



Certified Finance and Accounting Professional Stage Examination

The Institute of
Chartered Accountants
of Pakistan

8 June 2022
3 hours – 100 marks
Additional reading time – 15 minutes

Advanced Corporate Laws and Practices

Instructions to examinees:

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

- Q.1 (a) Golden-Oak Textile Limited (GTL) is a public unlisted company engaged in the business of manufacturing and export of textile products. An extract from GTL's audited statement of financial position as on 31 December 2021 is as follows:

	Rs. in million
Authorized share capital	
Ordinary shares (Rs. 10 each)	600
*Preference shares (Rs. 15 each)	450
Paid-up share capital	
Ordinary shares (Rs. 10 each)	450
*Preference shares (Rs. 15 each)	210
12% long-term loan (Note-1)	390
13% short-term running finance (Note-2)	200

**These shares do not carry voting rights.*

Note-1: The long-term loan facility was obtained in July 2019 from Mulberry Bank Limited (MBL). The loan was to be repaid in 10 equal semi-annual instalments.

Note-2: The short-term running finance was obtained in February 2021 from MBL.

In July 2021, GTL for the first time defaulted in making payment of its long-term loan instalment and mark-up on short-term running finance. Thereafter, GTL has not made any payment to MBL.

Observations highlighted in the auditor's report of GTL for the year ended 31 December 2021

The auditor highlighted in its audit report that various fake sale invoices and falsified transactions were recorded in previous years due to which opening balances of receivables, inventories and payables were materially misstated. Consequently, unappropriated profit of Rs. 2,000 million reported up to 31 December 2020 has been restated to accumulated loss of Rs. 4,500 million.

Required:

Under the provisions of the Companies Act, 2017, identify any **five** actions which MBL may take against GTL and its officers. **(10)**

- (b) Under the applicable corporate laws, discuss the situations in which the memorandum or articles of association of a public unlisted company are considered to have been altered/modified without approval of company's shareholders. **(05)**

- Q.2 Deodar Limited (DL) is a listed company engaged in the business of manufacturing and marketing of chemicals. DL holds investments in following unlisted companies for last many years:

Name	Paid-up capital	% of DL's shareholdings
Oak Limited (OL)	Rs. 750 million	100%
Cedar (Private) Limited (CPL)	Rs. 250 million	45%
Mahogany Limited (ML)	Rs. 550 million	40%

OL also holds 30% shares in CPL and 60% shares in ML.

During the month of May 2022, following decisions were taken in DL's board meeting:

- Approved the terms of contract under which CPL will supply raw materials to DL at a special discount of 40% on the prevailing price and an exceptionally favorable credit period of 180 days. The contract shall be for the period of three years effective from the signing date.
- Principally approved to amalgamate OL and ML with and into DL to achieve economies of scale and an efficient operational structure.

Required:

Under the applicable corporate laws:

- (a) discuss the statutory compliances to be made by DL in respect of the contract with CPL and subsequent transactions made thereunder. **Assume that the contract with CPL is signed on 8 June 2022.** (04)
- (b) discuss the course of action to be followed to give effect to the proposed amalgamation of OL and ML with and into DL. Also discuss the impact, if any, in case ML's creditors file a dissent with regards to its amalgamation. (06)

- Q.3 Mahoe (Private) Limited (MPL) has a paid-up share capital of 50 million shares of Rs. 10 each. MPL has adopted all the regulations of Table A of the First Schedule of the Companies Act, 2017 so far as those are applicable to a private company.

Following is the list of MPL's shareholders along with their respective shareholdings:

Shareholder	Number of shares
Farhan Ali (Note-1)	20 million
Bilal Karim	10 million
Shamim Hussain and Amina Zahid (Note-2)	8 million
Waheed Rehan	7 million
Maria Sultan	5 million

Note-1: Farhan Ali intends to transfer his shareholdings in MPL as follows:

- 20% shares to his daughter Saima Ali and 15% shares to his son-in-law Mohsin Malik through gift deeds;
- 40% shares to Maria Sultan at Rs. 60 per share so that her shareholdings in MPL increases to 26%;
- 20% shares to his business partner Amir Abbas at Rs. 50 per share to settle a debt of Rs. 200 million which Farhan Ali had borrowed from him.

Note-2: Shamim Hussain and her friend Amina Zahid jointly holds these shares. Amina Zahid recently died in an accident and her son Rehan Zahid has lodged a request with MPL to transfer his mother's share entitlement to his name.

Required:

Under the applicable corporate laws:

- (a) discuss whether the above shares will be transferred/transmitted as desired/requested by Farhan Ali and Rehan Zahid. (09)
- (b) Bilal Karim, after becoming a director in MPL, has deposited a nomination with MPL in favour of his brother Zia Karim.

