



Advanced Corporate Laws and Practices

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Name: _____

INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations, for the Winter 2023 examinations only.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > (**NEXT**) or < (**BACK**) symbols.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, below the RTF editor, a spreadsheet is provided to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to use only digital copies of the permissible books. Keeping a hard copy of any book or notes is not permissible and will be considered a violation of the use of unfair means policy, leading to disciplinary action.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than Assessment Master and the digital copies of permissible books is strictly prohibited. Engaging in such activities will be considered a violation of the use of unfair means policy, leading to disciplinary action.

- Q.1 (a) Peppermint Limited (PL), an unlisted company, strategically invests in shares of a listed company, Tarragon Spices Limited (TSL), which has a paid-up share capital of Rs. 900 million, divided into 90 million shares of Rs. 10 each.

Details of initial acquisition of TSL's shares by PL:

On 30 September 2023, PL acquired 9 million shares of TSL at a price of Rs. 250 per share from Olive Limited through negotiated deals market.

As on 30 September 2023, the market price of TSL's shares was Rs. 280 per share, and the net asset value of TSL, as determined by M/s Cardamom Chartered Accountants, was Rs. 25,650 million.

Proposed further acquisition of TSL's shares by PL:

On 31 October 2023, PL's board resolved to acquire further shares of TSL from Oregano Limited (OL), a major TSL's shareholder. Despite TSL's market price being Rs. 350 per share on that date, OL agreed to sell at a lower price i.e., Rs. 300 per share, due to its immediate need of funds for a long-term commitment, considering the shares were infrequently traded.

On 30 November 2023, PL in its board meeting finalized the terms of agreement to purchase 37 million TSL's shares from OL, subject to the compliance of requisite regulatory requirements. During the meeting, the CFO informed that the market price of TSL's shares as on 30 November 2023 was Rs. 340 per share, and the weighted average share price over the last 180 days was Rs. 385 per share. Furthermore, one of the directors raised the issue in the meeting that PL is also obligated to purchase further shares from the public.

Required:

Under the applicable corporate laws, determine the minimum number of shares that PL must offer to acquire from public and the minimum price that must be offered for these shares.

(06)

- (b) **Assume that the date today is 30 April 2024.**

PL holds 70 million shares in TSL. Notably, the shareholders' equity of TSL has experienced a downturn, now reflecting a negative balance of Rs. 350 million. This financial shift is primarily attributed to the impact of a fire incident in the month of March 2024 that damaged several of the TSL's factory buildings.

On 30 April 2024, the board of PL has resolved to merge PL with TSL, intending to sustain the status of listed company. This merger aims to reduce TSL's losses and harness the advantages of streamlined operational management while optimizing available resources. On the same date, PL sent a notification to TSL along with the resolution passed by its board, proposing the merger with TSL.

Required:

Under the PSX Rule Book, advise the actions that TSL should take after receiving the notification from PL.

(06)

- Q.2 (a) Cinnamon Cement Limited (CCL) is a listed company engaged in the production and sale of cement. Arshad Malik, a dual national of Pakistan and Canada, holds 2.5% of CCL's shares. He has been residing in Canada for the past 20 years.

Arshad Malik sold his entire stake in CCL to his friend, Adrian John, a permanent resident of Canada, for USD 10 per share. Subsequently, Adrian John submitted an application to CCL to transfer these shares into his name.

Required:

Discuss the conditions as stipulated in the Foreign Exchange Manual under which the shares can be transferred to Adrian John.

(06)

- (b) Khalil, a director of CCL, actively trades shares through various brokerage houses, with a primary focus on investments in the cement sector. As of 5 December 2023, his investment portfolio includes a 12% shareholding in CCL.

Required:

Under the applicable corporate laws, advise Khalil about all the events and time periods during which he should abstain from dealing in shares of CCL.

(06)

- Q.3 Fenugreek Group (FG), a prominent conglomerate, primarily operates through Fenugreek Holdings (Private) Limited (FHL). FG specializes in power generation, solar panel trading, and electronic device manufacturing. All entities under FG are well-regarded for their financial strength, evident through substantial dividend distributions and prompt debt repayments.

In alignment with FG's growth strategy, FHL is initiating to establish a public company as its subsidiary dedicated to assembling smartphones. This new company will require a capital injection of Rs. 600 million. Paprika & Co. (PC), a China-based entity, has consented to furnish technical expertise for the assembling operations and is prepared to contribute 20% of the required capital.

