 2001	100
Contributions to employees provident fund	200
Leave encashment	200
Disability insurance received from insurance company and payable to staff	100
Secured loan payable to National Bank of Pakistan - Principal	1,200
- Interest	250
Secured trade creditors	400
Unsecured trade creditors	1000

In the light of winding up provisions contained in the Companies Ordinance, 1984, how would the above amounts be ranked for payment? Assuming that the funds available with the company are Rs. 1.75 million only, how would the distribution take place? **(10)**

(THE END)



June 6, 2007

CORPORATE LAWS

(MARKS 100)
(3 hours)

Q.1 RBC Limited and KBC Limited are associated companies having share capital of Rs 60.0 million and Rs 15.0 million respectively. The companies' reserves equal 10% of their share capital. RBC Limited produces and supplies a component 'X' to KBC Limited. KBC Limited has been facing liquidity problems as a result of which its production and sales had been suffering. Consequently, there has been a significant decline in the sale of component 'X' by RBC Limited. The directors of RBC Limited wish to support KBC Limited by way of the following:

- Advancing loan of Rs 5.0 million at an annual interest of 8%.
- Increasing the limit of trade credit from Rs 1.0 million to Rs 3.0 million.

(a) Briefly state the conditions required to be fulfilled by the two companies while carrying out the above transactions. **(08)**

(b) What consequences may be faced by the directors of RBC Limited in case they fail to comply with the above requirements? **(03)**

Q.2 XYZ Limited, a listed company, has issued ten million shares of classes 'A' and 'B' each. The company passed a special resolution to alter some of the rights associated with class 'B' shares, which has aggrieved some of the shareholders.

Explain to the shareholders, aggrieved with the above changes, on the following:

(a) What remedy is available to the aggrieved shareholders? **(03)**

(b) Under what conditions can the decision of the company be cancelled? **(04)**

Q.3 On a petition filed by affected minority shareholders, the court has directed a company to be wound up and has also appointed a liquidator. The existing management comprising the chief executive and other board members, is resisting the move and is expected to create hurdles in the winding up proceedings including refusal to hand over custody of books and records and properties to the liquidator. Narrate the powers conferred on the liquidator and the court, in the above situation and what actions can be taken to proceed with the winding up. **(06)**

Q.4 (a) Mr. Luqman, a Senior Director of STQ Limited, a non-banking financial institution (NBFC), wishes to retire and wants his son to be appointed in his place. As the company secretary of STQ Limited, advise him about the conditions specified in NBFC Rules 2003, which his son must satisfy to be eligible for appointment as the Director of STQ Limited. **(07)**

(b) Briefly describe the terms and conditions of operation of a venture capital fund as laid down under the NBFC Rules, 2003. **(06)**

- Q.5 (a) Mr. Pang and his wife jointly acquired 23% shares in Sunshine Limited. The company is listed on the Lahore Stock Exchange. The transfer deeds lodged by Mr. Pang did not mention his address and this was also not noted by the corporate affairs department while dealing with the registration of transfer. At the time of giving notice to members for annual general meeting where election of directors are also scheduled to be held, the fact came to light and now the Chief Executive is worried as to how the notice may be served, to avoid any litigation which may be initiated by Mr. Pang, due to non service of notice.

As the secretary of the company, advise the chief executive as to how the company should deal with the above situation. (03)

- (b) A company has revised its marketing strategy and instead of having its wholesale delivery points, it has appointed 20 dealers throughout Pakistan. The management intends to take deposits for security purposes from each dealer. The aggregate amount of such deposits will be around Rs 200 million. Being the head of finance, advise the management about the relevant provisions contained in the Companies Ordinance, 1984, dealing with the issue of deposits and any restrictions or conditions imposed therein. (05)

- (c) Mr. Ibrahim is the Chief Executive of LMN Limited, a listed company. He has requested the company for a loan of Rs 30.0 million. His annual remuneration is Rs 28 million. State the conditions mentioned in the Companies Ordinance, 1984, under which such a loan may be advanced by the company. (06)

- Q.6 The third Annual General Meeting (AGM) of ABC Limited, an unlisted public company, is to be held on 31 July 2007. However, in the third week of May, a considerable portion of the accounting record of the company was destroyed by fire. As a result, the CFO concluded that the audited financial statements pertaining to the year ended March 31, 2007 would not be ready to be laid before the AGM.

