LEADING CASES ON COMPANY LAW

As the trend of asking questions have been changed by ICAI, I thought this might be useful. I compiled these decided case laws from various sources like RTP, study module, compilation of suggested answers. I am laying down only those which I feel important from examination point of view. These caselaws make the concept even clearer because example is a better teacher.

Cases on separate legal entity

Kandoli tea company Ltd(1886)
Facts – Certain persons transferred their properties in the name of company on which tax was payable.
Petition – Petitioners claimed exemption from such tax on the ground that the transfer was from them individually to themselves in another name.
Judgment – Company is separate from its shareholders and this should be treated as transfer.

Saloman Vs. Saloman & Co. Ltd. (1895 - 99)
Facts - Saloman sold his business to a company named Saloman & Company Ltd., which he formed. Saloman took 20,000 shares. The price paid by the company to Saloman was £ 30,000, but instead of paying him, cash, the company gave him 20,000 fully paid shares of £ 1 each & £ 10,000 in debentures. The company wound up & the assets of the company amounted to £ 6,000 only. Debts amounted to £ 10,000 due to Saloman & Secured by debentures and a further £ 7,000 due to unsecured creditors. The unsecured creditors claimed that as Saloman & Co. Ltd., was really the same person as Saloman, he could not owe money to himself and that they should be paid their £ 7,000 first.
Judgment-
1. A Company is a "legal person" or "legal entity" separate from and capable of surviving beyond the lives of, its members.
2. The company is not in law the agent of the subscribers or Trustee for them.
3. Saloman was entitled to £ 6,000 as the company was an entirely separate person from Saloman.
4. The unsecured creditors got nothing.

Lee Vs. Lee's Farming Co. Ltd. (1960)
Facts - Lee incorporated a company of which he was the managing director. In that capacity he appointed himself as a pilot of the company. While on the business of the company he was lost in a flying accident. His widow claimed compensation for personal injuries to her husband while in the course of his employment. It was argued that no compensation was due because L & lee's Air Farming Ltd. were the same person.
Judgment-

1. L was separate person from the company he formed and compensation was payable.
2. His widow recovered compensation under the Workmen's Compensation Act
3. A member of a company can contract with a company of which he is a shareholder.
4. The directors are not precluded from being an employee of the company for the purpose of workmen's compensation
legislation.

MacauraVs. Northern Assurance Co. Ltd. (1925)
Facts - M was the holder of nearly all the shares except one of a timber company. He was also a substantial creditor of the
company. He insured the company's timber in his own name. The timber was destroyed by fire & M claimed the loss from Insurance
Company.
Judgment-
1. The Insurance Company was not held liable to him.
2. A shareholder cannot insure the company's property in his own name even if he is the owner of all or most of the company's
shares.

Lifting of corporate veil

Gol ford Motor Co. Vs. Home (1933)
Facts - Home was appointed as a managing director of the plaintiff company on the condition that "he shall not at any time while he shall hold the office
of a managing director or afterwards, solicit or entice away the customers of the company." His employment was determined under an agreement.
Shortly afterwards he opened a business in the name of a company which solicited the plaintiffs customers.
Judgment-It was held that the company was a mere cloack or shaw for the purpose of enabling the defendant to commit a breach of his covenant
against solicitation. The court will refuse to uphold the separate existence of the company where it is formed for a fraudulent purpose or to avoid
legal obligations.

Daimler Co. Ltd. Vs. Continental Tyre & Rubber Co. Ltd. (1916)
Facts - In a company incorporated in England for the purpose of selling tyres manufactured in Germany by a German Company, all
the shares except one was held by the German subjects residing in Germany. The remaining one was held by a British. Thus the
real control of English Company was in German hands. Question arose whether the company had become an enemy company due to
war & should be barred from maintaining the action.
Judgment-

1. A Company incorporated in United Kingdom is a legal entity, a creation of law with the status & capacity which the law confers.
2. It is not a natural person with mind or conscience. It can neither be loyal nor disloyal. It can be neither friend nor enemy. But it can assume enemy character when persons in defacto control of its affairs are residents in any enemy country or whenever resident, are acting under the control of enemies.
3. Held that company was an enemy company for the purpose of trading and therefore it was, barred from maintaining the action.

Workmen employed in associated rubber industries
Facts – A subsidiary company was formed wholly by the holding company with no assets of its own except those transferred to it by the holding company, with no business or income of its own except receiving dividend from shares transferred to it by the holding company.
Judgment – Court held that the new company was formed as a devide to reduce the profitsof the holding company and thereby reduce the bonus to workmen.

F.G.Films Ltd., case
Facts – An American company produced a film in India actually in the name of British company wherein 90% of the share capital was held by the chairman of the American company which financed the production of the film.
Judgement – The contention of the sensor board of films refusing to register the film on the ground that British company has acted merely as an agent of British company was correct.

