



The Institute of  
Chartered Accountants  
of Pakistan

## Certified Finance and Accounting Professional Stage Examination

4 December 2019  
3 hours – 100 marks  
Additional reading time – 15 minutes

### Corporate Laws

#### Instructions to examinees:

- (i) Answer all **NINE** questions.
- (ii) Answer in black pen only.

- Q.1 (a) Sarmaya Limited (SL) is considering to seek voluntary de-listing from Pakistan Stock Exchange Limited (PSX). The decision has been taken primarily on the premise that trading volumes of SL's shares has remained very low, as barely fewer than 10,000 shares are traded each month for the past few years. The low-volumes are mainly attributed to the fact that 90% of SL's shares are owned by Malik and Family who hardly engage in any trading activity and as such compliance with excessive regulatory requirements outweighs the listing benefits.

Malik and Family are contemplating to purchase further 5% shares from SL's shareholders whereas, the remaining 5% will be acquired by SL's CEO.

#### **Required:**

In the light of the PSX Regulations, discuss the minimum percentage of shares which Malik and Family should acquire in order to qualify for de-listing. Also discuss how the minimum purchase price of shares would be determined under the above circumstances. (06)

- (b) On 25 June 2019, Pakistan Stock Exchange Limited (PSX) placed Outdoor Technologies Limited (OTL) on Defaulters' Segment because of OTL's failure to pay the annual listing fee for two years. PSX issued a notice to general public in this regard. It also apprised CDC about OTL's position and instructed OTL to rectify the non-compliance. On 23 September 2019, PSX suspended trading of shares of OTL.

#### **Required:**

Under the PSX Regulations, advise the directors about the procedures to be followed for rectifying the non-compliance. Also briefly discuss the consequences, if OTL fails to rectify the non-compliance within the stipulated time. (05)

- Q.2 Respond to each of the following independent situations in the light of the Companies Act, 2017:

- (a) Kismet Limited (KL) has entered into an arrangement with Ahmad Laiq, the CEO of Bijli (Pvt.) Limited for the purchase of a specialized machinery worth Rs. 2,500,000 used in the manufacture of electric irons. Ahmad Laiq is the brother of one of KL's directors and also a director in KL's holding company. Ahmad Laiq has agreed to take 20,000 shares in KL in consideration for the payment of machinery. **Advise whether KL can acquire the machinery from Ahmad Laiq.** (03)

- (b) Mukarram Associates (MA), an association of persons, is engaged in several activities involving welfare of the general public. It intends to register itself as a public limited company, without addition of the word 'Limited' to its name. **Briefly discuss the condition(s) which MA must satisfy for registration without addition of the word 'Limited' to its name.** (05)

(c) Tripod Limited (TL), a listed company, intends to change the place of its registered office from Lahore to Peshawar and for this purpose it has obtained approval of the general meeting through special resolution. The directors of TL are of the view that in order to be effective, the special resolution should be filed with the Commission. However, the company secretary has advised to keep the resolution at the registered office so that anyone who is interested may inspect it. **Briefly discuss the requirement(s) relating to filing/furnishing of special resolution.** (04)

(d) Cellular Limited (CL), a company listed on Pakistan Stock Exchange Limited, intends to invest its funds in government treasury bills. CL requires a board resolution for this purpose. However, no board meeting is planned in the near future and some of the directors are also out of the country. The company secretary has informed that nothing is mentioned in the CL's Articles in this regard. **Discuss the alternative course of action, if any, available to CL.** (05)

Q.3 Respond to each of the following independent scenarios, in the light of Listed Companies (Code of Corporate Governance) Regulations, 2017:

(a) Jamal Limited (JL) has recently been converted into a listed company. The board of directors have submitted a draft directors' report for the year ended 30 September 2019 for your review. The report is simply an updated version of the last year's issued report. During the review process, you have identified that some important information is missing in the submitted draft of the directors' report which you consider must be included in the report.

**Required:**

Discuss any **four** mandatory information which must be included in JL's directors' report, after its conversion into a listed company. (04)

(b) The Board of Directors of PAL Limited is planning to form a nomination committee. The matter has been scheduled to be discussed in the upcoming board meeting.

**Required:**

Draft the terms of reference of the nomination committee for board's approval. (03)  
*Note: Confine your answer to the key tasks / responsibilities section only.*

Q.4 Mega Limited (ML) wanted to finance its new plant by issuing 300 million ordinary shares of the face value of Rs. 10 each. It was decided that 75% of the issue would be offered to the institutional investors and high net-worth individuals through book building process at a floor price of Rs. 40 per share whereas remaining 25% of the issue would be offered to retail investors through public offering. The bidding period for book building was fixed from 3 December 2019 to 4 December 2019.

Up to the last date of book building, ML had received bids for only 200 million ordinary shares. The possible cause, in view of one of the directors, was a fault which developed in the application receiving the bids. The fault continued for three hours on 3 December 2019. ML is now considering to extend the bidding period till 6 December 2019.

