



Advanced Corporate Laws and Practices

Instructions to examinees:

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

Q.1 Radiator Limited (RL) is a public unlisted company which owns 70% shares in a listed company, Chandelier Limited (CL).

On 23 November 2022, RL's board approved the acquisition of the remaining shares of CL at the prevailing market price for making it a wholly owned subsidiary and intimated its intention to CL's board.

In a meeting held on 6 December 2022, CL's board considered RL's intention of purchasing further 30% shares and resolved to get shares of CL de-listed from the Pakistan Stock Exchange (PSX).

Additional information:

- (i) CL's financial information for the last five years:

	2022	2021	2020	2019	2018
	----- Rs. in million -----				
Paid-up share capital of Rs. 10 each	300	300	300	200	200
Profit after tax for the year ended 30 September	142	135	185	192	168
Dividends for the year	90	75	105	80	60
Retained earnings as at 30 September	504	452	392	312	200

- (ii) Details of CL's shares purchased by RL from open market during the last two years:

	21 Jan 2021	6 Oct 2021	3 Jun 2022	7 Jul 2022
No. of shares purchased by RL	3,000	1,500	1,000	3,500
Purchase price per share (Rs.)	75	70	63	59

- (iii) Market price of CL's shares as on 23 November 2022 and 6 December 2022 was Rs. 65 and Rs. 61.5 per share respectively, whereas annualized average market price for the last three years is Rs. 62 per share.

- (iv) The revalued amount of the CL's assets as on 30 November 2022, determined by the professional valuers, duly certified by a firm of chartered accountants, was Rs. 1,900 million.

Required:

Under the applicable corporate laws:

- (a) determine the minimum purchase price which should be notified to PSX for purchase of CL's shares. (08)
- (b) identify the process of determining the final purchase price to acquire CL's shares. (07)

- Q.2 Headset Resorts Limited (HRL), a public unlisted company established in 2019, operates various resort hotels in the northern regions of Pakistan. At the time of commencement of the business, the entire operation was financed in the debt equity ratio of 60:40.

In August 2022, HRL had to stop its operations as majority of HRL's resorts were completely destroyed due to massive landslides caused by floods. Consequently, HRL failed to pay monthly instalments of loans obtained from the financial institutions.

Following information were extracted from HRL's records as on 31 October 2022 and sent to all the creditors:

Assets	2022	Liabilities	2022
	Rs. in million		Rs. in million
Fixed assets	900	Clock Bank Ltd. (CBL)	990
Other assets	1,500	Safe Investment Ltd. (SIL)	900
		Piano Bank Ltd. (PBL)	800
		Fan Bank Ltd. (FBL)	750
		Grill Finance Ltd. (GFL)	300
		Other liabilities	200
Total assets	2,400	Total liabilities	3,940

Considering the situation, one of the above creditors, SIL approached HRL with a proposal to restructure the loan terms which would enable HRL to re-start its operations. SIL has extensive experience in reviving various companies and is confident that its proposal will improve HRL's financial position. HRL disagreed to some of the proposal terms which SIL deemed necessary for HRL's long-term sustainability.

Subsequently, SIL met with the representatives of CBL, PBL, FBL and GFL to discuss its proposal and suggested to appoint a mediator to resolve the matter with HRL. FBL agreed to the proposal, however, PBL and GFL refused to agree as they intended to recover the outstanding amount by selling pledged securities. CBL agreed to the proposal with the condition that CBL's representative Zain Ali should be appointed as the mediator.

Required:

Under the applicable corporate laws:

- (a) advise the course of action available to SIL in respect of its proposal. Also state SIL's responsibilities in this regard. (06)
- (b) discuss whether Zain Ali can be appointed as the mediator. Also explain how the remuneration of mediator would be determined in the above scenario. (05)

(Ignore the provisions of the Companies Act, 2017)

- Q.3 Lift (Private) Limited (LPL) was incorporated in 2019. Its principal line of business is to promote internationally renowned brands of clothes in Pakistan. In this respect, LPL has signed agreements with various foreign entities for which it has to perform inward and outward foreign exchange transactions on regular basis using the sources permitted by the State Bank of Pakistan (SBP). However, sometimes due to the urgency of the transactions, LPL remits the amounts to the beneficiaries using the sources not permitted by the SBP.

On 5 December 2022, LPL was informed through reliable sources that some of the remittances it made through unauthorized sources have come to the knowledge of the regulators and consequently they have referred the matter to the prosecuting agency. The agency is considering to appoint an officer for the investigation of LPL's affairs who would also make sure that LPL does not transfer any of its properties, whether located within or outside Pakistan, till further notice.

