

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF LAW
DEGREE OF MASTER OF LAWS IN COMMERCIAL LAW- 2023/24
SEMESTER I END EXAMINATION

Corporate Law – TLLM 1135
(Three Hours)

Total number of questions: 04

Answer **THREE (03)** questions and **no more**
(Candidates will be penalized for illegible handwriting.)

1. Answer **Both (a) and (b)**

(a) XYZ PLC (XYZ) is a company that manufactures and sells electronic devices. The board of directors comprises of John, Peter, Charles, Alex, and Tina. ABC Ltd, a leading company in the electronic devices market, proposed a large contract with XYZ. Although XYZ believes that the contract is crucial to the company's growth, the company has decided not to proceed with the contract. However, Charles negotiated the same contract with ABC Ltd. and eventually founded his own company to secure it.

It has been discovered that Peter has been using confidential company information belonging to the company for his own gain, by buying and selling shares of XYZ based on information that has not yet been made public. Tina, who serves as the finance director of XYZ, has failed to attend multiple crucial board meetings where important decisions were made to handle the company's challenges, despite being aware of the financial difficulties. Furthermore, she did not thoroughly examine financial data and forecasts, which caused her to miss warning signs that could have helped the board to take early and corrective measures. As a result of Tina's inaction, the financial situation of XYZ worsened, eventually leading to an inability to pay its debts.

Advise XYZ on the potential legal actions it can take against the directors who breached their fiduciary duties and the remedies available to XYZ. Support your answer with relevant statutory and common law principles.

(10 Marks)

(b) The 2007 Companies Act of Sri Lanka marks a significant departure from the traditional rigid non-conflict rules ingrained in common law. In contrast to the stringent common law stance, the

statute ushered in a more adaptable and pragmatic approach with the acknowledgment that directors operate within the complex dynamics of commercial environments.

Critically evaluate the above statement quoting statutory provisions and decided cases.

(10 Marks)

(Total 20 Marks)

2. Answer **Both (a) and (b)**

(a) The economic and corporate structures have had a significant impact on the development and interpretation of capital maintenance principles compared to the evolution of notions of capital maintenance in corporate law.

Do you agree with the above statement? Critically evaluate the fundamental purpose and rationale behind the concept of capital maintenance discussing whether the existing framework adequately addresses the diverse needs of companies and stakeholders in modern business environments.

(12 Marks)

(b) Critically discuss the benefits and drawbacks of a company opting for a public issue of shares from the perspective of both the company and potential investors.

(08 Marks)

(Total 20 Marks)

3. Answer **Both (a) and (b)**

(a) Tecno Ltd is a company engaged in the technology sector. Recently, there have been allegations of serious financial mismanagement within the company, causing a significant decline in its share value. A group of shareholders, led by Sarah, has discovered evidence that several members of the board were involved in fraudulent activities and inaccurate financial reporting, causing substantial financial harm to the company and its shareholders.

Advise Sarah and the shareholders on the potential legal actions they can take against the implicated directors and the available remedies due to the alleged misconduct. Discuss the distinction between each remedy and the requirements for bringing each type of action with reference to the statutory and common law principles.

(15 Marks)

(b) Critically evaluate the significance of the Articles of Association as a foundational document for a company, defining its relationship with shareholders/members and explore how amendments to the Articles of Association can be made.

(05 Marks)

(Total 20 Marks)

4. Christmas Bonus PLC (CBP) produces artificial Christmas trees for both domestic and export markets. CBP has a large manufacturing facility with advanced machinery. However, its sales have decreased dramatically as younger families no longer purchase plastic trees because children are being taught eco-friendly practices in schools. CBP failed to pay its creditors in the fourth quarter of 2023. The chairperson of CBP called for a board meeting to discuss falling sales. At the meeting, the chairperson and one director voted to wind up the company due to significant trading losses and understanding the inability to generate future profits. Three other directors voted to continue the business, believing the company could be saved.

CBP did not see an improvement in its sales in the new year. In an effort to cut costs, the company sold some machinery at the production plant and later distributed profits to shareholders from the sale of machinery. However, it was discovered that the machinery had been sold to a company owned by one of the directors' close allies. One of CBP's creditors, Saman, demanded Rs. 50,000, due from CBP which remained unsettled for three weeks.

Advise Rudolph, a supplier and creditor of CBP on the legal remedies available to CBP under the Companies Act of Sri Lanka, including remedies which Rudolph can initiate. Discuss the benefits and drawbacks of each remedy and compare them with remedies available in another jurisdiction of your choice. Your answer should be supported by relevant authorities.

(20 Marks)