

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF LAW

BACHELOR OF LAWS EXAMINATION, YEAR IV – 2017

COMPANY LAW

(Three Hours)

Total Number of Questions: 07

Answer **FOUR** questions only including question No.1.(Candidates will be penalised for illegible handwriting.)

1. Answer the following, giving critically evaluated reasons with reference to the relevant statutory provisions:

- (i) The value of net assets of X plc falls to rupees seven hundred million subsequent to the sale of an asset worth rupees two hundred million. The stated capital of the company is rupees one thousand and five hundred million.

What are the legal steps that should be taken?

- (ii) A Ltd sends notice to shareholders that it proposes to pass a resolution to amalgamate it with B (pvt) Ltd. C, a shareholder of A Ltd and a shareholder activist has been very critical about the activities of B (pvt) Ltd in the past, votes against the resolution. The resolution receives 76% votes in favour.

What would be your advice to C?

- (iii) G (pvt) Ltd is indebted and ceases to carry on its business. A and B are unsecured creditors of the company. J plc proposes to buy the business of G (pvt) Ltd and suggests converting unsecured debts into fully paid shares.

What would be your advice to A and B?

2. (i) Sri Lankan businessmen are reluctant to form partnerships due to the risk of personal liability. Introducing limited liability partnership, as in England, would solve the problem and would pave way for business development as well.

Critically assess the above statement, quoting appropriate authorities.

- (ii) Sidhu, Meena and Rama are carrying on a partnership business of accounting. During the course of an audit, Sidhu and Meena discovered that profits of the partnership had dropped

tremendously. Upon investigation they discovered that Rama has not paid the money he received from clients to the partnership account, instead he has used the money to settle his personal loan. Further, Sidhu and Meena were able to find out that Rama is a partner of another accounting firm that commenced business recently by Rama's son, a newly passed out chartered accountant.

Discuss the legal issues raised in the above scenario and the rights and liabilities of partners quoting appropriate authorities.

3. Safe Builders PLC is engaged in the business of building construction. Three directors out of four in the board of the company are invariably out of the country and the one in the country is Rosy. Milan, the chief executive officer and a chartered architect is entrusted with all construction responsibilities.

Discuss the duties and liabilities of those who are responsible, quoting statutory provisions of Sri Lanka and the United Kingdom and case law:

- (i) (a) A truck belonging to the company is detained by the police for carrying sand without the required permit;
 - (b) There were complaints from the occupants of an apartment complex that was constructed by the company two years ago that the material used were of inferior quality;
 - (ii) A mason working in a construction site of the company falls from the sixth floor and dies due to head injuries. Inquiries reveal that the company has not provided the construction employees with helmets and safety belts.
4. Silverline Finance plc is a prosperous company making considerable profit. However, the company has not paid dividends from its inception. The company commences a new project and thereby a piece of land is purchased. A building construction is underway for the distilleries factory and showroom under the new project.
- (i) Consider the legal issues that have emerged under the above scenario;
 - (ii) Can the shareholders oppose the new project?
 - (iii) Can the people of the area oppose the new project?
 - (iv) Can the directors be liable under the circumstances stated above?

Your answers to the above should draw attention to the relevant provision under the Companies Act No. 7 of 2007, company law concepts and case law.

5. "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and common goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."

Critically evaluate the above statement.

6. David, a property developer, engaged Saman and Anton to form a company called Best House Dealers Ltd. (BHD). Saman and Anton took all the necessary steps towards the incorporation of BHD, but David did not actively get involved in this process. Three of them became the directors of BHD. Immediately after incorporation, BHD purchased a property called 'Miriswatte' from David for Rs. 100 million to undertake a housing project. David has purchased the same property two months prior to the incorporation of BHD for Rs. 95 million and later he received a further discount of Rs. 3 million. He disclosed the profit of 8 million to the board of directors. BHD issued shares to the public and the prospectus issued by the company stated that David purchased 'Miriswatte' for Rs. 95 million. Prior to the purchase of 'Miriswatte' David was instructed by the relevant provincial authorities that there cannot be any commercial development in 'Miriswatte'. David did not disclose this information to BHD.

- (i) Analyse with reference to relevant statutory provisions and decided cases the legal duties David owes to BHD and what remedies BHD and its shareholders have against David.
- (ii) Assume that BHD has issued a prospectus containing profit forecast of the housing project by the directors and Dias has purchased shares in BHD upon reliance on the statements in the prospectus. Now he wishes to institute legal action.

Discuss the liabilities of BHD and the rights of Dias with reference to relevant statutory provisions and decided cases.

7. 'The Companies Act No. 7 of 2007 provides excessive rights for shareholders. The fault lies with the shareholders themselves who do not take any interest generally in exercising the available rights. However, in the end they used to blame that the law is not providing adequate protection.'

Do you agree with the above statement? Give critically evaluated reasons quoting relevant statutory provisions, decided cases and practical illustrations.

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