

LEGAL INSIGHTS

A SKRINE NEWSLETTER

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MESSAGE FROM THE EDITOR-IN-CHIEF

FESTIVE GREETINGS FROM THE TEAM AT **LEGAL INSIGHTS**

The issue you are now reading is our tenth issue. To us, this represents an important milestone in our efforts in producing Legal Insights. We fervently hope to improve the contents of our newsletter to continue providing you with interesting legal articles and the latest case laws.

Although it is sheer hard work to produce a newsletter, my enthusiastic editorial team and I do enjoy pooling our resources to bring you each issue. Likewise, it is hoped that you will also have similar enthusiasm and enjoyment when reading Legal Insights.

As is the norm, our tenth issue covers a diverse range of topics which are of interest to you. Among them, is an article by Vinayak Pradhan (page 6) which emphasises the importance of minimising time and expense in arbitral proceedings in Malaysia. On the other hand, Nurliza Ramli brings you the final instalment on the Halal industry in Malaysia at the centre pages and Eow Khean Fatt gives an account of the legal ramifications of ambush marketing at pages 3 and 10. Patricia Woo Yin May at page 7 provides an engaging account of the legal phenomenon called “*genericide*” while Alan Teoh Kheng Huat educates us on the case law on pre-empting a winding-up petition at pages 12 and 13. Pages 14 and 15 feature Kok Chee Kheong’s concluding segment on directors’ liability for diversion of corporate opportunity and information.

Those who desire to update themselves on matters concerning the recent Budget can read Chen Kah Leng’s 2007 Budget Highlights at page 10. In the same vein, you may want to find out more about the recent tax ruling on the deductibility of legal and professional expenses by reading Preetha Pillai’s article at pages 5 and 13. Readers who are engineers may wish to turn to page 11 on the Court of Appeal’s decision regarding the importance of complying with the registration requirements under the Registration of Engineers Act 1967. The other commentaries in this issue concern the perils of deceiving public authorities by Ou May Jean (pages 2 and 15) as well as the recent case on legal professional privilege by Harold Tan Kok Leng (page 4).

Legal jargon has always perplexed as well as fascinated many lay readers. To this end, we have added a small column in this issue entitled “*Legal Terms Made Easy*” at page 15 to bring you the meaning of some regularly used legal terms which we hope will be useful.

As you are aware, in the previous issue, we enclosed a questionnaire for you to complete and return to us. We take pride in the positive response and would like to extend our sincere thanks to all readers who have been supportive of our efforts. On a parting note, my editorial team and I wish all readers who celebrate Hari Raya and Deepavali, Salam Adilfitri and Happy Deepavali!



Lee Tatt Boon
ltb@skrine.com
Editor-In-Chief

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LEGISLATION UP-DATE

The following legislation have been passed:-

Statutes

- Akademi Seni Budaya dan Warisan Kebangsaan Act 2006 [Act 653]
c.i.f.: 1.8.2006 [P.U. (B) 213/2006]
- Electronic Commerce Act 2006
c.i.f.: To be notified by gazette
- Food (Amendment) Act 2006 [Act A1266]
c.i.f.: 30.6.2006 [Act A1266]
- International Interests in Mobile Equipment (Aircraft) Act 2006
c.i.f.: To be notified by gazette
- Merchant Shipping (Amendment) Act 1998 [A1014]
c.i.f.: 17.8.2006 for Sec. 4 [P.U. (B) 222/2006]
- Patents (Amendment) Act 2006 [Act A1264]
c.i.f.: 16.8.2006 [P.U. (B) 220/2006]
- Public Trust Corporation Act 1995 [Act 532]
c.i.f.: 1.7.2006 in the Federal Territory of Labuan [P.U. (B) 178/2006]
- Skills Development Fund Act 2004 [Act 640]
c.i.f.: 1.6.2006 [P.U. (B) 151/2006]
- Suruhanjaya Perkhidmatan Air Negara Act 2006
c.i.f.: To be notified by gazette
- Water Services Industry Act 2006
c.i.f.: To be notified by gazette

