UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF LAW
DEGREE OF MASTER OF LAWS IN COMMERCIAL LAW – 2024/25
SEMESTER I END EXAMINATION

Corporate Law – TLLM 1135
(Three Hours)

Total Number of Questions: 04

Answer any **THREE (03)** Questions and **no more.**
(Candidates will be penalised for illegible handwriting.)

---

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

a) Tech Pvt. Ltd., has passed a special resolution altering its Articles of Association to restrict certain shareholder rights, including voting privileges and dividend distribution. This decision faced dissent from 25% of the minority shareholders. The board of directors also approved a major transaction that involves the sale of more than 50% of the company's assets. The minority shareholders claim that these actions are oppressive and discriminatory, benefiting the majority shareholders at the expense of the minority.

Analyze the legal remedies available to the minority shareholders under the Companies Act and Common Law to challenge these actions.

(8 Marks)

b) ABC (Pvt) Ltd., was incorporated in 2015 with a stated capital of Rs. 50 million. The company passed a special resolution to reduce its stated capital by Rs. 5 million to address operational losses backed by a solvency certificate issued by the directors. Concurrently, the company proposed a buyback of shares amounting to Rs. 3 million, citing undervaluation in the market. The company secured shareholder approval for this buyback but did not seek creditor consent. The company also provided financial assistance to a related company, DEF Ltd. for acquiring shares in ABC without public notice or a special resolution. A creditor has raised concerns about the company's ability to pay debts post-reduction, claiming the directors misrepresented the company's financial position.

Evaluate the validity of the above transactions and discuss the legal consequences if directors did not follow the required procedures and misrepresented the company's financial status, citing relevant statutory provisions and case law.

(12 Marks)
(20 Marks)

2. Alan, Sarah, Emily and Tom are directors of Green Earth Ltd. (GEL), a renewable energy company. Alan, the CEO, enters into a contract with Solar Futures Ltd. (SFL) to procure solar panels for GEL, without disclosing that his brother owns 25% of SEL. Alan approves inflated invoices from SFL, although the panels supplied by SFL ~~SEL~~ are substandard, leading to significant losses for GEL. He fails to present alternative suppliers' bids to the board, depriving GEL of a fair opportunity to secure the best deal. Sarah, the CFO, overlooks the financial health of the company despite clear warnings from auditors that GEL is nearing insolvency. She fails to conduct proper risk assessments or present a recovery plan to the board. When GEL defaults on its loans, Sarah immediately sells her GEL shares. Emily, a non-executive director, rarely attends board meetings and relies entirely on advice provided by Alan without reviewing company reports or questioning Alan's actions. Tom uses GEL's confidential data to establish a competing business, drawing away its key clients, trade secrets and pricing strategies. Tom persuades GEL's key engineers to leave and join his new company. The directors collectively neglect GEL's best interests by failing to manage risks, fraud prevention and ignoring their responsibilities to creditors.

   Discuss the legal issues related to the actions of directors with reference to relevant statutory provisions and case law. Consider the potential personal and collective liabilities that directors may face and what defenses, if any, could they raise.

   (20 Marks)

3. Corporate governance and corporate social responsibility have emerged worldwide as an essential framework for ensuring corporate integrity and promoting public trust, while also addressing corporate misconduct. However, the effectiveness of these governance frameworks has come under scrutiny due to persistent corporate scandals worldwide.

   Critically analyze the above statement by evaluating the practical challenges that Sri Lankan companies encounter in adhering to various corporate governance frameworks. Discuss how addressing these challenges can help Sri Lankan companies promote a more resilient, sustainable and accountable corporate environment.

   (20 Marks)

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

   a) NEC Ltd., incorporated in Sri Lanka, has been experiencing severe financial distress for the past six months, failing to meet its debt obligations and has accumulated significant liabilities. One of its creditors, XYZ ~~Trust~~ Bank, is owed Rs. 5 million and has formally demanded repayment, but NEC Ltd. has failed to settle the debt. Despite its financial instability, the directors of NEC Ltd. continued to operate the business, securing new contracts and additional credit. They made preferential payments to certain creditors while ignoring statutory obligations to other creditors and transferred key assets to a newly formed company controlled by a family member of one of the directors. The directors did not convene a board meeting to discuss the possibility of winding up the company or applying for administration.

XYZ Bank is now considering taking legal action to wind up NEC Ltd.

Critically analyze whether XYZ Bank has sufficient legal grounds to initiate a winding-up petition and any challenges that it may face in securing a winding-up order. Evaluate the personal liabilities and legal consequences that the directors of NEC Ltd. may face, the potential claims of creditors and any penalties under the provisions of Companies Act No. 07 of 2007.

(14 Marks)

b) A liquidator plays a crucial role in the winding-up process, ensuring compliance with legal obligations and equitable asset distribution. Analyze the statutory powers and duties of a liquidator during the liquidation process, with a focus on how they prioritize claims and manage disputes among creditors and shareholders. Support your answer with relevant statutory provisions.

(06 Marks)

(20 Marks)

*****