Required:

Under the provisions of the relevant corporate laws, advise LPL's management about the risks related to LPL's properties.

(Ignore the provisions of the Companies Act, 2017)

(07)

Q.4 Following are the latest shareholding details of four companies:

Name of companies	Paid-up capital*	Shareholders			
		SFL	TPL	VPL	Others
----- Rs. in million -----					
Scanner Farms Limited (SFL)	1,200	-	20	850	330
Television (Private) Limited (TPL)	900	90	-	50	760
Vacuum (Private) Limited (VPL)	300	-	50	-	250
Webcam Foods Limited (WFL)	1,500	320	60	450	670

**All shares have a face value of Rs. 10 each and carry equal voting rights.*

Following decisions were taken by the board of directors of the above companies in their respective meetings held on 6 December 2022:

- (i) SFL's board resolved to sell its entire shareholdings in WFL.
- (ii) TPL's board approved the purchase of its own 40 million shares from the shareholders.
- (iii) VPL's board resolved to sell its entire shareholdings in WFL.

The market price of WFL's shares as on 6 December 2022 was Rs. 45 per share.

Required:

Under the applicable corporate laws, identify the steps required to be taken by SFL, TPL and VPL for executing the above resolutions of their boards.

(10)

Q.5 The share capital of Dryer Limited (DL), a public unlisted company, comprises of 75 million shares of Rs. 10 each, out of which the Federal Government through Ministry of Finance owns 58 million shares.

The composition of DL's board of directors is as follows:

Category	Name of directors
Independent directors	Anees Bilal, Khalil Ahmed, Murad Khan, Zainab Ali
Non-executive directors	Asim Taha (Chairman), Rehan Gill, Wajid Nasim
Executive directors	Farooq Khan, Rafique Shah (CEO), Rashid Noman

Summary details of DL's board committees are as follows:

Board committees	Members of the board committees
Audit committee	Anees Bilal, Murad Khan, Rehan Gill, Wajid Nasim
Risk management committee	Rehan Gill, Zainab Ali
Procurement committee	Murad Khan, Rashid Noman
Nomination committee	Asim Taha, Khalil Ahmed
Human resources committee	Anees Bilal, Rashid Noman, Zainab Ali

On 29 November 2022, the Federal Government decided to make an offer for sale of 21 million shares in DL to the general public at Rs. 73 per share. It is expected that the sale of shares by the Federal Government and listing of shares on the Pakistan Stock Exchange (PSX) is to be concluded on or before 31 March 2023.

DL's board is concerned about the changes in the board committees and governance after listing of DL's shares on PSX.

Required:

Under the applicable code of corporate governance, considering the concerns of DL's board:

- (a) discuss whether the existing board committees would continue to operate. (03)
- (b) advise what would be the key changes to be made in the composition and conduct of the audit committee. (06)
- (c) discuss the changes in the qualification criteria of DL's chief financial officer. (04)

- Q.6 (a) Oven Bank Limited (OBL) is considering to borrow Rs. 2,500 million at KIBOR + 1.5%, from Kettle Bank Ltd (KBL) repayable in six equal semi-annual installments starting from June 2024. The loan will be secured against the pledge of 45 million securities of Bulb Limited (BL).

Following information has been extracted from OBL's records as of 30 November 2022:

- (i) **Investments in securities:**

	No. of securities in million	Market value --- Rs. in million ---	Cost
BL – held-for-trading	45	2,800	2,000
Clock Limited (CL) – held-to-maturity	55	2,400	2,200
Drill Limited (DL) – available-for-sale	90	2,500	3,000

- (ii) **Balances in current account with:**

	Rs. in million
State Bank of Pakistan (SBP)	445
Other banks	400

- (iii) **Cash in hand:**

Local currency	300
Foreign currencies	240

- (iv) **Deposits placed by customers in:**

Pak rupees – current deposits	9,400
Foreign currency – current deposits	4,500
Savings deposits with – two years maturity	4,200
– three years maturity	2,300

- (v) **Deposits placed by financial institutions in:**

Pak rupees – current deposits	5,500
Savings deposits with two years maturity	3,500

- (vi) **Long term loan:**

Rs. 3,000 million is outstanding in respect of a loan obtained by OBL from Juicer Bank Limited against the pledge of 55 million and 45 million securities of CL and DL respectively. The loan is repayable in three equal annual installments starting from September 2023.

Required:

Under the provisions of the Banking Companies Ordinance, 1962 establish whether OBL's liquid assets are sufficient to support borrowing from KBL on the proposed terms. (08)

Note: SBP has issued a directive to all the banks to maintain liquid assets at the rate of 19% of its demand liabilities.

