



The Institute of
Chartered Accountants
of Pakistan

Certified Finance and Accounting Professional Stage Examination

5 December 2024
3 hours and 30 minutes – 100 marks

Advanced Corporate Laws and Practices

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 page of the question paper that is specifically allocated for this purpose. Remember that any rough work done on the last page 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.
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.

Q.1 Zebrawood Foods Limited (ZFL) is a listed company engaged in the manufacturing and marketing of frozen foods. ZFL has a paid-up capital of 50 million shares of Rs. 10 each.

The next election of directors of ZFL is scheduled to take place during the extraordinary general meeting on 18 December 2024. The number of directors to be elected will remain the same as in the previous election, and ZFL has no plan to alter the composition of its board.

Present shareholding details

Shareholder	Shares held in '000	Other information
Cedar G.K. (CG)	17,550	CG is a Japanese company based in Tokyo
Rubber Limited (RL)	13,500	RL has applied for listing on the PSX
Poplar Books Ltd (PBL)	5,000	PBL is a subsidiary of Danish Holding Limited
Mango Limited (ML)	4,550	ML has provided loan of Rs. 50 million to ZFL
Individuals	9,400	
Total	50,000	

Present board composition

Categories	Name of directors	Other information
Independent directors	1. Babar Zia	Chairman
	2. Sadaf Khan	Female director
Executive directors	3. Junaid Shah	CEO
	4. Karim Asif	Operations director
	5. Zain Munir	Marketing director
Non-executive directors	6. Abbas Hussain	Nominated by ML, under the loan agreement
	7. Rashid Zaheer	Represents ZFL's minority shareholders
	8. Zaviyar Saad	Nominated by CG

Hamza Suleman, CFO and company secretary of ZFL, has received notices of intention to act as directors of ZFL from the following members in the respective categories:

(i) Independent directors:

- Babar Zia was initially elected to ZFL's board as an independent director in December 2021. He intends to continue serving on the board.
- Moin Hassan has four years of experience as a tax lawyer and has obtained directors' training program certification in November 2024.
- Shahid Salman has six years of experience as a corporate lawyer. However, he has not yet obtained the directors' training program certification.

(ii) Female directors:

- Sadaf Khan has been serving as an independent director on ZFL's board since December 2015. She intends to continue serving on the board.
- Wania Mujeeb, an expert in human resources, currently serves as a director of seven listed companies including Poplar Books Ltd and Danish Holding Limited.

(iii) Other directors:

- Junaid Shah, Karim Asif, and Zain Munir intend to continue serving on the board.
- Rashid Zaheer intends to continue serving on the board to protect the interests of the minority shareholders.
- Waris Rizwan, a senior chartered accountant, has twenty years of experience serving on the boards of various companies including Rubber Limited.

Required:

Under the applicable corporate laws:

- (a) assess the eligibility of each member for election based on the given information and discuss the actions required to be taken by ZFL before 18 December 2024. (08)
- (b) analyse the number of votes available to each shareholder of ZFL, other than individual shareholders, in respect of upcoming election of directors. (06)
- (c) discuss whether any explanations are required to be included in the statement of compliance. (04)

(Ignore the provisions of the Companies (Postal Ballot) Regulations, 2018)

- Q.2 Tornillo Healthcare Limited (THL) is an unlisted company engaged in the manufacturing and sale of pharmaceuticals and surgical instruments. THL is currently considering establishing a new division to produce new healthcare products, which would require specialized plant and machinery to be imported from Japan at a PKR equivalent of Rs. 900 million.

In order to finance the import of the plant and machinery, THL is considering the following options:

Option 1: Arrange a long-term loan facility of Rs. 900 million from Ivory Bank Limited (IBL), the company's existing lender, which is willing to extend the facility provided that THL creates a first charge in favor of IBL over THL's office building. THL is confident of securing the loan on attractive terms, as the Chief Operating Officer of IBL is the father-in-law of the son of one of THL's directors.

