



Corporate Laws

Instructions to examinees:

- (i) Answer all **EIGHT** questions.
- (ii) Answer in **black** pen only.

Q.1 Adil Saeed, a renowned industrialist and a high net worth individual, holds 10 million ordinary shares of Rs. 10 each, in each of the following companies:

(i) **Violet Limited (VL) with a paid-up capital of Rs. 550 million**

VL is listed on Pakistan Stock Exchange. Adil Saeed who is also an executive director on VL's board, has entered into an agreement to sell his entire shareholdings in VL to Adnan, his creditor, at a discounted price. In the recent past, VL has suffered substantial operational losses and consequently its key financial ratios have become adverse. VL's statutory auditors have expressed an adverse opinion on the going concern assumption.

(ii) **Marigold Leasing Limited (MLL) with a paid-up capital of Rs. 700 million**

MLL is a public listed non-banking finance company incorporated in August 2017. Adil Saeed is one of the promoters who is currently serving as a non-executive director on the board of MLL. He has applied for transfer of all of his shares in MLL to his spouse, Amina Adil.

(iii) **Saffron Supreme Limited (SSL) with a paid-up capital of Rs. 350 million**

SSL was incorporated in June 2017 with an initial paid-up capital of Rs. 240 million which was fully subscribed by Saeed Group including Adil Saeed. SSL incurred losses during the first two years of its operations. However, during the year ended 30 June 2020, earnings per share of Rs. 15 was recorded. In September 2020, SSL got listed on Pakistan Stock Exchange. There is no change in Saeed Group's holdings since incorporation.

In May 2021, Adil Saeed agreed to sell his shares to his friend Aqeel at a market price of Rs. 17 per share.

(iv) **Acacia Waste Power Limited (AWPL) with a paid-up capital of Rs. 400 million**

AWPL is a greenfield project sponsored by Adil Saeed, which got listed in July 2018. AWPL imported the waste power plant from Korea and started commercial production immediately. Project was a success and AWPL announced 20% and 30% cash dividend for the years ended 30 June 2019 and 2020 respectively. In June 2021, Adil Saeed agreed to sell his entire shareholdings in AWPL to another industrialist.

Adil Saeed has lodged transfer requests of above shares which are held in book entry form.

Required:

Discuss any **eight** distinct and most relevant circumstances in which above share transfer requests made by Adil Saeed may either be refused or delayed beyond prescribed period. (10)

(Note: Each of the above cases should cover at least one circumstance)

(Ignore the circumstances under which share transfers are delayed/refused due to book closure or placement of company in defaulters' segment)

- Q.2 (a) Hibiscus Limited (HL), incorporated on 10 July 2017, is a listed entity engaged in the business of information technology.

Abid was appointed as HL's company secretary on 31 May 2021. He is planning to arrange next board meeting(s) and shareholders' general meeting(s) to discuss annual financial statements for the year ending 30 June 2021 and other matters. He obtained the following information from HL's records:

- First annual general meeting (AGM) of HL was held on 31 August 2018, where seven directors were also elected. Subsequent AGMs were held on 26 August 2019 and 21 August 2020 respectively.
- Since incorporation, HL announced final dividend of 10% in each year.
- During the year, there have been no changes in HL's share capital, memorandum of association or articles of association.

Required:

- (i) Advise, with justification, the most efficient timelines for holding the meetings of the board and the shareholders. (04)

- (ii) Prepare a list covering statutory communications, submissions and filings mandatorily required to be made **before** and **after** the respective meetings along with time frame(s). (14)

(Ignore the requirements prescribed under Securities Act 2015, Central Depositories Act 1997 and Listed Companies (Code of Corporate Governance) Regulations, 2019)

- (b) Assume that the date today is 5 November 2021.

HL's AGM for the year ended 30 June 2021 was held on 28 September 2021 and subsequently Abid submitted HL's annual return with the registrar. Afterwards, Abid received an objection letter from the registrar followed by refusal to accept filing of the annual return.

Required:

- Discuss possible ground(s) on which the filing request of annual return may be refused by the registrar and advise recourse(s) available to Abid, if any, in this regard. (03)

- Q.3 On 25 May 2021, the members of Rose Products Limited (RPL), a listed company, in its annual general meeting approved the issue of specie dividend for every 1,000 shares of RPL as follows:

- 250 shares of Tulip Plastic Limited (TPL) - a listed company
- 100 shares of Daisy Plastic Limited (DPL) - an unlisted company

The paid-up share capital and RPL's shareholdings in each company are as follows:

Company	Paid-up share capital of Rs. 10 each	RPL's holdings %
RPL	Rs. 30,000,000	-
TPL	Rs. 20,000,000	55%
DPL	*Rs. 10,000,000	40%

**TPL also holds 25% shareholdings in DPL.*

Shares of RPL and TPL are in book entry form only whereas DPL's shares are in physical form.