COI is conclusive evidence that all the requirements have been complied with

Moosa Goola Arif Vs Ibrahim Goola Arif
Facts – Company registered on the basis of MOA&AOA signed by two persons and a guardian on behalf of 5 minor members. Guardian signed separately for each of 5 memebers. The ROC however registered the company and issued under his hand a certificate of incorporation.
Petition – Plaintiff contended that COI should be declared as void.
Judgment – The court held the certificate to be conclusive for all purposes.

Jubilee Cotton Mills Ltd.,
Facts – The ROC issued a COI on Jan 8th but dated it Jan 6th which was the date he received application. On Jan 6th the company made an allotment of shares to Lewis
Judgment – Court held that certificate was conclusive evidence of incorporation on Jan 6th and that the allotment was not void on the ground that it was made before the company was incorporated.

Decided case on objects clause of MOA

Crowns bank case
Facts – A company's objects clause enabled it to act as a bank and further to invest in securities and to underwrite issue of securities. The company abandoned its banking business and confined itself to investment activities.
Judgment – Court held that the company was not entitled to do.

Doctrine of ultravires

Ashbury railways carriage & Iron Co Ltd Vs Riche
Facts – A railway company was formed with an object of selling railway wagons. The directors entered into a contract with Richie to finance the construction of railway line. The shareholders later rejected the contract as ultravires.
Judgment – The court held that the contract was ultravires and therefore null and void.

Doctrine of indoor management / Turquand rule

Royal British Bank Vs. Turquand (1856)
Facts - The Directors of a company borrowed a sum of money from the plaintiff. The company's articles provided that the directors might borrow on bonds such sums as may from time to time be authorised by a resolution passed at a general meeting of the company. The shareholders claimed that there had been no such resolution authorising the loan and, therefore, it was taken without their authority. The company was however held bound by the loan. Once it was found that the directors could borrow subject to a resolution, the plaintiff had a right to infer that the necessary resolution must have been passed.
Judgment-
1. Persons dealing with the company are bound to read the registered documents and to see that the proposed dealing is not inconsistent therewith.
2. Outsiders are bound to know the external position of the company, but are not bound to know its indoor management.
3. Company may ratify the ultra vires borrowing by the directors if it is taken bonafide for the benefit of the company.

Exception to Turquand rule

Ruben Vs. Great Fingall Consolidated (1906)

Facts - The plaintiff was the transferee of a share certificate issued under the seal of a defendant company. The certificate was issued
by the company's secretary, who had affixed the seal of the company & forged the signatures of two directors.
Judgment-
1. It is quite true that persons dealing with limited liability companies are not bound to enquire into their indoor management and will
not be affected by irregularities of which they have no notice. But the doctrine of indoor management, which is well established,
applies to irregularities which otherwise might affect a genuine transaction. It can't apply to a forgery.
2. Plaintiffs suit for damages did not succeeded because turquand's rule did not apply where the document was forged.

Anand Biharilal Vs Dinshaw and Co.,
Facts – The plaintiff accepted a transfer of the company's property from its accountant.
Judgment – The court held that since it is beyond the scope of an accountant's authority, it was held void.

The offer in prospectus should be made to public (atleast to 50 persons)

Nash Vs Lynde
Facts – Some copies of documents marked "strictly confidential" and containing particulars of a proposed issue of shares, were sent by the managing director to his relatives and friends. Thus the document was passed on privately through a small circle of friends of directors.
Judgment – The court held that there was no issue to public, and it doesnot amount to prospectus as it was not offered to public.

Who can sue on a false and misleading prospectus

Only primary market allotees
Peek Vs Gurney
Facts – A fraudulent prospectus was issued by the directors. Peek received a copy of it and did not took any shares. After several months Peek bought few shares from the stock exchange.
Judgment – His action against the directors for fraudulent prospectus was rejected as he took the shares through the secondary market.

Misc. Case laws

Needle Industries Ltd. Vs. Needle Industries Newly (India) Holding Ltd. (1981)

Facts - The articles of a private company contained a clause that when the directors decided to increase the capital of the company by the issue of new shares the same should be offered to the shareholders, and if they failed to take, may be offered to others. The company was a wholly owned subsidiary of an English Company. The Govt, of India adopted a policy of diluting foreign holdings. The company accordingly issued new shares to its employees and relatives reducing the foreign holding to 60%. The company became a deemed public company because more than 28% of its share capital was held by a body corporate.

Judgment-

1. A deemed public company is neither a private company nor a public company but a company in a third category.
2. If the power of appointing additional directors is delegated to the Board by the articles, the Board can appoint additional directors without taking this item on the agenda of its meeting.

Gramophone Ltd. Vs. tanley (1908)

1. "Even a resolution of a numerical majority, at a general meeting cannot impose its will upon the directors. When the articles have confided to them the control of the company's affairs."
2. A company will be regarded as an Indian Company even if it is incorporated in India by promoters of foreign nationality.

