



The Institute of
Chartered Accountants
of Pakistan

Certified Finance and Accounting Professional Stage Examination

9 December 2020
3 hours – 100 marks
Additional reading time – 15 minutes

Corporate Laws

Instructions to examinees:

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

Q.1 Nadeem Ghazi is the director of Aitmad Limited (AL) and Sukoon Limited (SL). Both companies are listed on Pakistan Stock Exchange Limited and have paid-up share capital of Rs. 500 million and Rs. 800 million respectively.

AL's board of directors has taken following decisions in its meeting held on 2 December 2020:

- (i) To make investment of Rs. 150 million in SL, which is a greenfield project, by purchasing 15 million shares of Rs. 10 each from its sponsor in the following manner:
 - Rs. 85 million shall be invested during the month of January 2021; and
 - The remaining amount shall be invested from time to time over the period of two years.
- (ii) To grant a loan of Rs. 5 million to Nadeem Ghazi's son for higher studies. The loan will be repayable in 6 equal quarterly instalments. However, one of the directors did not agree to the grant of the said loan.

Required:

- (a) Discuss the impact, if any, of each of the aforesaid decisions on AL due to directorship of Nadeem Ghazi. (05)
- (b) Specify the requirement(s) that need to be followed by AL with reference to aforesaid decisions. (10)

(Ignore the provisions related to price sensitive information, insider trading, general or specific disclosures to be made in the notice of meeting related to investments and its circulation/publication)

Q.2 Ramzan Limited (RL) was incorporated in January 2013 as a non-banking finance company (NBFC) with a paid-up share capital of Rs. 500 million, divided into 50 million shares of Rs. 10 each.

In a recent meeting of the board of directors, following questions were raised:

- (i) Can Shaista Khalid, the daughter of Khalid Raza who holds 18% shareholding in RL be appointed as chief executive of RL? The term of the existing Chief Executive will be completed in February 2021.
- (ii) Whether RL is entitled to obtain the license for leasing business?
- (iii) Can RL purchase five floors of a ten story office building from surplus fund at a market value of Rs. 200 million? The first two floors are planned to be used by RL for its regional office whereas the remaining floors would be let out to one of RL's associated undertakings.

Required:

Being a Company Secretary, prepare a briefing note for circulation to the board of directors, addressing the above questions raised by the board. (08)

Q.3 Behreen Limited (BL) is engaged in the business of home furnishings and supply of allied products for the last 30 years. However, due to availability of cheap imported products together with significant increase in cost of production during the last five years, BL was unable to sustain its market share. Consequently, BL failed to honour its commitment towards the creditors.

On the recommendation of the board of directors, BL's shareholders passed a special resolution on 15 February 2020, to wind up the company by the Court. The petition for winding up was filed on 1 March 2020. The Court appointed Maroof Agha as an official liquidator at a remuneration of Rs. 1 million plus 0.5% of the amount realized by him through disposal of BL's assets. Winding up expenses other than remuneration of liquidator was estimated to be Rs. 2 million.

Following information relating to BL as on 1 March 2020 has been gathered by Maroof Agha:

(i) Shareholders' equity:

	Rs. in million
Ordinary share capital (Rs. 10 each)	580
15% Irredeemable preference shares (Rs. 50 each)	160
Accumulated losses	(200)

(ii) Outstanding bank loans:

Name of bank	Loan outstanding (Rs. in million)	Security
Shandar Bank Limited	600	First charge ranking pari passu on all present and future factory buildings.
Maldar Bank Limited	200	First charge ranking pari passu on all present and future factory buildings.
Kamdar Bank Limited	298	First charge on plant and machinery and floating charge on present and future inventories.

