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## Company Law

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**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) Lanvin Limited's management intended to hold its sixteenth annual general meeting (AGM) on 26 October 2022. However, due to non-availability of audited financial statements for the year ended 30 June 2022, the AGM was held on 25 January 2023. The company had to file with the registrar its annual return containing the particulars in specified form latest by:
  - (a) 30 July 2022
  - (b) 24 November 2022
  - (c) 29 January 2023
  - (d) 24 February 2023

**(01)**
- (ii) On 22 December 2022, Farhan Ataullah was nominated as chief executive of Lacoste (Pvt) Limited (LPL), a public sector company. On 9 March 2023, Farhan Ataullah tendered his resignation. In this situation, \_\_\_\_\_ shall have the power to nominate LPL's new chief executive.
  - (a) Government of Pakistan
  - (b) The Commission
  - (c) The Registrar
  - (d) The board of directors

**(01)**
- (iii) Under the provisions of the Companies Act, 2017, which of the following statements is correct about the directors' report of every company?
  - (a) It shall be approved by the board and signed by the chairman and the chief executive
  - (b) It is not required to be prepared, by of a private company, not being a subsidiary of the public company, having the paid-up capital not exceeding Rs. 3 million
  - (c) It shall only describe the principal risks and uncertainties facing the company
  - (d) It shall state all the non-financial material information only

**(01)**
- (iv) Marc Jacobs Limited (MJL) was incorporated with an authorized share capital of 100 million shares of Rs. 10 each. MJL has an issued and paid up share capital of 50 million shares of Rs. 10 each. Ameen Arqam Limited (AAL) is MJL's major supplier and has filed a petition in the Court for winding up of the company. AAL has also applied to the Court for the appointment of Asadullah as an official liquidator. The name of Asadullah is not on the panel of liquidator maintained by the Commission for that purpose.

The Court shall not consider to appoint Asadullah as an official liquidator unless MJL owes AAL not less than:

  - (a) Rs. 30 million
  - (b) Rs. 300 million
  - (c) Rs. 60 million
  - (d) Rs. 600 million

**(1.5)**

- (v) Kashif Anas is to be appointed as the chairman of the board of directors of Alex Simone Limited with effect from 1 June 2023. His remuneration shall be determined by:
- the company in the general meeting
  - the directors in the board meeting
  - the HR committee
  - the directors in the board meeting or the company in the general meeting **(01)**
- (vi) Which of the following circumstances does **NOT** render a company to be wound up by the Court?
- A company has, by ordinary resolution, resolved that it will be wound up by the Court
  - Due to some internal disputes, the annual general meetings of a company were not held for the last two consecutive years
  - The Court is of the opinion that it is just and equitable that the company should be wound up
  - The statutory meeting of the company was held within due date, however, the statutory report could not be delivered to the registrar **(01)**
- (vii) Under the provisions of the Companies Act, 2017, which of the following powers can **NOT** be exercised by the board of directors of a company?
- To issue right shares
  - To borrow moneys otherwise than on debentures
  - To issue debentures or any instrument in the nature of redeemable capital
  - To sell or otherwise dispose of the subsidiary of the company **(01)**
- (viii) Ed Hardy (Pvt) Limited, a creditor of Rose Arabia Limited (RAL), has appointed Fazal Farhan as its nominee director on the board of RAL. Fazal Farhan has given a written consent to RAL for his appointment. RAL shall file the consent within:
- |                                 |                                 |             |
|---------------------------------|---------------------------------|-------------|
| (a) 15 days with the registrar  | (b) 30 days with the registrar  | <b>(01)</b> |
| (c) 15 days with the Commission | (d) 30 days with the Commission |             |
- (ix) Under the provisions of the Companies Act, 2017, which of the following transactions falls under the definition of related party transaction?
- Entity A has extended Rs. 20 million loan to Entity B. One of the directors of Entity A is the friend of Entity B's CFO
  - Entity C has supplied raw materials amounting to Rs. 50 million to Entity D. The CEOs of both the entities are childhood friends
  - Ahmed, a director in Entity E, has recently been elected as a director in Entity F, a subsidiary company of Entity G. Entity G is providing machine maintenance services to Entity E for the last many years
  - Entity H and Entity J entered into a consultancy agreement. Azam Khan is the son of Entity H's CEO and son-in-law of Entity J's CEO **(1.5)**
- (x) Hyder Ali, a nominee of Chloe Limited (CL), got elected as a director of Salvatore Ferragamo Ltd (SFL).