Describe the suitable course available to the company and the relevant provisions of the law applicable thereto.

Also, briefly discuss the consequences if the accounts are not adopted by the members of the company due to any reason, at a duly convened annual general meeting. (09)

- Q.7 (a) ABC Limited, a listed company, is entering into a contract to purchase machinery worth Rs. 50 million from XYZ (Private) Limited, where the spouse of the chief executive of ABC limited is also a director. The contract for purchase of said machinery is to be placed before the board of directors of the company for approval.

State the relevant rules as given in the Companies Ordinance, 1984 and describe the procedure which ABC Limited should follow while entering into the contract. (08)

- (b) Explain whether XYZ (Private) Limited will have to follow and comply with the same rules as are applicable to ABC Limited. (02)

- Q.8 A resolution was put before the members in an Annual General Meeting, for voting on a show of hands. Before the announcement of the result, Mr. Shahab Khan, a share holder, demanded a poll, which was refused by the Chairman.

Discuss the legality of the chairman's decision in the light of the Companies Ordinance, 1984. (05)

- Q.9 (a) “An executive director cannot become the Chairman of the audit committee”. Do you agree with the statement? Explain. (03)
- (b) Explain the provisions of the Code of Corporate Governance relating to audit committee in respect of following:
- Holding of meetings
 - Attendance at meetings (07)
- Q.10 Mr. Abbasi is a director of Bright Limited, a listed company. His nephew wants to purchase shares of Bright Limited. Part of the funds required to make the investment shall be provided by Mr. Abbasi at a profit of 3% per annum.
- Describe the actions which Mr. Abbasi should take to ensure that he complies with the relevant provisions contained in the Companies Ordinance, 1984 and the Code of Corporate Governance. (06)
- Q.11 In respect of each of the following transactions, explain whether the same will result in creation of unreasonable monopoly power under the Monopolies and Restrictive Trade Practices (Control And Preventions) Ordinance, 1970.
- (a) Red Limited purchased 17% shares of Blue Limited. Both the companies are operating cement plants and have a combined market share of about 48%.
 - (b) DX Limited entered into a contract to purchase 47% of the total production of DY Limited. The combined production of both the companies is approximately 40% of the total production of the whole industry.
 - (c) XYZ Bank Limited, a non-listed commercial bank has extended a loan of Rs 1.0 billion to ABC Limited, a leasing company, at a profit of 7% per annum. The average rate of profit charged by the bank in similar types of loans is 12%. The bank holds 24% of the total ordinary shares of ABC Limited. (09)

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examinations Winter 2006



December 6, 2006

CORPORATE LAWS
Module E
(MARKS 100)
(3 hours)

- Q.1 (a) A prospective individual sponsor has requested your advice whether company law permits an individual to incorporate a wholly owned company. Briefly describe the relevant legal provisions. (05)
- (b) Explain whether a non-member can become the director of a company. (02)
- Q.2 A member of a company seeks your guidance regarding the procedure for inspection of the minutes book of the general meetings. Discuss the requirements relating to the maintenance of minutes and its inspection by the members. (06)
- Q.3 As used in the context of winding up of companies, discuss when a company is deemed unable to pay its debts? (05)
- Q.4 The Directors of Genetics (Pvt.) Ltd. had started voluntary winding up proceedings by filing a declaration of solvency about 15 months ago. The company still owes substantial amount to the financial institutions. The Directors have assured the financial institutions that their debts would be settled within the next 6 months and have filed another declaration of solvency with the Registrar and copied it to the financial institutions. What are the legal implications if any, on the company or its directors for:
- (i) default in payment.
(ii) issue of second declaration of solvency.
- Also explain what remedy is available to the financial institutions in case of default by the directors. (07)
- Q.5 Miller and Company Limited, a foreign company incorporated in New Zealand, wishes to open a branch / liaison office in Pakistan. You are required to advise them on the following:
- (a) Obtaining permission for opening and maintaining its branch / liaison office in Pakistan. (04)
- (b) Statutory obligations under the Companies Ordinance, 1984 other than those relating to the filing of forms and accounts. (05)
- Q.6 Jehangir Limited a public listed company have incurred losses during the past two years, as a result of which, 17% of their equity has been wiped out. The board of directors wants to issue shares worth Rs. 100 million, being 25% of the present share capital at a discount of 20%. You are required to advise them on the matters which the SECP may consider before granting approval for issue of shares. (06)

