



Corporate Laws

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

- (i) Sell-off entire investment in Adam 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% stake in Mina Limited (ML), listed on Pakistan Stock Exchange Limited, which is a direct competitor of AL.

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 is not able to successfully rebrand the ML's product line, it would drastically reduce PL's own operations. However, the board remained quite optimistic of ML's success in view of profit forecasts and management's competence.

Required:

- (a) In the light of Companies Act, 2017 comment whether the directors are exclusively entitled to take the above strategic decisions. Also, briefly describe further approvals or requirements, if any, attached to these decisions. **(05)**
- (b) In the light of Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2017 discuss any **seven** obligations of PL, being an acquirer of substantial stake in ML, in respect of public announcement of offer. **(07)**

Q.2 XLM Limited (XLM) is desirous of providing a loan of Rs. 300 million at a mark-up of KIBOR plus 2% per annum to WL Limited (WLL), an associated company, to support its proposed mega project. During a recent meeting, WLL has offered that instead of charging fixed mark-up, XLM 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. 40 million and the same is expected to grow by 10% per annum.

Required:

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

- (a) identify the information which is specifically required to be disclosed in the statement annexed to the notice of the general meeting at the time of obtaining initial approval in the context that WLL's project has not commenced operations. **(03)**
- (b) discuss whether XLM can accept WLL's offer. **(02)**

Q.3 Cinifia Limited (CL), a listed company, having a paid-up share capital of Rs. 200 million comprising of 20 million shares of Rs. 10 each, intends to raise finance for setting up an additional production facility in order to meet the growing demand for its products. The directors of the company have resolved to raise finance by issuing a new class of non-voting ordinary shares.

Required:

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

- (a) state the prescribed particulars that should be included in the board resolution. (05)
- (b) briefly discuss the required approvals which must be taken before issuance of such shares. (02)
- (c) determine the maximum amount of share capital which can be raised by CL in the given scenario. (02)

Q.4 (a) Sughal Limited (SL) is listed on Pakistan Stock Exchange Limited. SL's next board meeting is scheduled to be held on 14 June 2019 at 02:00 p.m. to consider and approve the financial statements for the year ended 31 March 2019, right after the conclusion of audit committee meeting which is also scheduled to be held on the same date at 09:00 a.m.

Required:

In the light of Listed Companies (Code of Corporate Governance) Regulations, 2017:

- (i) identify who is entitled to carry out performance appraisal of the board, board committees and head of internal audit for the year ended 31 March 2019. (03)
 - (ii) discuss the requirements of circulation of the minutes of audit committee meeting. (04)
- (b) Aslam is in process of designing an orientation course for the board of directors of Fable Limited, a public sector company.

Required:

Under the Public Sector Companies (Corporate Governance) Rules, 2013 advise Aslam about the mandatory information which should be included in the orientation course. (03)

Q.5 Fahad purchased 100,000 shares of Zechill Limited (ZL), an unlisted public company. Subsequently, on 01 March 2019, he was appointed as a director of the company. On 01 June 2019, he met with an accident and died on spot.

Required:

- (a) Under the Companies Act, 2017 what will be the procedure of transfer of shares to Fahad's successors-in-interest? (02)
- (b) Assuming it was discovered that prior to Fahad's death, he had deposited a nomination with ZL conferring on Shahbaz 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 Shahbaz is eligible to be named as Fahad's nominee in case of his death. Also, discuss the rights and responsibilities of an eligible nominee. (05)

- Q.6 (a) Sabira Dairies is a microenterprise, owned and run by Sabira. She has approached an NBFC for the purpose of obtaining a loan of Rs. 1 million to support her business.

Required:

Under the Non-Banking Finance Companies and Notified Entities Regulations, 2008 explain the terms 'microenterprise' and 'micro entrepreneur'. Also, advise whether Sabira is eligible to obtain the loan of Rs. 1 million for her business. (04)

- (b) Subordinated loans are considered as part of equity for NBFCs.