**Required:**

Under the Public Offering Regulations, 2017:

(a) discuss whether ML may get extension in the bidding period, if yes, then briefly explain the procedure for obtaining such extension. (03)

(b) determine the status of ML's book building process, in case, if the bidding period is not extended. Also, state the steps which may be required to be taken at the end of the bidding period, under the circumstances. (05)

(c) highlight the steps which are required to be followed if the bidding period is extended. (03)

- Q.5 Gama Textile Mills Limited operates an employees' provident fund. The trustees of the provident fund have recently identified three listed companies for equity investment. Following information is available in this regard:

	ALUE	BLUE	CLUE
	----- Rs. in million -----		
Paid-up capital (Rs. 10 each)	450	200	510
Shares held by directors/sponsors	300	130	450
Net assets as at 30 June 2019	540	190	1,020
Profit/(loss) for the year ended:			
▪ 30 June 2019	160	80	260
▪ 30 June 2018	150	(120)	210
▪ 30 June 2017	140	35	280
▪ 30 June 2016	(50)	40	150
% of annual profit (if any) distributed to the shareholders	50%	100%	30%

**Required:**

Under the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018 advise the trustees about the company(ies) which are eligible for investment under the Regulations. *Your advice should include evaluation of all criteria under the Regulations for each share.*

(10)

- Q.6 Wonder Drugs Limited (WDL) is listed on Pakistan Stock Exchange Limited. Its paid up capital comprises of 50 million shares of Rs. 10 each.

During the year 2019, following acquisitions / (disposals) were undertaken by three equity investors i.e. Moosa, Faisal and Noor, in WDL's shares:

Transaction dates	Moosa		Faisal		Noor	
	Shares in million	Price per share (Rs.)	Shares in million	Price per share (Rs.)	Shares in million	Price per share (Rs.)
04-Jan-19	1.0	12	0.5	12	2.0	12
12-Mar-19	2.0	13	0.3	13	2.5	13
25-Jul-19	-	-	1.0	15	2.0	13
11-Sep-19	*1.0	-	-	-	-	-
19-Sep-19	-	-	1.5	14	-	-
01-Oct-19	-	-	-	-	(1.0)	14
07-Nov-19	-	-	(1.0)	13	1.5	13

\* *Received through inheritance*

On 10 April 2019, Moosa was elected as a director in WDL.

**Required:**

In the light of the Securities Act, 2015 discuss the responsibilities of Moosa, Faisal and Noor, if any, in respect of the above transactions.

(14)

- Q.7 Grand Limited (GL), a listed company, intends to elect new directors in place of the retiring directors in its upcoming annual general meeting. The existing directors have fixed the number of directors to be elected in the general meeting at 9 directors.

**Required:**

Under the provisions of the Companies (Postal Ballot) Regulations, 2018 advise GL about the steps to be taken for enabling the members to cast their vote through e-voting. Also state the procedure to be adopted by GL for e-voting.

(07)

Q.8 Nadeem Gul, desirous of forming a NBFC, has filed an application to the Commission seeking permission for the establishment of a listed 'Lending NBFC'. Nadeem Gul, not being fully aware of the conditions applicable to NBFCs, had asked his finance manager Shahzad Akmal to guide him about certain conditions applicable to NBFCs. The synopsis of the response received from Shahzad Akmal on the inquired conditions is as under:

- (i) **Appointment of chief accounting officer:** only an MBA with major in finance or a CFA having minimum six years' experience may be appointed.
- (ii) **Appointment of directors:** any person who holds such office in any other NBFC licensed for the same form of business may be appointed in accordance with Schedule III. However, Federal Government shall be the final authority to determine who may be appointed as a director.
- (iii) **Appointment of executives:** NBFC shall appoint such executives who shall fulfil the terms and conditions mentioned in fit and proper criteria specified by the Commission by notification in the official Gazette.
- (iv) **Preparation of accounts:** NBFC shall prepare its accounts in conformity with the Banking Companies Ordinance, 1962.
- (v) **Quarterly and annual financial statements:** NBFC shall furnish these statements to the registrar.
- (vi) **Rating of NBFC:** the rating should be obtained from the international rating agencies and such rating shall be updated after every two years. The rating, on updation, shall also be published in one English and one Urdu newspaper.
- (vii) **Disposal of strategic investment:** NBFC may sell strategic investment by passing a resolution in the board meeting.
- (viii) **Investment in the shares of unlisted company:** investment shall not be more than 15% of NBFC's equity. Investment shall be made through special resolution in a general meeting after careful analysis of the merits and financial impact of the investment. The resolution shall be filed with the Federal Government within fourteen days of passing the resolution. However, the NBFC shall not own shares of any one unlisted company in excess of 10% of its own equity or the issued capital of the investee company, whichever is less.

**Required:**

Under the provisions of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 comment on the above response submitted by Shahzad Akmal. (10)

- Q.9 (a) Under the provisions of the Companies Act, 2017 state who may file a petition for winding up in the Court. (04)
- (b) Naima Limited (NL) has recently passed a special resolution in a general meeting to wind up the company voluntarily and has appointed Azad as a liquidator to carry out the winding up.

**Required:**

Under the provisions of the Companies Act, 2017 state the following:

- (i) any **five** general powers which a liquidator may exercise. (05)
- (ii) consequences of winding up with regard to NL and the creditors. (04)

(THE END)