



Corporate Laws

Final Examination
Winter 2013
Module E

4 December 2013
100 marks - 3 hours
Additional reading time - 15 minutes

- Q.1 Details of loans obtained by Al-Hamd Engineering Limited (AHEL) from commercial banks are as follows:

Name of bank	Date of borrowing	Amount borrowed	Security
Alpha Bank Limited	1 July 2010	Rs. 80 million	Hypothecation charge on stock in trade and receivables
Beta Bank Limited	15 May 2012	Rs. 45 million	Hypothecation charge on stock in trade and receivables

In August 2013, AHEL defaulted on its loan repayment obligations towards both banks.

It has now been discovered by Alpha Bank Limited that the Bank's legal adviser who had been assigned to register the charge had failed to deposit the required documents, which were duly signed by both the parties, with the Registrar of Companies.

The charge in favour of Beta Bank Limited was duly registered.

Under the provisions of the Companies Ordinance, 1984:

- (a) Advise Alpha Bank Limited about the effect of non-submission of the charge documents with the registrar and how would it affect its position vis-a-vis Beta Bank Limited. (05)
- (b) Explain whether Alpha Bank Limited can now register the charge with the Registrar of Companies. (04)
- Q.2 Family Supermarket (Private) Limited (FSPL) is a successful family owned company and has seven members. Due to personal reasons, one of its members, Hamid, who holds 20% shares, wants to move abroad and sell all his shareholdings in FSPL. He has received an attractive offer from a member of the company. However, Hamid believes that he would obtain a higher price if he sells the shares to the general public.
- State the conditions which Hamid would need to comply with under the provision of the Companies (Issue of Capital) Rules, 1996 if he decides to sell his shareholdings to the general public. (06)
- Q.3 ABX Limited is a listed company. In its annual general meeting, ABX Limited announced the distribution of shares of its unlisted subsidiary company in the form of specie dividend and applied for registration of shares of the subsidiary at the Karachi Stock Exchange (KSE). However, the application was refused by KSE.

Describe the responsibility of ABX Limited in the above situation, in view of Listing Regulations of the Karachi Stock Exchange and the consequences of non-compliance thereof. (06)

- Q.4 Haris holds 3% shares in BYZ Limited whose shares are listed on the Lahore Stock Exchange. He has a plan to acquire substantial shareholding of BYZ Limited as follows:

S.#	Tentative date	% of shareholding to be acquired
1	15 January 2014	5
2	15 February 2014	5
3	31 January 2015	10
4	15 March 2015	10

Advise Haris about the conditions to be complied with in respect of each of the above acquisitions, under the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002. (08)

- Q.5 The Board of Directors of Star Limited (SL) has decided to appoint SKF Associates as legal advisers of all its group companies.

SKF Associates has two partners and are currently the legal adviser of the following entities:

- (i) Wise (Guarantee) Limited (WGL) whose members have undertaken to contribute Rs. 0.6 million each, in the event of company's winding up. However, WGL does not have a share capital.
- (ii) Nasir & Yasir, a partnership firm registered under the Partnership Act, 1932. The total capital of the firm is Rs. 5 million.
- (iii) Faraz Art Museum which is registered under the Societies Act, 1860.
- (iv) Nice (Pvt.) Limited having a share capital of Rs. 1.2 million.
- (v) Listed companies, A Limited, B Limited, C Limited and D Limited having share capital of Rs. 800,000, Rs. 600,000, Rs.400,000 and Rs. 200,000 respectively.

SL's group companies include two subsidiaries each having a share capital of Rs. 2 million and an associated company with a share capital of Rs. 600,000. The share capital of SL is Rs. 10 million.

Based on the requirements of the Companies (Appointment of Legal Advisers) Act, 1974, explain whether SKF Associates can be appointed as the legal adviser of SL and its group companies. (07)

- Q.6 Explain the terms 'Asset Management Services', 'Collective Investment Schemes' and 'Connected Persons' as referred to in the NBFC (Establishment and Regulations) Rules, 2003. (05)

- Q.7 Mars Investment Finance Limited (MIFL) is in the process of making provisions against non-performing loans. The loans provided by MIFL are secured against the following categories of assets:

Category A	Assets secured by registered mortgage
Category B	Assets secured by equitable mortgage
Category C	Stock pledged with MIFL
Category D	Assets having pari-passu charge
Category E	Assets which carries a floating charge over the stock-in-trade

MIFL has issued NOCs to some of its borrowers for creating further charge(s) on assets falling under Category B.

