Company Law

KSLU LL.B. — Complete Exam-Ready Study Bundle (All Five Units)

KSLU LL.B. Study Bundle

Medha-Academy

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Contents

> ***Read this first page, then go to your unit.*** *This single file holds the whole subject: how to use the notes, the rules that win marks, and all units of content. Everything is in plain English, every Latin maxim is translated in [brackets], and every topic is built backwards from the real exam questions. The law stated is that of the* ***Companies Act, 2013*** *(with the NCLT and IBC 2016 touchpoints), the Act your paper is set on.*

How to Use These Notes

What this is. A complete, exam-focused bundle covering all five units of KSLU Company Law. Every topic is built from one question: *what will the examiner ask, and how do I score full marks?* High-frequency questions get the most space; the years listed under each question tell you where to spend revision time. The whole subject sits on one idea from Unit I — the company is a **separate legal person** — so read that unit first and everything else falls into place.

Who it is for. The first-time learner (understand before memorising), the revision student (fast high-yield recall), and the last-week crammer (which questions repeat and how to answer them).

What is inside every topic — the same blocks, in the same order:

Block	Its job	The mark it earns
Previous Year Questions	Real questions + years asked	What to prepare and how often it repeats
The Hook	A true story / landmark-case opener	Memorable; a strong opening line
The Concept + Quote	Plain-English teaching + exact section/case	Understanding, and precise authority
In Simple Terms	Plain-English translation	Ensures you *understand*
The Visual (chart)	Maps the topic structure	Recall and structure at a glance
Case Laws	Landmark judgments + ratio	Case names with years are pure marks

Each unit closes with a **Quick Revision & Case Law Table** for the final hour, and Unit V ends with a **Master Case Index** of every landmark case (C-1 to C-16).

These notes **teach** the subject. The **Question Bank** is the companion volume that turns that knowledge into marks — it carries a model answer for every past question, each opening with a ▤ **Answer Outline** (the skeleton to reproduce under time pressure) and, where two questions are easily confused, a ⚠ **Don't Confuse** box.

The 4-step study plan. (1) Read the PYQ box first. (2) Understand, then memorise. (3) Trace the chart from memory. (4) Rehearse the matching answers in the Question Bank.

The 10 Rules That Win Marks

1. **Lead with a definition + roadmap.** Open with the statutory definition (cite the section) and a one-line plan.
2. **Follow the Question Bank's Answer Outline** step by step.
3. **Name the case AND the year** every time — *Salomon (1897)*, *Turquand (1856)*, *Foss v Harbottle (1843)*.
4. **Quote the exact section** where given — s.2(20), s.166, s.271 — a bare number without its text scores less.
5. **Translate every Latin maxim in [brackets]** — *ultra vires* [beyond the powers], *ab initio* [from the beginning].
6. **Use the four IRAC headings** for problems; spot the decoy fact (e.g. "he owns all the shares", "a quorum was present").
7. **Always give a definite verdict** — "the company does NOT cease to exist", "the call is invalid".
8. **Use the chart's structure** to organise the body.
9. **Close with a short, confident conclusion.**
10. **Manage time** so no high-mark question is left unwritten (in the 100-mark paper, Q9 problems carry 20 marks — never skip them).

> ***Disclaimer.*** *A study aid, not a substitute for the bare Companies Act, 2013 and prescribed texts. Cross-check section numbers against the official text at indiacode.nic.in.*

UNIT 1 — Introduction and Concept

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In this unit.

This unit answers one big question: *what exactly is a "company", and why does the law treat it as a person separate from the humans who own it?* Everything else — incorporation, directors, shares, winding up — only makes sense once you accept that idea. Master three things and you have most of the marks: the **kinds** of company, the **separate legal personality** created by *Salomon's case*, and the situations where a court will **lift the veil** and look at the humans behind it. The promoter — the person who builds the company before it is born — rounds off the unit.

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1. Meaning, Nature and Characteristics of a Company

> **Previous Year Questions**
>
> - **[16M/10M]** Define 'Company'. Explain its nature and characteristics. *(2025, 2021, 2018, 2014)* ★★
> - **[Problem]** All the members of a private company die together in an accident — does the company cease to exist? *(2024, 2023, 2022, 2026)* ★★★

The Hook

In 1897 a leather-boot merchant named Aron Salomon turned his one-man business into a "company" with his wife and five children holding one share each. When the business failed, the creditors cried foul — "this is just Mr Salomon in a paper hat!" The House of Lords disagreed, and in doing so built the single most important idea in all of company law: **the company is a person in its own right.**

What is a company?

Start with the everyday problem. A group of people want to run a business together. If they trade as a **partnership**, the law sees only the partners — their private houses and savings are on the line for every business debt, and if one partner dies or leaves, the firm dissolves. That is risky and fragile. The law's solution is to let them create an **artificial legal person** — a *company* — that owns the business, owes the debts, and lives on regardless of who comes and goes.

A **company** (from Latin *com* [with] + *panis* [bread] — those who break bread together) is an **incorporated association** — a voluntary group of persons registered under the Companies Act, which the law treats as a **single artificial person**, distinct from its members, with perpetual succession and a common seal.

