



Company Law

Instructions to examinees:

- (i) Answer all **ELEVEN** questions.
 - (ii) Answer in **black** pen only.
 - (iii) Multiple Choice Questions must be answered in answer script only.
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Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Rhenium Limited, which has a paid-up ordinary share capital of Rs. 15 million having a par value of Rs. 50 per share, convened an extraordinary general meeting on 4 September 2023. During this meeting, approval was obtained from the shareholders to make an investment in one of the associated companies. However, shareholders Yawer and Yasir contend that the proceedings were not conducted in a fair manner. Consequently, they are considering applying to have the special resolution declared unenforceable.

To initiate the process of declaring the special resolution unenforceable, the concerned shareholders must submit their application to:

- (a) the Commission by 19 September 2023, provided they hold a minimum of 60,000 shares
 - (b) the Commission by 3 October 2023, provided they hold a minimum of 30,000 shares
 - (c) the Court by 19 September 2023, provided they hold a minimum of 60,000 shares
 - (d) the Court by 3 October 2023, provided they hold a minimum of 30,000 shares **(1.5)**
- (ii) The Supply Chain Officer (SCO) of Titanium Limited held a telephonic discussion with the Chief Operating Officer of Aluminium Limited (AL) concerning a substantial dispute pertaining to the timely delivery and quality of materials supplied by AL. The SCO conveyed dissatisfaction with the response received during the conversation and plans to document the matter formally by sending a letter to AL. In accordance with the provisions of the Companies Act, 2017, what is the prescribed method for serving the letter to AL?
 - (a) By sending the letter via email to AL's CEO's official email address, ensuring a read receipt is received
 - (b) By delivering the letter in person to AL during business hours and obtaining a signed acknowledgment from an authorized officer
 - (c) By sending the letter to AL through a reputable and trackable post or courier service, obtaining a signed acknowledgement upon delivery
 - (d) By sending the letter to AL at its registered office against an acknowledgement, by post, courier, electronic means, or any other manner specified by the relevant authorities **(1.5)**
- (iii) Which of the following situations would **NOT** be excluded when determining the status of a company, undertaking, or person as an associated company, associated undertaking, or associated person?
 - (a) A person's directorship nominated by a financial institution
 - (b) A person's directorship appointed as an independent director
 - (c) Shares registered in the name of a central depository, where such shares are not beneficially owned by the central depository
 - (d) Shares owned by the National Investment Trust **(01)**

- (iv) The members of Erbium Limited have passed a resolution to initiate voluntary winding up of the company. However, due to disagreements among the contributories, they have filed a petition before the Court, seeking its intervention for the continuation of the voluntary winding up under the Court's supervision. What is the legal effect of the said petition?
- (a) The Court will hear the petition and determine if a voluntary winding up is justified before granting supervision
 - (b) The Court will deem the voluntary winding up as invalid and will order compulsory winding up instead
 - (c) The petition shall be deemed converted into a winding up petition to be processed under the Court's jurisdiction
 - (d) The petition will be treated as an application for creditors to file suits against the company **(01)**
- (v) Which of the following is the determining factor for a person to be recognized as a member of a company, under the Companies Act, 2017?
- (a) The person's agreement to become a member and the allotment of shares to him
 - (b) The person's presence at every general meeting of the company
 - (c) The person's willingness to invest a significant amount in the company
 - (d) The person's status as a shareholder in the company's most recent annual report **(01)**
- (vi) Which of the following is the purpose of maintaining a register of mortgages and charges as mandated by the Companies Act, 2017?
- (a) To ensure that all company's officers have access to information regarding the company's financial health
 - (b) To keep track of all outstanding loans and debts owed by the company to its creditors
 - (c) To record and monitor the company's assets and liabilities, secured by mortgages or charges
 - (d) To facilitate the payment of fees to the registrar for the inspection of company documents **(01)**
- (vii) Lithium Limited is contemplating several cash transactions with its directors for purchasing different items. The CEO seeks to understand the requirements set forth by the Companies Act, 2017 in such a situation.
- Which of the following is the correct requirement of the law?
- (a) The company must maintain detailed records of each cash transaction above the prescribed limit with its directors
 - (b) The company must ensure that all cash transactions with directors are approved by the shareholders
 - (c) The company must conduct all cash transactions with directors only through banking channels
 - (d) The company is not required to disclose the cash transactions with directors in its annual report if they are made for the purpose of the company's business **(01)**
- (viii) The board of directors of Gold Limited (GL) has proposed a final dividend for its shareholders. In order to approve the payment of the dividend, GL requires:
- (a) an ordinary resolution to be passed in the annual general meeting (AGM)
 - (b) a special resolution to be passed in the AGM
 - (c) either an ordinary resolution to be passed in the AGM or a special resolution to be passed in the AGM if the dividend amount is more than GL's share capital
 - (d) no resolution to be passed in any general meeting **(01)**