Subsidiary Legislation

- Anti-Money Laundering (Amendment of First Schedule) Order 2006
c.i.f.: 10.8.2006 [P.U. (A) 292/2006]
- Anti-Money Laundering (Invocation of Part IV) Order 2006
c.i.f.: Para 2 - 4 on 10.8.2006; Para 5 - 1.9.2006 [P.U. (A) 293/2006]
- Excise Duties (Amendment) (No. 3) Order 2006
c.i.f.: 1.9.2006 [P.U. (A) 326/2006]
- Money-Changing (Excluded Foreign Currencies) Order 2006
c.i.f.: 21.7.2006 [P.U. (A) 273/2006]
- National Anthem (Modification of Tempo) Order 2006
c.i.f.: 14.7.2006 [P.U. (A) 268/2006]
- Patents (Amendment) Regulations 2006
c.i.f.: 16.8.2006 [P.U. (A) 295/2006]
- Poisons List (Amendment) Order 2006
c.i.f.: 18.8.2006 [P.U. (A) 297/2006]
- Poisons (Amendment of Second Schedule) Order 2006
c.i.f.: 18.8.2006 [P.U. (A) 298/2006]
- Stamp Duty (Exemption) (No.12) Order 2006
c.i.f.: 1.10.2005 [P.U. (A) 282/2006]

THE UNTRUSTWORTHY TRUSTEE

Case Commentary on Hasmah Abdul Rahman v. Kenny Chua Kien Lam [2006] 5 MLJ 236



INTRODUCTION

This decision of the Court of Appeal (“CA”) concerned an attempt to recover shares which were sold under deceptive circumstances to facilitate the listing of a company on the Kuala Lumpur Stock Exchange (“KLSE”). It emphasises the position that the courts will not assist in the enforcement of an agreement which is entered into for an unlawful purpose.

FACTS

The respondent (Kenny Chua Kien Lam) brought an action against the appellant (Hasmah Abdul Rahman) in the High Court of Malaya (“HC”) for the return of 170,000 shares (“the relevant shares”) in SBBS Consortium Berhad (“SBBS”) alleging that they belonged to him at all times, as well as the return of the bonus shares and rights issue shares that arose from the relevant shares. The crux of the respondent’s claim was that he was the beneficial owner of the shares in SBBS and the appellant was merely a trustee of the shares held by her in SBBS.

The respondent was the Managing Director of SBBS. The respondent sought the assistance of the appellant in connection with the listing of SBBS on the KLSE.

The respondent asserted in his Statement of Claim that the appellant had expressed interest in purchasing the relevant shares in SBBS from him and that he then transferred and registered the relevant shares in the appellant’s name but no payment was made to him.

Subsequently, as part of the requirements for the listing of SBBS, both the appellant and the respondent affirmed and delivered to the Securities Commission of Malaysia (“SC”) and the KLSE, similar statutory declarations in which they acknowledged that they were aware of and would comply with the Malaysian Government’s New Development Policy, including the requirement for a minimum of 30% Bumiputera equity participation in Malaysian incorporated companies. The respondent further affirmed that he had not appointed and would not appoint a Bumiputera nominee in respect of the equity which he held in SBBS. SBBS was successfully listed on the Second Board of the KLSE.

The appellant applied to strike-out the respondent’s claim. The application was allowed by the Senior Assistant Registrar, whose decision was overturned by on appeal by the HC Judge. The appellant then appealed to the CA, which upheld the appeal and struck-out the respondent’s suit.

DECISION

The CA held that the issue for determination in the appeal was the legality or illegality of the trust or contract pertaining to the relevant shares.

The CA held that the statutory declarations affirmed by the respondent and the appellant contained assertions which, if juxtaposed with the respondent’s assertions in the Statement of Claim, must have been intended at the material time to mislead the SC and the KLSE to approve the flotation of SBBS on the Second Board.

The CA was satisfied from the evidence that the purported sale of the relevant shares by the respondent to the appellant amounted to nothing more than ‘a transaction which on the face of it is lawful is entered into for an unlawful purpose or to achieve an unlawful end.’ The CA concluded that deception was practised on the listing authorities which were part and parcel of the public administration in the country. The transaction was therefore tainted with illegality and was unenforceable.

The CA then held that the maxim ‘the loss lies where it falls’ applied and that it would not assist the respondent to recover any of the shares in SBBS.

Continued on page 15



STEALING THE SHOW

Eow Khean Fatt briefly discusses how ambush marketing is stealing the show from official sponsors.

