

**UNIVERSITY OF COLOMBO, SRI LANKA**  
**FACULTY OF LAW**  
**MASTER OF LAWS DEGREE PROGRAMME 2022/24**  
**REPEAT EXAMINATION– TRIMESTER I, II, III & IV**

**Company Law – 1064**

(Three Hours)

Total number of questions: 04

Answer any **Three** questions  
(Candidates will be penalized for illegible handwriting.)

---

1. (a) Tecno Ltd., a technology company, has seen rapid growth over the last two years. Its board of directors comprises Kamal, Saman, and Lal, who are experienced professionals from various industries. The company recently released a new software product, but shortly after its launch, the product encountered significant technical issues. This resulted in a major financial loss and reputational damage to the company. The board of directors approved the product launch without conducting thorough due diligence. They relied heavily on optimistic reports from the product development team without seeking independent verification or conducting a detailed risk assessment. It was revealed that the lack of proper oversight and failure to take necessary precautions by the directors contributed to the company's losses.

Tecno Ltd. has negotiated a lucrative contract with Cello Supplies Ltd for the supply of computer parts and devices. However, unknown to the other directors of Tecno Ltd., Kamal holds a significant ownership interest in Cello Supplies Ltd. Kamal actively participated in the negotiations and persuaded the board of Tecno Ltd. to enter into the contract with Cello Supplies Ltd, emphasizing the competitive pricing and high quality of parts offered.

The shareholders of Tecno Ltd. are now questioning the validity of the actions of their directors. Advise them with reference to relevant statutory provisions and case law.

(50 Marks)

(b) XYZ Ltd., a leading technology company, received an opportunity to enter a new market segment through an innovative project proposed by the government. Although the project

has promise for high returns and market growth, the board of directors of XYZ Ltd. decided not to pursue it, due to potential regulatory challenges and the company's focus on focusing on its core business operations.

Mahinda a director of XYZ Ltd., strongly advocated for the project. He was dissatisfied with the board's decision. Mahinda resigned from XYZ Ltd. shortly after the board's decision. Within three months of his resignation, Mahinda established a new company, MI Innovations Ltd., and obtained the same innovative project that XYZ Ltd. rejected. MI Innovations Ltd. started reaping substantial benefits from the project.

In the above scenario, consider the rights of the company and the duties of Mahinda.

(50 Marks)

(Total 100 Marks)

2. Corporate governance emphasizes social responsibility, arguing that companies, due to their influence and benefits, have an obligation to make positive contributions to society. This includes addressing broader social, economic and environmental issues, known as the triple-bottom line approach.

Critically analyze the above statement, focusing on the modern company's responsibility to prioritize the best interests of all citizens as part of their societal duty.

(100 Marks)

3. (a) Nimal is a major shareholder in ABC Ltd., a company whose Articles of Association contain an object clause that restricts the company's activities to the manufacture of motor spare parts and other transport devices. Nimal wishes to expand the company's operations to include computers and cellular phones. He seeks advice on the legal implications of the company engaging in activities beyond the scope of its object clause.

Advise Nimal with reference to relevant statutory provisions and case law.

(60 Marks)

- (b) "The Articles of Association of a company can include rules for management, established by the people incorporating the company. These rules can be modified later, but they must not go against anything prohibited by the law. Courts also have the authority to prevent a company from altering its Articles. As a result, shareholders have limitations on their ability to establish any rules they wish for managing the company. Due to these restrictions, it might be preferable to operate in a jurisdiction that does not require a formal Constitution for a company."

Critically analyze the above statement supported by case law and statutory provisions.

(40 Marks)

(Total 100 Marks)

4. (a) Smith, the major shareholder and sole director of Smith Construction Private Ltd. (SCPL), a company specializing in construction projects, recently entered into a contract with Build Supplies Ltd. (BSL) to purchase a significant amount of construction materials on credit. However, BSL was not aware that Smith had also established another company, New Projects Private Ltd. (NPPL), where he is also the major shareholder and the sole director.

Smith transferred all the assets and profitable contracts of SCPL to NPPL, leaving the company with significant debts and no means to pay its creditors, including BSL. As a result, SCPL defaulted on its payments to BSL, causing substantial financial losses to the latter. Upon discovering the existence of NPPL and Smith's involvement in both companies, BSL wishes to hold Smith personally liable for the debts of SCPL and to recover their losses.

Advise BSL with reference to relevant statutory provisions and case law.

(50 Marks)

- (b) As per the Companies Act No.7 of 2007, a company is not required to maintain solvency at all times, but only in specific instances.

Critically evaluate the above statement with reference to the provisions of the Companies Act No.7 of 2007.

(50 Marks)

(Total 100 Marks)

.....