- (ix) Farhan, a member of Lutetium Ltd, wants to inspect the minutes of a recent extraordinary general meeting but is denied access by the company due to an ongoing internal audit. According to the Companies Act, 2017, what action can Farhan take to inspect the minutes?
- (a) File a legal suit against the company for denying access to the minutes
 - (b) Request the company to complete the internal audit within a reasonable time frame to facilitate the inspection
 - (c) Seek permission from the board of directors to access the minutes during the internal audit
 - (d) File a formal complaint with the registrar for the refusal of inspection **(01)**
- (x) When would a company be considered unable to pay its debts, as per the Companies Act, 2017?
- (a) If the Court determines, after a financial audit, that the company's debt exceeds its equity
 - (b) If the company's liabilities (including contingent and prospective liabilities) are higher than its assets
 - (c) If a creditor's demand remains unpaid for a period at least ninety days from the date of service of demand
 - (d) If the company's board of directors concludes that the company is likely to face financial difficulties in the near future **(01)**
- (xi) Which of the following is the primary purpose of payment of dividends to the shareholders of a company?
- (a) To attract new investors and increase the company's market value
 - (b) To finance the company's expansion and capital projects
 - (c) To reward shareholders for their investment and provide a steady income stream
 - (d) To meet legal requirements and comply with corporate governance principles **(01)**
- (xii) A company has multiple branch offices outside Pakistan. Which of the following is the correct way of keeping books of account at such branches in accordance with the provisions of the Companies Act, 2017?
- (a) Keep separate books of account at each branch office and send the entire records periodically to the head office
 - (b) Keep separate books of account at each branch office and send summarized returns periodically to the registered office
 - (c) Retain the books of account at each branch office and get them audited periodically
 - (d) Merge each branch office's financial information with the main office's books of account periodically **(01)**
- (xiii) At an extraordinary general meeting, the shareholders of Silver Limited engaged in a discussion regarding the amendment of the memorandum and articles of association to authorize the issuance of different classes of shares with varying voting rights. During this deliberation, one of the shareholders inquired about the underlying rationale for granting varying voting rights to different classes of shares in a company. In response, which of the following is the correct explanation of the inquiry?
- (a) To favour individual shareholders over large institutional investors
 - (b) To restrict the participation of minority shareholders in major decisions
 - (c) To maintain a fair allocation of voting power among different classes of shareholders
 - (d) To discourage speculative trading and market volatility **(01)**

(xiv) Which of the following is the scope of the Companies Act, 2017 (the Act) in terms of its effect on other laws and agreements?

- (a) The Act will have effect only on those laws and agreements, enacted and executed, subsequent to its commencement
- (b) The Act will have effect on all laws and agreements, passed and executed, before or after its coming into force
- (c) The Act will have effect only on those laws and agreements, enacted and executed, before its commencement
- (d) The Act's effect on other laws and agreements will depend on the discretion of the Commission

(01)

Q.2 Nickel Motors Limited (NML) is considering the acquisition of 70% shares of Copper Tyres Limited (CTL), a public unlisted company having three members, all of whom are also its directors. The shares that NML intends to buy, are held by Naeem (40%) and Waqas (30%).

The board advised the Company Secretary to present responses of the following matters in the next meeting:

- (i) Assess the potential implications of acquiring shares of Naeem and Waqas in CTL and devise strategies to effectively address any consequences that may arise.
- (ii) Consider appointing Kamran, the son of one of NML's directors, as CTL's CEO. Some directors believe that Kamran may not be eligible as he is not a member of CTL.

In light of the provisions of the Companies Act, 2017, prepare the response to be submitted to the board of directors.

(10)

Q.3 (a) Define the term 'related party' as contained in the Companies Act, 2017.

(05)

(b) Sodium Industries Limited (SIL) is a listed company that has a subsidiary, Beryllium Limited (BL), an unlisted company.

