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UNIVERSITY OF LONDON **279 0027 ZA**

BSc degrees and Diplomas for Graduates in Economics, Management, Finance and the Social Sciences, the Diploma in Economics and Access Route for Students in the External Programme

The Law of Business Organisations

Thursday, 1 June 2006 : 2.30pm to 5.30pm

Candidates should answer **FOUR** of the following **EIGHT** questions. All questions carry equal marks.

PLEASE TURN OVER

UL06/41

1. The Board of Directors of Babble Ltd consist of Sheila, the Managing Director, Tessa, the Finance Officer, and Will, the original founder of the company. Discuss the extent of fiduciary and common law obligations imposed on the officers of Babble Ltd in the following circumstances:

   (a) Sheila put a new business development plan to the Board but both Tessa and Will rejected the new plan. Tessa rejected it because she thought it would be successful, but she did not like Sheila very much and she wanted to be the next Managing Director. Will rejected it because he felt that although it might be successful, it might devalue his shares in the short-term and he was about to sell his shares and retire from the company. Sheila was very disappointed with the outcome as she had spent years working on the plan. She then formed her own company to develop her ideas and, subject to a minor variation, managed to sell the business plan to a rival company.

   (b) Tessa has been very busy lately and miscalculated the cost of a major redevelopment of their existing product range. The Board approved the redevelopment of the existing product range put to them by Tessa. Both Sheila and Will failed to check the costs as they were in the habit of deferring to Tessa on financial matters. Indeed, for the last two years, Will has shown little interest in the management of the company's business and has often sent his apologies to Board meetings. The miscalculation has been a disaster and the company is placed in insolvent liquidation within a year.

2. Adam, Ben and Carol are Management Consultants and for a number of years have together run 'ABC Management Consultants' as an ordinary (unlimited liability) partnership.

   The business has become increasingly successful and Adam, Ben and Carol want to borrow money from the bank so that they can buy bigger business premises and better computer equipment. Their accountant has told them that they should consider incorporating the business.

   Advise Adam, Ben and Carol on the factors which they may wish to consider in deciding whether to incorporate their business or to trade as a partnership.

3. (a) Explain the separate entity principle and Lord Denning's view in DHN Foods that groups of companies should be treated as a single corporate entity.

(b) Vitality Plc is a large pharmaceutical company. Two years ago, Vitality Plc established a subsidiary, Wonder Drug Ltd, to manufacture a new type of memory enhancing drug which would be of particular benefit to students taking examinations. All shares in Wonder Drug Ltd are owned by Vitality Plc. The business premises from which Wonder Drug Ltd operates is owned by Vitality Plc and the Board of Directors of Wonder Drug Ltd is nominated by Vitality Plc.

Under a compulsory purchase order, the Local Authority has recently acquired the business premises from which Wonder Drug Ltd operates. The relevant legislation permits the Local Authority to pay compensation to the owner of expropriated land for the 'value of the expropriated land' and for the 'cost of disruption to the owner's business'. The Local Authority is prepared to pay compensation to Vitality Plc for the value of the land but is not prepared to compensate Vitality Plc for business disruption claiming that business is conducted by Wonder Drug Ltd.

Advise Vitality Plc.

4. The rule in Foss v Harbottle is unnecessarily complex and, therefore, an ineffective way of providing a remedy for an aggrieved minority shareholder.

Explain the principle of minority shareholder protection and the effectiveness of the law in protecting minority shareholders.

5. It was originally thought that a company was unable to commit torts or crimes.

To what extent does this reflect the current state of the law? What are the legal difficulties in imposing liability for legal wrongs on a corporate entity?

6. Discuss, with relevant legal authority, the extent of powers given to company directors to enter into contracts on behalf of the company.

7. The rules of equity have introduced the 'bona fide' concept to the application of section 9 of the Companies Act 1985.

Explain the legal application of s.9 and how the courts have applied the 'bona fide' requirement to s.9.

8. Explain the rules relating to termination of unincorporated association compared to a registered company.

END OF PAPER