



The Institute of  
Chartered Accountants  
of Pakistan

## Certified Finance and Accounting Professional Stage Examination

6 June 2024  
3 hours and 30 minutes – 100 marks

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### Advanced Corporate Laws and Practices

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CRN:

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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.
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, where necessary, 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 under the policy on the use of unfair means, 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 under the policy on the use of unfair means, leading to disciplinary action.

- Q.1 Actinium Limited (AL) possesses a diversified investment portfolio, holding shares in several companies. Details of some of its shareholdings are as follows:

Name of investee companies	Paid-up share capital*	Shares held by AL	Market value as on 5 June 2024 (Rs. per share)
	No. of shares	in million	
Indium Limited (IL)	50	31	12
Rubidium Insurance Limited (RIL)	1,000	1	78
Tellurium Bank Limited (TBL)	1,200	3	60
Zinc (Private) Limited (ZL)	40	5	**24

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

\*\* Represents book value per share.

AL, requiring long-term loan of Rs. 750 million for its expansion, recently approached TBL to avail the loan facility and offered the following securities:

- A lien on entire shareholding of AL in IL, TBL and ZL.
- A guarantee from RIL for Rs. 150 million in favour of TBL.
- A lien on AL's special bank account maintained with TBL. This account holds a balance of Rs. 50 million, which consists of security deposits from AL's contractors given to ensure timely project completion.

Other relevant information relating to investee companies is as follows:

- (i) AL, by virtue of its investments, has appointed four directors in IL and two directors in ZL.
- (ii) As per ZL's articles of association, each director must hold a minimum of 15,000 qualification shares in their own name.
- (iii) Qasim, the minor son of a director at TBL, holds 200 million shares in RIL.

**Required:**

Under the applicable corporate laws:

- (a) discuss the validity of each security offered by AL and determine the maximum amount of loan facility that TBL may grant to AL. (10)
- (b) advise on the minimum number of shares of IL, RIL, TBL and ZL that must be held by AL in its own name. (04)

- Q.2 Uranium Limited (UL), a public unlisted company, is one of five manufacturers of two specialized chemicals, Holmium and Terbium. The export of these chemicals is banned by the government.

UL is currently considering expanding its operations by acquiring one of its four competitors that are public unlisted companies: AL, BL, CL or DL. Details of total quantity sold of Holmium and Terbium in Pakistan during the year ended 31 December 2023 are as follows:

Name of chemicals	UL	AL	BL	CL	DL
	Quantity sold in kg				
Holmium	20,500	13,120	7,380	41,000	-
Terbium	5,220	3,000	29,000	19,780	30,000

The following additional information is available:

- (i) UL is more inclined to acquire CL, as it invests heavily in research and development to achieve production efficiency. Over the past three years, CL has shown consistent improvement in market share due to its production efficiencies.
- (ii) Despite having the latest equipment and machinery for production, DL may struggle to dominate Terbium's market in the future due to severe financial constraints and the urgent need for immediate financial support to survive.
- (iii) BL is not inclined to sell its shares.

**Required:**

Under the applicable corporate laws, advise UL which of the companies can be acquired. (08)  
*(Ignore the provisions of the Companies Act, 2017 and the Companies (General Provisions and Forms) Regulations, 2018)*

Q.3 Mohsin, a fellow chartered accountant, has been working as a company secretary at Zirconium Power Limited (ZPL), a listed company, for the last ten years.

In April 2024, Mohsin came to know that ZPL's senior management had bribed government officials to secure a mega power project awarded to ZPL in March 2024. In a board meeting held in April 2024, Mohsin raised the concern to the board. The Chairman assured him that this matter would be independently investigated. However, no action has been taken up to now.

On 3 June 2024, Mohsin received an additional salary increment letter, which was out of the norm. ZPL normally issues increment letters on 1 October every year.

