



Certified Finance and Accounting Professional Stage Examination

4 June 2025

3 hours and 30 minutes – 100 marks

Advanced Corporate Laws and Practices

CRN:

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Name:

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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 exam software website 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 Semicircle Toys Limited (STL), an unlisted company, suffered significant losses due to severe earthquake that damaged its main manufacturing facility. This resulted in a decline in the value of factory assets, disrupted production and delayed deliveries, ultimately leading to the cancellation of several major orders.

To mitigate the disruption, STL planned to increase production at unaffected smaller units and use the damaged facility for toll manufacturing until long-term arrangements could be made.

An extract from STL's statement of financial position as of 3 June 2025 is as follows:

	Rs. in million
Term Finance Certificates (TFCs) – matured in February 2025	155
Long-term loan – Cross Bank Limited	* 415
Suppliers – unsecured	** 160
Accrued liabilities	29
Total liabilities	759
Total assets	935

* Secured by a first charge over the factory building having book value of Rs. 365 million

** Ageing: 31-90 days overdue: Rs. 40 million; and above 90 days overdue: Rs. 120 million

As the impact of the disruption became evident, two major stakeholders i.e., Rectangle Electronics Limited (a TFC holder with Rs. 58 million exposure) and Hexagram Games (Private) Limited (a supplier with a Rs. 25 million claim); demanded immediate settlement of their outstanding dues. When their demands were not met, they ultimately threatened to initiate winding-up proceedings. They also claimed support from three out of total nine TFC holders, with combined claims of Rs. 21 million and six out of total twelve unsecured suppliers, whose claims totaled Rs. 13 million.

In response, an urgent board meeting was held in which the CEO presented a financial review and informed the board that the company lacked sufficient funds to meet the demands. He further explained that while additional loans had been explored, the terms offered were too stringent to proceed. During the meeting, the following suggestions were made by the directors:

- Pursue a rehabilitation plan to continue operations.
- Sell the assets to fully settle liabilities to avoid disputes. In response, the CEO clarified that, excluding the factory building secured against the long-term loan, the estimated realizable value of STL's remaining assets would only be sufficient to cover approximately 30% of its remaining liabilities.
- Initiate dialogue with the creditors who are demanding immediate settlement in order to negotiate a revised payment timeline.

The Chairman directed a thorough evaluation of the above suggestions to facilitate an informed decision and avoid court involvement and potential litigation.

Required:

Under the applicable corporate laws, advise the board on the following:

- (a) The most appropriate course of action, with justification, in light of the Chairman's direction. (07)
- (b) The essential conditions that must be satisfied for the recommended action under part (a) above, including brief procedural steps and necessary approvals. (08)

Q.2 Cylinder Gas Limited (CGL), a listed company, is engaged in the supply of specialised industrial-grade gas cylinders. The most recent board meeting of CGL was held on 31 May 2025, during which the annual financial statements for the year ended 31 March 2025 were approved by the board.

Shahzaib Sarwar, an independent director who had joined the board in May 2025 to fill a casual vacancy attended his first board meeting on 31 May 2025. He was unable to fully comprehend the financial and non-financial information presented during the meeting due to limited time for review. However, upon subsequent review, he sent an e-mail to the board members of CGL on 4 June 2025 and raised the following concerns:

- (i) The CFO's absence from the board meeting, due to other engagements, was deeply concerning – especially as Shahzaib's query regarding the financial statements was not adequately addressed in the CFO's absence.
- (ii) The Company Secretary's response to a query about CGL's approach to environmental and related issues was alarming. He responded that CGL had no specific responsibilities in this regard; however, he would look into the matter if any legal responsibilities were identified.
- (iii) The external auditors did not attend the board meeting, preventing the board members from discussing the auditors' views on the annual financial statements. During the meeting, Shahzaib also learned that CGL did not have an internal audit function, which was surprising, considering that CGL is listed on the PSX.
- (iv) CGL disclosed in its financial statements that an inter-company loan of Rs. 200 million had been written off due to a default of an associated company. This matter was neither discussed on merit during the board meeting, nor it was evident in the working papers. When Shahzaib inquired after the meeting, the CFO informed that the write-off had been approved by the audit committee.