Discuss the rights and responsibilities of Zia Karim, in event of Bilal Karim's death. (03)

- Q.4 The board of directors of Olive Leasing Limited (OLL) and Maple Housing Finance Limited (MHF) decided to merge OLL with and into MHF. As per the scheme, MHF will issue 100 shares of Rs. 10 each for every 250 shares of Rs. 10 each held in OLL. All the creditors of both companies have agreed with the terms and conditions of repayments included in the scheme.

An extraordinary general meeting (EGM) of OLL is planned to be held on 9 June 2022 at 9:30 AM in which scheme of merger will be presented before the shareholders for their approval. The complete list of OLL's shareholders along with their shareholdings is as follows:

S.No.	Shareholder	No. of shares in '000
(i)	Bashir Hasan (BH)	700
(ii)	Ismail Sweets Limited (ISL)	700
(iii)	Waseem Ahmed (WA)	500
(iv)	Najma - WA's wife	500
(v)	Akhtar - WA's son	500
(vi)	Marium - WA's daughter	500
(vii)	Jamil (Pvt) Limited (JPL)	500
(viii)	Areeba Ahsan	350
(ix)	Hina Laiq (HL)	300
(x)	Manzoor Limited (ML)	200
(xi)	Kamal & Co. (KC)	200
(xii)	Sikandar Ali (SA)	10
(xiii)	Dainyal Ahmed (DA)	10
(xiv)	Essa Saeed (ES)	10
(xv)	Farhan Badar (FB)	10
(xvi)	Ghazal Basit	10
		5,000

Following information is available with respect to OLL's aforesaid EGM:

- (i) BH and HL submitted their proxy forms on 7 and 8 June 2022 respectively and are expected to cast votes in favour of the scheme.
- (ii) It is expected that JPL, ML, SA and FB will not attend the meeting.
- (iii) On 7 June 2022, ISL and KC gave notice to OLL that they do not agree to the scheme as the value of their investments is not fairly determined.
- (iv) It is expected that DA and ES will cast votes against the scheme.
- (v) All the remaining shareholders who will attend the meeting, are expected to cast the votes in favour of the scheme.

Required:

Under the applicable corporate laws:

- (a) briefly explain whether the scheme will be considered approved by requisite majority of OLL's shareholders in EGM. (05)
- (b) state the effect of such approval on OLL, MHF and their shareholders assuming that the scheme is sanctioned by the Commission. (04)

(Ignore the provisions of the Competition Act, 2010)

- Q.5 (a) In a recent board of directors meeting of Blackwood Pharma (Private) Limited (BPL), a concern was raised regarding continuous downward selling trend in one of its main products namely 'Standstill'. CEO explained to the board that the downward selling trend of Standstill is due to recent decisions of Oak Pharma Limited (OPL) regarding its product 'Clearsill' which compete Standstill in the market. The summary of OPL's decisions is as follows:

- Removed the medicinal components from Clearsill and got it de-registered as a drug.
- Reduced its selling price by 20%.

CEO also informed the board that despite removing the medicinal components from Clearsill, OPL is still marketing this product by using the same phrases and packaging as it was used when Clearsill was medicinal.

Required:

Under the applicable corporate laws, advise BPL's management the course of action to mitigate the negative effect of OPL's marketing strategy. (04)

- (b) Bayri Investment Limited (BIL) is considering to establish a 'payment system' through which various services such as clearing, transfer, payment settlement, supervision etc. will be provided to its customers. The system will be operational once it will be designated by the State Bank of Pakistan (SBP).

While discussing the features and requirements of the payment system, the board has asked the management to clarify the following matters:

- (i) Who is eligible to operate the SBP designated payment system?
- (ii) Under what situations, SBP may revoke the designation of the above mentioned payment system?

Required:

Under the applicable corporate laws, write a memo to BIL's company secretary clarifying the matters raised by the board. (04)

- (c) Kentia Beverages Limited (KBL), a public unlisted company, is engaged in the business of manufacturing and marketing of soft drinks. KBL holds 20% market share of soft drinks in Sindh. Details of KBL's shareholdings as of today is as follows:

	Number of shares in '000
Diar Corporation Limited (DCL)	29,000
Directors, banks and financial institutions	16,000
	45,000

On 1 June 2022, Neem Beverages (Private) Limited (NBL), another manufacturer of soft drinks, has offered DCL to acquire 29 million shares of KBL at a premium of 15%. NBL holds around 25% market share of soft drinks in Sindh.

Required:

Under the applicable corporate laws, discuss the condition(s) that NBL should comply with, before the proposed acquisition of shares from DCL. (03)

(Ignore the provisions of the Companies Act, 2017)

- Q.6 (a) Fern Limited (FL), a listed company, is engaged in the business of trading and supply of medical equipment. In November 2021, it raised finance of Rs. 900 million from general public by issuing 90 million ordinary shares of Rs. 10 each. The purpose of raising finance was to establish a fully automated factory in Multan for the production of medical equipment.