INTRODUCTION

Ambush marketing, is a term that broadly defines the unauthorised association of a party with the marketing of a particular event, whereby the party gains the benefits associated with the marketing rights of the event without having to pay any licence or sponsorship fees. In short, ambush marketing generally occurs when a non-sponsor of an event uses creative ruse to gain publicity for itself by jumping on the bandwagon of a sponsored event.

As a hypothetical example, in the recent World Cup, if mid-way through the finals, a young lady were to run naked through the field with a certain famous logo painted on her body, what kind of impact would that create in the minds of viewers around the world? What would be the reaction of the World Cup sponsors especially if the logo does not belong to them?

CASE EXAMPLES

During one of the previous Olympic Games, a well known digital imaging company sponsored the TV broadcasts of the Games as well as the US track team despite its competitor being the Official Sponsor. However, four years later, in the subsequent Olympic Games, the competitor retaliated when it sponsored the TV broadcasts of the Games when the digital imaging company was the Official Sponsor of the Games.

LEGAL IMPLICATIONS OF AMBUSH MARKETING

Ambush marketing whilst may be injurious to the official sponsor, is admittedly a clever way to promote competing brands. Given that one of the main principles underlying the general consumer market is fair competition, it may seem unfair to restrict or prevent the tactics associated with ambush marketing in favour of one or several brands sponsoring the events.

At common law, the general approach has been for the aggrieved party to sue the company ambushing the event for the tort of passing-off. The positions at common law, as reflected in the following cases, outline the difficulty faced by the courts in deciding for the plaintiffs.

In the Canadian case of **National Hockey League (“NHL”) v. Pepsi-Cola Canada Ltd** (“Pepsi”) 42 C.P.R. (3d) 390, 1992 C.P.R. Lexis 1773, NHL granted Coca-Cola the right to be its official soft drink. The arrangement, however, did not give Coca-Cola the rights to advertise during television broadcasts of NHL games. These rights were purchased by Molson Breweries, who in turn granted the rights to Pepsi, to advertise its soft drinks during broadcasts. Pepsi advertised its products through a contest called ‘Diet Pepsi’s \$4,000,000 Pro Hockey Playoff Pool’ which featured Don Cherry, a well-known figure throughout Canada. A disclaimer denying any connection to the NHL appeared in advertisements against a dark background. NHL sued Pepsi contending that Pepsi was guilty of the tort of passing off because the television commercials in particular “conveyed a false impression to the public that the NHL, in some form, approved or was associated with the contest.”

The British Columbia Supreme Court decided that there was neither evidence nor the appearance of passing-off and ruled that although

Pepsi’s actions clearly constituted ambush marketing, there was nothing that could legally sanction either Coca-Cola or the NHL from protecting Coca-Cola from its main competitor.

In the Indian case of **ICC (Development) International Ltd (“ICCD”) v. Arvee Enterprises & Anor** [2003 (26) PTC 245 (Del)], the High Court (“HC”) in Delhi refused to grant an injunction to ICCD, a company owned by the International Cricket Council in respect of a sales promotion by electronics giant Philips. Philips had promised free travel to South Africa and tickets to the World Cup cricket matches as prizes in a contest thereby creating an association with the cricket games.

The HC in that instance held that the marketing promotion by Philips neither amounted to passing off nor was an unfair trade practice. The Court further observed that the concept of ambush marketing was used by companies to promote their brands and the conduct in such cases could not be categorised as wrongful or against public interest and thus not unlawful in India.

Some of the other jurisdictions have dealt with the issue of ambush marketing in the following manner:-

SOUTH AFRICA

In South Africa, the Merchandise Marks Act No. 17 of 1941, (“MMA”) operates to protect trade mark owners from the makers of counterfeit goods, and to maintain quality, by making it a criminal offence to apply a false trade mark or trade description to goods. The MMA was amended in 2002 to extend protection to major events designated by the relevant Minister as “*protected events*.”

In order to qualify for protection, an event must be held in public and must be subject to corporate sponsorships. The MMA has built-in safeguards which provide that the Minister may only declare an event to be a “*protected event*” after consultation, and may not declare an event to be a protected event “*unless the Minister is satisfied that the event organisers have created sufficient opportunities for small businesses, and particularly those of the previously disadvantaged communities.*”

Further, South Africa brought ambush marketing within its Trade Practice Act, for the Cricket World Cup 2003. The Trade Practice Act provides that companies are guilty if, in connection with any sponsored event, they “*make publish or display any false or misleading statement, communication or advertisement which represents, implies or suggests a contractual or other connection or association between that person and the event, or the person sponsoring the event, or cause such statement, communication or advertisement to be made, published or displayed.*”

SYDNEY ACT 2000

For the 2000 Olympics in Sydney, Australia introduced and implemented Olympic insignia protection legislation, which imposed strict controls on the use of words and symbols associated with the Olympics, to protect the International Olympic Committee and sponsors from ambush marketing.