At a recent board meeting, BL approved the divestment of an inactive industrial land in Karachi. In this regard, BL has received the following two proposals:

Proposal A: Bahram, a director of BL, has expressed his interest in acquiring the land at market value. In exchange, he has offered to transfer his investment in the shares of an unlisted company to BL.

Proposal B: Jawed, a director of SIL, has shown his interest in acquiring the land at market value. In exchange, he has offered BL the options of either accepting his unused land in Jhelum as a swap or receiving the price in cash.

In light of the provisions of the Companies Act, 2017, advise the board of directors of BL on the prerequisites that BL needs to consider before proceeding with the potential sale of the industrial land to either Bahram or Jawed.

(06)

Q.4 Briefly discuss the provisions of the Companies Act, 2017, in respect of the following independent matters:

(a) Requirements for maintenance of books of account.

(04)

(b) Presentation and circulation of the financial statements before the first annual general meeting (AGM) as the board of directors plans to convene the first AGM on 8 December 2023. Assume that the company was incorporated on 1 August 2022.

(06)

Q.5 In light of the provisions of the Companies Act, 2017, state **six** circumstances in which a director of a listed company would not be considered as an independent director.

(07)

Q.6 At the request of Calcium Limited's (CL) creditors, the Court has appointed Hyder Ali as the provisional manager and issued an order regarding his appointment to all relevant parties.

In compliance with the Court's order, CL is required to furnish a statement of affairs, among other information, to Hyder Ali.

In light of the provisions of the Companies Act, 2017, list **seven** particulars that CL is required to include in the statement of affairs. (07)

Q.7 In the annual general meeting (AGM) of Hafnium Engineering Limited (HEL), the Chairman proceeded to an agenda item, which sought members' approval for an investment in an associated company. Without delay, he requested approval through a show of hands. Based on the result of show of hands, he promptly declared the resolution approved.

After the meeting, Ali, a member of HEL who attended the AGM for the first time, voiced his reservations. He stated that he had expressly asked for a poll, a request that seemed to have been disregarded. Additionally, he highlighted that the Chairman failed to provide a definitive count of members in favour or against the resolution.

In light of the provisions of the Companies Act, 2017, comment on the following matters:

(a) The validity of the Chairman's declaration of the approval. (05)

(b) The legitimacy of Ali's concerns and the rights he possesses in this context. (06)

Q.8 The recently appointed CEO of Uranium Limited (UL) has expressed interest in obtaining information on the following matters:

(i) When an interim cash dividend is deemed to have been declared and the responsibilities of UL regarding its payment.

(ii) Provisions pertaining to the documentation of resolutions and minutes of general meetings, along with any associated requirements.

Provide the above information to the CEO in accordance with the provisions of the Companies Act, 2017. (09)

Q.9 Mercury Limited (ML), has been facing financial difficulties and is not capable of paying its debts on a timely basis. ML has also failed to hold annual general meetings for the years ended 30 June 2021 and 2022.

In light of the provisions of the Companies Act, 2017, advise the management of ML about the potential consequences of the above circumstances. Also, discuss the implications of these consequences. (06)

Q.10 Cadmium Limited (CL) is an unlisted company in the manufacturing sector. It has issued two classes of shares i.e., class A and class B.

On 21 August 2023, CL passed a special resolution to vary the rights of class A shareholders. This resolution sought to limit the voting powers that had previously been granted to class A shareholders. CL has filed all the required documents with the registrar within the specified time.

However, some class A shareholders are dissatisfied with the special resolution and wish to challenge it.

In light of the provisions of the Companies Act, 2017, advise class A shareholders on the possible course of action available to them. Also, elaborate on CL's duties if a decision is made against it. (06)

Q.11 (a) In light of the provisions of the Companies Act, 2017, briefly discuss the significance of articles of association of a company. Also, discuss whether all companies are required to register their articles of association. **(04)**

(b) Platinum Limited (PL) was formed with an authorized capital of 20 million shares of Rs. 10 each. At the time of formation, Anas, Asad, and Ameen acquired 1 million shares, 2.5 million shares, and 6.5 million shares, respectively. Together, these represent PL's total paid-up capital.

On 2 August 2023, Asad sold 0.5 million shares to Arqam.

On 6 September 2023, PL convened an extraordinary general meeting and passed a special resolution to increase its paid-up capital and resolved an alteration in its articles of association, setting the minimum shareholding requirement for each of its shareholders to 2 million shares.

Analyse the effect of the alteration on the shareholders in light of the provisions of the Companies Act, 2017. **(04)**

(THE END)