Required:

- (a) Advise RPL regarding its responsibilities towards its members relating to distribution of specie dividend. (04)

- (b) State the consequence(s) if RPL fails to comply with its responsibilities after distribution of specie dividend. (06)

(Ignore the provisions of Foreign Exchange Manual)

- Q.4 (a) Robinia Limited (RL), a public unlisted company, is engaged in the business of manufacturing consumer healthcare products. RL has been facing difficulties in meeting its financial obligations and consequently, RL's term finance certificate (TFC) holders aggrieved by non-payment of last three installments including profit, have threatened to apply to the Court.

List of RL's shareholders and TFC holders as at 30 April 2021 is as follows:

Name	Ordinary shares (Rs. 10 each)	15% TFC (Rs. 50 each)
	----- Number in '000 -----	
Bluebell Limited (BL)*	345,000	-
Dandelion Limited (DL)	300,000	230,000
Ali Bakhsh Associates (ABA)	300,000	-
Ahsan Raza & Co. (AR)	250,000	-
Water Lily Limited	245,000	55,000
Oleander Limited (OL)*	200,000	-
Carnation Pharma Limited (CPL)	190,000	-
Floral Bank Limited (FBL)	74,000	-
Nemesia Travels Limited (NTL)	60,000	20,000
Areeba Saleem (AS)	15,000	-
Asad Nasir	10,000	-
Azad Mahmood	5,000	-
Aashir Khan	4,000	-
Ahmed Farhan	2,000	-
Iris Limited	-	225,000
Aster Limited	-	40,000
Sage Limited	-	30,000
Total	2,000,000	600,000

*BL is an associated company of CPL whereas OL is a subsidiary company of CPL.

RL's management intends to resolve the issue in order to avoid litigations. In this regard, an application was submitted to the Commission. In response, the Commission has ordered RL to hold a meeting with TFC holders. In compliance with the Commission's order, RL has sent the notice of meeting to all the TFC holders with the proposal to pay 50% of the outstanding amount as final settlement.

Required:

Determine the quorum of the meeting and discuss the condition(s) to be met for settling the outstanding amount as proposed by RL's management. Also discuss the information required to be provided to the concerned regulator(s) in this regard. (04)

- (b) Assume that the dispute with the TFC holders mentioned in (a) above was settled on 2 May 2021 and there is no change in shareholding structure as mentioned above.

On 4 May 2021, CPL, a public unlisted company engaged in the manufacturing of pharmaceutical products decided to acquire entire shareholdings of RL. On 14 May 2021, share transfer scheme was forwarded by CPL to RL's shareholders according to which RL's shareholders will get one share of CPL against every two shares of RL.

FBL and NTL out rightly refused to avail the scheme as both were of the opinion that it is not fair value of their investment in RL while BL, DL, ABA, AR and AS had already shared their assent with the scheme by 31 May 2021.

Required:

- (i) Discuss whether the share transfer scheme offered by CPL can be implemented. (04)
(ii) Advise the course of action to be taken by CPL in order to settle the matter with FBL and NTL. (04)

(Ignore the provisions of the Competition Act, 2010)

- Q.5 Jasmine Limited (JL), a public unlisted company, in order to complete their mega investment project in Sialkot wants to acquire a running production plant, operating on latest technology, from Bella Associates (BA) who is willing to sell it for Rs. 350 million.

The details of JL's authorised and paid-up share capitals carrying equal voting rights are as follows:

	Share Capital	
	Authorised	Paid-up
	--- Rs. in million ---	
Ordinary shares of Class A of Rs. 10 each	500	480
Ordinary shares of Class B of Rs. 5 each	200	120
Redeemable cumulative preference shares of Rs. 20 each*	200	200

**Preference shares are due to be redeemed on 20 June 2021.*

JL's management intends to acquire the plant from BA as soon as possible for timely completion of its mega project.

Required:

In the light of relevant corporate laws:

- (a) identify the options available to JL for financing the plant through further issuance of shares and under each option calculate the number of shares to be issued. *(Assume that new shares can only be issued at face value)* (05)
- (b) perform comparative analysis of the options identified in (a) above in terms of legal requirements to be followed and advise the most time efficient option to JL. (10)
- (Ignore the option of issuing shares through initial public offer and requirements of Foreign Exchange Manual)*

- Q.6 Orchid Cars Limited (OCL) was incorporated on 10 July 2017 as public unlisted company, with an authorized capital of 100 million ordinary shares of Rs. 10 each. Since inception following shares are held by Aslam Najam and his family members:

Name of shareholders	No. of shares (in millions)	%
Aslam Najam	7.50	30.00
Ameen Aslam	2.50	10.00
Arif Aslam (Note)	7.50	30.00
Atif Aslam (Note)	7.40	29.60
Ali Arif	0.07	0.28
Alvi Atif	0.02	0.08
Arsalan Atif	0.01	0.04
	25.00	100.00

Note: Arif Aslam and Atif Aslam are also successfully managing Tulip Limited (TL), a car manufacturing company, as Chief Executive Officer and Chief Operating Officer respectively for the last three years. TL is paying cash dividend regularly. OCL acquired 52% shares in TL in June 2018.