Under the provisions of the Companies Act, 2017, which of the following statements is correct about the qualification shares to be given to Hyder Ali?

- CL will register all those shares in Hyder Ali's name that are held by CL as long-term investments
- CL can register as many shares in Hyder Ali's name as authorised by its board in the light of regulations contained in CL's articles of association
- CL is required to register only one share in Hyder Ali's name, for becoming SFL's member
- CL can register such number of qualification shares in Hyder Ali's name as are required to be held by a director in accordance with SFL's articles of association **(1.5)**

- (xi) Under the provisions of the Securities Act, 2015, which of the following provisions about the prospectus is correct?
- A listed company intends to issue shares of its associated company by way of specie dividend. The company is not required to submit the prospectus for the Commission's approval
  - A listed company has decided to offer ordinary shares of class B to the general public. The company shall not publish the prospectus in the newspaper less than 7 days or more than 30 days before the commencement of the public subscription
  - A person, except a director or officer of the company, shall be deemed to have committed an offence if he makes a false or fictitious application in connection with a prospectus
  - The shelf prospectus approved by the Commission shall be valid for a period of 60 days from the date of such approval **(1.5)**
- (xii) Consider the following statements relating to companies incorporated for charitable purposes:
- It is mandatory for all such companies for not adding the word 'Limited' as the last word to their names.
  - On revocation of license, any such company shall not solicit or receive donations from any source.
- Under the provisions of the Companies Act, 2017, which of the above statements is/are correct?
- Only statement (I) is correct
  - Only statement (II) is correct
  - Both statements are correct
  - Both statements are incorrect **(01)**
- (xiii) A listed company may, by giving not less than seven days' prior notice, close its registers of:
- debenture-holders and mortgages
  - members and mortgages
  - mortgages and directors
  - members and debenture-holders **(01)**

**Q.2** Armani Weavings Limited (AWL) obtained a long term loan of Rs. 300 million from Dunhill Bank Limited (DBL) against the charge over its factory buildings. The charge was duly registered with the registrar.

Up to December 2021, AWL made regular payments and re-paid 60% of the total loan amount. However, AWL committed a default in the payment of the balance amount, which is overdue since June 2022. After negotiation, DBL has agreed to waive the mark-up alongwith 10% of the overdue loan provided that AWL makes the payment of the entire outstanding amount by 10 March 2023. On 9 March 2023, AWL paid the agreed amount to DBL.

- (a) Under the provisions of the Companies Act, 2017, discuss how AWL's factory buildings can be released from the charge registered in favour of DBL. **(04)**

Assume that the charge has not been released till 15 September 2023 and AWL has entered into a contract with Calvin Klein Limited (CKL) for the disposal of the said buildings.

- (b) Under the provisions of the Companies Act, 2017, advise how CKL would get the charge released on its own. **(04)**

**Q.3** State the provisions of the Securities Act, 2015 relating to 'Criminal liability for defective prospectus' and 'Compensation for false or misleading prospectus'. **(05)**

Q.4 The shareholders of Aramis Limited (AL), an unlisted public company, in its annual general meeting held in September 2022 had approved a loan to its associated company for a new project.

In February 2023, due to significant changes in the prices of various items, it is estimated that the total cost of the project will escalate by 25% and that AL shall have to provide additional loan to its associated company for covering up the project cost.

Under the provisions of the Companies Act, 2017, advise AL's board of directors on the following matters:

- (a) The possible modes through which shareholders' approval may be obtained. (03)
- (b) The procedures to be followed by AL for getting shareholders' approval for the modes identified in (a) above. (05)

Q.5 (a) Discuss the grounds under which a chief executive shall *ipso facto* cease to hold office of the chief executive. (04)

(b) On 26 October 2022, the board of directors of Axis Cement Limited (ACL) unanimously approved the appointment of Fareed Shah as the chief executive for a period of two years under the terms and conditions specified in the contract.