Discuss the matters that should be considered in determining the realizable value of the above assets, while making a provision against non-performing loans under the Non-Banking Finance Companies and Notified Entities Regulations, 2008. (06)

- Q.8 Kamran is the director of Amazing Paper Limited (APL) and Super Glue Limited (SGL). In a meeting, the board of directors of APL approved a contract for the purchase of Glue from SGL. Kamran voted in favour of the resolution. A shareholder of APL has objected that Kamran has unlawfully influenced the transaction to benefit SGL.

Advise Kamran on the validity of the shareholder's objections, and the consequences which Kamran may face under the Companies Ordinance, 1984. **(07)**

- Q.9 Beta Foods Limited, a listed company, has a paid up share capital of Rs. 20 million divided into two different classes of shares 'A' and 'B'. Class B shares do not have voting rights. In a recent general meeting of the company, a special resolution has been duly passed, to alter some of the rights associated with class B shares, which has aggrieved some of the class B shareholders.

Under the Companies Ordinance, 1984 explain to the holders of class B shares, as regard the following:

- (a) Remedy available to them. **(03)**
 (b) The conditions under which the decision of the company may be reversed. **(03)**

- Q.10 Paramount Limited (PL) is incorporated in United Kingdom and is listed on London Stock Exchange. In order to penetrate into Pakistan market, the company has recently established a branch office in Karachi. The company has duly complied with all the statutory requirements necessary for local registration.

Under the provisions of Companies Ordinance, 1984, briefly describe the obligations which PL is required to fulfil after establishing its business in Pakistan with respect to the following:

- (a) Maintenance of Register of Pakistani members, directors and officers **(02)**
 (b) Disclosure of name of the company and the country in which the company is incorporated, on companies' documents and at its places of business in Pakistan. **(04)**
 (c) Preparation of balance sheet and profit and loss account with regard to its operations in Pakistan. **(03)**

- Q.11 Strong Industries Limited (SIL) is a listed company and is engaged in the manufacturing of SIL cement. SIL's market share is around 23%. SIL's plans for the next year include the following:

- (a) Entering into negotiations for the merger of the company with Hard Industries Limited.
 (b) Launching a vigorous advertisement campaign which would involve television advertisements highlighting some of the unique features of SIL cement and how it is superior to the cement manufactured by other competitors.

Describe the steps that SIL should take and the matters that should be considered, in respect of the above, in order to ensure compliance with the provisions of Competition Act, 2010. **(11)**

- Q.12 Recently, the company secretary of Al-Falah Sugar Mill Limited (ASML) has received a letter from Ghalib, a shareholder whose holdings in the company's shares has increased to 14% during the year 2013, to seek appointment on ASML's board of directors. The company secretary has informed him that he cannot be admitted on the board till the next elections become due.

Not being satisfied with the response, Ghalib has asked you to advise on the above matter and explain the course of action available to him under the Companies Ordinance, 1984. **(05)**

- Q.13 (a) State the situations under which a company may be wound-up voluntarily. **(03)**
- (b) After incurring continuous losses, Hashim Cotton Mills Limited had decided to go into members' voluntary winding-up. Accordingly, a general meeting of the company was held on 1 December 2012 and Ahmed was appointed as the Liquidator on a remuneration of Rs. 500,000 of which 50% was paid at the time of his appointment. On 20 November 2013, while the process of winding-up was still in process, Ahmed received a lucrative offer of employment and is considering to resign as the liquidator of the company.

In the context of the provisions contained in the Companies Ordinance, 1984, you are required to explain the following:

- (i) The steps that Ahmed should take at the end of first year from the commencement of the winding-up. **(07)**
- (ii) The responsibilities of Ahmed, if he decides to resign. **(05)**

(THE END)