Mills v Mills (1938) 60 CLR 150


Facts

- The directors of Charles Mills (Uardry) Ltd (CM Ltd) passed a resolution to increase the voting power of the managing director.
- This was done by providing CM Ltd’s divided distribution to be by way of bonus shares to ordinary shareholders.
- This mainly included the managing director.
- The minority director (who only held preference shares with triple voting rights) challenged the validity of the resolution.
- The challenge was on the basis that the majority directors did not act in a bona fide way in the best interests of CM Ltd.

Issues

- Could the validity of the resolution be challenged on the basis of the directors not acting in a bona fide manner?

Held

- The High Court held that the resolution was bona fide.
- Latham CJ stated directors will not necessarily breach their duties if they act in a manner which benefits a particular class of shareholders which they themselves are shareholders.

Quotes

"...it is generally desired by shareholders that directors should have a substantial interest in the company so that their interests may be identified with those of the shareholders of the company. Ordinarily, therefore, in promoting the interests of the company, a director will also promote his own interests. [Directors are not] prohibited from acting in any matter where their own interests are affected by what they do in their capacity as directors. Very many actions of directors who are shareholders, perhaps all of them, have a direct or indirect relation to their own interests. It would be ignoring realities and creating impossibilities in the administration of companies to require that directors should not advert to or consider in any way the effect of a particular decision upon their own interests as shareholders. A rule which laid down such a principle would paralyse the management of companies in many directions."

(Latham CJ at page 163)

Full Text
The full text is available here: https://jade.io/summary/mnc/1938/HCA/4

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