Option 2: Obtain a USD 3 million loan from Redheart Bank (RB), a Japanese bank, at an interest rate of 5.50% per annum. The loan would be repaid in eighteen equal monthly installments and would be secured by a bank guarantee from Chechen Bank Limited (CBL), a new lender, in favour of RB.

Required:

- (a) Under the applicable corporate laws, outline the specific conditions and the prescribed criteria that must be met for THL to avail finance under each of the above options. (10)

Assume that THL decides to obtain the USD loan from RB and approaches CBL to take necessary steps to proceed.

Required:

- (b) Under the Foreign Exchange Manual, outline the steps required to be taken by CBL. (09)

- Q.3 Lacewood Consultants (LC), has been approached by Mustafa Ali, a high-net-worth individual, who intends to sell some of his shares of listed companies in bulk. He is concerned that selling shares in bulk quantity on the PSX could negatively impact the respective share price. He is, therefore, exploring the option of selling the shares at a price to be determined through the book building mechanism. He has shared with LC the following details of his investments and the suggested floor prices:

Name of investee company	Paid-up shares*	Shares held by Mustafa Ali	Floor price	Further details
	No. of shares in million		Rs. per share	
A Snacks Limited	1,500	100	6	Note (i)
C Silk Limited (CSL)	220	23	10	Note (ii)
D Shoes Limited (DSL)	250	80	50	Note (iii)
E Soaps Limited (ESL)	600	150	20	Note (iv)

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

Notes for further details:

- (i) The shares were inherited from his mother and were transferred to him in March 2023.
(ii) The shares were subscribed during the initial public offering in January 2022, when CSL got listed on the PSX.
(iii) The shares were subscribed when DSL was incorporated as a public unlisted company. In March 2024, DSL merged into F Socks Limited (FSL), a listed company. Before merger, FSL was facing financial difficulties and had no business activities.
(iv) The shares were subscribed when ESL was incorporated as a private company. ESL was later converted into a listed company in March 2023.

Required:

Under the applicable corporate laws, discuss the possibility of selling the shares of each company in the manner desired by Mustafa Ali. (08)

- Q.4 Lakewood Consultants has been hired as consultants to evaluate the software system developed by a client for conducting book building for public offer of securities. To test the system's performance and limitations, the following details of a hypothetical public offer of shares have been entered in the system for a test run:

Issuer:	Jatoba Limited (JL)	Total issue size:	30 million shares
Bidding period:	2-Dec-2024 till 3-Dec-2024	Book building size:	22.5 million shares
Floor price:	Rs. 30 per share	Price band:	Maximum limit

The summary of few bids entered in the system and the prevailing indicative strike price at different points in time is as follows:

Name of bidder	Date of bid	Time of bid (24-hour)	No. of shares as per bid (in million)	Bid price	Prevailing indicative strike price
				----- Rs. per share -----	
A	2-Dec	11:00	3.0	33	30
B	2-Dec	13:00	1.0	28	31
C	2-Dec	14:00	2.0	32	31
D	2-Dec	15:30	1.5	45	32
E	2-Dec	18:00	2.0	33	33
F	3-Dec	11:10	1.0	38	34
C	3-Dec	12:00	1.0	30	34
G (JL's subsidiary)	3-Dec	13:00	1.5	36	35

Required:

Under the Public Offering Regulations, 2017, identify the likely outcome for each of the above bids to determine whether it should be 'accepted' or 'rejected', so that the assessment can be compared with the system's output. Also, provide reasons for bid rejection, where applicable. (09)

- Q.5 **Email from Mukhtar Ahmed to Salman Javed**

Date: 5 December 2024
From: Mukhtar Ahmed, Chairman of the Board of Directors, Makore Limited (ML)
To: Salman Javed, Company Secretary, ML
Subject: Concerning Public News

Dear Salman,

I hope you are doing well. I would like to bring to your attention the following public news concerning two listed companies, Coco Limited (CL) and Burr Limited (BL):

- Shahid Khan, CFO of CL, purchased 1 million shares of CL from the open market two days prior to the announcement of 100% cash dividend for the year ended 30 September 2024. He subsequently sold these shares one week after purchase, gaining Rs. 5 million. CL has announced Shahid's termination.
- Fuzail Shakir, son of BL's executive director, purchased 10 million shares of BL from the open market on 9 September 2024 at 10:00 a.m. The news of BL securing a major order from a foreign customer was released to the PSX at 3:00 p.m., after which the share price rose significantly. BL has announced that an investigation is underway.

