



**THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF
PAKISTAN (ICPAP)**

Stage	Professional	Course Code	P-501
Examination	Summer-2011	Course Name	Corporate Law and Governance
Time Allowed	03 Hours	Maximum Marks	100

NOTES:

1. All questions are to be attempted.
2. Answers are expected to be precise, to the point and well written.
3. Neatness and style will be taken into account in marking the papers.

Question No 1

An equitable mortgage was created on the factory building of Asif Textile Mills Limited, a listed company, to secure a long term loan obtained from Mrs. Wasif, who is the spouse of a director of the company. All the eight directors of the company were informally aware about Mr. Wasif's interest in the transaction. The board of directors approved the transaction in their meeting which was attended by five directors.

Upon inspection of the register of contracts in which directors are interested, a member of the company filed an appeal with the SECP, claiming that the mortgage is invalid because Mr. Wasif, who is an interested director, had also voted on the matter and therefore the contract is void.

In the light of the provisions of Companies Ordinance, 1984 you are required to:

(a) Evaluate the above situation and comment thereon in the light of the provisions of the Companies Ordinance, 1984. (10 Marks)

(b) Explain the manner in which a general notice, regarding disclosure of interest in a contract, may be given by directors of a company. (10 Marks)

Question No 2

A foreign investor had acquired majority shares in Marine Steel Services Limited (MSSL) in the year 2006. Due to global recession, MSSL has incurred heavy losses and a major portion of its equity has been wiped out. Consequently, the investor intends to wind up the operations of the company voluntarily.

(a) In the light of the Companies Ordinance, 1984, advise the management as regards the following:

- (i) When would the voluntary winding up process be deemed to commence and what would be its effect on the operations of MSSL. (5 Marks)

- (ii) How could the directors ensure that the requirements of making a declaration of solvency have been complied with? (5 Marks)

(b) In order to minimize the winding up expenses, the Board wants to appoint one of the directors as the liquidator, on a monthly remuneration of Rs. 50,000. Advise the Board as regards the requirements of Companies Ordinance, 1984 with respect to the appointment and remuneration of liquidator, in the above situation. (10 Marks)

Question No 3

(a) The Board of Directors of Pioneer Leasing Limited is in the process of appointing a new Head of Investment. List down the criteria specified in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 for assessing the person being appointed with respect to:

- (i) Integrity and track record (5 Marks)
(ii) Financial soundness (5 Marks)

(b) Explain the term "Independent Director" and narrate the provisions related to appointment of such directors, as specified under NBFC (Establishment and Regulation) Rules, 2003. (10 Marks)

Question No 4

(A)

FM Textiles Limited is a company listed on the Karachi Stock Exchange. Its directors have decided that the company would buy back 20% of its shares.

List down the steps to be taken for the buy-back of shares as specified in the Companies (Buy-back of shares) Rules, 1999. (10 Marks)

(B)

ABC Limited is a major supplier of furnace oil to SUB Power Limited which is facing financial crunch and has been unable to make timely payments to ABC Limited.

The directors of ABC Limited intend to request the SECP for appointment of an Administrator to manage the affairs of SUB Power Limited.

In the light of provisions of the Companies Ordinance, 1984 describe the conditions under which ABC Limited may request the SECP to appoint the Administrator. (10 Marks)

Question No 5

(A)

Explain the provisions of the Code of Corporate Governance in respect of the following:

- (a) Appointment of the chairman of the company.
(b) Meeting of the board of directors and minutes thereof. (10 Marks)

(B)

Mr. Yaqoob is a nominee of Foundation Bank Limited on the Board of Saad Textile Mills Limited (STML). In a meeting of the board of directors of STML, the company secretary was not able to offer satisfactory clarifications in respect of the following matters:

(a) STML had received a loan of Rs. 1.5 billion from Trust Bank Limited which was secured by a first mortgage on the company's fixed assets. The company had repaid the loan to the extent of Rs. 250 million but did not send any intimation to the registrar as regards the partial re-payment of the loan.

(b) A foreign currency loan of US \$ 75 million was obtained from Apex Bank Limited which was secured by a first mortgage on company's fixed assets ranking pari passu with the charge created in favour of Trust Bank Limited. The foreign currency loan has been paid in full but the company has not approached the registrar for vacating the charge because confirmation of repayment has not been received from Apex Bank Limited.

On behalf of Mr. Yaqoob advise the company in the context of Companies Ordinance 1984. (10 Marks)