(iii) Unsecured creditors and other liabilities:

	Rs. in million
Trade and other creditors	441
Salaries and wages (payable for seven months)	144
Amount payable to funded gratuity	30
Income tax / sales tax payable	23
Legal and professional fee	12
Penalty on non-compliance of the provisions of the Companies Act	5

At the beginning of winding up proceedings, Rs. 10 million was available as cash and bank balances. During the process of winding up, Maroof Agha realized Rs. 1,200 million by disposing all assets excluding cash and bank balances. The break-up is as under:

	Rs. in million
Factory buildings	650
Plant and machinery	125
Investment	65
Inventories	146
Trade and other receivables	214
	1,200

Required:

In the light of Companies Act, 2017:

- (a) determine the amount to be paid to each creditor and contributory in the order of their ranking. (09)
- (b) prepare the list of creditors or contributories alongwith amount which may remain fully or partially unpaid after the payment in (a) above. (03)

Q.4 Virtual Games Limited (VGL), a listed company, has 400 million voting shares of Rs. 10 each. Two of its shareholders intends to acquire further shareholdings in VGL as follows:

- (i) Toy Land (Private) Limited (TPL) which owns 60 million shares in VGL, has entered into an agreement with Abid Ahmed, another shareholder of VGL, to acquire further 100 million shares at an agreed price of Rs. 44 per share. After agreement, TPL made a public offer on 5 December 2020 to acquire VGL's shares at the rate of Rs. 45 per share.
- (ii) Yasir who holds 40 million shares of VGL, intends to make a public offer on 18 December 2020 to acquire further 60 million voting shares of VGL.

Required:

In the light of Securities Act, 2015 and Listed Companies (Substantial Acquisition of Voting Shares & Takeovers) Regulations, 2017 advise on the following matters:

- (a) The minimum number of shares that TPL shall mandatorily be required to acquire through public offer. (02)
- (b) The minimum number of shares that Yasir shall mandatorily be required to acquire through public offer and the conditions which needs to be complied with by Yasir in this respect. (03)
- (c) The ground(s) on which TPL may reject the acceptances received in response to the public offer. You may assume that TPL has received acceptances for 90 million shares. (03)
- (d) Restriction on TPL if, after acquisition of further shares, it intends to dispose of one of VGL's main divisions. (02)

Q.5 DS Limited (DSL), an automobile manufacturing company, is listed on Pakistan Stock Exchange Limited.

Due to identification of COVID-19 cases in its factory, DSL has closed its factory on 5 December 2020. DSL has a plan to implement all Standing Operating Procedures relating to COVID-19 within its factory and will then resume the factory operation.

Required:

- (a) Discuss the disclosure requirement of above information to stakeholders. (05)

Sikander Niaz, the Operation Manager in DSL, sold 25,000 shares of DSL at Rs. 335 per share two days before the closure of factory. He has a plan to repurchase the same number of shares before the resumption of operation.

Required:

- (b) Discuss whether the transaction made or to be made by Sikander Niaz is permissible under the law and state the possible consequences of such transactions. (04)

- Q.6 (a) The shareholders' equity as shown in the financial statements of Bari Chemicals Limited (BCL), a listed company, as at 30 September 2020 was as follows:

	Rs. in million
Paid-up ordinary share capital of Rs. 10 each	*500
Unappropriated profit	300
	800

** 25% shares are free float against the requirement of 10% as specified by Pakistan Stock Exchange Limited.*

BCL has a history of profitable operations and consistent dividend payments since its incorporation. However, Abdullah Suleman, BCL's Chief Executive and a key shareholder, is of the viewpoint that BCL's current market share price of Rs. 18 per share does not portray the realistic picture of the company's successful operations. He believes that in order to provide realistic value of BCL's shares, BCL should buy back its own shares from Pakistan Stock Exchange Limited.

Abdullah Suleman has asked you, being the Company Secretary to determine the maximum number of shares that BCL can buy back assuming estimated market price is Rs. 20 per share at that time and cash and cash equivalent available with BCL is Rs. 55 million.

Required:

Prepare a reply to the question raised by Abdullah Suleman.

(06)

- (b) In the light of your reply in (a) above, Abdullah Suleman submitted a proposal of buy back of shares to the board of directors. On 7 December 2020, BCL's board of directors approved the proposal and advised to call the general meeting on 4 January 2021 for seeking shareholders' approval.

Required:

Draft the resolution(s) to be included in the notice of the general meeting regarding buyback of shares by BCL.

(05)

Note:

- *You may assume necessary details.*
- *Do not draft resolutions assigning authority to persons in this regard.*

- (c) Assume that on the recommendation of the board of directors, the shareholders approved the buy-back of shares in the general meeting as per (b) above.