OCL has recently changed its principle line of business from trading to manufacturing of cars and has approved the plan to install new plant for manufacturing of cars. In line with decision of the board, the management has selected the site for the plant and is considering to acquire land on rental basis. They have also hired a Korean firm XanoTanino Engineers for procurement and installation of the plant. The commercial production is expected to start in December 2022.

In order to finance the above project, OCL:

- has a plan to make its initial public offering (IPO) of 30 million shares in the month of July 2021.
- is negotiating a long-term loan of Rs. 200 million with Crocus Bank Limited (CBL).

OCL intends to allocate minimum number of shares to each of the following categories:

	No. of shares (in million)
Resident Pakistanis	15.0
Non-resident Pakistanis	9.0
Employees of OCL	3.0
Employees of TL	1.5
Financial institutions	1.5
	30.0

Required:

In the light of provisions of the Public Offering Regulations, 2017 and the Pakistan Stock Exchange Rule Book:

- (a) discuss the conditions to be fulfilled by OCL prior to the announcement of IPO. (12)
 (b) discuss the appropriateness of the intended allocation of shares offering through IPO. (04)

(Ignore the provisions related to Consultant to the Issue, Book Runner, Underwriter, Balloter, Share Registrar, Banker to an Issue, Prospectus, Expert and Securities Broker)

- Q.7 While reviewing the advances and deposits, the internal audit department of Daffodil Bank Limited (DBL), listed on Pakistan Stock Exchange (PSX), have made the following comments in its report:

Name of borrower/ account holder	Exposure outstanding/ credit balance as at 31 May 2021	Comments of the internal audit department
Adil Textiles Limited (ATL)	Rs. 65 million fund based	<p>The amount is secured against:</p> <ul style="list-style-type: none"> (i) pledge of 1.0 million shares of Dost Pharma Limited, listed on PSX, having market value of Rs. 40 per share. (ii) pledge of 0.5 million shares of DBL having market value of Rs. 35 per share. (iii) mortgage of ATL's plant and machinery having fair value of Rs. 20 million <p>Observation: Security is inadequate.</p>
Mr. Aamir Malik (AM) (a customer with credit balance in current account)	Rs. 0.2 million credit balance	<ul style="list-style-type: none"> ▪ 10 May 2021: Rs. 20 million were transferred from a foreign bank account. The amount was declared to be remitted by AM's friend. ▪ 15 May 2021: The entire amount was transferred to various account holders of DBL. ▪ 20 May 2021: All transferred amounts were withdrawn in cash. <p>Observation: Transactions are unusual.</p>

Required:

In the light of provisions of the Banking Companies Ordinance 1962, Prudential Regulations for Corporate / Commercial Banking and Anti Money Laundering Act 2010, advise the board of directors regarding:

- (a) the validity of the comments made by the internal audit department. (04)
 (b) DBL's responsibility relating to (a) above. (04)

Q.8 Peony Insurance Limited (PIL) is listed on the Pakistan Stock Exchange. Following information has been extracted from PIL's records and board's minutes:

- (i) As on 31 December 2020, PIL had deposited securities worth Rs. 30 million with State Bank of Pakistan (SBP) to fulfil minimum mandatory deposit requirement.
- (ii) Presently, following unencumbered listed securities are available with PIL. Each investment costed Rs. 1.0 million:

Name of the security	Market value as on 9 June 2021 Rs. in million
Investment Bonds issued by Johi-Electric Limited	1.1
Chambali Bonds issued by Federal Government	1.1
Term Finance Certificates issued by Mogra Foods Limited (AAA Rated security)	1.2
Gulab Dam Bonds issued by Provincial Government	1.1
Nargis Airlines Corporation – Class A ordinary share capital	1.3
Debentures issued by Port Trust under the authority of Federal Legislature	1.0
Securities issued under the act of parliament for Payara Ghar	1.0
Lotus Oil Limited – Ordinary shares	1.2

- (iii) On 15 May 2021, in order to meet its growing financial needs, PIL had raised finance through issuance of 5 million right shares of Rs. 10 each. PIL intends to use the above investments for mandatory deposit with SBP.
- (iv) PIL is negotiating a long term loan of Rs. 25 million from Bluebell Bank Limited (BBL) against which PIL would have to give security of Rs. 28 million. PIL intends to use the above deposit with SBP and remaining investments, if any, as collaterals for BBL's loan.

Required:

In the light of provisions of the Insurance Ordinance, 2000 and Prudential Regulations for Corporate / Commercial Banking:

- (a) discuss PIL's intentions for complying with SBP's mandatory deposit requirement after the increase in its paid-up capital. (04)
- (b) discuss PIL's intention of using the above investments and deposit with SBP as collateral against the loan. (04)

(THE END)