



Corporate Laws

Instructions to examinees:

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

Q.1 Green Chemicals Limited (GCL) has issued and paid-up capital of Rs. 50 million comprising of 4 million class A ordinary shares of Rs. 10 each and 1 million class B ordinary shares of Rs. 10 each. Each share of class A and class B has one and four voting rights respectively.

Nehal Hyder (NH) and his family have been actively involved in the trading of shares including GCL's shares, on Pakistan Stock Exchange (PSX). Their investments in GCL's shares as on 30 June 2021 are as follows:

Shareholders	Purchase date	No. of shares	Purchase price per share (Rs.)
Class A shares			
NH	4 Nov 2020	225,000	80
Salman - NH's son aged 15 years	24 Nov 2020	25,000	81
Rabia - NH's wife	1 Feb 2021	50,000	84
Erum - NH's daughter aged 19 years	18 Feb 2021	40,000	86
Class B shares			
NH	19 Dec 2020	90,000	190

Moreover, NH also holds 8% ordinary shares of Azure Oils Limited (AOL), a listed company and 25% ordinary shares of Navy Chemicals (Private) Limited (NCPL).

AOL and NCPL hold 200,000 and 400,000 class A ordinary shares of GCL that were purchased on 2 April 2021 and 28 April 2021 at Rs. 84 per share and Rs. 88 per share respectively.

Since 1 July 2021, details of NH's transactions made in GCL's shares are as follows:

S. No.	Date of transaction	Class of shares	No. of shares purchased / (sold)	Purchase / sale price per share (Rs.)
1.	1 Jul 2021	A	110,000	95
2.	30 Aug 2021	A	(250,000)	120
3.	30 Sep 2021	B	70,000	225
4.	20 Oct 2021	A	(20,000)	70

Required:

In the light of the provisions of the Securities Act, 2015, discuss the responsibilities of Nehal Hyder after each transaction made in the shares of GCL since 1 July 2021.

(18)

Q.2 Golden Apparels Limited (GAL) was incorporated as a public unlisted company on 15 July 2016, with paid-up capital of 15 million ordinary shares of Rs. 10 each. Since incorporation, all the shares of GAL are held by Adnan Shahid and his four brothers who are also GAL's directors and actively involved in the business.

In a recent meeting of the board of directors, Noman Shahid, one of the brothers who is CEO, has proposed the following to the board:

- (i) Expand GAL's operations by introducing the company's products in European countries. To cater the demand of the new segment of the business, he believes to expand the production capacity to three times of the existing capacity.
- (ii) In order to finance the new production capacity, raise the funds using the following sources:
 - Issue 1.5 million shares through private placement at a premium of Rs. 175 per share by 22 December 2021.
 - Issue 1.0 million shares through PSX at a premium of Rs. 195 per share. The proposed date of commencement of public subscription is 15 April 2022.
- (iii) Suggest to give him additional charge for looking after the overseas operations so that he can aggressively work on introducing GAL's products in European market and the remaining brothers would continue to work on their existing positions.
- (iv) Suggest to allocate 35% of shares issued through PSX to persons resident outside Pakistan including foreign entities who are interested in GAL's products.

After deliberation, GAL's board has agreed in principle with all the proposals. The board has asked you to evaluate the above proposals in the light of requirements of corporate laws.

Required:

Advise GAL's board regarding the shortcomings and necessary changes to be made in the proposals. (15)

(Ignore the provisions of the Companies Act, 2017)

Q.3 Peach Bank Limited (PBL) is a public unlisted company having 900 million shares of Rs. 20 each. The Federal Government through Ministry of Finance owns 500 million shares of PBL.

Subsequent to election of PBL's board of directors held on 30 November 2021, one of the independent directors, Zubair Saleem, having rich experience in the banking sector was appointed as chairman on 6 December 2021. In his initial speech to the board, Zubair Saleem thanked the board members and expressed that as PBL's chairman, he will attend and chair all board meetings and general meetings to be held during his tenure.

Zubair Saleem wants to make himself fully aware of his responsibilities in order to serve as PBL's chairman.

Required:

Under the applicable corporate laws, prepare a checklist listing statutory duties and responsibilities of Zubair Saleem, as PBL's chairman. (07)

Note:

- *Duties and responsibilities of Zubair Saleem as PBL's director is not required.*
- *Ignore the provisions of the Companies Act, 2017.*

Q.4 The external audit team of Beige Bank Limited (BBL) has submitted observations on non-performing loans to the bank's management which are summarized as under:

(i) **Antique White Limited (AWL)**

On 1 July 2017, Rs. 40 million was sanctioned to AWL for five years, repayable in equal quarterly instalments. The principal amount outstanding as on 30 September 2021 was Rs. 20 million.