KEEP IT QUIET OR LOSE YOUR PRIVILEGE

Case Commentary on *See Teow Chuan & Anor v. Dato' Anthony See Teow Guan* [2006] 2 CLJ 292



The Court of Appeal (“CA”) in the above case had occasion to examine the scope of legal professional privilege encapsulated in sec.126 of the Evidence Act 1950 (“the Act”). This section provides, inter alia, that

“No advocate shall at any time be permitted, unless with his client’s express consent, to: -

- (i) disclose any communication made to him by or on behalf of his client;
- (ii) state the contents or conditions of any document with which he has become acquainted; or
- (iii) disclose any advice given by him to his client; in the course and for the purpose of his professional employment.”

BACKGROUND FACTS

The plaintiffs and the defendant were shareholders cum directors of Kian Joo Holdings Sdn Bhd which in turn held about 37% shareholdings in Kian Joo Can Factory Bhd (“KJCF”). The plaintiffs and the defendant were also the directors of KJCF. The plaintiffs’ sued the defendant for defamation on a legal opinion issued by a firm of solicitors at the defendant’s request, alleging that it contained certain defamatory statements against them.

HIGH COURT DECISION

During the course of the trial, the plaintiffs called the solicitor who issued the legal opinion as a witness and sought to admit the legal opinion through the solicitor. However, both the solicitor and the defendant’s counsel objected to the production of the legal opinion on grounds of legal professional privilege and invoked sec. 126 of the Act. The trial judge agreed that the legal opinion could not be produced on grounds of solicitor and client privilege. The plaintiffs then appealed to the CA.

Confidentiality is a characteristic which can be lost and privilege is a right which can be waived

COURT OF APPEAL DECISION

On appeal, the HC decision was reversed. In interpreting sec. 126 of the Act, the CA adopted a purposive approach and held unanimously that the communications between the defendant and the solicitor upon which the legal opinion was formulated were not protected by legal professional privilege.

After considering several Indian, Australian and English authorities, the CA concluded that the element of confidentiality is an essential requirement in sec. 126 of the Act. Based on the following findings of fact, the Court held that the communications between the defendant and the solicitor were not intended to be confidential and therefore not privileged: -

- (i) Both the defendant and the solicitor knew in advance that the legal opinion would be circulated and published to the KJCF

Board and Audit Committee members (including the plaintiffs) and the external auditors of KJCF;

- (ii) The defendant published the legal opinion to the Chairman and the external auditors of KJCF without informing them that the document was confidential and that it was not to be circulated to others;
- (iii) There was no element of confidentiality at the meeting convened by the external auditors where the legal opinion was circulated to and read by the plaintiffs and all persons present; and
- (iv) There was also no element of secrecy at an unofficial meeting attended by an unrelated third party where the legal opinion was read aloud by the Chairman of KJCF.

The CA went on further to rule that the trial judge had erred when he held that once a legal opinion was privileged, it would remain so forever. Confidentiality is a characteristic which can be lost and privilege is a right which can be waived. The following events were construed by the Court as constituting waiver by the defendant of his right to claim legal professional privilege:-

- (i) By publishing the legal opinion to other persons, namely the Chairman and the external auditors of KJCF, the defendant expressly waived his right to claim privilege;
- (ii) As the plaintiffs had come into legal possession of the legal opinion upon being given a copy by the external auditors who themselves obtained it from the defendant, no privilege can be claimed;
- (iii) Privilege was also clearly waived as the legal opinion was exhibited in an affidavit and deployed in court in an interlocutory application filed by the defendant and was read out in open court by counsel for both parties; and
- (iv) The defendant’s omission to claim privilege when filing the List of Documents pursuant to O.24 r.5(1) of the Rules of the High Court 1980 was regarded as a further instance of the defendant having waived the privilege to the legal opinion.