T.R. PRATT Ltd. Vs. Sasson & Co. Ltd. (1936)

Facts - There were three companies, namely, 'S\ 'MT' & 'P' Company. S company had been financing P Company for a number of years and all transactions of loans were entered into through the agency of MT Company which held almost all the shares of P Company. The Directors of MT Company were also the Directors of P Company and this fact was known to S Company. An equitable mortgage was created on the property of 'P' Company for a loan granted by S to MT Company. In the winding up of P Company, it was held that the official liquidator was entitled to avoid the equitable mortgage as S Company had the knowledge of the facts through its directors.

Judgment-

1. Just as in case of agency, a notice to agent will amount to a notice to the principal, in the same way a notice to director will be deemed as a notice to the company.
2. Money having borrowed and used for the benefit of the principal, i.e. company in either paying off debts or for its legitimate business, the company could not repudiate its liability on the ground that the agents i.e., directors had no authority from the company to borrow.

3. "Under the law an incorporated company is a distinct entity, and although all the shares may be practically controlled by one person, in law a company is a distinct entity and it is not permissible or relevant to enquire whether the directors belonged to the same family or whether it is compendiously described as one man company.

Ewing Vs. Butter Cut Margarine Company Ltd. (1917)
Facts - The plaintiff was an incorporated firm carrying on substantial business under the trade name of Butter Cap Dairy Company. The defendant company was registered to trade in similar commodities and selected the name bonafide believing that there was no other company in existence with a similar name. The plaintiff alleged that the name of the new company would lead to confusion and was detrimental to the plaintiffs business.
Judgment-Plaintiff was entitled to restrain the newly registered company from carrying on business on the ground that the public might reasonably think that the registered company was connected with his business.

Mackinnon Mackenzee & Co. Re, (1967)
Facts - A Company desired to shift its registered office from the State of West Bengal to Bombay. The Company's petition was resisted by the state on the grounds of loss of revenue.
Judgment- Held that there is no statutory right of the state, as a state, to intervene in an application made u/s 17 for alteration of the place of the registered office of a company. To hold that the possibility of the loss of revenue is not only relevant, but of persuasive force in regard to the change is to rob the company of the statutory power conferred on it by Sec. 17. The question of loss of revenue to one state would have to be considered in the total conspectus of revenue for the Republic of India and no parochial consideration should be allowed to turn the scale in regard to change of registered office from one state to another within India.

Scientific Poultry Breeder's Association, Re (1933)
Facts - Memorandum of the company prohibited payment of any remuneration to the directors. When the business of the company increased it was found that the directors could not pay sufficient attention unless some remuneration was paid to them.
Judgment-Company was allowed amendment to enable it to pay remuneration to its managers, which was formerly forbidden, being necessary for efficient management.

Re Cyclists Touring Club. (1907)
Facts - The Company's business was to promote, assist & protect cyclists on the public roads. The company by altering the object clause desired to include among the persons to be assisted all tourists including motorists.
Judgment-

1. The club not allowed to undertake protection of motorists also, as cyclists had to be protected against motorists.
2. It was impossible to combine the two business as one of the objects of the company was to protect cyclists against motorists.

Peveril Gold Mines Ltd. Re (1898)
Facts - The articles provided that no winding up petition could be presented without the consent of two directors or unless a resolution to wind up was passed at a general meeting or the petitioner held one-fifth of the share capital. None of these conditions was fulfilled.
Judgment-
1. Restriction was invalid & the petition could be presented.
2. Sec. 439 of the Companies Act, 1956 confers the right on a shareholder to petition for winding up of the company in certain circumstances. This right can't be excluded or limited by the articles.
3. Each member is entitled to say that there shall be no breach of the Articles and he is entitled to an injunction to prevent breach.

Hulton Vs. Scarborough Cliff Hotel Co. (1865)
Facts - A resolution passed at a general meeting of a company altered the articles by inserting the power to issue new shares with preferential dividend. The memorandum contained no such power.
Judgment-
The alteration was inoperative.

Erlanger Vs. New Sombrero Phosphate Co. (1878)
Facts - Erlanger was the head of a syndicate who purchased an Island containing mines of Phosphate for 55,000 pounds Then formed a company to buy this Island. A contract was made between X a nominee of the syndicate and the company for its purchase at 1,10,000 pounds. A prospectus was then issued. Many persons took shares. The company failed & the liquidator sued the promoter for the refund of the profit.
Judgment-
1. Promoters stand in a fiduciary position. They have in their hands the creation & moulding of the company.
2. The promoters is in the situation a kin to that of a trustee of the company, & his dealings with it must be open and fair.
3. Promoter is guilty of breach of trust if he sells property to the company without informing the company that the property belongs to him or he may commit a breach of trust by accepting a bonus or commission from a person who sells property to the company.