Required:

Under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 briefly discuss any **six** conditions which must be complied with, for a loan to be classified as subordinated loan. (06)

- Q.7 Following is the latest summarised statement of financial position of Duxell Textiles Limited (DTL), a listed company:

	2018 Rs. in million		2018 Rs. in million
Share capital (Rs. 10 each)	200	Non-current assets	1,000
Accumulated loss	(125)	Current assets	120
	75		
Long term liabilities	745		
Trade creditors	250		
Other current liabilities	50		
Total equity and liabilities	1,120	Total assets	1,120

A group of creditors with aggregate outstanding balance of Rs. 130 million has applied to the Commission to appoint an Administrator to manage the affairs of DTL. It is mentioned in the application that the performance of the company has significantly deteriorated over the last three years.

The current market price of DTL's shares is Rs. 2.20 per share.

Required:

Under the provisions of Companies Act, 2017:

- (a) advise whether these creditors are eligible to request appointment of Administrator and discuss the grounds on which such a request can be made by DTL's creditors. (07)
- (b) assuming that creditors are justified in their request, state the procedure which the Commission may follow in appointment of the Administrator. Also, mention when such Administrator shall cease to hold the office. (04)

- Q.8 (a) Every listed company is required to immediately disseminate to the Pakistan Stock Exchange Limited (PSX), all price-sensitive information relating to its business and other affairs that may affect the market price of its shares. Such information must be communicated to the PSX, prior to its release to any other person or print/electronic media.

Required:

Give any **eight** examples of price sensitive information as mentioned in the PSX Regulations. (08)

- (b) Under the Banking Companies Ordinance, 1962 identify the persons who are prohibited to act as a director of a banking company. (05)

- Q.9 (a) Ahmed is a director on the boards of Nazeer Industries Limited (NIL) and King Limited (KL), which is the subsidiary of NIL. KL is in process of disposing off its land in Industrial Zone 1 since it wants to shift the production plant to Industrial Zone 2. Owing to the growing demand of Zone 2, the management of KL has been finding it difficult to obtain the plot in desired zone. Considering the difficulties of KL, Ahmed has offered to sell his plot in Zone 2 in consideration of KL's land in Zone 1. According to Ahmed, the fair values of both properties are approximately the same.

Required:

Under the Companies Act, 2017 state the conditions which must be met before such transaction is executed under the arrangement proposed by Ahmed. (04)

- (b) The board of directors of Majestic 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 the company secretary to call a general meeting on priority basis in order to obtain members' approval.

Considering the urgency of the matter, company secretary has advised the board that required approval under the law may be taken from the members by getting the resolution passed through circulation.

Required:

Under the provisions of Companies Act, 2017:

- (i) advise whether ML can get the resolution passed by its members through circulation. (02)
- (ii) specify the pre and post-requisites which must be taken care of, in order to ensure that the resolution passed through circulation by members of ML is valid. Also, briefly discuss the requirements related to retention of records in respect of such resolutions. (05)

- Q.10 Bright Limited (BL) is an unlisted public company, which intends to raise funds for expansion of its business by offering 30 million ordinary shares to the general public in June 2019 through Initial Public Offer (IPO). Since the incorporation of BL in June 2011, 80% of its paid-up share capital has always been held by Nasim family, who are the main sponsors of the company whereas remaining share capital is held by three financial institutions. BL started generating profits from year 2014.

Following is the shareholders' equity appearing in BL's latest financial statements:

	2018
	Rs. in million
Paid-up share capital (Rs. 10 each)	900
Unappropriated profits	200

Required:

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 making public offer of shares. Based on these conditions, 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)* (04)
- (b) calculate the number of shares which should be retained by the Nasim family, after the public offer of shares is concluded, along with the respective retention period. Further, identify the conditions subject to which these shares may be sold. (04)
- (c) briefly discuss the methods allowed to BL for determining the offer price. (04)

(THE END)