The said facility is secured against charge on plant and machinery having fair value of Rs. 20 million and pledge of 2 million shares of Indigo Limited, listed on PSX, having market value of Rs. 11 per share on 30 September 2021.

External audit team's observation:

- AWL has not made any payment of principal and mark-up since January 2020.
- A provision of Rs. 2 million has been made against AWL's facility as on 30 September 2021. However, on the basis of time based criteria, 100% provision is required.

(ii) **Fuchsia Limited (FL)**

On 1 January 2019, Rs. 80 million was sanctioned to FL for four years, repayable in equal bi-annual instalments. The principal amount outstanding as of 30 September 2021 was Rs. 50 million.

The said facility is secured against mortgage over factory building having fair value of Rs. 25 million and charge on plant and machinery having fair value of Rs. 50 million.

External audit team's observation:

- FL has not made any payment of principal and mark-up since July 2020.
- A provision of Rs. 12 million has been made against FL's facility as on 30 September 2021. However, on the basis of time based criteria, 100% provision is required.

(iii) **Khaki (Private) Limited (KPL)**

On 1 July 2020, Rs. 36 million was sanctioned to KPL for three years, repayable in equal monthly instalments. The principal amount outstanding as of 30 September 2021 was Rs. 29 million.

The said facility is secured against charge on plant and machinery having fair value of Rs. 25 million and pledge of stock-in-trade having fair value of Rs. 15 million.

External audit team's observation:

- KPL has not made any payment of principal and mark-up since February 2021.
- A provision of Rs. 3 million has been made against KPL's facility as on 30 September 2021. However, on the basis of time based criteria, 50% provision is required.

Required:

In the light of the Prudential Regulations for Corporate / Commercial Banking, advise BBL's management about adequacy of provisions made against each of the above parties as on 30 September 2021.

(09)

- Q.5 (a) The shareholders' equity as shown in the financial statements of Indigo Fabrics Limited (IFL), a public unlisted company, as on 30 September 2021 is as follows:

	Rs. in million
Paid-up ordinary share capital of Rs. 10 each	500,000
Accumulated loss	(350,000)
Total shareholders' equity	150,000

IFL has been incurring net losses for the last five years. Moreover, since the outbreak of the COVID-19 pandemic in March 2020, IFL's sales has significantly declined.

Considering this situation, Fahad Karim, IFL's CEO, initiated a discussion in the board meeting to consider winding up of IFL. He informed the board that Green Fabrics Limited has shown its interest in purchasing IFL's plant and equipment. He also proposed that Ahmed Amin, IFL's CFO, can be appointed as a liquidator and since he is well conversant with IFL's affairs, he would be able to wind up the operations efficiently.

Required:

Under the provisions of the Companies Act, 2017, advise the steps to be taken by IFL before commencement of winding up if both proposals of Fahad Karim are agreed by the board. (08)

- (b) Assume that Ahmed Amin has been appointed as liquidator and the date today is **31 March 2022**.

On 31 March 2022, Ahmed Amin has determined that Rs. 3,500 million can be collected by disposing of IFL's remaining assets whereas IFL's outstanding liabilities on that date are Rs. 4,000 million.

Required:

Under the provisions of the Companies Act, 2017, explain the responsibilities of Ahmed Amin in the given situation. Also identify the effect(s) of his determination on IFL's stakeholders. (07)

- Q.6 Crimson Investments Limited (CIL) is a public unlisted company having NBFC licence to provide asset management services. CIL manages various collective investment schemes. It has paid-up share capital of Rs. 600 million comprising 60 million shares of Rs. 10 each.

On 30 June 2019, Zahid Abbas and Shahid Malik were elected as directors by securing 40 million and 30 million votes respectively whereas the remaining seven directors were elected each by securing 50 million votes. After election, Zahid Abbas was appointed as CEO.

On 31 August 2019, Zahid Abbas resigned from the board and Benjamin Brady, a foreign national, was appointed as CEO and director in his place. As Benjamin had to relocate to Pakistan for his role as CEO, CIL's board agreed to insert a clause in his appointment letter prohibiting his termination before expiry of the contract term.

On 4 December 2021, Shahid Malik resigned from the board due to serious illness and his position is still vacant.

Benjamin has not been able to achieve the performance benchmarks and CIL reported net losses for two consecutive years. Further, there is news circulating in the market that he has grossly misused his position by sharing price sensitive information with unauthorised persons.