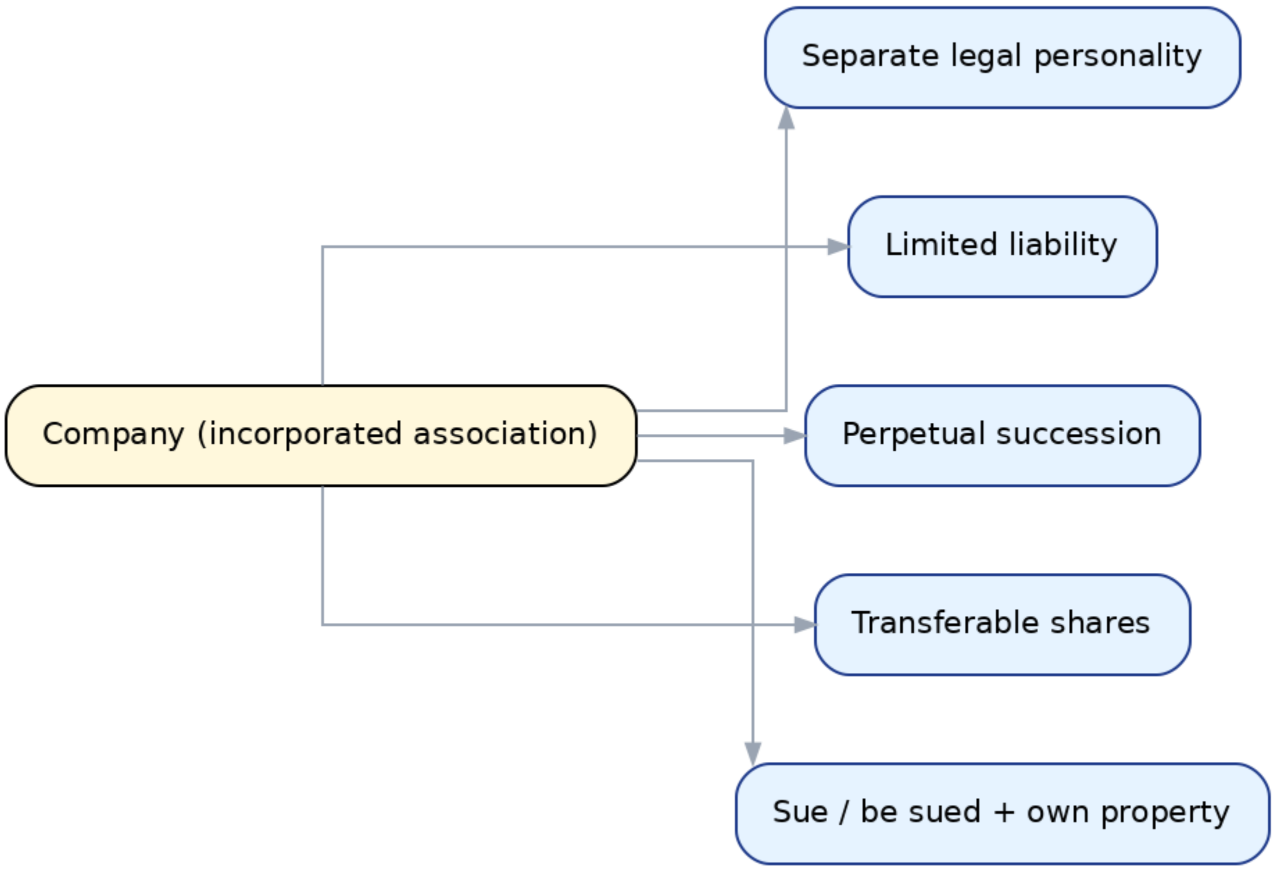
The **characteristics** that flow from incorporation — learn each one, because the whole unit is built on them:

- **Separate legal personality** — the company is a person in law, separate from its shareholders. It can own property, make contracts, sue and be sued **in its own name**. *(This is topic 3.)*
- **Limited liability** — a member's loss is capped at the amount unpaid on his shares. His private assets are safe.
- **Perpetual succession** — the company keeps living even if every member dies, becomes insolvent, or sells out. "Members may come and go, but the company goes on forever." Death or exit of members does not touch it.
- **Common seal / signature** — being artificial, the company acts through documents. (The 2013 Act made the common seal **optional**; the company can instead sign through two authorised signatories — s.22.)
- **Transferability of shares** — a member of a public company can freely sell his shares (s.44 says shares are **movable property**), so he exits without disturbing the company.
- **Capacity to sue and be sued** — it litigates in its own name, not the members' names.
- **Separate property** — the company's assets belong to *it*, not to the shareholders. A shareholder has **no insurable interest** in company property (topic 3, *Macaura*).

> ***Section 2(20), Companies Act 2013:*** *"company means a company incorporated under this Act or under any previous company law."*

In Simple Terms: A "company", in law, means only one thing — a body **registered** under the Act. Registration is the magic moment that turns a group of people into a separate legal person.

The Visual



◈ **WORKED EXAMPLE — the "all members died" problem**

Facts. Every member of a small private company dies together in a train crash.

Rule. A company has **perpetual succession** — its existence is independent of its members. Death of members transmits their *shares* to their legal heirs; it does not kill the company.

Apply. The company survives. Its shares now vest in the deceased members' legal representatives, who can be registered as members. The business, contracts and property are untouched.

Conclusion. The company does **not** cease to exist. (Contrast a partnership, which would dissolve.)

Case Laws

- **[C-1]** ***Salomon v Salomon & Co. Ltd. (1897)*** — a registered company is a person separate from its members.

- ***Kondoli Tea Co. Ltd., Re (1886)*** — an Indian case; members who transferred an estate *to* their own company could not claim it was really their own transfer — the company is a different person.

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2. Kinds of Company

> **Previous Year Questions**
>
> - **[16M/10M]** Define 'Company'. Explain its kinds / Explain the different types of company. *(2025, 2022, 2021, 2018, 2025-Jul)* ★★★
> - **[Short Note]** One Person Company / Government company / Holding and subsidiary company. *(2021, 2020, 2019, 2018, 2014)* ★★

The Hook

When India rewrote its company law in 2013, it added a brand-new species that did not exist under the 1956 Act: the **One Person Company**, letting a *single* entrepreneur enjoy limited liability without needing to rope in a token second shareholder. The law's zoo of company-types keeps growing to fit new needs.

The kinds, sorted three ways

Companies are classified on three cross-cutting bases. Keep them separate in your head — a single company can be "public" *and* "limited by shares" *and* "a holding company" at the same time.

A. On the basis of incorporation. (For completeness — the Act deals only with the last.)

- **Chartered companies** — created by royal charter (e.g. the old East India Company); obsolete in India.
- **Statutory companies** — created by a special Act of Parliament/legislature (RBI, LIC).
- **Registered companies** — formed by registration under the Companies Act. **This is what "company" means today.**

B. On the basis of liability (s.2 read with s.3).

- **Company limited by shares** — a member's liability is limited to the **amount unpaid on his shares**. The commonest form.
- **Company limited by guarantee** — members agree to contribute a fixed **guaranteed** amount only if the company is wound up; used by clubs, NGOs, trade bodies.
- **Unlimited company** — members have **unlimited** liability, like partners; rare.