Required:

Under the Companies Act, 2017, and the Listed Companies (Code of Corporate Governance) Regulations, 2019, evaluate the concerns raised by Shahzaib to assess any non-compliances, and suggest the necessary measures to be taken by CGL.

(08)

Q.3 Hexagon Technology Limited (HTL), an unlisted company, is a well-reputed software house, recognized for delivering innovative and effective information technology solutions to clients across Pakistan.

The Chief Operating Officer (COO) of HTL has recently formulated a plan to acquire 60% of the shares of Triangle Software House Inc. (TSHI), a Singapore-based unlisted company offering cutting-edge technology solutions to clients worldwide, at a fair value of USD 15 million.

The COO initially discussed the acquisition plan with the CEO and CFO of HTL, who concurred that the proposal should be presented to HTL's board for approval. However, the COO expressed concerns regarding the transfer of funds to TSHI's foreign shareholders. In response, the CFO explained that such a transaction would typically require prior approval from the State Bank of Pakistan (SBP). The COO then requested that, prior to seeking board approval, an alternative approach be explored through which specific approval of SBP would not be required.

Required:

Under the Foreign Exchange Manual, and in light of the COO's request for exploring an alternative approach, discuss the complete process that should be followed to remit funds for the acquisition of a 60% shareholding in TSHI.

(10)

- Q.4 (a) Spidron Transport Limited (STL) is a listed company engaged in the manufacture and sale of water transport vehicles. The details of STL's share capital as of 31 December 2024 are as follows:

	Ordinary shares	
	Class A	Class B
Authorised capital	Rs. 200,000,000	Rs. 500,000,000
Paid-up capital	Rs. 150,000,000	Rs. 350,000,000
Face value	Rs. 20 per share	Rs. 10 per share
Market price	Rs. 421 per share	Rs. 65 per share
Shareholders' voting rights	5 votes per share	2 votes per share

Trapezoid Boats Limited, which holds 30% of Class B shares, has nominated Waris Zia as a director on STL's board.

Due to the high market price, the trading volume of STL's Class A shares has reduced significantly. To promote shareholder diversification and broaden investor participation, Zakir Shah, CEO of STL, proposed a resolution in the most recent board meeting to sub-divide each share of Class A into five shares with a face value of Rs. 4 each.

The following comments were made during the board meeting:

- Waris Zia opposed the proposal, highlighting that reducing the face value of Class A shares would increase the number of paid-up Class A shares. This would consequently increase the voting rights of Class A shareholders and dilute the voting power of Class B shareholders.
- Mukhtar Khan, an independent director, argued that the face value of Class A shares cannot be reduced since the share capital has already been fully paid-up by the existing shareholders. He suggested that STL could consider issuing 100% bonus shares to Class A shareholders instead of sub-dividing the shares, as both approaches are broadly the same and would yield similar outcomes.

Required:

Under the applicable corporate laws, evaluate the comments made during the board meeting regarding the CEO's proposal.

(08)

- (b) In continuation of the discussions referred to in part (a) above, Sohail Hussain, Chairman of STL, commented that the proposed resolution, if approved, would trigger many corporate compliance requirements up to actual sub-division of shares. In this regard, he directed the Company Secretary to brief the board on the necessary steps to be taken and the approvals required, in the event that the proposed resolution is approved.

Required:

Under the applicable corporate laws, advise the Company Secretary in light of the Chairman's direction.

(07)

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

- Q.5 Pyramid Holdings Limited (PHL), an unlisted company with a strategic focus on investments in the textile sector, holds a significant shareholding in Unicursal Textile Mills Limited (UTML), a listed company and a prominent player in Pakistan's textile market, particularly known for its bedsheets, towels and accessories. UTML commands an estimated 30% market share in its segment.

In line with its growth strategy, PHL intends to acquire an additional 7 million shares of UTML from Ring Instruments Corporation (RIC) under a proposed share purchase agreement.

As of 3 June 2025, the shareholding structure of UTML is as follows:

Shareholder	Shares held (in '000)	% held
PHL	15,400	38.5
RIC	7,000	17.5
Trapezium Investments (Private) Limited *	3,600	9.0
Directors, banks and financial institutions	2,000	5.0
General public	12,000	30.0
	40,000	100.0

*An associated company of PHL

Required:

Under the applicable corporate laws, discuss the prerequisites that must be met by PHL in order to make a valid offer for the acquisition of additional UTML shares from RIC.