... indiscriminate publication (of confidential communications) can result in ... privilege being waived

SIGNIFICANCE OF THE CASE

This case is significant as it shows that only confidential communications passing between solicitor and client are protected by legal professional privilege under sec. 126 of the Act. The case also illustrates that confidential communications must be handled with due care as indiscriminate publication thereof can result in such privilege being waived.

HAROLD TAN KOK LENG (tkl@skrine.com)

LEGAL EXPENSES: GOOD & BAD NEWS FROM THE TAXMAN

Preetha Pillai gives an update on the deductibility of legal and professional expenses.



Public Ruling No. 6/2006 (“the Ruling”) issued by the Director General of the Inland Revenue Board addresses the specific situations when and how legal and professional expenses may be deducted as an expense under subsec. 33(1) of the Income Tax Act from the gross income of a person from a source in ascertaining the adjusted income of the person from that source for the basis period for a year of assessment.

The Ruling is effective for the year of assessment 2006 and subsequent years of assessment.

DEDUCTIBLE EXPENSES

Paragraph 5 of the Ruling sets out the instances when legal and professional expenses may be deducted as an expense.

Debt collection

Legal and other expenses incurred by a person in the course of collecting trade debts.

Renewal of loans

Legal expenses incurred by a finance company in renewing existing loans.

Preparation of accounts

- a) Ordinary expenses of keeping books and preparing financial records and accounts including charges for accountancy work; and
- b) Statutory audit fees expenditure [P.U.(A) 129 – Income Tax (Deduction For Audit Expenditure) Rules 2006].

Defending title to property

Legal expenses incurred in connection with defending a person’s title to the ownership of an asset that is used in the business. The title to the ownership by the person remains the same and had been maintained with nothing added or taken away.

Legal expenses incurred by a landlord

Legal expenses including litigation costs incurred on renewal of a lease.

Defending an action connected with a trade or breach of trading contracts

- a) Expenditure incurred by a person in resisting a claim that he has broken (a trading contract) is allowable

unless the breach was deliberate and dishonest;

Examples:

- i) cost incurred by a money lender in defending an action in connection with a loan made to him by a company (loans are the trading stock of a money lender’s business);
 - ii) cost to a dairy farmer in successfully defending a charge of adulteration of milk.
- b) Averting a threat to the goodwill of a business;
 - c) Preservation and/or protection of a capital asset that does not result in the creation of a new asset;
 - d) Where litigation ensues after a customer withholds payments wholly or in part on the grounds of inferior workmanship, sub-standard material, non-fulfillment of contract requirements or for other reasons, the legal action is regarded as an ordinary incident of trade;
 - e) Litigation against claim for libel arising from published documents in respect of a newspaper or publishing business; and
 - f) Defending legal action taken against a professional in respect of negligence in undertaking work for a client.

Legal cost incurred in disputes over trading contracts when incurred for

- a) Enforcement of a contract for the supply to a litigant of goods which would be resold for profit;
- b) The establishment of an agreement between the litigant and another under which the litigant is entitled to render services for specific remuneration;
- c) Determination of fares fixed by a transport company for carrying passengers;
- d) Attempting to recover sums which would have been taxable if received; and
- e) Claims for compensation for trading goods lost in transit.

Legal or professional expenses incurred by a developer or a dealer in property

- a) For obtaining end-financing facility for

- b) For valuation of land;
- c) Legal fees paid for transfer of land titles, sub-division and conversion of land; and
- d) Survey fees.

Other Legal Expenses

- a) Renewal of leases and licenses;
- b) Claim for compensation for trading goods destroyed, defective or lost in transit; and
- c) Legal fees and agency fees incurred in connection with employment agreements as well as in connection with preparation of trading contracts or agreements.

NON-DEDUCTIBLE EXPENSES

Examples of non-deductible legal and professional expenses which will not qualify for deduction are set out in paragraph 6 of the Ruling.

Debt collection

Legal and other expenses incurred by a person in the collection of non-trade debts and loans of a capital nature.

Renewal of Loan

- a) Legal expenses incurred by a trading or commercial company;
- b) Legal expenses on renewal of a mortgage on premises; and
- c) Cost of raising additional capital whether by means of a loan or otherwise (this will also apply to a person carrying on a business of banking or money-lending).

Annual corporate filings and meeting expenses

- a) Secretarial fees; and
- b) Annual general meetings expenses.

Income Tax Returns

- a) Cost of filing of tax returns and tax computations; and
- b) Cost of appeal against income tax assessment i.e. to the Special Commissioners of Income Tax and the Courts.

