THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examinations Summer 2006

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)**

(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)