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**PAPER 4 : CORPORATE LAWS AND SECRETARIAL PRACTICE  
NOVEMBER 2000**

Questions 1, 2 and 3 are compulsory  
Answer any four from the rest

**Question 1**

(a) The Articles of Association of X Ltd. require the personal presence of six members to constitute quorum of General Meetings. The following persons were present at the time of commencement of an Extraordinary General Meeting to consider the appointment of Managing Director: **(6 Marks)**

- (i) Mr. G, the representative of Governor of Gujarat.
- (ii) Mr. A and Mr. B, shareholders of Preference Shares.
- (iii) Mr. L, representing M Ltd., N Ltd. and X Ltd.
- (iv) Mr. P, Mr. Q, Mr. R and Mr. S, who were proxies of Shareholders.

Can it be said that quorum was present? Discuss.

(b) Discuss the validity of the arguments of the Director in the following cases: **(6 Marks)**

- i. In the General Meeting of X Ltd., held on 2.5.2000, Mr. A was appointed as a Director. On that day, he was not holding any equity shares in X Ltd. As per the Articles of Association of X Ltd. the share qualification is the holding of 500 equity shares. On 15.6.2000 Mr. A applied for 1,000 equity shares in X Ltd. and the shares were allotted on 10.7.2000. Mr. A claims that he was holding the qualification shares within the time specified in Companies Act.
- ii. X Ltd. entered into a contract with M and Co. Ltd. for the purchase of raw materials for Rs. 2,50,000, at the prevailing market rate. The Director, of X Ltd. Mr. B was holding shares of the value of 1% of the paid up capital of M and Co. Ltd. Another Director, of X Ltd. Mr. C was holding shares of the value of 1.5% of the paid up capital of M and Co. Ltd. Mr. B at the beginning of the year, gave a general notice to X Ltd., that he was interested in M and Co. Ltd., but did not disclose the nature of interest. Mr. B claims that he had given notice to X Ltd., as required under the Companies Act and that his holding being only 1% is within the limit prescribed under the Companies Act.

(c) What are the Securities and Exchange Board of India's important guidelines regarding pricing of first issue of Equity Shares of New Companies?

**Question 2**

Attempt any **two** of the following:

a) Goodfurn Ltd. has been regularly supplying furniture to Mr. Nakul, a retail dealer. Mr. Nakul disposed off several items of furniture in a new year clearance sale at prices below notified minimum resale prices. Because of this, Goodfurn Ltd. refuses to supply goods to Mr. Nakul. Is such refusal justified under the MRTP Act, 1969? **(5 Marks)**

b) Beauty, Brown and Company with Robin, John and Buksi as its partners owns 'Lucky'. Bombay Duck and Company with Norman, Buksi and Raman as its partners owns 'Impressive'. Are these interconnected undertakings under the MRTP Act, 1969? Explain with reasons. **(5 Marks)**

c) XYZ Ltd. is a manufacturer of baby food. The company advertised a scheme called 'hidden wealth prize offer' by which coupons were inserted in some bottles of baby food. Some of the coupons indicated that the purchasers of these bottles in which they were placed would get prizes. Would this constitute an 'Unfair Trade Practice' on the part of XYZ Ltd., warranting the intervention of the MRTP Commission? **(5 Marks)**

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### Question 3

Attempt any **two** of the following:

- a) A part of the undertaking was proposed to be hived off inspite of objection of certain creditors, in order to augment the cash resources of the undertaking. State your views on this scheme proposed by the operating agency to BIFR. **(6 Marks)**
- b) Rationalization and reduction of work force by about 250 personnel, which would aggregate to about 25% of the total employees. State your views on this scheme proposed by the operating agency to BIFR. **(6 Marks)**
- c) A sick company is presently under lock-out. The company's Balance Sheet shows that it had run up a Cumulative Loss of Rs. 15 crores against a net worth of Rs. 2.5 crores. The operating agency appointed by BIFR failed to explore any alternative measures including change of Management for revival. No one evinced interest in revival. Suggest any course open to BIFR in a situation like this. **(6 Marks)**

