



The Institute of
Chartered Accountants
of Pakistan

Certified Finance and Accounting Professional Stage Examination

Model paper
3 hours – 100 marks
Additional reading time – 15 minutes

Corporate Laws

Instructions to examinees:

- (i) Answer all **TEN** questions.
- (ii) Only **Bare Acts** duly bound are allowed to carry in the examination hall.

Q.1 The board of directors of Professionals Limited (PL), a listed company, has taken the following decisions in its recent meeting:

- (i) Sell-off entire investment in Adventure Limited (AL), one of PL's most profitable associated companies, at a premium of 30% above market value. For the last five years, AL has consistently been contributing 80% of PL's total income.
- (ii) Purchase 70% shareholdings in Mega Limited (ML), listed on Pakistan Stock Exchange Limited.

The board is confident that PL is capable of successfully rebranding ML's product line and surpassing AL's market position in no time. During the board meeting, one of the directors showed his concern that if PL could not be able to successfully rebrand the ML's product line, it would drastically reduce PL's own operations and profitability. However, the board remained quite optimistic of ML's success in view of profit forecasts and management's competence.

Required:

- (a) Advise whether the directors are exclusively entitled to take the above strategic decisions. **(02)**
- (b) Discuss any **eight** obligations on PL with reference to the said decisions. **(06)**
(Ignore the provisions / rules of the Companies Act, 2017 and Pakistan Stock Exchange Rule Book)

Q.2 Critical Limited (CL), after successful operation of five years, got its securities listed on Pakistan Stock Exchange Limited in the year 2016.

Currently, CL's management intends to raise finance for setting up an additional production facility in order to meet the growing demand for its products. The Chief Executive Officer discussed the same with the Chief Financial Officer of the company and they have decided to raise finance by issuing new class of non-voting ordinary shares amounting to Rs. 190 million comprising of 19 million shares of Rs. 10 each.

As per the latest audited financial statements, CL has a paid-up share capital of Rs. 400 million comprising of 20 million shares of Rs. 20 each.

Required:

In the light of Companies (Further Issue of Shares) Regulations, 2018:

- (a) briefly discuss how the Chief Executive Officer would implement the said decision. **(02)**
- (b) list down the necessary information which must be provided to the final decision makers. **(05)**
- (c) state whether CL is justified in issuing 19 million shares. Your answer should be supported with necessary calculations. **(02)**

- Q.3 Multi Food Limited (MFL) is desirous of providing a loan of Rs. 300 million at a mark-up of KIBOR plus 2% per annum to its associated undertaking Local Limited (LL) to support LL's proposed mega project. During a recent meeting, LL has offered that instead of charging mark-up, MFL may opt for sharing the project's profit or loss in the ratio of 50:50 over the period of the loan.

The project is expected to commence operations from the fourth month of loan disbursement. Profit from the first year of operations is estimated at Rs. 50 million and the same is expected to grow by at least 10% per annum.

Required:

In the light of Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017:

- (a) specify the requirement(s) which are required to be followed by MFL. (06)
 (b) discuss whether MFL can accept LL's offer. (02)

- Q.4 (a) A newly appointed Company Secretary at Sweetest Limited has been informed that following meetings are scheduled:
- Meeting of audit committee on 23 February 2020 at 4:00 pm to review the annual financial statements; and
 - Meeting of board of directors on 24 February 2020 at 03:30 pm to consider the annual financial statements for the year ended 31 December 2019 for declaration of any entitlement.

Required:

Being the Corporate Consultant of the company, advise the Company Secretary on the following matters:

- (i) whether it is mandatory to circulate the minutes of the audit committee meeting, if yes, what would be the requirement? (03)
 (ii) whether it is mandatory to carry out performance appraisal of the board, board committees and head of internal audit for the year ended 31 December 2019, if yes, who would carry out the performance appraisal? (04)
- (b) Stable (Pvt.) Limited (SPL), established with a paid-up share capital of 28 million shares of Rs. 25 each, has approached MNO (Pvt.) Limited, a training organization, to conduct orientation course of its Board of Directors in March 2020. One of the managers of MNO has asked you to design the said orientation course and has provided you SPL's financial statements and other relevant documents for this purpose. From documents, you came to know that 14.05 million shares of SPL which were allotted to M/s Specialized Printing Press of Pakistan Limited were purchased by National Bank of Pakistan in the year 2018.

