

THIS PAPER IS NOT TO BE REMOVED FROM THE EXAMINATION HALLS

UNIVERSITY OF LONDON

266 0021 ZA

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LLB EXAMINATION

for External Students

PARTS I AND II EXAMINATIONS (Scheme A)

THIRD AND FOURTH YEAR EXAMINATIONS (Scheme B)

GRADUATE ENTRY LEVEL II (Route A)

GRADUATE ENTRY THIRD YEAR (Route B)

BSc DEGREES

for External Students

MANAGEMENT WITH LAW, LAW WITH MANAGEMENT, ACCOUNTING
WITH LAW AND LAW WITH ACCOUNTING FOR STUDENTS IN THE
EXTERNAL PROGRAMME

Company Law

Friday 22 May 2009: 2.30 - 5.45 pm

Candidates will have **fifteen minutes** during which they may read the paper and make rough notes **ONLY** in their answer books. They then have the remaining **THREE HOURS** in which to answer the questions.

Candidates should answer **FOUR** of the following **EIGHT** questions, including at least **ONE** from **Part A** and at least **TWO** from **Part B**.

Candidates should answer all parts of a question unless otherwise stated.

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1. 'Where company law is concerned, clarity and certainty are always more important than justice.'

Discuss.

2. 'The expression "interests of the company" provides no guide for resolving disputes amongst shareholders, or between shareholders and other stakeholders.'

Discuss.

3. 'It no longer makes sense to talk of UK company law in the singular. We now have two quite different bodies of company law, one for the public company and one for the private company.'

Discuss.

4. 'It is so clear that non-executive directors make an essential contribution to good corporate governance that the law should be changed to require all listed companies to have a majority of such directors on their boards.'

Discuss.

5. In 2000 Peter, Fred and Wendy set up Runner Ltd to manufacture and supply clothing. They are the only directors and each holds 20% of the shares in the company. The rest of the shares are held by some 40 investors who have largely remained passive while Peter, Fred and Wendy run the business very successfully. Peter is also on the board of directors of Trim Ltd, a major competitor of Runner Ltd. Fred is the director responsible for new products and has developed a new dress fabric which is stain proof and does not need washing. However, when he presents his new fabric to the board, the others are unimpressed and refuse to introduce it into the company's product line. Fred has subsequently announced that he is leaving the company to set up his own company to develop products for the new fabric. Peter has approached Fred privately to see if he would be interested in developing the fabric with Trim Ltd instead.

The other shareholders have become aware of all the issues relating to Fred's departure. Advise them as to how they might protect the interests of Runner Ltd in this situation.

6. Iris was dismissed as the Managing director of Knock Down Motors Ltd in June 2006. She has since initiated a court action claiming compensation from Knock Down Motors arising from her dismissal. Knock Down Motors has not replied to any correspondence relating to the claim. Iris has also discovered the following: that Knock Down Motors has paid off its trade creditors and has ceased to trade; that Leaf Ltd, the parent company of Knock Down Motors, has removed the remaining assets of Knock Down Motors into Leaf; that the directors of Knock Down and Leaf are the same people; and that Leaf is having financial difficulties.

Discuss the veil-lifting issues raised by this situation.

7. Staple Ltd was a company set up many years ago to manufacture roof tiles. Its objects clause simply states it is to manufacture roof tiles and other related roofing products. The articles of association also state that the board of directors must seek shareholder authorization for any lending above £50,000. Pat has recently been appointed managing director and wishes to expand the business by building a new factory to extend the company's product range to include the manufacture of bricks. Pat intends to finance the new factory with a bank loan of £500,000.

Richard is a shareholder in Staple Ltd and is concerned about the legality of Pat's plans. Advise him as to the capacity issues raised in this situation.

8. Freshers Ltd was incorporated in 1985 by Madge. In 2005, when the company was worth approximately £5 million, Madge died. She left the whole of the share capital of the company to her 16-year-old son, Paul. Paul was appointed a director of the company. He attended one board meeting in 2005, but found it difficult to follow the discussions there due to his lack of experience and knowledge about the company. He has not attended any board meeting since.

Six months ago Robert, Freshers' managing director, approached Paul. He told Paul that Freshers needed some 'short term' finance, and asked Paul to lend the company £100,000. Paul agreed to do so. To secure the loan, Paul was given a floating charge over all of the company's property. Four months ago, Paul told Charlie, one of the company's suppliers, that he could personally assure him that Freshers was perfectly solvent. Based on that assurance, Charlie supplied another £30,000 worth of stock to the company on credit. Paul has just discovered that the company has been in severe financial difficulties for many months. A board meeting has been called for next week at which Robert will argue that the company should mortgage its factory premises to raise more money so it can 'trade its way out of its difficulties'.

Paul seeks your advice about any personal liability he might face.

END OF PAPER