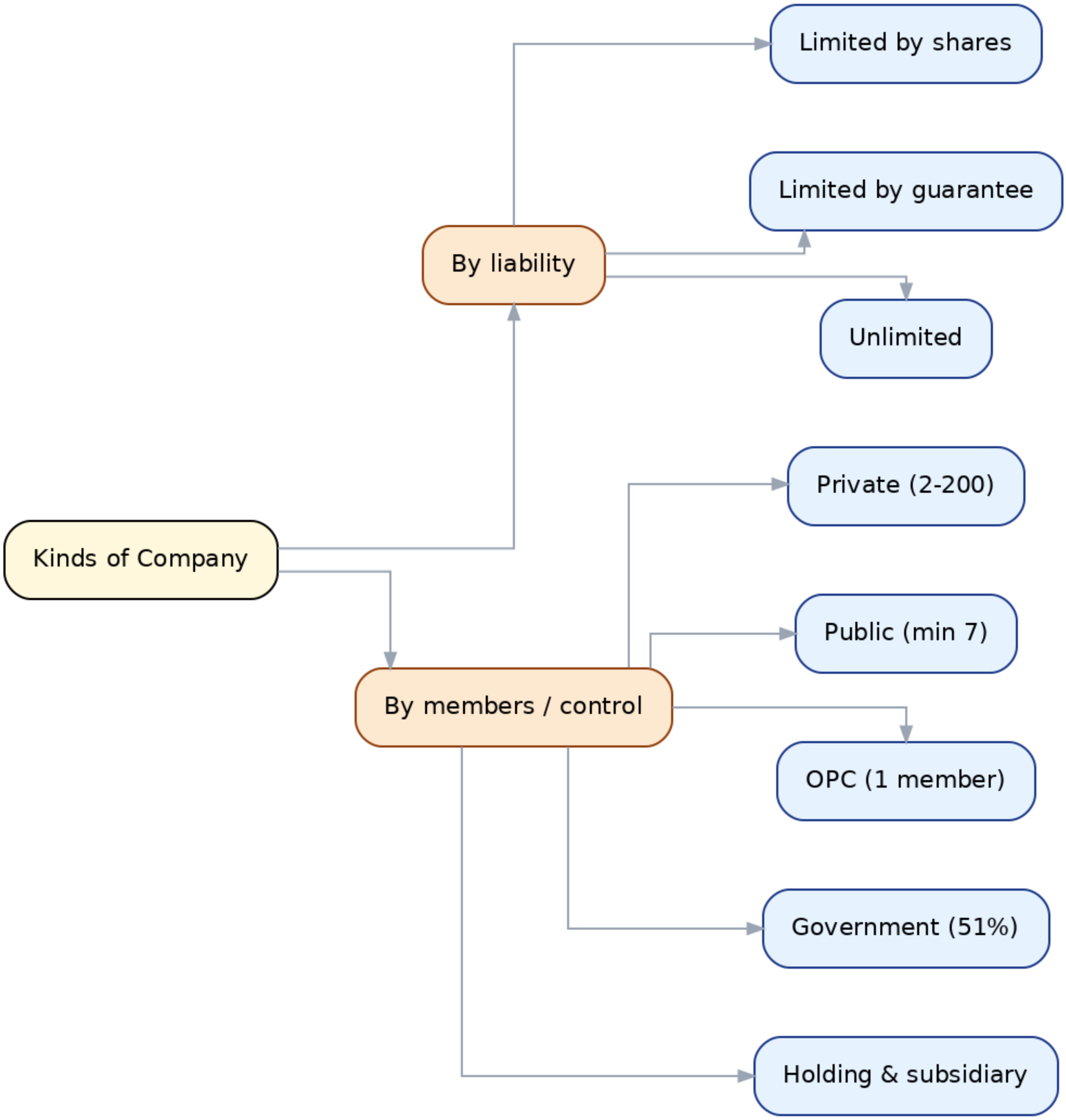
C. On the basis of members / control.

- **Private company (s.2(68))** — restricts the right to transfer its shares, limits members to **200** (excluding employees), and prohibits any invitation to the *public* to subscribe. Minimum **2** members, **2** directors.
- **Public company (s.2(71))** — any company that is *not* private; it may invite the public to buy its shares. Minimum **7** members, **3** directors.
- **One Person Company — OPC (s.2(62))** — a private company with just **one** member, who names a nominee to take over on his death. India's newest form.
- **Small company (s.2(85))** — a private company below prescribed capital/turnover limits; gets relaxed compliance.
- **Government company (s.2(45))** — one in which **at least 51%** of the paid-up share capital is held by the Central and/or State Government.
- **Foreign company (s.2(42))** — incorporated outside India but having a place of business in India.
- **Holding & subsidiary companies (s.2(46), s.2(87))** — a **holding** company controls another (the **subsidiary**) by controlling its Board or more than half its voting power. A parent-and-child pair.
- **Associate company (s.2(6))** — one in which another has "significant influence" (≥20% voting power).
- **Listed company (s.2(52))** — whose securities are listed on a recognised stock exchange.

> ***Section 2(68):*** *a private company is one which "restricts the right to transfer its shares… limits the number of its members to two hundred… [and] prohibits any invitation to the public to subscribe for any securities."*

In Simple Terms: A **private** company is a closed family shop — few members, no public money, shares not freely sold. A **public** company is an open bazaar — anyone can buy in, shares change hands freely.

The Visual



✎ EXAM TIP — private vs public in one table

The trap. Candidates describe “private company” in vague words and lose the marks that come from the **three numbers**.

What to write. Private: transfer restricted · members 2–200 · no public invitation · min 2 members/2 directors. Public: not private · public invitation allowed · min 7 members/3 directors.

Why it scores. The examiner is testing whether you know the *statutory* dividing lines (s.2(68)/s.2(71)), not the general idea.