On 9 March 2023, Seema Shah, the spouse of Fareed Shah, got elected on the board of Brut Cement (Pvt) Limited.

On 10 March 2023, an urgent meeting of ACL's board was held, in which most of the directors were of the view that Fareed Shah had *ipso facto* ceased to be the chief executive as a result of aforementioned fact, and demanded the immediate cancellation of his contract. However, the chairman of the board pointed out that the terms and conditions of Fareed Shah's contract specifically prohibit its earlier cancellation.

Under the provisions of the Companies Act, 2017, advise ACL's board with regard to the following:

- (i) The view point expressed by the directors about the cessation of office of chief executive and cancellation of Fareed Shah's contract. (03)
- (ii) How directors' demand may be implemented in the presence of specific provision in the Fareed Shah's contract which prohibits earlier cancellation of the contract? (03)

Q.6 Bashir Zaman and his two brothers Nadeem and Faheem are the only shareholders of Nakin Tyre Limited (NTL) holding 20 million, 35 million and 45 million shares respectively.

Bashir Zaman also holds 2 million shares in Axis Rubber (Pvt) Limited (ARL). The other shareholders of ARL are Tahir, his daughter Nasira and his minor son Rauf, who respectively holds 8 million, 37 million and 3 million shares in ARL. In the latest election of directors held during the last year, Tahir and Nasira were re-elected as directors of ARL.

On 26 February 2023, Bashir Zaman got married to Nasira.

On 10 March 2023, the following proposals are under consideration of the boards of NTL and ARL:

- (i) The grant of a loan of Rs. 50 million by NTL to ARL. The loan will be repayable over a period of five years.
- (ii) The sale of products by ARL to NTL on special credit term of six months.

Under the provisions of the Companies Act, 2017, advise the boards of NTL and ARL the conditions that must be complied with before implementing the above proposals. (*Ignore the requirements relating to notice of the meeting*) (12)

Q.7 Under the provisions of the Companies Act, 2017, briefly describe:

- (a) the terms 'Financial statements' and 'Body corporate'. (06)  
 (b) the provisions related to the approval and authentication of the financial statements. (04)

Q.8 (a) Cartier Metal Limited (CML), a public unlisted company, has a paid-up capital of Rs. 500 million ordinary shares of Rs. 100 each. On 1 February 2022, the election of the board of directors of CML was held in the general meeting. Following were the result of the election of directors:

<b>Candidates contested</b>	Adnan	Abdullah	Armughan	Tehami
<b>No. of votes casted in favour</b>	5.5 million	2.5 million	2 million	5 million
<b>Result of election</b>	Elected	Elected	Not elected	Elected

On 1 March 2023, CML's board decided to remove Adnan due to his involvement in fraudulent activities.

Under the provisions of the Companies Act, 2017:

- (i) discuss the number of votes required by Adnan to retain his directorship in CML. (02)  
 (ii) what would be your answer in (i) above, if Adnan was elected unopposed in the election of directors. (02)
- (b) On 9 March 2023, an extraordinary general meeting (EOGM) of CML was held to consider various matters. Farhan and Fareed, who are CML's shareholders were disappointed with the way the Chairman conducted the EOGM. They intend to refer the matter to CML's board for cancellation of EOGM's proceedings and calling a fresh meeting for the consideration of the same agenda items.

Under the provisions of the Companies Act, 2017, advise Farhan and Fareed the course of action to be followed to get the EOGM's proceedings cancelled and a fresh meeting to be called. (04)

Q.9 Under the provisions of the Companies Act, 2017:

- (a) list any **four** circumstances under which the chief executive of a company shall not be penalized if payment of dividend is not made within the prescribed time period. (04)  
 (b) list any **ten** contents to be stated in the directors' report of a public unlisted company, which is required to be annexed with the annual financial statements. (07)

Q.10 Under the provisions of the Companies Act, 2017, list down the circumstances under which a company shall be deemed to be unable to pay its debts. Also discuss the conditions which a prospective creditor would have to meet if it intends to file an application to the Court for winding up of the company. (08)

Q.11 Under the provisions of the Companies Act, 2017, a company may be wound up by the Court if the company has been carrying on unlawful activities.

List down the activities that shall be deemed to be unlawful. (05)

(THE END)