Required:

State any **four** requirements that need to be complied with by BCL after the closing of the purchase period.

(04)

- Q.7 (a) You are a Corporate Consultant of Fast Cars Limited (FCL) which is planning to make a public offer of 200 million ordinary shares having par value of Rs. 10 each.

Required:

In the light of Public Offering Regulations 2017, advise the prerequisites that the book runner should verify while vetting bid applications under the book building process.

(02)

- (b) FCL shareholders have approved public offering of Rs. 2,000 million out of which 70% should be offered through book building process and remaining 30% should be offered to the retail investors. Salman Associates (SA) has been appointed as 'Consultant to the Issue' which allows the bidders to place bids for 100% of offer size. The floor price and the price band set by FCL in consultation with SA were Rs. 50 and Rs. 70 (i.e. 40% above the floor price) per share respectively. The bidding period for book building was fixed from 26 November 2020 to 27 November 2020.

At the close of bidding period i.e. 27 November 2020, following bids (sorted in the descending order of bid price) were received from various bidders:

Bidder	Number of shares bid	Cumulative number of shares bid for	Bid price
	----- in million -----		Rs. per share
U	14	14	70.0
T	10	24	69.5
S	12	36	69.0
R	8	44	68.5
Q	14	58	68.0
P	10	68	67.5
O	13	81	67.0
N	12	93	66.5
M	14	107	66.0
L	7	114	65.5
*K	12	126	65.0
J	13	139	64.0
*I	12	151	63.0
H	14	165	62.0
*G	2	167	62.0
F	10	177	60.0
E	12	189	57.0
D	14	203	55.0
C	12	215	55.0
B	13	228	53.0
A	14	242	51.0

**Bidders K (Insurance company), G (Auto part manufacturing company) and I (Auto service provider) are SA's associates.*

Required:

In the light of Public Offering Regulations, 2017:

- (i) advise how strike price is determined at the close of bidding period. (02)
- (ii) comment on the legality of the bids received from SA's associates. (03)
- (iii) advise how the shares would be allotted to the bidders. (05)
- (iv) discuss the requirements in respect of the leftover/excess amount received through book building. (02)
- (c) Assume that immediately after the book building process as per (b) above, the retail portion was offered to the public. The offer has been subscribed only by 28% of the public offer.

Required:

Critically examine the suitability of FCL's decision of public offer i.e. 70% through book building and 30% through retail investors in the light of Public Offering Regulations, 2017. (02)

Q.8 Swat Hotel Limited (SHL) is listed on Pakistan Stock Exchange Limited. Its financial year ends on 30 June each year.

The minimum number of directors fixed by SHL's articles of association is eight. As on 1 December 2020, SHL's board consisted of the following directors:

Category	Name of directors
Independent directors	<ul style="list-style-type: none"> ▪ Atif Hussain ▪ Latif Haider ▪ Sajid Aslam
Non-executive directors	<ul style="list-style-type: none"> ▪ Mustafa Tariq ▪ Abbas Haider ▪ Jamshed Akbar – Nominee (Note 1)
Executive directors	<ul style="list-style-type: none"> ▪ Ahmad Murtaza – Chief Executive ▪ Imtiaz Ali – Company Secretary & Chief Financial Officer (Note 2)

Note 1:

Jamshed Akbar is the only nominee of Pakistan Investment Limited (PIL), a wholly owned government entity. PIL holds 55% shares in SHL. Due to continuous downward trend of SHL's profits, PIL's board of directors has decided to dispose of 20% of its shareholding in SHL on 31 December 2020.

Note 2:

Imtiaz Ali submitted his resignation which was accepted by the board of directors on 5 December 2020. His last working day in SHL will be 27 February 2021.

Required:

Advise the directors of SHL regarding:

- (a) how the nominee director of PIL may be removed before or after the aforesaid disposal of 20% of its shareholding in SHL. **(05)**
- (b) the changes that may be made in the composition of SHL's board after disposal of 20% of PIL's shareholding in SHL. **(04)**
- (c) the requirements of filling the vacancy due to the resignation of Imtiaz Ali. **(04)**
- (d) the disclosures which are required to be made by SHL, at its year-end, related to the remuneration of directors. **(02)**

(THE END)