Case Laws

- ***State Trading Corporation of India v CTO (1963)*** — a government company is still a separate juristic person, not the "State" as a citizen.

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3. Corporate Personality and Limited Liability

> **Previous Year Questions**
>
> - **[16M/10M]** "A company has an independent corporate existence." Explain with case law. *(2023, 2021)* ★★
> - **[Problem]** Sole shareholder insures the company's property in his **own** name; it is destroyed — can he claim? *(2024, 2018)* ★★
> - **[Problem]** A person incorporates a company, employs himself as its pilot, dies on duty — can his widow claim workers' compensation? *(2021, 2018)* ★

The Hook

Mr Macaura owned a timber estate. He sold all the timber to a company he wholly owned, then insured it — in his **own** name. When fire destroyed the timber, the insurer refused to pay, and the House of Lords agreed: the timber belonged to the *company*, a different person, so Macaura had **no insurable interest** in it. Owning every share is not the same as owning the company's things.

The doctrine of separate legal personality

This is the beating heart of company law. Once incorporated, the company becomes a **legal person distinct from the members who compose it**. Picture a *wall* (the "corporate veil") standing between the company on one side and its shareholders and directors on the other. Consequences of that wall:

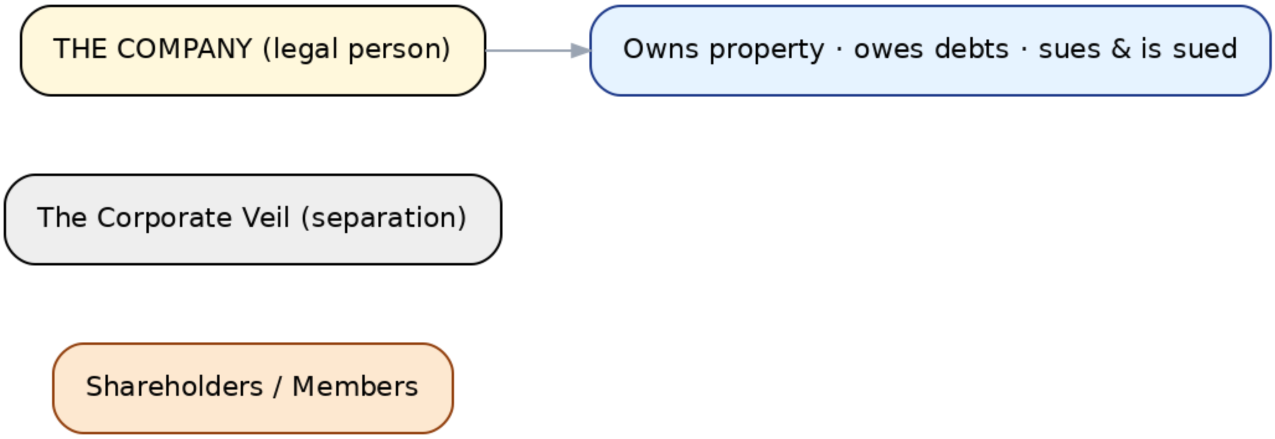
- The company **owns its own property**. Shareholders own *shares*, not the company's assets (that is why Macaura lost).
- The company's **debts are its own**. Members are not personally liable for them.
- The company can **contract with its own members** — even employ its controlling shareholder as an employee.
- The company **sues and is sued** in its own name; a wrong to the company is not a wrong to the members (this becomes the *Foss v Harbottle* rule in Unit 3).

Limited liability is the practical pay-off of separate personality. Because the company owes its own debts, the member's exposure is capped: in a company limited by shares, he can lose only the **amount unpaid on his shares** and no more. Buy a fully-paid ₹10 share and the worst case is losing that ₹10 — creditors cannot touch your house. This is what makes people willing to invest in businesses they do not manage.

> ***Section 2(20) + the Salomon principle:*** *on registration the subscribers become "a body corporate… capable of exercising all the functions of an incorporated company… having perpetual succession" (s.9), separate from its members.*

In Simple Terms: The company and its owners are **two different people** in the eyes of the law. The owners' wallets and the company's wallet are separate; that separation is exactly what "limited liability" protects.

The Visual



> **◈ WORKED EXAMPLE — insuring the company's timber (Macaura problem)**
>
> **Facts.** A owns nearly all shares of a timber company. He insures the company's timber in **his own name**. Fire destroys it; he claims on the policy.
>
> **Rule.** The company is a separate person; it — not the shareholder — owns its property. A shareholder has **no insurable interest** in company assets (*Macaura*).
>
> **Apply.** The timber belonged to the company. A's policy insured *his* interest, and he had none in the company's timber.
>
> **Decoy.** "He owns all the shares" — tempting, but shares ≠ assets.
>
> **Conclusion.** A **cannot** recover. He should have insured in the company's name.

Case Laws

- **[C-1]** ***Salomon v Salomon & Co. Ltd. (1897)*** — separate personality; the company's debts are not the shareholder's.
- **[C-2]** ***Lee v Lee's Air Farming Ltd. (1961)*** — a person can be *both* the controlling shareholder/director **and** an employee of the same company; his widow got workers' compensation.

- **[C-3]** ***Macaura v Northern Assurance Co. (1925)*** — a shareholder has no insurable interest in company property.

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4. Advantages and Disadvantages of Incorporation

> **Previous Year Questions**
>
> - **[16M/10M]** What are the advantages of incorporation of a company? *(2023, 2022, 2020, 2019, 2017, 2016, 2014, 2021, 2026)* ★★★
> - **[16M/10M]** What are the disadvantages of an incorporated company? *(2025, 2023, 2017-Jul)* ★★

The Hook

Every entrepreneur weighs the same trade-off Aron Salomon did: incorporation gives you a shield (limited liability) — but the price is sunlight (public disclosure) and the risk that a court will one day pull the shield away (lifting the veil).