**Required:**

Under the ICAP's Code of Ethics for Chartered Accountants, discuss the course of action available to Mohsin. (08)

Q.4 Oxygen Dyeing Limited (ODL) is a listed company, engaged in the manufacturing of dyes. In an internal meeting held on 1 May 2024, attended by CEO, CFO and COO, following critical matters were discussed:

- The primary pump for the dyeing machine has malfunctioned, halting production. The supplier has advised that a replacement pump, which needs to be imported, will be installed by 15 June 2024.
- Several electrical boards in ODL's office building have sustained damage, posing a potential risk of electrical short circuits. These boards require extensive repairs or replacements.
- A customer has declared bankruptcy and is unlikely to settle the outstanding dues, which poses a challenge for ODL, already facing a liquidity crunch. ODL had previously projected using the expected receipt of Rs. 100 million from this customer to settle a loan of the same amount maturing on 10 June 2024.
- To safeguard the company's reputation, the CEO emphasized the importance of confidentiality for all attendees concerning the above matters.

To resolve the issues, the CEO, using all his contacts, arranged for the pump's replacement within seven days. He ordered a major electric overhaul to be carried out after the year ending 30 June 2024. Furthermore, to address the liquidity crunch, the CEO sought a loan of Rs. 200 million from a bank, at a significantly higher interest rate. The bank confirmed that the loan would be disbursed upon completion of the necessary compliance procedures, with an expected disbursement date of 10 June 2024.

**Required:**

(a) Under the applicable corporate laws, discuss the requirements that ODL had to comply with in the above situation. (09)

**Assume that the date today is 30 June 2024.**

Gallium (Private) Limited (GPL) has acquired 60% shares of ODL. The Federal Government indirectly controls 90% shares of GPL.

Bilal, the company secretary of ODL, is given the task to prepare a tentative schedule for meetings required to be held up to 30 June 2025. This schedule will outline the mandatory meetings, along with their timelines and mandated attendees.

**Required:**

(b) Under the PSX Rule Book and the applicable rules and regulations of code of corporate governance, advise Bilal on the timelines and mandated attendees for respective mandatory meetings. (09)

Q.5 Following are the details of assets held by Dubnium Employees' Provident Fund (DEP) as at 5 June 2024:

	Rs. in million
<b>Investments in listed debt securities</b>	
▪ Units of debt collective investment schemes	410
▪ Term finance certificates of Thulium Steel Limited	40
<b>Investments in listed equity securities</b>	
▪ Shares of Gallium Steel Limited (GSL)	45
▪ Shares of Hydrogen Pharma Limited (HPL)	200
▪ Shares of Osmium Steel Limited (OSL)	22
▪ Units of money market collective investment schemes	250
Long-term deposits with banks	400
Bank balances	133
<b>Total assets</b>	<b>1,500</b>

Considering the profitable returns from investments made in GSL, HPL and OSL, the trustees of DEP are now considering to make further investment by purchasing shares of Nitrogen Steel Limited (NSL) from the Pakistan Stock Exchange. NSL's paid-up share capital comprises 100 million shares of Rs. 10 each. NSL has reported profitable operations for the last ten years, with a consistent dividend policy of distributing 30% cash dividends. The current market value of NSL is Rs. 40 per share.

**Required:**

Under the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018, advise the maximum amount that DEP can invest in NSL.

(10)

Q.6 Platinum Holding Limited (PHL) has a strong presence in cement sector, steel sector and real estate business. PHL is now considering to enter into the financial sector by initially establishing an insurance business, Platinum Insurance Limited (PIL).

While discussing the proposal to establish an insurance company, in a recent board meeting, Shoaib Shah, PHL's chairman, expressed the opinion that establishing PIL would be riskier, as the insurance business is complicated and entirely new area for PHL. Instead, PHL should form a Non-Banking Finance Company (NBFC) and undertake a leasing business, Platinum Leasing Limited (PLL). However, Zohaib Khan, PHL's director and a strong advocate of establishing PIL, disagreed and highlighted the following advantages of PIL over PLL:

- (i) PIL can undertake multiple businesses such as pension fund business, direct and facultative reinsurance business, whereas PLL can only undertake leasing business.
- (ii) PIL can be established without any share capital, whereas PLL would need capital investment to meet the prescribed minimum equity requirements.
- (iii) PIL's license would be valid for ten years, whereas PLL's license would need renewal every three years.
- (iv) Zakir Khan, COO at Platinum Cement Limited having extensive business experience, can serve as PIL's CEO until the business is established, whereas stringent fit and proper criteria for PLL's CEO would require fresh hiring at a high remuneration.
- (v) PHL's statutory auditors can be appointed as statutory auditors of PIL, whereas only specific firms are allowed to be appointed as statutory auditors of PLL.