The proposed action plan to establish the new company (NC) involves the following steps:

- (i) An online application through e-service for name reservation will be submitted to the registrar on 1 January 2024, proposing 'Pak China Limited', 'Chives Friendship Limited' and 'Chives Mobile Limited' as potential names.
- (ii) The following documents/information will be submitted with the incorporation application to the registrar on 1 April 2024:
 - The memorandum and articles of association, signed by Kamran (representing FHL), Chang (on behalf of PC), Tariq, and Junaid, all of whom designated as first directors. Kamran and Chang are experienced engineers; while Tariq and Junaid are senior executive directors at FHL.
 - The prescribed particulars of the directors and copies of their latest CNICs / passport.
 - The required particulars of the ultimate beneficial owners of FHL.
 - Compliance declaration form signed by the company secretary.
- (iii) Upon incorporation, NC will obtain a Rs. 300 million long-term loan from Sesame Bank Limited to purchase land. FHL has nearly completed the deal for acquisition of land, and once NC is incorporated, the land will be purchased and transferred in its name. The commercial production is projected to begin in June 2024.

Strategic Plan:

FHL aims for an immediate listing of NC to raise 20% of NC's required capital from public. However, FHL has been informed that NC must operate profitably for two years before it can be listed on the PSX. Consequently, FHL will provisionally hold 80% of NC's capital, planning to reduce its stake to 60% through a public offering once NC becomes eligible for listing.

Required:

Under the applicable corporate laws:

- (a) identify and discuss any potential gaps or oversights in the proposed action plan. (09)
- (b) discuss a potential strategy for listing NC on the PSX without adhering to the condition of two-year profitability. (06)

(Ignore the provisions of the Foreign Exchange Manual)

Q.4 Assume that the date today is 23 January 2024.

Ginger Bank Limited (GBL), one of the leading listed commercial banks, recorded a profit of Rs. 30 billion for the year ended 31 December 2023. The following are the extracts from the audited financial statements as of 31 December 2023:

Capital & reserves		Assets	
Authorized capital (Rs. 10 each)	40	Cash & balances with treasury banks	45
		Cost of investments	213
Paid-up capital (Rs. 10 each)	20	Less: Provision for diminution	(5)
Share premium	19		208
Statutory reserve fund	15		
General reserve	4	Intangible assets	2
Unappropriated profit brought forward	8	Deferred tax assets	3

GBL's board is expected to convene a meeting in February 2024, to consider the approval of the audited financial statements and the declaration of dividend. The CEO has tasked you to determine the maximum amount of cash dividend that can be paid to GBL's shareholders, considering that GBL also intends to issue one bonus share for each paid-up share held by the shareholders.

Required:

Under the applicable corporate laws, advise on the following:

- (a) The maximum amount of dividend GBL's board may recommend to the shareholders. (04)
 (b) The requirements that GBL must follow regarding the payment of the dividend, once it is recommended by the board. (08)

(Ignore the provisions of the Foreign Exchange Manual)

Q.5 The share capital of Jalapeno Steels Limited (JSL), a public sector company, consists of 50 million shares of Rs. 10 each.

The following are some of the matters pertaining to JSL:

- (i) JSL demonstrated its commitment to community development by selling 500 tons of steel, valued at Rs. 250,000 per ton, to public schools at a significantly reduced price of Rs. 50,000 per ton. This initiative was in accordance with the JSL's board policy for supporting educational advancement and collective progress, and also aligns with the government's goal of constructing 500 schools in underprivileged areas.
- (ii) In 2023, the board meetings were convened in March, June and September. Additionally, the next board meeting originally scheduled for 7 December 2023 was postponed and has been rescheduled for 15 January 2024, to be conducted via teleconferencing.
- (iii) JSL is establishing a Technical Committee within the board, to be chaired by Muazzam, the operations director. The proposed members of this committee are Zubair, the CEO; Khalil, the production director; and Furqan, an independent director.
- (iv) Zubair, the CEO, holds his position by virtue of a government nomination. The JSL's board has not identified a successor for the CEO role in the event of Zubair's death or disability, considering the appointment of a replacement as the government's responsibility.

Required:

Under the Public Sector Companies (Corporate Governance) Rules, 2013, discuss the actions expected of JSL's board in each of the above matters.

(10)

Q.6 (a) Raspberry Insurance Limited (RIL), a public sector unlisted company established in 2015, is engaged in life insurance business. Recently, RIL carried out customer profile update exercise and following points were noted:

(i) **Customer: Fazal Ahmed Associates (FAA)**

FAA, a sole proprietorship owned by Fazal Ahmed, engages thousands of contractual staff, outsourcing them to various organizations. All staff members are covered under RIL's group life insurance policy, with an average of 50,000 beneficiaries throughout the policy tenure. Initiating the policy in 2015, FAA has consistently renewed it each year. The current policy is scheduled to expire on 31 December 2023.

Recent developments

Fazal's CNIC that was submitted at the time of account opening is now expired. Furthermore, Fazal recently assumed the role of an independent director in two listed companies and commenced the position of chief operating officer in an oil exploration corporation wholly owned by the Federal Government.

(ii) **Customer: Onion Associates (OA)**

OA, operating as a sole proprietorship owned by Huzaifa, initiated its inaugural insurance policy in 2018 and subsequently renewed it annually. The current policy is due to expire on 30 June 2024.