- (b) Ali Saeed, an equity investor, frequently trades in the shares of banking companies. His shareholdings as on 7 December 2022 in Blender Bank Limited (BBL) and Oven Bank Limited (OBL) are as follows:

Name	% of shares held	No. of securities	Cost
		in million	Rs. in million
BBL	4.1%	120	1,824
OBL	4.4%	102	1,255

In anticipation of the announcements of right shares from BBL and bonus shares from OBL, Ali Saeed intends to purchase further 0.5% and 1.2% shares of BBL and OBL respectively in December 2022.

Required:

Under the provisions of the Banking Companies Ordinance, 1962 advise Ali Saeed regarding the requirement(s), if any, to be fulfilled in the above situation. Also state the consequences if Ali Saeed does not meet the relevant requirements.

(07)

Q.7 You are an executive director of a renowned corporate consultancy firm engaged in providing corporate secretarial services to multiple clients. The following independent matters are under your consideration:

- (a) Steamer Limited (SL) is the large exporter of electronic equipment in the Indonesian market.

SL is currently considering to separate its manufacturing and marketing functions for the purpose of better control and management. In this regard, SL intends to establish a company under the Companies Act, 2017 as its subsidiary under the name 'Pakistan Indonesia Development Chamber' (PIDC) to look after the marketing functions. SL intends to hold 60% shareholdings in PIDC whereas the remaining shares would be issued to the general public.

Required:

Under the applicable corporate laws, discuss the suitability of the name proposed for the new company.

(04)

- (b) Grinder Limited (GL) is a public unlisted company which commenced business on 1 July 2018. However, due to global economic recession caused by COVID-19 pandemic, GL could not achieve the desired operating results.

Following information has been extracted from GL's records:

	2022	2021
	----- Rs. in million -----	
Paid-up share capital (Rs. 10 each)	400	400
Accumulated loss as on 30 June	(120)	(100)
Loss after tax for the year ended 30 June	(20)	(80)

In November 2022, GL received a huge export order to supply 500,000 industrial torches each month to a US based company, for one year commencing from 1 March 2023.

In order to manage the working capital requirements in respect of the export order, GL needs to raise finance of Rs. 100 million for which GL is considering to issue shares to Plotter Limited (PL), a listed company, against total cash consideration of Rs. 8 per share.

Required:

Under the applicable corporate laws, advise statutory requirements, which GL must comply before and after issuance of shares to PL.

(11)

(Ignore the provisions of the Companies (Further Issue of Shares) Regulations, 2020)

Q.8 Safe Exports Limited (SEL) was incorporated on 1 July 2017. The principal line of business of SEL is the export of hosiery products.

On 29 September 2022, the CEO informed the board of directors that export sales to European countries, that constitutes the major part of the total sales, have significantly decreased, specially during the last two years. SEL's total export sales during the last four years were as follows:

Year	Average exchange rate for USD 1	Amount in '000	
		Rupees	USD
2019	Rs. 120	720,000	6,000
2020	Rs. 140	910,000	6,500
2021	Rs. 160	880,000	5,500
2022	Rs. 220	660,000	3,000

Considering the decline in export sales, SEL's board advised the CEO to explore alternate workable arrangements for mitigating the alarming situation.

On 1 December 2022, the CEO presented a proposal to the board suggesting to open SEL's branch office in London where there is a huge potential for SEL's products. Following estimates were presented to the board in this regard:

	Amount in '000	
	PKR	*USD
Investment required for the establishment of branch	132,000	600
Export earnings	2,640,000	12,000
Operational expenses to be incurred by the branch	**396,000	**1,800

* 1 USD = PKR 220

** It includes the amount of Rs. 176,000,000 (USD 800,000) which SEL would remit to its branch for meeting the operational expenses.

The board after deliberation advised the CEO to get the proposal vetted by SEL's banker for proposed remittances and to submit a comprehensive plan for the final consideration and approval of the board.

Other information as on 30 November 2022:

	Rs. in '000
Paid-up share capital (Rs. 10 each)	100,000
Reserves	15,000
Unappropriated profit	10,000
Provision for deferred taxation	4,000
Due from related parties	25,000
Investments in unlisted shares of subsidiaries	7,000
Investments in listed shares of associated company	6,000
Provision for doubtful debts in respect of export sales	10,000

Required:

Under the provisions of the Foreign Exchange Manual, advise the CEO in the light of board's directives:

- whether SEL's banker will allow the above proposed remittances. (12)
- the alternative(s) available to SEL. Assume that SEL's banker has shown its inability to remit the amount. (02)

(The End)