**Required:**

Under the Insurance Ordinance, 2000 and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, evaluate the comparative advantages highlighted by Zohaib Khan.

(08)

- Q.7 Erbium Limited (EL) is a listed company, having paid-up share capital of Rs. 600 million divided into 60 million shares of Rs. 10 each. EL is currently planning to bid in the upcoming book building of Calcium Limited (CL).

CL, with a paid-up share capital of Rs. 500 million divided into 50 million shares of Rs. 10 each, has offered 40 million new shares at a floor price of Rs. 70 per share through a book building process. The bidding period will commence from 25 June 2024, as outlined in its recently published prospectus.

The following additional information is available:

- (i) Boron Limited (BL), a public unlisted company, holds 17.4 million shares of EL.
- (ii) On 1 June 2024, the shareholders of BL entered into an agreement with CL. The agreement empowers CL to appoint three out of five directors on BL's board.
- (iii) CL has invested in listed shares of Dysprosium Limited (DL) and Gold Limited (GL). Shareholding details of investee companies as on 5 June 2024 were as follows:

Name of investee companies	Paid-up share capital*	Shareholders			
		BL	CL	GL	Others**
		----- Rs. in million -----			
DL	700	175	84	245	196
GL	400	202	32	-	166

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

\*\* Others include general public and institutional investors.

- (iv) DL's public offer announced on 15 April 2024 to purchase 22 million shares of EL shall expire on 6 June 2024. In response to DL's public offer, 21.6 million shares have been tendered by the shareholders of EL. These shares will be transferred to DL on 20 June 2024.

**Required:**

- (a) Under the applicable corporate laws, discuss whether EL is eligible to bid in the book building process of CL's shares. (12)

**Assume that the date today is 30 April 2024.**

In response to DL's public offer as explained in (iv) above, Fermium Limited has announced a public offer to purchase 22 million shares of EL for Rs. 430 per share as compared to the price of Rs. 400 per share offered by DL.

**Required:**

- (b) Under the applicable corporate laws, evaluate the situation and discuss the possible options available to DL in respect of its public offer. (06)

- Q.8 (a) Aluminum Textile (Private) Limited (ATPL), with a paid-up share capital of Rs. 10 million, has been experiencing financial difficulties for the past five years. Significant overdue balances with creditors have prompted demands for immediate settlement of the outstanding amounts.

In a recent meeting with ATPL's corporate consultant, Shahid Qazi, the suggestion was made to explore a merger with the profitable Bismuth Textile Limited (BTL), where ATPL's entire undertaking would be transferred to BTL. Shahid further informed that BTL is considering a merger for operational expansion, and ATPL's strong market presence would definitely attract them. He offered to advocate for the merger proposal with BTL's board if ATPL would endorse it. However, he advised bringing the creditors on board in the decision making to facilitate a seamless merger.

**Required:**

Under the applicable corporate laws, advise the board of directors of ATPL on the process required to be followed for obtaining approval(s) of the merger. (09)

*(Ignore the provisions related to the issuance of notice(s), circulation of information etc.)*

- (b) Ali Hamid, a prominent businessman, became ill in May 2022 and was unable to stay informed about developments in his investee companies. Now recovered, he seeks your advice on a matter concerning one of his investee companies, Iron Steels Limited (ISL), which is a family-owned business of the Hamid family.

ISL has a paid-up share capital of 50 million shares of Rs. 10 each, with Ali holding 20 million of these shares. Ali was surprised to learn that ISL, a profitable company up to 2022, is now facing severe financial difficulties and that a court-approved rehabilitation plan is underway. Upon reviewing the minutes of the previous general meetings, Ali noticed that the rehabilitation plan was approved by all the members of ISL. However, he was neither informed regarding the meetings nor he gave consent for the approval of the plan, and he believes this plan will negatively affect ISL's performance.

Furthermore, Ali discovered through his own resources that his brother, Kamran Hamid, the CEO of ISL, had misappropriated funds, which he believes to be the primary cause of ISL's financial difficulties. Ali is now concerned that Kamran might continue this misappropriation after ISL borrows the funds under the rehabilitation plan.

**Required:**

Under the applicable corporate laws, identify the options available to Ali Hamid for addressing the current issues at ISL.

**(07)**

**(The End)**