Required:

In view of the relevant law, identify the mandatory information that must be included in the orientation course. (04)

- Q.5 In September 2019, Fareed and Bashir decided to start a business. However, instead of forming a new company, they decided to acquire controlling shares of Zee Limited (ZL) that was incorporated in the year 2002 as an unlisted public company. Immediately after acquiring the shares, they applied for the transfer of the said shares in their names as joint owners. They received the share certificates duly endorsed in their names on 15 November 2019. On 12 January 2020, Fareed was elected as a director of ZL.

On 1 February 2020, Fareed met with an accident and died on the spot. Fareed's family members requested ZL's Company Secretary to transfer the shares in their names.

Required:

- (a) In the light of Companies Act, 2017, advise the Company Secretary how he would deal with the request of Fareed's family members. (03)
- (b) Assuming it is discovered that prior to Fareed's death, Bashir had disassociated himself from ZL's shares and Fareed had deposited a nomination with ZL conferring on Shahzad the right to protect the interest of his legal heirs in the event of his death.

In the light of Companies Act, 2017, advise whether Shahzad is eligible to be named as Fareed's nominee in case of his death. Also discuss the rights and responsibilities of Shahzad in this regard. (04)

- Q.6 (a) Sadiqa worked in a leading food company at a senior position for five years. In 2018, she left the company and started her own Dairy business. She appointed a manager, a supervisor and six other workers for running the operations of the company. In January 2020, due to slow recovery from debtors, she faced cash flow issues and needed Rs. 1.0 million for few months.

One of her friends advised her to approach Alfa Company Limited (ACL), non-bank micro finance company, for obtaining the required loan. Sadiqa visited ACL's office and applied for the loan and provided all the required details/information about her business under the provisions of relevant laws.

Required:

Advise whether the said loan may be approved by ACL's management. (07)

- (b) Following is the latest summarised statement of financial position of Dull Textiles Limited (DTL) as of January 2020:

	Rs. in million		Rs. in million
Share capital (Rs. 10 each)	1,400	Non-current assets	2,230
Accumulated loss	(925)	Current assets	120
	475		
Long term liabilities	745		
Trade creditors	950		
Other current liabilities	180		
Total equity and liabilities	2,350	Total assets	2,350

In December 2018, DTL had acquired a customized cutting machine worth Rs. 850 million from Abid Limited (AL). As per the agreed terms of payment, DTL made 48% payment before delivery and remaining 52% payment was required to be made in the first week of January 2019. However, due to cash flow difficulties, DTL was not able to make balance payment. Similar to AL, Farigh (Pvt.) Limited (FPL), a key raw material vendor of DTL, couldn't get any payment against its last seven months' invoices that exceeded Rs. 400 million.

Managements of AL and FPL have approached you for your advice on how to recover their full amount without going to the Court. Upon enquiry, you have been told that both AL and FPL do not have any security or lien over DTL's assets.

The market price of DTL's shares, during the last few weeks, has remained at Rs. 2.20 per share.

Required:

In the light of Companies Act, 2017 advise the course of action(s) available to AL and FPL for recovery of their amount. Your answer should provide all major steps that are required to be taken in this regard. (08)

- Q.7 (a) Everest Leasing Company Limited (ELCL) is successfully operating in all major cities with a network of 20 branches.

Last month, ELCL applied to the Securities and Exchange Commission of Pakistan (SECP) for the renewal of its licence and provided all the information required by SECP during inquiry. However, the Chief Executive is surprised to receive a letter from SECP denying the renewal of licence due to various discrepancies. The Chief Executive is very much concerned that analysts on the other hand are providing optimistic picture to the investors, projecting substantial increase in ELCL's share price over next few weeks, foreseeing that ELCL licence would be renewed.

The Chief Executive has directed you to immediately advise the steps which are mandatorily required to be taken with reference to intimation of this fact to various stakeholders.