Why incorporate — the advantages

Each advantage is just a characteristic from topic 1 seen as a *benefit*:

- **Separate legal entity** — the business becomes a person that owns assets and bears its own liabilities.
- **Limited liability** — the investor risks only his share money; his personal wealth is protected. This is the single biggest draw.
- **Perpetual succession** — the business does not die with its founders; it can outlive generations, giving stability to employees, lenders and customers.
- **Transferable shares** — an investor can exit by selling shares without breaking up the business (s.44).
- **Capacity to sue, contract and hold property in its own name** — simpler, cleaner dealings.
- **Easier to raise capital** — a company can issue shares and debentures to the public and borrow against a **floating charge** (Unit 4), which partnerships cannot.
- **Professional management** — ownership (shareholders) is separated from management (directors), so experts can run the business.

The price — the disadvantages

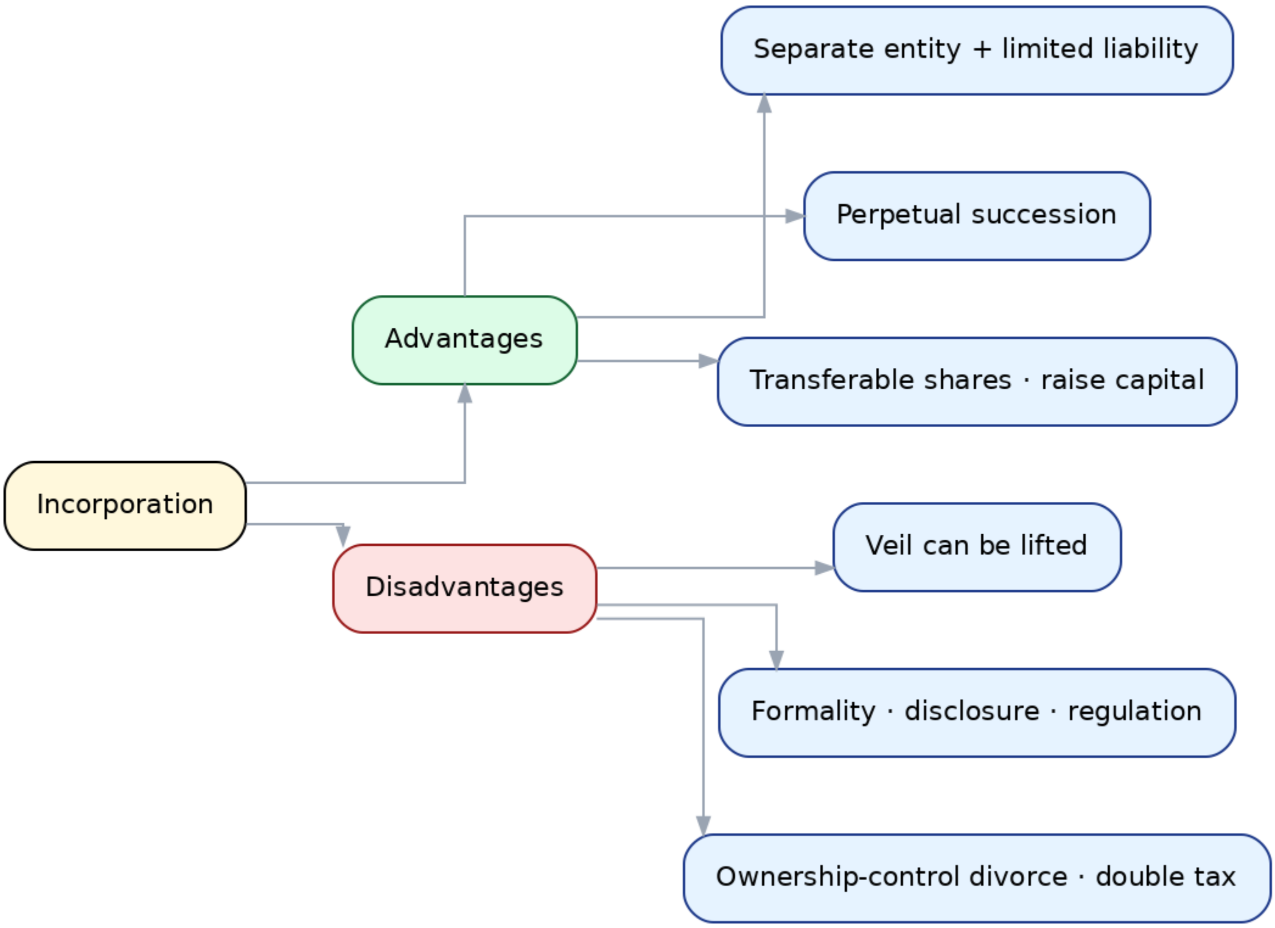
- **Lifting of the corporate veil** — the shield is not absolute; courts and statutes can look behind it (topic 5).

- **Formality and expense** — incorporation, filings, audits, board meetings, ROC returns all cost time and money.
- **Loss of privacy / disclosure** — accounts and key documents are public at the Registrar; competitors can read them.
- **Greater regulation** — a web of statutory duties, with penalties for default.
- **Divorce of ownership and control** — shareholders own but do not manage; management may serve itself (the oppression/mismanagement problem, Unit 3).
- **Taxation** — a company is taxed as a separate entity, and profits can be taxed twice (in the company, then as dividend).

> **Key idea (▶):** every advantage of incorporation is a *characteristic* wearing a smile; every disadvantage is the *cost* of that same characteristic. Learn the six characteristics and you can generate both lists.

In Simple Terms: Incorporation buys you a strong shield and easy money — but you pay in paperwork, publicity, tax and the small risk that a judge lifts the shield when you misuse it.

The Visual



Case Laws

- **[C-1]** ***Salomon v Salomon & Co. Ltd. (1897)*** — limited liability upheld even for a one-man company; the core advantage in action.