As you know, ML has recently been listed on the PSX, and some of our staff and board members may not yet be fully aware of the relevant legal provisions they must know to avoid similar incidents that could harm our company's reputation. I therefore direct you to prepare a note covering relevant legal provisions that must be complied with, by ML, to prevent such occurrences. Please share this note with all board members and key management personnel.

Best regards
Mukhtar

Required:

Under the applicable corporate laws, prepare a note as directed by the Chairman. (07)

- Q.6 Acacia Software Limited (ASL), having a paid-up share capital of Rs. 900 million divided into 90 million ordinary shares of Rs. 10 each, provides software development and maintenance services. Since its listing on the PSX in 2021, ASL has demonstrated significant growth. ASL's current share price is Rs. 25.

The current shareholding details of ASL are as follows:

Shareholder	Rs. in '000
Ebony Systems Limited (ESL)	480,000
Olivewood International Limited (OIL)	98,000
Birch Cement Limited	92,000
Others (including various individuals)	230,000
Total	900,000

One of ASL's competitors, Koa Tech Limited (KTL), an unlisted company, has recently developed a prototype vehicle equipped with an advanced auto-navigation system. KTL has expressed interest in selling this prototype vehicle to ASL.

ASL has received a proposal to develop an autonomous driving software for high-end luxury cars. Considering the scale of the proposal, ASL is considering the possibility of acquiring OIL's automobile software division for Rs. 400 million and/or KTL's prototype vehicle for Rs. 280 million to meet the project requirements effectively.

ASL is currently evaluating two alternative plans for project financing, proposed by one of its directors, Junaid Akram. The principal terms of these plans were discussed in a recent board meeting, as follows:

Plan I: Issuance of 50% right shares to the existing shareholders

Right shares to be issued to	No. of shares to be offered	Price per share	Purpose of issue
ESL	14 million	Rs. 20	To raise funds for acquisition of KTL's prototype vehicle
OIL	*21 million	Rs. 19	To acquire OIL's automobile software division
Remaining shareholders	**10 million	Rs. 21	To meet other additional expenses
<i>* Shares to OIL will be issued for consideration other than cash.</i>			
<i>** If the shares remain unsubscribed, ASL will obtain a loan to cover the funding shortfall.</i>			

Plan II: Issuance of preference shares

It is proposed to develop customized software utilizing ASL's in-house expertise and purchase exclusive rights to the prototype vehicle developed by KTL by raising funds through the issuance of preference shares to a corporate investor for Rs. 25 per share.

Zain Ali, ASL's director, suggested that the preference shares could be issued directly to KTL against the requisite purchase, strategically paving way for more future collaborations with the rising tech start-up that could build a long-term relationship between the two entities. Junaid Akram commented that such an arrangement would require additional compliances that might cause more delays.

Required:

Under the applicable corporate laws:

- critically review Plan I to identify any potential regulatory flaws, and suggest appropriate actions to address the identified discrepancies. (08)
- discuss the additional compliances to be met as commented by Junaid Akram, for issuance of preference shares to KTL against non-cash consideration. (07)

- Q.7 (a) Hazelwood Investment Finance Limited (HFL), a listed company, obtained a license to operate as a non-banking finance company. In September 2024, Ambrosia Holding Limited (AHL) acquired 51% shares of HFL. The Pakistan Credit Rating Agency Limited (PACRA) has awarded long-term credit rating of BBB+ and A+ to HFL and AHL respectively.

