UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF LAW

MASTER OF LAWS DEGREE PROGRAMME 2024/26

2nd Semester End Examination – 2025

Company Law – LLM12401

(Three Hours)

Total number of questions: 04

Answer any **Three** questions

(Candidates will be penalized for illegible handwriting)

Question 01

ABC Innovations (Pvt) Ltd (the company), incorporated in Sri Lanka, recently passed a special resolution to amend its Articles of Association. The amendment sought to remove the dividend entitlements of non-voting Class B shareholders and allocate enhanced profits exclusively to Class A shareholders, who hold voting rights. Meena, a holder of a significant portion of Class B shares, opposed the resolution and voted against it. The company argued that since Class B shareholders lack voting rights, their consent was not necessary to pass the resolution. Although Meena proposed that her shares be purchased and the company arranged a third party, Meena rejected the offer, claiming that the proposed price is not fair. Moreover, the Board refused to convene the Annual General Meeting (AGM) despite formal requests by shareholders holding over 10% of the voting rights, stating that there were no substantial matters to be addressed. The board approved a major transaction involving the transfer of 60% of the company's assets to an entity owned by a director, without following due procedure. Additionally, the board planned to pass several future decisions under Section 144, excluding critical decision-making processes, amidst shareholder opposition.

In light of the above, critically examine the legal remedies available to shareholders under the Companies Act of 2007. Support your answer with reference to relevant case law.

(20 Marks)

Question 02

Lakmini is a shareholder and former director of OceanBlue Holdings (Pvt) Ltd, engaged in eco-tourism and sustainable marine logistics. She owns 12% of the company's voting shares. After resigning from her directorship due to alleged boardroom friction, she discovers a series of transactions approved by the current board, headed by the Managing Director Dinesh and Finance Director Jayantha. Lakmini claims that the board approved the purchase of a high-value eco-resort in Trincomalee through a company owned by Dinesh's brother-in-law. The acquisition price was significantly inflated above market value, without an independent valuation, and the board minutes note that the transaction was "strategically important" but provide no analysis of business necessity. Further, it emerges that Jayantha suppressed a critical audit report that flagged serious risks associated with the property, including unregulated coastal construction and pending litigation. When questioned at the AGM, Dinesh dismissed minority concerns, stating that the board has full discretion as the majority supports the transaction. The resolution was ratified by a simple majority. Sena, the company's legal director, was unaware of the transaction because he missed several meetings and did not raise any questions about these issues.

Lakmini now seeks to initiate proceedings to hold the directors accountable for breach of statutory and fiduciary duties and bring legal action to recover any loss arising from the transaction.

(20 Marks)

Question 03

Critically evaluate the legal and financial implications of a company's decision to prioritize debt financing over equity financing under the Sri Lankan Companies Act No. 7 of 2007. Discuss the advantages and risks of fixed and floating charges, the regulatory obligations in issuing debentures, and the potential impact on corporate control, shareholder value and insolvency risk.

(20 Marks)

Question 04

Answer both (a) and (b)

a) Critically analyze whether Sri Lanka should implement binding Corporate Social Responsibility (CSR) measures to enhance corporate accountability by considering the role and limitations of voluntary CSR under Sri Lankan law, the impact of international frameworks and examples from comparative legislative models.

(08 Marks)

b) Speedo (Pvt) Ltd (Speedo), a Sri Lankan manufacturer of water purification systems, has faced significant financial difficulties over the past two years, accumulating substantial debts through both secured and unsecured loans. Three months ago, the company ceased operations and terminated all employees without prior notice, and it currently has no active directors. Speedo owes Rs. 120 million to Lanka Royal Bank (which is secured by a fixed charge on its machinery) and Rs. 25 million to EcoParts Ltd, an unsecured creditor. Evidence indicates that the company's only remaining asset, a large factory property, was transferred to a related company owned by a former director just two weeks before the initiation of winding-up proceedings. Jayantha, a shareholder who has held shares for over a year, has filed a winding-up petition, claiming the company is unable to pay its debts.

Critically analyze the remedies available to both creditors and shareholders in the given scenario, with reference to the Sri Lankan Companies Act No. 7 of 2007 and relevant case law.

(12 Marks)

(Total 20 Marks)

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