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5. Lifting the Corporate Veil

> **Previous Year Questions**
>
> - **[16M/10M]** Explain the circumstances in which the court can lift the corporate veil. Answer with decided cases. *(2025, 2024, 2023, 2022, 2021, 2019, 2018, 2016, 2026)* ★★★
> - **[Problem]** A forms four private companies and routes his income through them as "loans" to evade tax — will the court lift the veil? *(2022, 2021)* ★★
> - **[Problem]** A conveys land on condition it never be sold to a certain group; B sells it to a company composed only of that group — sham? *(2023, 2022, 2021, 2019, 2016)* ★★

The Hook

In wartime 1916, an English company sought to sue on a debt. But every one of its shareholders and directors was **German**. The House of Lords "lifted the veil", saw the enemy nationals behind the English paper, and held that letting the company sue would mean trading with the enemy. When justice demands it, the law looks *through* the company at the real humans.

What "lifting the veil" means

Recall the wall between the company and its members (topic 3). **Lifting (or piercing) the corporate veil** means the court **ignores the separate personality** and looks at the individuals really in control — usually to stop them hiding a fraud or evasion behind the company's skirts. It is an **exception** to *Salomon*, not a repeal of it; the veil stays up by default and comes down only for good reason.

The grounds fall into two families. Learn a case for each.

A. Statutory lifting — where the Act itself pierces the veil:

- **Fraudulent conduct in winding up (s.339)** — persons who ran the business to defraud creditors can be made **personally liable**.
- **Misdescription of the company** — an officer who signs a bill/cheque without the company's correct name is personally liable.
- **Ultra vires acts / mis-statement in prospectus** — personal liability of those responsible.

B. Judicial lifting — where courts pierce on principle:

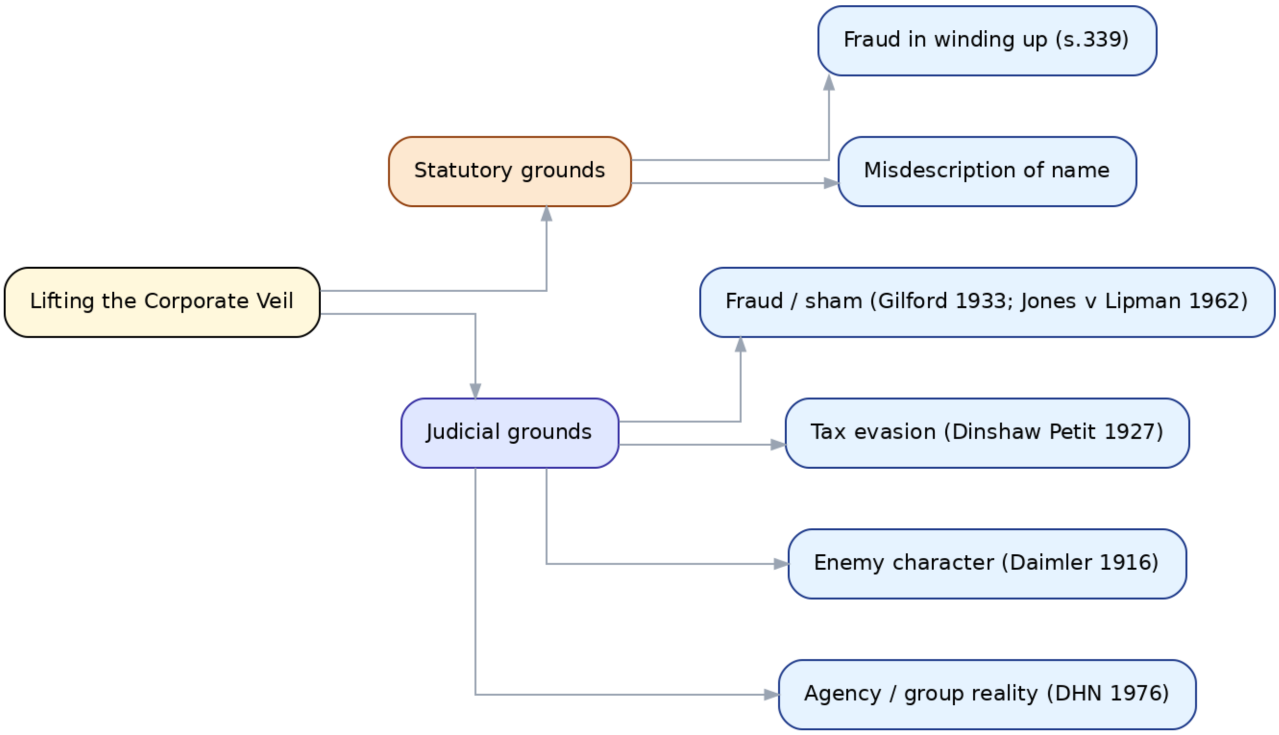
- **Fraud or improper conduct / sham** — the company is a mere cloak to evade a legal duty. *Gilford Motor v Horne* (using a company to dodge a non-compete covenant); *Jones v Lipman* (company used to escape a sale contract).
- **Tax evasion** — a company formed only to dodge tax. *Sir Dinshaw Maneckjee Petit, Re* (Indian case — companies used to split income and evade tax; veil lifted).
- **Enemy character** — *Daimler v Continental Tyre* (topic Hook).
- **Agency / façade** — the company is really carrying on the controller's business as his agent.
- **Protection of public policy / revenue** — courts refuse to let the corporate form defeat justice.
- **Single economic entity (group reality)** — in limited cases a holding-subsidiary group is treated as one (*DHN Food Distributors v Tower Hamlets*).

> **Kesava idea (▶):** the veil is lifted to reach a wrongdoer — **not** merely because a company is small or one-man (that was *Salomon* itself, and the veil stayed **up**). A pure "he owns it all" argument fails.

> ***Statutory anchor — s.339, Companies Act 2013:*** *if in winding up it appears the business was carried on "with intent to defraud creditors… any persons who were knowingly parties" may be made "personally responsible, without any limitation of liability, for all or any of the debts."*

In Simple Terms: Normally the law respects the wall between a company and its owners. But if the owners use the company as a mask to cheat, dodge tax, or break the law, the court pulls the mask off and deals with the humans directly.

The Visual



◈ **WORKED EXAMPLE — four companies to evade tax**

Facts. A wealthy man forms **four** private companies, credits his income to their accounts, and takes it back as a pretended "loan" to reduce his tax.

