THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Final Examinations   Summer 2007

June 6, 2007

CORPORATE LAWS

(MARKS 100)
(3 hours)

Q.1 RBC Limited and KBC Limited are associated companies having share capital of Rs 60.0 million and Rs 15.0 million respectively. The companies' reserves equal 10% of their share capital. RBC Limited produces and supplies a component 'X' to KBC Limited. KBC Limited has been facing liquidity problems as a result of which its production and sales had been suffering. Consequently, there has been a significant decline in the sale of component 'X' by RBC Limited. The directors of RBC Limited wish to support KBC Limited by way of the following:

- Advancing loan of Rs 5.0 million at an annual interest of 8%.
- Increasing the limit of trade credit from Rs 1.0 million to Rs 3.0 million.

(a) Briefly state the conditions required to be fulfilled by the two companies while carrying out the above transactions. **(08)**

(b) What consequences may be faced by the directors of RBC Limited in case they fail to comply with the above requirements? **(03)**

Q.2 XYZ Limited, a listed company, has issued ten million shares of classes 'A' and 'B' each. The company passed a special resolution to alter some of the rights associated with class 'B' shares, which has aggrieved some of the shareholders.

Explain to the shareholders, aggrieved with the above changes, on the following:

(a) What remedy is available to the aggrieved shareholders? **(03)**
(b) Under what conditions can the decision of the company be cancelled? **(04)**

Q.3 On a petition filed by affected minority shareholders, the court has directed a company to be wound up and has also appointed a liquidator. The existing management comprising the chief executive and other board members, is resisting the move and is expected to create hurdles in the winding up proceedings including refusal to hand over custody of books and records and properties to the liquidator. Narrate the powers conferred on the liquidator and the court, in the above situation and what actions can be taken to proceed with the winding up. **(06)**

Q.4 (a) Mr. Luqman, a Senior Director of STQ Limited, a non-banking financial institution (NBFC), wishes to retire and wants his son to be appointed in his place. As the company secretary of STQ Limited, advise him about the conditions specified in NBFC Rules 2003, which his son must satisfy to be eligible for appointment as the Director of STQ Limited. **(07)**

(b) Briefly describe the terms and conditions of operation of a venture capital fund as laid down under the NBFC Rules, 2003. **(06)**

Q.5 (a) Mr. Pang and his wife jointly acquired 23% shares in Sunshine Limited. The company is listed on the Lahore Stock Exchange. The transfer deeds lodged by Mr. Pang did not mention his address and this was also not noted by the corporate affairs department while dealing with the registration of transfer. At the time of giving notice to members for annual general meeting where election of directors are also scheduled to be held, the fact came to light and now the Chief Executive is worried as to how the notice may be served, to avoid any litigation which may be initiated by Mr. Pang, due to non service of notice.

As the secretary of the company, advise the chief executive as to how the company should deal with the above situation. **(03)**

(b) A company has revised its marketing strategy and instead of having its wholesale delivery points, it has appointed 20 dealers throughout Pakistan. The management intends to take deposits for security purposes from each dealer. The aggregate amount of such deposits will be around Rs 200 million. Being the head of finance, advise the management about the relevant provisions contained in the Companies Ordinance, 1984, dealing with the issue of deposits and any restrictions or conditions imposed therein. **(05)**

(c) Mr. Ibrahim is the Chief Executive of LMN Limited, a listed company. He has requested the company for a loan of Rs 30.0 million. His annual remuneration is Rs 28 million. State the conditions mentioned in the Companies Ordinance, 1984, under which such a loan may be advanced by the company. **(06)**

Q.6 The third Annual General Meeting (AGM) of ABC Limited, an unlisted public company, is to be held on 31 July 2007. However, in the third week of May, a considerable portion of the accounting record of the company was destroyed by fire. As a result, the CFO concluded that the audited financial statements pertaining to the year ended March 31, 2007 would not be ready to be laid before the AGM.

Describe the suitable course available to the company and the relevant provisions of the law applicable thereto.

Also, briefly discuss the consequences if the accounts are not adopted by the members of the company due to any reason, at a duly convened annual general meeting. **(09)**

Q.7 (a) ABC Limited, a listed company, is entering into a contract to purchase machinery worth Rs. 50 million from XYZ (Private) Limited, where the spouse of the chief executive of ABC limited is also a director. The contract for purchase of said machinery is to be placed before the board of directors of the company for approval.

State the relevant rules as given in the Companies Ordinance, 1984 and describe the procedure which ABC Limited should follow while entering into the contract. **(08)**

(b) Explain whether XYZ (Private) Limited will have to follow and comply with the same rules as are applicable to ABC Limited. **(02)**

Q.8 A resolution was put before the members in an Annual General Meeting, for voting on a show of hands. Before the announcement of the result, Mr. Shahab Khan, a share holder, demanded a poll, which was refused by the Chairman.

Discuss the legality of the chairman’s decision in the light of the Companies Ordinance, 1984. **(05)**

Q.9 (a) "An executive director cannot become the Chairman of the audit committee". Do you agree with the statement? Explain. **(03)**

(b) Explain the provisions of the Code of Corporate Governance relating to audit committee in respect of following:

- Holding of meetings
- Attendance at meetings **(07)**

Q.10 Mr. Abbasi is a director of Bright Limited, a listed company. His nephew wants to purchase shares of Bright Limited. Part of the funds required to make the investment shall be provided by Mr. Abbasi at a profit of 3% per annum.

Describe the actions which Mr. Abbasi should take to ensure that he complies with the relevant provisions contained in the Companies Ordinance, 1984 and the Code of Corporate Governance. **(06)**

Q.11 In respect of each of the following transactions, explain whether the same will result in creation of unreasonable monopoly power under the Monopolies and Restrictive Trade Practices (Control And Preventions) Ordinance, 1970.

(a) Red Limited purchased 17% shares of Blue Limited. Both the companies are operating cement plants and have a combined market share of about 48%.

(b) DX Limited entered into a contract to purchase 47% of the total production of DY Limited. The combined production of both the companies is approximately 40% of the total production of the whole industry.

(c) XYZ Bank Limited, a non-listed commercial bank has extended a loan of Rs 1.0 billion to ABC Limited, a leasing company, at a profit of 7% per annum. The average rate of profit charged by the bank in similar types of loans is 12%. The bank holds 24% of the total ordinary shares of ABC Limited. **(09)**

(THE END)