### Question 4

- (a) What provision has been made under Section 15G of the SEBI Act, 1992, in connection with penalty for insider trading? **(8 Marks)**
- (b) Mr. Nanavati holding 3% shares in OPQ Ltd., became a director of this company on 1.5.2000. The company, prior to his appointment as director, had commenced transactions with A Ltd. In the next Board Meeting to be held on 10.5.2000, the Board proposes to discuss about price revisions sought for by A Ltd. Briefly explain:
  - i. Whether Mr. Nanavati should make a disclosure of his interest in A Ltd., assuming that the company is going to have transactions with A Ltd. On a continuous basis; if yes, when and how? When should it be renewed?
  - ii. Can he vote in the price revision resolution in the Board Meeting?You are informed that Mr. Nanavati holds 1.5% of the share capital of A Ltd., and that his wife holds another 3% of the share capital of A Ltd. **(7 Marks)**

### Question 5

- (a) Accurate Arcs Ltd. maintains the Minutes Book of the Board Meetings in loose-leaf system and gets them bounded once in three months. Can it do so? Board Meetings were held on 24<sup>th</sup> March, 2000 and 15<sup>th</sup> April, 2000. Mr. Rameshwar, who was the chairman of these two Board Meetings died on 1.5.2000, without signing the Minutes. How should the Minutes be signed and by whom? **(8 marks)**
- (b) Explain the procedure for passing the resolution by Circulation under Section 289 of the Companies Act, 1956. **(7 Marks)**

### Question 6

- (a)
  - i. Mr. Hardworker, an employee of Fortune Ltd., met with an accident and lost his life while on the company's business. He held 100 partly paid shares. The company had a first and permanent lien on the same. The Board of Directors, however, exempted the provisions of the said clause on the said shares as a goodwill gesture on behalf of the company. Is the action of the company correct? State with reasons. **(5 Marks)**
  - ii. Can the company's lien extend to dividends payable on such shares? **(3 Marks)**
- (b) The letter head of XYZ Ltd., contains a statement of the amount of its authorized capital. One of the shareholders of the company, on having a look at the letter head, informs the company that additional information in a certain mode has to be furnished along with details of authorized capital in the letter head. Is this contention correct? Give reasons.

### Question 7

- (a) Randhir was appointed as the sole selling agent of S Ltd. for a period of five years in a general meeting of the company. Exactly after one and half years, S Ltd. was amalgamated with another company A Ltd. Randhir was not appointed as the sole selling agent of A Ltd. S Ltd. paid Randhir Rs. 6 lakhs as selling agency commission during the said one and half years. Is Randhir entitled to any compensation and if yes, what is the quantum? **(8 marks)**
- (b) U/s.603 of the Companies Act, 1956, what are the particulars required for incorporating in a Prospectus to be issued by an existing Foreign Company? **(7 marks)**

### Question 8

- (a) What are the steps to be taken for winding up in a case, where the company is solvent, but the business for which it was formed has been completed. **(8 marks)**
- (b) State, what is Employees Stock Option Scheme. Are promoters and the part time directors entitled to receive securities under the scheme? Give reasons. **(7 marks)**

### Question 9

Following is latest audited Balance Sheet of XYZ Ltd.:

<i>Capital and Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Equity Share Capital (10,000 shares of Rs. 100 each)	10,00,000	Goodwill	1,00,000
Less: Calls Unpaid	<u>10,000</u>	Land and Buildings	10,50,000
	9,90,000	Plant and Machinery	20,25,000
Preference Share Capital	1,50,000	Equity Shares in A Ltd.	1,25,000
Securities Premium a/c	1,50,000	Preference Shares in B Ltd.	50,000
Capital Redemption Reserve	2,25,000	Debentures in C Ltd.	1,00,000
General Reserve	5,00,000	Shares in P Ltd.	2,25,000
Profit and Loss a/c	2,20,000	Capital in Z and Co.	1,00,000
Sinking Fund Reserve	1,10,000	Current Assets	55,000
Dividend Equalization Reserve	60,000		
Loan from TICC	10,00,000		
Deposits from S Ltd.	2,00,000		
Current Liabilities	1,25,000		
Provision for Taxation	1,00,000		
<b>Total</b>	<b>38,30,000</b>	<b>Total</b>	<b>38,30,000</b>

The following is the additional relevant information:

- (i) Of the equity share capital, 3,000 shares have been issued as rights shares and 2,000 shares as bonus shares.
- (ii) B Ltd. is subsidiary of XYZ Ltd. with 90% shareholding, whereas A Ltd. is wholly owned subsidiary of XYZ Ltd.
- (iii) Z and Co. is a partnership firm.

The directors seek advice as to whether the following additional investments can be made by a decision taken in a Board Meeting:

	Rs.
(i) Loan to A Ltd.,	10,00,000
(ii) Debentures in B Ltd.,	2,25,000
(iii) Purchase of shares of Shree Ltd., in the open market	95,000

State reasons.