Rule. A company formed as a **device to evade tax** is a sham; the court will lift the veil and treat the income as the individual's (*Sir Dinshaw Maneckjee Petit, Re*; *Juggilal Kamlapat v CIT*).

Apply. The four companies do no real business; they exist only to disguise A's income as loans. The corporate form is being abused for tax evasion.

Conclusion. The court **will lift the veil** of the four companies and tax the income in A's hands.

Case Laws

- **[C-4]** ***Gilford Motor Co. v Horne (1933)*** — a company formed to break a non-compete covenant is a sham; injunction granted against both.
- **[C-5]** ***Daimler Co. v Continental Tyre & Rubber Co. (1916)*** — veil lifted to reveal enemy (German) character.
- ***Jones v Lipman (1962)*** — company used to escape a contract of sale; specific performance ordered against the company too.
- ***Sir Dinshaw Maneckjee Petit, Re (1927)*** — Indian case; veil lifted for tax evasion.
- ***DHN Food Distributors v Tower Hamlets (1976)*** — group of companies treated as a single economic entity.

6. Promoters — Duties and Liabilities

> **Previous Year Questions**
>
> - **[16M/10M]** Who is a promoter? Explain his duties, powers and liabilities (legal position). *(2024, 2023, 2022, 2021, 2018, 2017, 2016, 2015, 2014)* ★★★
> - **[Short Note]** Promoter. *(2025, 2024, 2022, 2021, 2026, 2023-Jul)* ★★

The Hook

Before a company can be born, *someone* must have the idea, gather the people, prepare the documents and pay the first bills. That someone is the **promoter** — the midwife of the company. But history is full of promoters who quietly sold their own property *to* the company they were forming at inflated prices. The law responds by making the promoter a **fiduciary**: total honesty, or hand back the profit.

Who is a promoter?

A **promoter** is a person who **conceives the idea** of forming the company and **takes the necessary steps** to bring it into existence — preparing the memorandum and articles, arranging capital and directors, and getting it registered. A promoter is **not** merely a solicitor, accountant or banker acting in his professional capacity.

> ***Section 2(69), Companies Act 2013:*** *"promoter means a person — (a) who has been named as such in a prospectus or is identified by the company in the annual return… or (b) who has control over the affairs of the company… or (c) in accordance with whose advice, directions or instructions the Board of Directors is accustomed to act." (A person acting only in a professional capacity is excluded.)*

In Simple Terms: The promoter is the person who *builds* the company before it exists — the founder-organiser. Once the company is running, the label falls away.

His legal position — a fiduciary

The promoter stands in a **fiduciary relationship** [a relationship of trust and confidence] towards the company he is forming. He is neither a trustee nor an agent (the company does not yet exist to appoint him), but the law imposes trust-like duties.

Duties of a promoter:

- **Not to make any secret profit** — he must not profit at the company's expense without disclosing it. If he sells his own property to the company, he must reveal his interest and the profit.

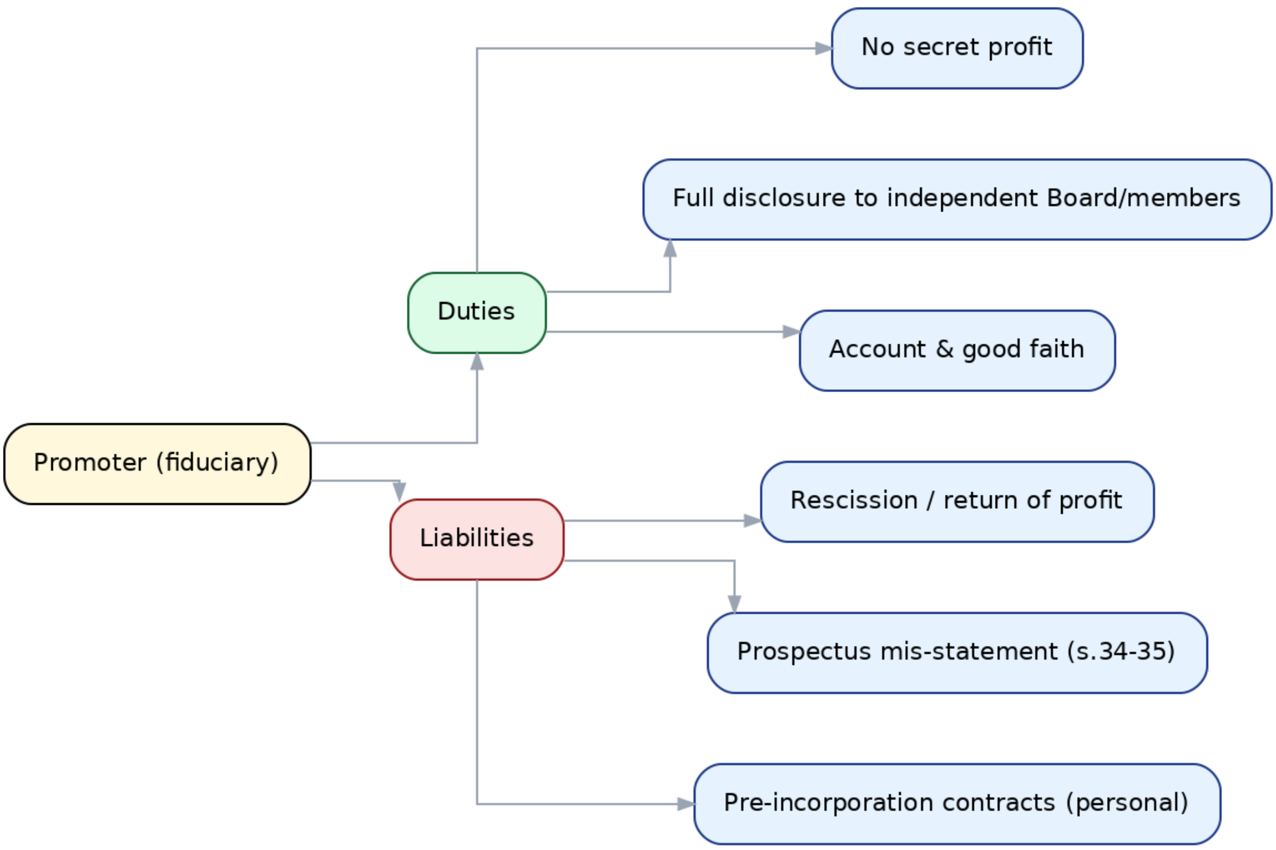
- **Full and fair disclosure** — disclosure must be made to an **independent Board** or to the **members as a whole**, not to a Board he himself controls (*Gluckstein v Barnes*).
- **To account** — any secret profit made can be recovered by the company; the contract may be **rescinded**.
- **Utmost good faith** — he must act honestly in the company's interest.

