

# LIFTING THE CORPORATE VEIL! DIRECTORS BEWARE, THE COURT MAY ORDER DIRECTORS TO PERSONALLY PAY THE COMPANY'S LIABILITIES

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CORPORATE LAW



## KEY POINTS

- The Court has considered the circumstances under which the corporate veil of a company may be lifted in order to enforce a Court decree.
- Considering the prolonged failure to satisfy the decree, the unsuccessful execution attempts, and the director's role within the company, the Court concluded that exceptional circumstances had been established which justified lifting the corporate veil.
- Consequently, the Court ordered that the director of the Respondent company be held personally liable to pay the decretal sum to the applicant, effectively treating him as the judgment debtor for purposes of satisfying the decree.

## INTRODUCTION

On 20<sup>th</sup> February 2026, the High Court of Tanzania (Commercial Division) at Dar es Salaam in *Petrofuel Tanzania Limited v. Grand Confectionery's Bakery Limited Misc. Commercial Application No. 17457 of 2025* considered the circumstances under which the corporate veil of a company may be lifted in order to enforce a Court decree. The decision provides important guidance on the limits of the doctrine of separate corporate personality and demonstrates the Court's willingness to pierce the corporate veil in exceptional circumstances where the corporate structure is used to evade legal obligations or frustrate the execution of a Court judgment. The ruling emphasizes that although companies are ordinarily treated as distinct legal entities separate from their shareholders and directors, this protection will not be allowed to shield individuals where justice requires the Court to intervene.

## BACKGROUND OF THE CASE

The dispute originated from Commercial Case No. 46 of 2016, in which Petrofuel Tanzania Limited (Applicant) obtained a default judgment against Grand Confectionery's Bakery Limited (Respondent). The Respondent incurred a debt arising from the supply of fuel by the applicant between 2015 and 2016.

The Court ordered the Respondent to pay TZS 64,731,663 as the outstanding amount for the fuel supplied. Additionally, the Court ordered the respondent to pay interest at the rate of 3% from the date the debt became due until the date of judgment, and interest at the Court rate of 7% per annum from the date of judgment until full and final payment of the decretal amount.

Following the issuance of the decree, the applicant-initiated execution proceedings. The Court authorized the attachment and sale of the respondent's movable properties to satisfy the decretal sum. However, the execution process proved unsuccessful. The Court broker assigned to carry out the attachment reported that the Respondent's properties could not be located or traced for the purposes of attachment.

Meanwhile, the respondent attempted to challenge the judgment by filing Miscellaneous Commercial Application No. 5847 of 2025, seeking an extension of time to set aside the default judgment and decree issued in the earlier case. This application was dismissed on 6 June 2025 on the grounds that the Respondent had failed to demonstrate good cause for the requested extension of time.

Considering the unsuccessful execution efforts and the prolonged failure by the Respondent to satisfy the decree,

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the Applicant filed the present application seeking an order to lift the corporate veil of the Respondent company. The applicant argued that the respondent's director should be held personally liable for the decretal sum since the company had persistently failed to honour the Court's decree despite numerous attempts at enforcement.

### ISSUES FOR DETERMINATION

The main issue before the Court was whether the Applicant had established sufficient legal grounds to justify the lifting or piercing of the corporate veil of the Respondent company. In particular, the Court was called upon to determine whether the circumstances surrounding the Respondent's failure to satisfy the decree amounted to exceptional circumstances that warranted holding the company's director personally liable for the company's debt.

### KEY FINDINGS OF THE COURT Corporate Legal Personality

The Court reaffirmed the well-established legal principle that upon incorporation, a company becomes a separate legal entity distinct from its shareholders and directors. As a result, the liabilities of a company are generally its own and cannot ordinarily be imposed upon its directors or shareholders. However, the Court emphasized that this principle is not absolute and that there are recognized exceptions under which the corporate veil may be lifted.

### Circumstances for Lifting the Corporate Veil

The Court referred to judicial authorities, including *Yusuph Manji v. Edward Masanja & Another*, which recognize that the

corporate veil may be pierced where the corporate structure is used as a device to conceal wrongdoing, evade legal obligations, or perpetrate fraud. In such circumstances, the Court may exercise its inherent powers to look beyond the company's separate legal personality and hold the individuals behind the company accountable.

### Failure to Honour Court Decree May Attract Lifting Corporate Veil

The Court observed that in the present case, the Respondent had failed to honour the decree issued in the earlier commercial case. The applicant had made genuine attempts to enforce the decree through the attachment and sale of the Respondent's properties, but these efforts proved futile when the Court broker reported that the Respondent's assets could not be located for execution.

The Court also considered the affidavit evidence presented by the Respondent's director, who acknowledged that the respondent company possessed assets capable of satisfying the decretal amount. In the Court's view, this admission reinforced the director's obligation to ensure compliance with the Court's orders. As the directing mind and controlling officer of the company, the director bore responsibility for ensuring that the company honoured the decree issued against it.

Considering the prolonged failure to satisfy the decree, the unsuccessful execution attempts, and the director's role within the company, the Court concluded that exceptional circumstances had been established that justified lifting the corporate veil.

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## DECISION OF THE COURT

Upon considering the arguments of both parties and the applicable legal principles, the High Court allowed the application. The Court held that the circumstances of the case justified the lifting of the corporate veil of the Respondent company. Consequently, the Court ordered that the director of the Respondent company be held personally liable to pay the decretal sum to the applicant, effectively treating him as the judgment debtor for purposes of satisfying the decree.

Despite granting the application, the Court declined to award costs, noting the long history of the dispute between the parties and exercising its discretion to make no order as to costs.

## KEY TAKEAWAYS FOR BUSINESSES:

### **The Corporate Veil is Not Absolute:**

While companies are distinct entities, Courts will look "behind the person in control" if the entity is being used to disguise wrongs or avoid liabilities.

**Exceptional Circumstances:** Fraud, shams, facades, and the "evasion" of court orders are primary grounds for piercing the corporate veil.

**Directors' Obligations:** A director has a legal obligation to ensure the company complies with Court orders. Failure to do so, combined with years of fruitless litigation, can lead to personal financial liability arising from the Company.

## CONCLUSION

The decision informs the Courts' commitment to ensuring that Court decrees are not rendered ineffective by the misuse of corporate structures. While the doctrine of separate corporate personality remains a fundamental principle of company law, the ruling demonstrates that Courts will intervene where necessary to prevent injustice and to ensure that judgment creditors are able to realize the fruits of their judgments.

The case therefore serves as an important reminder to company directors and officers that the corporate veil will not always shield them from liability, particularly where their conduct contributes to the frustration of lawful Court orders.

Where exceptional circumstances exist, Tanzanian Courts are prepared to lift the corporate veil and impose personal liability to uphold the integrity of the judicial process and ensure compliance with Court decrees.

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