

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examinations Winter 2007



December 5, 2007

CORPORATE LAWS

(MARKS 100)
(3 hours)

- Q.1 Blossom Textiles Limited, a listed company, is in urgent need of increasing its paid up capital to improve balance sheet ratio and satisfy their bankers. The response from the existing shareholders and the underwriters is quite discouraging.
- (a) Mr. Majeed, an existing shareholder has shown his intention to purchase the whole issue at par. Describe the steps that the company will need to take if it wants to accept the offer by Mr. Majeed.
- (b) Assuming that Mr. Majeed's holding after the above purchase would exceed 10% of the company's total shareholding, what additional formalities would have to be completed by him? (07)
- Q.2 The CFO of ABC Limited realized on 23rd October that particulars of charge created on 13th October in favour of a bank were not filed with the Registrar of Companies for registration. Describe the procedure the company should follow to get the charge registered with the Registrar of Companies. Would the procedure be different if the charge was created on 29th September? (06)
- Q.3 A director of a listed company has proposed to nominate another person to act in his place as he would be going to Japan to undertake a technical training course. You are required to state the requirements to be complied with under the Companies Ordinance, 1984. (06)
- Q.4 A group of shareholders holding 24% shares in RST Limited, a listed company, wishes to file a petition with the Court against the management of the company and the majority shareholders, on the following grounds:
- (i) Loss of confidence in management.
(ii) Continuous losses being made by the company.
(iii) Failure to pay dividend.
(iv) Insider trading.
- Quote the relevant provisions of the Companies Ordinance, 1984 and comment on the advisability of the petition in each of the above case. (09)
- Q.5 Synthetic Holdings Limited wishes to close down one of its subsidiary companies listed on the Lahore Stock Exchange, as it is no more a viable unit. Their legal counsel has advised the preparation of a Declaration of Solvency as a starting point to wind up the subsidiary. In this context, you are required to explain:
- (a) What is a declaration of solvency and what must it contain? (03)
(b) When is it made and what is its purpose? (02)
(c) What consequences may follow if the declaration is subsequently found to be incorrect? (02)

Q.6 The members of XYZ (Private) Limited have resolved to make certain amendments in the object clause of its memorandum of association to enable it to expand its scope of activities.

- (a) Explain the procedure that the company will have to follow. (03)
 (b) List the information which will be required to be submitted in the application to the concerned authority. (07)

Q.7 FGH is a listed company and has not declared any dividend or bonus shares during the past few years. The board of directors is now considering distribution of bonus shares.

The Balance Sheet of the company prior to the issuance of bonus shares depicts the following position:

	Rs. in million
Share Capital (6.0 million shares of Rs. 10 each)	60
General Reserves	40
Share Premium	30
Revaluation Reserves	20
Intangible Assets	10
Tangible Assets	200

- (a) Advise the company whether it can issue 25% bonus shares out of the General Reserves, a part of which was accumulated in prior years. (04)
 (b) Can the bonus issue be made out of Share Premium account? (04)

Q.8 A large group based in Dubai wishes to set up a company for carrying out a vast spectrum of investment-related activities in Pakistan.

- (a) You are required to advise them on the various forms of investment related businesses referred to in section 282A of the Companies Ordinance, 1984.
 (b) List the activities that may be carried out under each of the above forms of businesses as specified in NBFC Rules 2003. (12)

Q.9 The board of directors of a listed textile weaving unit (KW Weaving Mills Limited) has approved a scheme of amalgamation with its fully owned subsidiary, KD Dyeing Mills Limited. The merger will result in economies of scale which would eventually increase the profitability of the company in the coming years. You are required to draft the relevant resolutions necessary to carry out the merger. (06)

Q.10 First Cosmopolitan Modaraba, having multipurpose objectives, is incurring losses for the past three years. Its accumulated losses as at June 30, 2007 were Rs. 4.5 million as compared to the present paid up capital of Rs. 6.0 million. You are required to explain:

- The basis on which a winding up application may be filed against the Modaraba in the above situation.
- Who can file such an application and the relevant authority with whom the application may be filed? (06)

Q.11 You have been appointed as the Chief Financial Officer of Shahbaz Insurance Limited, an unquoted company, which was incorporated on 10th November 2007. You are required to prepare a note for the forthcoming meeting of the Board of Directors, containing the following information:

- (a) The Committees which are to be established to meet the requirements of Code of Corporate Governance and the scope of activities of each Committee. **(10)**
 (b) Requirements as regards their composition and the frequency of the meetings. **(03)**

Q.12 Company A is in the process of being wound up. The following is a list of amounts payable by it:

	(Rs.000s)
Salaries and wages (staff strength 97; payable for last six months)	3,000
Utility bills	200
Property taxes (payable to City Government)	150
Fuel expenses payable to employees	150
Legal and professional fees	250
Sales tax payable	500
Penalty payable under the Income Tax Act 2001	100
Contributions to employees provident fund	200
Leave encashment	200
Disability insurance received from insurance company and payable to staff	100
Secured loan payable to National Bank of Pakistan - Principal	1,200
- Interest	250
Secured trade creditors	400
Unsecured trade creditors	1000

In the light of winding up provisions contained in the Companies Ordinance, 1984, how would the above amounts be ranked for payment? Assuming that the funds available with the company are Rs. 1.75 million only, how would the distribution take place? **(10)**

(THE END)