- Q.7 The management of a listed company wants to implement an employee share option scheme. The Directors representing majority shareholding of 51% however have concerns that their majority holding might get diluted to below 50% in the long run. In terms of the prevalent corporate laws, suggest an alternative solution that could address the concern of the majority shareholders. Also explain the conditions required to be complied with and the various options available to the directors. **(09)**
- Q.8 (a) PQR Limited, an NBFC, has a license to undertake Investment Financial Services. List some of the services that it may perform while carrying out:
- Project financing.
- Corporate finance services. **(10)**
- (b) State the conditions which PQR Limited shall have to comply with, if it desires to issue Certificates of Deposits worth Rs. 100 million. **(04)**
- Q.9 (a) Write short notes on the provisions of the Code of Corporate Governance in respect of the following:
(i) Frequency of board meetings, notice of meetings and the chairman of a meeting.
(ii) Dissenting vote of a director.
(iii) Persons allowed to attend Board meetings other than the directors of the company and the type of voting rights such persons can exercise? **(09)**
- (b) Members of XYZ limited holding 20% of the voting power submitted a requisition to hold an extraordinary general meeting of the company to remove the auditor of the company. The company did not call the extra ordinary general meeting and also did not allow the holding of the meeting at the registered office of the company. The said meeting was held at some other place and resolution for the removal of the auditor was passed. Examine the requirements and discuss the validity of the said meeting and resolution passed. **(10)**
- Q.10 Your friend, a non-resident, intends to trade in shares of companies listed in Pakistan. Briefly discuss the requirements / restrictions, if any, under the applicable laws. **(08)**
- Q.11 “Once a company’s shares are declared eligible securities with the Central Depository System and a shareholder registers his or her physical scripts with the CDS, the shareholder will stop receiving notices for company meetings as the CDC will be the registered holder of shares in the company’s register of members.”
Comment on the above statement. **(03)**
- Q.12 The Cosmopolitan Modaraba was floated with a modaraba fund of Rs. 300 million. A spate of development projects have placed a severe liquidity crunch on the modaraba’s finances and the management company’s Board of Directors has sought your opinion on whether a modaraba can raise further capital through rights issue.
Briefly describe the significant corporate requirements that must be complied with, prior to raising the capital. **(07)**

(THE END)



June 07, 2006

CORPORATE LAWS

(MARKS 100)
(3 hours)

- Q.1 (a) On the request of a group of shareholders holding 12% voting shares in a company, SECP appointed inspectors to investigate into the affairs of that company and the inspectors have submitted a report to the SECP.

Advise the group of shareholders on the following:

- (i) Whether they have a right to receive a copy of inspector's report from SECP. **(02)**
- (ii) What action SECP could take on receipt of the inspector's report and what are the powers of the Court in such situation? **(08)**
- (b) CMD Limited (CMD) incorporated in UK earned a contract for construction of major infrastructure project in Pakistan under an international tender. The contract was assigned by WAPDA on behalf of Government of Pakistan.

CMD commenced operation in Pakistan on January 1, 2006 however it failed to submit the required documents to the Registrar as required under section 451 of the Companies Ordinance, 1984. Soon after commencement of work, differences developed between CMD and WAPDA and both sued each other.

Explain the effect of non-filing of the above documents on the following:

- (i) Validity of the contract.
- (ii) Right of each party to sue each other. **(05)**
- (c) What is the status of a company, its chief executive and its directors which has commenced winding up proceedings? **(03)**

- Q.2 (a) Mr. Inzamam holds 60% shares of a listed company 'Cal Ltd.' and Mr. Haq holds 65% shares of another listed company 'CD Ltd.' Both the shareholders have signed a memorandum of understanding under which Mr. Inzamam will acquire the entire holding of Mr. Haq in CD Ltd. at a price to be determined through an independent valuation expert. Mr. Inzamam will thus become the majority shareholder in CD Ltd.

He is now planning to advertise in newspapers a public announcement of offer to acquire shares in CD Ltd.

Advise Mr. Inzamam about the Corporate Law provisions that are required to be followed regarding issuance of public announcement for the acquisition of the majority shareholding in CD Ltd. **(10)**

(2)

- (b) A strategic investor has acquired management control of a company through the privatization program. The directors of the company were elected only a year ago and still have an unexpired term of 2 years.