(12)

(Ignore the provisions of the Companies Act, 2017, and the Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017)

- Q.6 Square Flour Mills Limited (SFM), a listed company incorporated on 27 December 2024, became entitled to commence business on 31 March 2025 and started commercial production on the same date. At the third meeting of the SFM's board of directors, held on 3 June 2025, the board asked the CEO regarding the statutory requirements for the company's first annual general meeting (AGM). The CEO informed the board that, since the financial year of the company ends on 30 June, another board meeting would soon be convened to discuss and approve matters related to the AGM, which would be scheduled to take place shortly thereafter.

Safder Hasnain, one of the directors, raised a concern regarding the timing of the proposed AGM. He suggested that, since this would be the company's first AGM and considering only a few months had elapsed since the commencement of business, it would be more appropriate to hold the AGM after completing a full year of operations, to present a more comprehensive performance overview. The CEO responded that deferring the AGM until the end of the first operational year was neither feasible nor cost-effective. However, other directors found the response unconvincing.

In the absence of consensus, the Chairman directed the Company Secretary to present a detailed analysis, specifically referencing the proposed dates of the upcoming board meeting and AGM, while assessing the practicality of Safder Hasnain's suggestion to enable an informed and timely decision.

Required:

Under the applicable corporate laws, advise the board in light of the Chairman's direction.

(06)

- Q.7 Pentagon Investment Management Limited (PIML), a listed company, is licensed to operate as a non-banking finance company for providing asset management services. PIML manages the Pentagon Money Market Fund (PMMF), which is one of its several listed open-ended mutual fund schemes offering attractive returns to investors.

Oliver Farlay, a citizen and resident of Japan, has approached PIML showing keen interest in investing in PMMF. He informed that he holds investments in various international companies, and wishes to build a portfolio in Pakistan. To that end, he has shortlisted PMMF as a potential investment avenue. Oliver further informed that he plans to visit Pakistan in June 2025 to complete any required formalities. He intends to transfer funds from his US-based bank account for investments in PMMF, as he does not maintain an operating bank account with any bank in Pakistan.

Oliver has expressed concerns regarding his ability to make future investments, as frequent visits to Pakistan would not be feasible. He has also inquired about relevant regulations regarding redemption of units and conversion of units from PMMF to any other mutual fund scheme managed by PIML.

Required:

Under the applicable corporate laws:

- (a) determine the specific requirements that must be fulfilled for PIML to accept Oliver's investment in PMMF. (09)
- (b) prepare an appropriate response to Oliver's inquiries and concerns, advising him on the relevant laws and regulations. (06)

(Ignore the provisions of the Companies Act, 2017, the Anti-Money Laundering Act, 2010, and the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020)

- Q.8 (a) Star Chemicals Limited (SCL), a listed company, has approached Prism Bank Limited (PBL), a listed bank, to obtain a short-term loan of Rs. 400 million. SCL has committed to fully repay the facility by the end of June 2026. PBL is currently evaluating the loan application, as there is no prior banking relationship between the two entities.

Imrana Ali, who was recently elected as a director of SCL, holds 1.6 million shares in SCL, representing a 2% shareholding. Her spouse, Tariq Ali, was recently reappointed as the CEO of PBL.

Required:

Under the applicable corporate laws, advise PBL's management on the requirements that must be complied with before extending the loan. (09)

- (b) **Assume that the date today is 1 December 2025.**

On 1 December 2025, Tariq Ali acquired 2 million shares, increasing his total shareholding in PBL from 4.78% to 4.95%. He also diversified his investment portfolio by acquiring 15 million shares in SCL.

Looking ahead, Tariq Ali intends to further increase his shareholding in both PBL and SCL by purchasing an additional 3 million shares in each company by 31 December 2025.

Required:

Under the applicable corporate laws, advise on the compliance requirement(s) related to the above matters that must be met by Tariq Ali, Imrana Ali and PBL. (10)

(The End)

Rough Sheet

A series of horizontal lines for writing.