An extract from HFL's draft financial statements as on 30 September 2024 is as follows:

	Rs. in million
Paid-up share capital (ordinary shares of Rs. 10 each)	1,600
Statutory reserves	460
Revenue reserves	340
Total assets	3,968
Contingent liabilities	1,195

Following are some matters related to HFL:

- (i) HFL's CEO is due to retire, with 15 January 2025 being his last working day. HFL's board intends to appoint Wasim Mahmood, the current CEO of AHL, to the position, considering his familiarity with the Group's policies and his ability to handle both roles effectively.
- (ii) Saif Nasir resigned from HFL, and his final dues were transferred to his bank account in June 2024. However, Saif was not satisfied with the dues received and, following a dispute with HFL's human resource department, filed a litigation case against HFL. This has resulted in a contingent liability of Rs. 10 million, which has not been included in the contingent liabilities disclosed in the draft financial statements.
- (iii) Zakir Rehan, an employee of HFL since 2005, has approached HFL to obtain a finance of Rs. 1 million in his spouse's name. His spouse is a home-based baker specializing in customized cakes. HFL's manager intends to issue the loan without conducting any customer due diligence procedures.

Required:

Under the applicable corporate laws, evaluate HFL's position in each of the above matters, and advise suitable course of action(s) for HFL.

(07)

- (b) Assume that the information contained in the extract from HFL's draft financial statements as disclosed in (a) above, remains unchanged after the statutory audit of HFL's financial statements is concluded.

A new customer has applied to obtain finance facility of Rs. 600 million to undertake expansion activities and has offered the following securities:

Details of the security	Rating by PACRA	Rs. in million
Financial guarantee issued by Cumar Finance Limited	B	450
Lien on funds placed with Wenge Bank Limited	AA	30
Lien on bank account maintained with Narra Bank Limited	A	50
Lien on bank account maintained with Burl Bank Limited (BBL)	BB+	100
Lien on listed Term Finance Certificates issued by BBL	AA+	60

Required:

Under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, and the Non-Banking Finance Companies and Notified Entities Regulations, 2008, determine the maximum amount of exposure that HFL may assume for the customer.

(06)

Q.8 Dalbergia Fertilizers (Private) Limited (DFL) holds shares in several companies. Details of some of its shareholdings are as follows:

Name of investee company	Paid-up share capital	Shares held by DFL
	---- No. of shares in '000 ----	
Epsilon Bags Limited	500,000	300,000
Katalox Chemicals Limited (KCL) – Class A	330,000	23,100
Flora Limes Limited	700,000	210,000

DFL purchases chemicals for its production from multiple vendors, including KCL, an unlisted company. On 27 November 2024, two major shareholders of KCL, namely Alpha Petrol Limited and Beta Razors Limited, approached DFL's board members with an offer to sell their entire holdings of Class A and Class B shares. After negotiations, a price of Rs. 15 per Class A share and Rs. 25 per Class B share was agreed upon.

On 30 November 2024, DFL's board approved the pricing agreed upon with both the shareholders. During the meeting, the board also reviewed the following complete list of KCL's shareholders as of 30 November 2024:

Name of shareholder	Ordinary Class A shares (Rs. 10 each)	Ordinary Class B shares (Rs. 15 each)
	----- No. of shares in '000 -----	
Alpha Petrol Limited	46,200	121,500
Beta Razors Limited	46,200	91,800
Dalbergia Fertilizers (Private) Limited	23,100	-
Epsilon Bags Limited	26,400	29,700
Flora Limes Limited	39,600	15,200
Gamma Gas Limited (GGL)	98,500	10,000
Zeta Packages Limited	50,000	1,800
Total	330,000	270,000

Note: Each ordinary Class A share and Class B share carries one vote and two votes respectively.

After reviewing the list and other relevant information, DFL's board, as part of a strategic move, resolved to acquire the remaining Class B shares of KCL at a price of Rs. 20 per share. To communicate this offer, a circular was sent to the relevant shareholders of KCL.

Subsequently, DFL discussed the matter with KCL's board and was informed that all KCL's members, except GGL, are willing to sell their shares to DFL at Rs. 20 per share. DFL's board is concerned as to how it could bind GGL to sell its Class B shares as well.

Required:

Under the Companies Act, 2017, discuss the conditions under which DFL could bind GGL to sell the Class B shares held by it.

(11)

(The End)