Outline the process under which the strategic investors will induct their own directors on the Board of the company. **(03)**

Q.3 (a) What do you understand by the term “Green-shoe Option”? **(02)**

- (b) An unlisted company wants to issue shares to a machinery supplier as consideration for supply of the plant for its expansion program.

What are the key requirements under the Companies Ordinance 1984 and Companies (Issue of Capital) Rules 1996 that the company must fulfill in this regard? **(08)**

Q.4 (a) A general meeting of a listed company was adjourned by the chairman for want of quorum. Fresh notice was not served for the adjourned meeting.

You are required to explain the following:

- Whether a notice is required to be served for the adjourned meeting.
- The minimum number of members required to be present in a general meeting.
- What shall be the requirement in case of an adjourned meeting? **(06)**

(b) Describe the requirements of Companies (Appointment of Legal Advisers) Act, 1974, regarding eligibility for the appointment as legal adviser? **(04)**

Q.5 A large group of companies is planning a buy back of shares in some of its companies. The Group Management Committee (GMC) has various alternatives and options for buying back of shares by considering the group’s future strategies. After a detail review the GMC has informed the Group Company Secretary as under:

- (a) NA Soft (Private) Limited is a very well known software house and has a paid up share capital of Rs. 100 million. The company would like to buy back 25% of its paid up capital. The debt equity ratio of the company is 75:25 and the current ratio is 1:1.
- (b) ASL Ltd., a pharmaceutical company, is listed on Karachi Stock Exchange. It has a share capital of Rs. 500 million and retained earnings of Rs. 100 million. The board of directors of the company has decided in their meeting to buy back shares of Rs. 200 million. The company has sufficient cash resources for purchase of shares.
- (c) CLS Textile Mills Ltd., is a listed company having a registered office in the province of Punjab. Mr. Ali, a holder of 20% shares, has shown his interest in selling his holding directly to the company. The management of the company is willing to accept his proposal.

As a Group Company Secretary, you are required to advise the GMC on the legality of transactions which the group is planning to undertake. **(10)**

- Q.6 (a) Annual General Meeting of a Public Company was scheduled to be held on March 15, 2006. Mr. A, a shareholder, issued two Proxies in respect of the shares held by him in favor of Mr. 'X' and Mr. 'Y'. The proxy in favor of 'X' was lodged on March 12, 2006 and the one in favor of Mr. 'Y' was lodged on March 15, 2006. The company rejected the proxy in favor of Mr. 'Y' and accepted the one in favor of Mr. 'X'.

Explain whether the rejection by the company is in order? **(07)**

- (b) A group of investors want to incorporate a company which will be engaged in leasing and venture capital business. You are required to explain the minimum capital requirement of running these businesses under NBFC Rules 2003. **(03)**
- (c) What restrictions have been placed on the scope of business activities of a leasing company under the NBFC Rules 2003? **(06)**

- Q.7 DOS Limited is a listed company engaged in providing LDI services to its customers. As a Chief Financial Officer you informed the board of directors that during the 2nd and 3rd quarter of year 2006-2007, the company will require short term financing in order to meet the liquidity shortfall. One of the directors has proposed that the company should raise finance through Commercial Paper.

You as a CFO are required to explain:

- the eligibility condition that have been specified by the SECP for a company that wishes to raise finance by issuing 3-6 months Commercial Paper.
- the prospective investors in Commercial Paper? **(10)**

- Q.8 (a) Del Ltd., having a 75% foreign shareholding, is under negotiation with its parent company to obtain a foreign currency unsecured loan to meet its working capital requirements. The proposed tenure of the loan is 7 years and the rate of interest is LIBOR plus 2%. Principal amount of the loan will be paid in 14 equal semi-annual installments and interest will be paid annually.

You, being the Corporate Consultant, have been asked to prepare a checklist containing the requirements of Foreign Exchange Regulations. Also fill the checklist to ascertain that the company complies with regulations. **(10)**

- (b) Directors of a public unlisted company had fixed the number of directors for election at eight. The present directors being eligible had offered themselves for re-election at the same board meeting. Considering the fact that there has been no change in the structure of shareholding, the Board of Directors passed a resolution appointing them as directors.

Comment on the above corporate action with reference to the provisions of the Companies Ordinance, 1984. **(03)**

(THE END)