Required:

Prepare a checklist containing all necessary steps that would need to be taken for intimation to various stakeholders. (08)

- (b) Branch Manager of Shandar Bank Limited (SBL) has submitted the following loan application forms for approval of Credit Committee:

- (i) JKL Textiles Limited requires a loan amounting to Rs. 590 million. The said loan will be secured against the guarantee of MNO (Private) Limited where Mr. Aslam, one of the board members of SBL is also a director.
- (ii) PQR (Private) Limited has applied for a loan amounting to Rs. 100 million for expansion of its production facilities. The loan will be secured against pledge of 1 million shares of SBL, having market value of Rs. 120 per share, held by PQR.
- (iii) GHI (SMC-Pvt) Limited requires a loan amounting to Rs. 5 million to start its business. Mr. Dawood, one of the board members of SBL has assured that he is in close relationship with the owner of GHI and that the loan will be settled within a year. No other security is offered by GHI.

Required:

For each of the above independent cases, provide your feedback with regard to acceptance and advise whether the Credit Committee is empowered to approve the above loans. (*Ignore the requirements of Companies Act, 2017*) (03)

- Q.8 Bilal has been elected as a director of Net Industries Limited (NIL) in the recent election which was held immediately after NIL was listed on Pakistan Stock Exchange Limited. Bilal is also an elected director at Koran Limited (KL) which is one of the subsidiaries of NIL.

KL's board of directors has approved the disposal of its land measuring 100,000 square yards in Industrial Zone A as the board wants to shift the production plant to Industrial Zone B to avail special incentives announced by the Government for listed companies for Industrial Zone B. Owing to the growing demand of Zone B, KL's management is finding it difficult to obtain similar size of plot at the desired location. Considering the difficulties of KL, Bilal has offered to exchange his spouse's plot of land measuring 60,000 square yards in Zone B in consideration of KL's land in Zone A. According to Bilal, the fair values of both the properties are approximately the same.

Required:

State the conditions which are required to be met before the transaction may be executed under the arrangement proposed by Bilal. (12)

Q.9 The board of directors of Mega Limited (ML) intends to change the company's name. They are of the view that such a change would help in rebranding and rebuilding the image of the company. In this regard, the board has directed you, being the Company Secretary, to take necessary action urgently for changing the name of the company.

Required:

List the steps that are required to be taken by ML for obtaining members' approval. (11)

Q.10 Bright Limited (BL) was incorporated in December 2016 as an unlisted public company. BL intends to raise funds for construction of new production facilities in Northern Area by offering 30 million ordinary shares to the general public in April 2020 through Initial Public Offer (IPO). Since inception, 80% of BL's paid-up share capital has always been held by Nasim family, who are the main sponsors of the company. However, in 2019, due to financial crises Nasim family had to divest 25% of BL's shares to a foreign investor at Rs. 30 per share. The remaining shares are held by three financial institutions.

In the year 2017, due to some questionable decisions of the CEO, BL incurred huge losses resulting in his removal. Immediately after approval of the first financial statements of BL, board of directors appointed another seasoned CEO having experience of more than two decades of the same industry. The prompt action of the board of directors helped achieving the desired results and BL started generating profits every year.

Following is the shareholders' equity appearing in BL's latest audited financial statements for the year ended 31 December 2019:

	Rs. in million
Paid-up share capital (Face value of Rs. 10 each)	900
Unappropriated profits	20

Required:

Respond to each of the following in the light of Public Offering Regulations, 2017:

- (a) Identify the financial and operational conditions which must be satisfied to ascertain BL's eligibility for offering of shares to the general public and advise whether BL is eligible to make public offer of its shares. *(Note: Conditions applicable on regulated persons appointed by the issuer as well as the conditions related to obtaining of requisite approvals from PSX or the Commission are not required)* (03)
- (b) Assuming Nasim family wants to sell majority of shares in BL. Advise when and how many shares Nasim family would be able to sell. Also identify the conditions, if any, subject to which the shares may be sold. (03)
- (c) Assuming Nasim family intends to borrow Rs. 70 million from Meherban Bank Limited against pledge of BL's shares. Advise how many shares would need to be pledged with the bank if the market value of BL's shares, at the time of pledge, is Rs. 35 or Rs. 55 per share. (02)

(THE END)