Subsequently, FL has faced a major and unanticipated hurdle in building the factory in Multan which makes it impossible for FL to establish the factory. FL's board in its meeting held on 8 June 2022 has approved the abandonment of the factory establishment plan and has asked the management to evaluate the possibility of utilizing the amount in importing specialized medical equipment.

Required:

Under the applicable corporate laws, advise statutory compliances required to be made if, on the basis of management's evaluation, FL decides to use Rs. 900 million for importing the specialized medical equipment. (07)

(Ignore the provisions of the Companies Act, 2017)

- (b) Pine Limited (PL) is an unlisted company, incorporated in July 2008. PL's board plans to raise finance of Rs. 600 million through issuance of Sukuk certificates to general public. In this regard, PL and Silver Birch Associates (SBA) are under negotiation to sign an agreement by which SBA would subscribe all such Sukuk certificates which would remain unsubscribed at the close of subscription date.

Required:

Under the Public Offering Regulations, 2017 discuss the impact on PL's plan if SBA refuses to sign the agreement. (04)

- Q.7 (a) Chinar Holding Limited (CHL) is a well-established group having direct and indirect investments in the shares of textile, automobile, food and various other sectors.

CHL is considering to form an insurance company to further diversify the group business. One of the directors presents the following proposal:

- (i) Its principal line of business will be to manage direct and facultative reinsurance business and pension fund business.
- (ii) Initial paid-up capital of the insurance company will be Rs. 50 million which will be increased to Rs. 100 million and Rs. 200 million at the end of the third year and sixth year of operations respectively.
- (iii) Beobab Limited (BL) and Palm (Private) Limited (PPL) will be the promoters of new insurance company with 49% and 51% shareholdings respectively. Both BL and PPL are subsidiaries of CHL as it holds 80% and 95% shares of these companies respectively.

Required:

Advise whether the above proposal is in accordance with the provisions of the Insurance Ordinance, 2000. (06)

- (b) Brazilwood Limited (BL) is a public listed company. Abdullah Khan, who holds 55% shares in BL, was approached by Frangipani (Private) Limited (FPL) with an offer to purchase his entire shareholding at face value. Abdullah Khan accepted the offer and shares were transferred in FPL's name on 6 June 2022. FPL is a growing company in which Federal Government indirectly holds 90% shares.

Required:

Under the applicable rules and regulations of code of corporate governance, advise BL regarding the disclosures to be made in BL's annual report and statement of compliance for the year ending 30 June 2022. (07)

- Q.8 (a) Ornas Limited (OL), a listed company, is engaged in the business of manufacturing parts used in split air conditioners. In order to expand its current facilities, OL is considering to borrow Rs. 1 billion for five years. Following financing proposals are under consideration:

Name of bank	Tagha Bank Ltd (TBL), a local bank	Khona Bank, a US bank
Disbursement currency	Pak Rupees	US Dollar
Borrowing cost	6 months KIBOR plus 1.5%	500 basis points
Security	Mortgage of OL's factory building, plant & machinery	<ul style="list-style-type: none"> ▪ Mortgage of OL's factory building, plant & machinery ▪ Pledge of OL's 20% shares registered in the name of directors
Repayment terms	20 equal quarterly instalments	20 equal quarterly instalments
Other condition (if any)		In case of default, outstanding amount may be converted into equity at the breakup value per share

One of OL's directors, Azam Munir, is also serving as a non-executive director on TBL's board. Due to Azam Munir's relationship, TBL has offered special terms to OL.

Required:

Under the applicable corporate laws, discuss the matters that should be considered by OL with reference to obtaining borrowing either from Tagha Bank Ltd or Khona Bank.

(13)

(Ignore the provisions of the Companies Act, 2017 and Pakistan Stock Exchange Rule Book)

- (b) Lignum Real Estate Agency (LRE) is a partnership business duly registered with relevant authorities. LRE signed an agreement with Palm Housing Societies that has launched a new housing scheme to sell the residential houses to general public.

Adnan Zafar, one of LRE's sales agents, delightedly informed the partners that yesterday he booked 35 bungalows and provided the following details:

- (i) Zaid Khalid, a leading business man, who is also an old customer of LRE, has booked 15 bungalows and has given a cheque equivalent to the amount required for initial booking. However, he has requested to book the said bungalows in the name of his accountant.
- (ii) Shaheer Azam, a retired government official, has booked 20 bungalows. He has paid full amount for all the bungalows in order to avail full payment discount. However, he has not yet provided his CNIC for fulfilling LRE's mandatory record keeping requirements.

Required:

Under the applicable corporate laws, advise LRE on the legality and reporting responsibility in respect of the above transactions.

(06)

(The End)