Required:

Discuss how Benjamin Brady may immediately be removed from CIL. (06)

- Q.7 Bronze Cement Limited (BCL) is a listed company engaged in the manufacturing and marketing of cement. BCL has issued 80 million ordinary shares of Rs. 15 each. Shareholdings details and board composition of BCL as at 30 September 2021 are as follows:

Shareholding details:

Shareholders	Rs. in '000
Teal Bank Limited (TBL)	300,000
Peach Limited (PL)	250,500
Olive (SMC-Private) Limited (OL)	235,000
Magenta Associates	113,000
Ruby & Co.	95,000
Coral & Sons	70,500
Grey Textiles Limited	50,500
Individuals	85,500
Total	1,200,000

Board composition:

Non-executive directors	Executive directors	Independent directors
Fahad Noor	Tariq Ali	Aurangzeb Khan
Safdar Kamran	Saad Naeem	Saima Arif
Rahim Zain		Ahmed Sultan
Arham Ghafoor		

Information related to each member of BCL's board is as follows:

- (i) Fahad Noor, a financial expert, represents TBL which is owned by the Government of Sindh.
- (ii) Safdar Kamran is a director since December 2020, nominated by White Bank Limited which has provided a loan of Rs. 500 million to BCL for enhancing the production facilities. The loan is to be re-paid on 30 June 2022.
- (iii) Rahim Zain, finance director at PL, represents PL.
- (iv) Arham Ghafoor has been elected on the board with the support of some individual shareholders. He ensures that their interests remain protected.
- (v) Tariq Ali has been appointed as CEO on 10 January 2019 by the directors from amongst themselves. Saad Naeem is the head of operations at BCL.
- (vi) Aurangzeb Khan, a renowned lawyer, has been appointed as director on 30 November 2019, due to demise of Zahid Shah who was elected unopposed on 31 December 2018.
- (vii) Saima Arif and Ahmed Sultan are technology and cement production experts. They have been elected members of the BCL's board since December 2012 and December 2015 respectively.

Next election shall be held in the extraordinary general meeting scheduled to be held on 30 December 2021. Number of directors fixed for the next election is the same as was elected in the previous election. BCL has no plan to change the composition of the board.

All directors intend to continue to serve on BCL's board.

Required:

- (a) Discuss the course of actions required to be taken by each of BCL's directors to contest upcoming election. (05)
- (b) Calculate the number of votes available to TBL, PL and OL in respect of upcoming election of directors. (04)

Assume that the date today is 31 January 2022.

Sikandar Niaz, a non-resident Pakistani and business tycoon, has been appointed as non-executive director of BCL to fill a casual vacancy.

- (c) Advise Sikandar Niaz regarding information to be submitted to BCL within 30 days of becoming the director. (05)

- Q.8 Following are the extracts from the latest statement of financial position of Scarlet Investments Limited (SIL), an unlisted non-deposit taking NBFC:

Equity and liabilities	Rs. in million	Assets	Rs. in million
Ordinary shares (Rs. 10 each)	900	Property and equipment	830
Preference shares class A (Rs. 10 each)	150	Intangible assets	80
Preference shares class B (Rs. 20 each)	500	Investments at cost:	
General reserves	280	Mauve Steel Limited	120
Share premium	550	Umber Limited	350
Unappropriated profit	700	Cash and bank	950
Long term liabilities	140		
Current liabilities	200		

All shares issued by SIL carry equal voting rights. Preference shares of class A are irredeemable whereas each preference share of class B shall be converted into two ordinary shares on 31 July 2022.

Following proposals are under discussion in SIL's investment committee:

- (i) Sell entire shareholdings in Umber Limited (UL):

SIL purchased shares of UL in September 2019 from PSX with intention to hold them till June 2030. However, since acquisition, UL's performance has significantly deteriorated and therefore, SIL should consider selling entire shareholdings in UL.

- (ii) Purchase 10 million shares in each of the following companies:

Name of companies	Paid-up capital	Other reserves	Face value	Market value
	--- Rs. in million ---		--- Rs. per share ---	
Unlisted companies:				
Mauve Steel Limited (MSL)	1,200	30	20	-
Jade Textile Limited (JTL)	3,820	50	15	-
Listed companies:				
Neon Fertilizer Limited	4,200	650	10	25
Scarlet Bank Limited (SBL) (Note)	6,000	2,000	15	30

Note: SBL holds 80 million ordinary shares in SIL and 60 million shares in JTL.

Required:

- (a) Advise the steps to be taken to divest shares held in UL. (03)
- (b) Determine feasibility of investment in each of the proposed companies and summarize requisite conditions to be fulfilled before making the purchase. (*Assume that shares of MSL and JTL may be purchased at face value*) (13)

(The End)