Liabilities of a promoter:

- **For secret profits** — the company may rescind the contract or recover the profit (*Erlanger*).
- **For mis-statement in the prospectus** — civil liability to compensate (ss.34–35) and even criminal liability (s.36) for untrue statements. *(Detail in Unit 2.)*
- **For pre-incorporation contracts** — contracts he makes *before* incorporation bind **him personally**, because the company was not yet a person to be bound (*Kelner v Baxter*; Unit 2).
- **Statutory & winding-up liability** — can be examined and made liable for misfeasance.

Remuneration. The promoter has **no automatic right** to be paid or reimbursed by the company (it did not exist to promise him anything). He is paid only if the company, once formed, agrees — commonly by a lump sum, commission, or an option on shares, disclosed in the articles/prospectus.

The Visual



◈ **WORKED EXAMPLE — the promoter's secret profit**

Facts. A promoter buys a mine for ₹40,000, then sells it to the company he is forming for ₹60,000 without telling an independent Board.

Rule. A promoter is a fiduciary and must disclose any profit; an **undisclosed** profit is recoverable and the contract voidable (*Erlanger*; *Gluckstein v Barnes*).

Apply. The ₹20,000 profit was secret — disclosure to a Board he controls is not enough.

Conclusion. The company may **rescind** the sale or recover the ₹20,000 secret profit.

Case Laws

- ***Erlanger v New Sombrero Phosphate Co. (1878)*** — promoter's undisclosed profit; company entitled to rescind.
- ***Gluckstein v Barnes (1900)*** — disclosure must be to an independent Board or the members, not to oneself.
- **[C-9]** ***Kelner v Baxter (1866)*** — promoter is personally liable on a pre-incorporation contract.
- ***Twycross v Grant (1877)*** — classic description of who is a promoter.

Landmark Cases — in Brief

[C-1] Salomon v Salomon & Co. Ltd. (1897) — the birth of separate personality

Facts.

Aron Salomon incorporated his boot business, holding almost all shares; his wife and children held one each. He also took debentures (secured debt) from the company. The company failed; unsecured creditors argued the company was a "sham" — really just Salomon — so he should pay them.

Issue.

Was the company a person separate from Salomon, or merely his alias?

Held.

The House of Lords held the company was a **separate legal person**, validly formed. Salomon, as a secured debenture-holder, ranked **ahead** of unsecured creditors. His liability as a member was limited.

Why it matters.

It is the foundation stone of company law: incorporation creates a distinct person, and limited liability is real even in a one-person business.

[C-3] Macaura v Northern Assurance Co. (1925) — shares are not the assets

Facts.

Macaura owned all shares in a timber company and insured the company's timber in his own name. Fire destroyed it.

Issue.

Did the sole shareholder have an insurable interest in the company's property?

Held.

No. The timber belonged to the **company**, a separate person; Macaura had no insurable interest and could not claim.

Why it matters.

Separate personality cuts both ways — the shareholder gets limited liability but does *not* own the company's assets.

[C-5] Daimler Co. v Continental Tyre & Rubber Co. (1916) — lifting for enemy character

Facts.

An English-registered company's shares and directors were all German. During WWI it sued to recover a debt.

Issue.

Could the court look behind the English incorporation to the enemy nationals controlling it?

Held.

Yes — the veil was lifted; the company took on **enemy character**, and allowing the suit would be trading with the enemy.

Why it matters.

A leading illustration that the court will pierce the veil where public interest (here, wartime policy) demands.

Quick Revision & Case Law Table

One-line memory hooks

- **Meaning & characteristics:** a registered artificial person — separate, perpetual, limited, transferable, sues in its own name.
- **Kinds:** classify by liability (shares/guarantee/unlimited) and by members/control (private/public/OPC/govt/holding).
- **Corporate personality:** company ≠ members; it owns its assets (Macaura) and can employ its owner (Lee).
- **Advantages/disadvantages:** every characteristic is an advantage and a cost — shield vs sunlight.
- **Lifting the veil:** default up; comes down for fraud, tax evasion, enemy character, sham/agency — *not* for mere one-man size.
- **Promoter:** the company's midwife; a fiduciary who must not make a secret profit and is personally liable on pre-incorporation contracts.

Master Case List for Unit 1

Case	Topic	One-line ratio
[C-1] Salomon v Salomon (1897)	Separate personality	The company is a person distinct from its members
[C-2] Lee v Lee's Air Farming (1961)	Corporate personality	Controller can also be an employee of his company
[C-3] Macaura v Northern Assurance (1925)	Separate property	Shareholder has no insurable interest in company assets
[C-4] Gilford Motor v Horne (1933)	Lifting the veil	Company used to evade a covenant is a sham
[C-5] Daimler v Continental Tyre (1916)	Lifting the veil	Veil lifted for enemy character
Jones v Lipman (1962)	Lifting the veil	Company as a device to escape a contract
Sir Dinshaw Petit, Re (1927)	Lifting the veil	Veil lifted for tax evasion

Case	Topic	One-line ratio
DHN Food v Tower Hamlets (1976)	Lifting the veil	Group treated as single economic entity
Erlanger v New Sombrero (1878)	Promoter	Secret profit; company may rescind
Gluckstein v Barnes (1900)	Promoter	Disclosure must be to an independent Board
[C-9] Kelner v Baxter (1866)	Promoter	Personal liability on pre-incorporation contracts
STC of India v CTO (1963)	Kinds of company	A government company is a separate juristic person

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End of Unit 1.