Recent developments

OA has recently undergone a transformation, transitioning from a sole proprietorship to a private company under the name Olives (Private) Limited (OL). The Company Secretary has forwarded OL's certificate of incorporation to RIL, accompanying a formal request to update the policy particulars from OA's name to OL's name, ensuring smooth policy continuity.

(iii) **Customer: Peppercorn Limited (PL)**

PL, a listed company, has maintained a client relationship with RIL since the year 2020. Their most recent policy is due to expire on 30 November 2024.

Recent developments

On 30 November 2023, PL acquired a public unlisted company, Malt Limited (ML), as its subsidiary. Post-acquisition, PL has formally requested exclusive group life insurance coverage under the name of ML, specifically for ML's employees. The terms of this coverage are intended to mirror those provided to PL in the regular course of business. Khawar, a director of RIL, holds 2% shares in ML.

Required:

Under the applicable corporate laws, advise RIL about the actions that it must take to address the recent developments, noted during the customer profile updates. (11)

(b) After successfully completing the chartered accountancy in January 2023, Zubair Zia joined RIL, as a manager, in August 2023 and identified that several investment contracts held by policyholders at RIL strongly indicated involvement in money laundering activities. However, he observed that no action is being taken by RIL's management to address the situation.

Required:

Under the ICAP's Code of Ethics for Chartered Accountants, identify the actions that Zubair Zia should take in the given situation. (06)

Q.7 Juniper-Medics Limited (JL), an unlisted company incorporated in 2015, is engaged in the import and marketing of pharmaceuticals and consumer healthcare products. As of 30 November 2023, JL's share capital comprised of 50 million Class A shares, each valued at Rs. 10, and 25 million Class B shares, each valued at Rs. 20.

Over the last few years, JL's business has suffered significantly due to mismanagement of operations across its divisions. This led to the halting of operations in October 2023 when a large stock of imported consumer items expired, resulting in losses equivalent to JL's retained earnings as at 31 October 2023.

The board of JL intends to initiate a divisional separation strategy by establishing two distinct companies: Juniper Pharma Limited (JPL) and Juniper Healthcare Limited (JHL). This aims to streamline their operations, allowing for more focused and tailored approaches in the respective target markets. However, it is expected that the operations of JHL will be riskier than JPL due to declining demand for imported healthcare products.

The major terms of the board's plan are as follows:

- (i) The share capital will be apportioned such that holders of Class A shares will become members of JPL, while those holding Class B shares will become members of JHL.
- (ii) All loan liabilities will be equally distributed between JPL and JHL, with the stock-in-trade of each division transferred to the respective entities. Other assets will first be used to settle other liabilities of JL entirely, and remaining other assets will then be equally divided between the two entities.

Discussions were held with bankers regarding the proposed plan. One of the creditors, Celery Bank Limited, owning 15% of total outstanding loan liabilities, disagreed with the plan. When the matter was escalated to the Commission through JL's application, the Commission ordered that meetings be called to get the required approvals.

Required:

Under the applicable corporate laws, outline the steps that JL must take in response to the Commission's order for plan approval.

(10)

Q.8 The following matters, along with related actions, pertain to Jasmine Leasing Limited (JLL), an unlisted company:

- (i) On 4 December 2023, Moin Aftab, the CEO of JLL, submitted his resignation due to health issues and left the company with immediate effect. JLL has initiated the recruitment process for a new CEO by advertising the vacant position. Interviews are scheduled to take place from 29 December 2023 to 4 January 2024, after which the board will appoint a new CEO from the shortlisted candidates.
- (ii) Lease rental receivables from Maple Limited (ML), amounting to Rs. 150 million, were previously classified as 'doubtful'. However, on 30 November 2023, ML's lease was restructured, and the first instalment according to the revised payment schedule is now due on 2 January 2024. Following this restructuring, JLL updated the status of ML's lease balance to 'regular' and duly reported this change to the Commission and Credit Information Bureau of the State Bank of Pakistan.
- (iii) Aiming to establish its marketing department, JLL has recently entered into a rent agreement for a commercial property, with brother-in-law of a JLL's director. Moreover, JLL has also purchased a floor in an office building from another director to potentially lease it to other companies. These transactions were made with the approval of the CEO. Notably, JLL has not previously engaged in such transactions.

- (iv) In January 2021, following a recommendation from JLL's treasury department, shares worth Rs. 500 million in Hibiscus Limited (HL) were purchased, with the intention to hold them until January 2030. This decision was based on the financial position of both JLL and HL, as outlined below:

	JLL's equity	HL's equity
	----- Rs. in million -----	
Ordinary share capital	1,000	1,500
Preference share capital*	100	-
Unappropriated profit	2,500	500
Statutory reserves	1,000	-

**These shares are convertible into ordinary share capital in December 2025*

Subsequently, due to the continuous decline in the market value of HL's shares and the breach of stop-loss limits, JLL's treasury department recommended and executed the immediate sale of these shares to mitigate potential losses.

Required:

Discuss whether the aforementioned actions are in alignment with the applicable corporate laws.

(12)

(The End)