Continued on page 13

FINE-TUNING THE ARBITRAL PROCESS

Vinayak Pradhan discusses the importance of minimising time and expense of arbitral proceedings.



Court delays have been one of the vaunted reasons for parties to resort to arbitration. It is ironic therefore that there are innumerable accounts of delays and never ending arbitrations, with attendant cost implications. That brings this wonderful system of private dispute resolution into disrepute and jeopardy, as many people who have lost faith in the process would discourage others from attempting arbitration to save them from undergoing a similar experience.

TIME

It is always important for arbitrators to keep in mind the considerations of achieving a speedy resolution of the dispute and giving both parties full opportunities to be heard before a result is announced. There are however ways in which arbitral processes can be moved along at a quicker pace without sacrificing the obligation to do justice in accordance with the law. Those who have had experiences in international arbitrations comprising tribunals of three arbitrators conducted under international institutional rules and involving expensive counsel from various parts of the world know that the process in those arbitrations is far quicker than that in domestic arbitrations. This again is ironic because, at least in terms of accommodating various diaries, it should be possible to fix domestic arbitrations at earlier dates far more easily than international arbitrations.

Delays, of course are caused by factors, which are unavoidable and perfectly understandable. When both disputing parties want the process suspended because they are attempting to resolve it themselves, arbitrators should not concern themselves about the delay in any final resolution of the dispute. The autonomy of the parties in this regard must be respected as it is their interests and not the arbitrator's that must be paramount. Again, factors such as sudden illnesses, urgent appearances because of unforeseen notices from superior courts requiring the presence in court, on the days fixed for the arbitration, of participants in the arbitration are justifiable reasons for deferments.

On the other hand, delays caused by a recalcitrant party aided by unscrupulous lawyers moving for postponements on the flimsiest of excuses and then moaning, when postponements are not granted, of the unfairness of the process and a lack of opportunity to be heard, are to be deprecated and not countenanced.

THE ARBITRATOR AS CASE MANAGER

There is a growing tendency for arbitral tribunals, while ultimately respecting party autonomy, to be proactive case managers rather than non-interfering common law arbitrators. Directions for the progress of the arbitration are more detailed with a greater emphasis on extensive pre-hearing written presentations. Some of the techniques now utilized to speed up the process including exchanges of witness statements and responsive witness statements, executive summaries of witnesses' evidence, live note transcription services, early delineation of issues and limited time or "chess clock" hearings. In addition, witness conferencing including the "hot tubbing" or forced inter-action of experts can expedite the process.

With respect to matters of procedure, it is sometimes sensible to give the Chairman of a panel of three or more arbitrators the general power to make procedural decisions except when both parties specifically require the entire tribunal to deal with the same or where the Chairman feels that this is necessary. Indeed, in Malaysia, this is

given statutory support through sec. 31(2) of the Malaysian Arbitration Act 2005 which provides as follows:

Where so authorized by the parties or by all the members of the arbitral tribunal, questions of procedure may be decided by the presiding arbitrator.

Arbitrations under the auspices of the International Chamber of Commerce ("ICC") are helped by the requirement to settle the Terms of Reference in accordance with Article 18 of the ICC Rules. The Terms of Reference require the issues to be listed early in the process and helps focus the parties' and the arbitrators' minds on the matters in dispute from this early stage. The list of issues also provides a useful check list at the time of the drafting of the Award.

COSTS

Quite apart from the control of costs after the reference to arbitration, cost control can be exercised the time the arbitration agreements are entered into. Well drafted arbitration clauses providing for particular institutional arbitrations, procedural rules, appointment of arbitrators, venue, choice of law and other matters will avoid disputes as to these later.

Recent developments include the more difficult concept of capping the costs of proceedings. In this regard, sec. 65 of the English Arbitration Act 1996 gives the tribunal the power to cap costs. This power, which can be excluded by an agreement to the contrary by the parties, enables the tribunal to encourage parties to exercise restraint and to avoid unnecessary expense by imposing an upper limit on the recoverable costs.

CONCLUSION

Increasing expenditure of time and cost issues in arbitrations has inevitably led to increasing awareness of these factors as crucial issues to be addressed by the arbitration community. With this has come the recognition that the mere disposal of the disputes referred is no longer the sole, or even the paramount, objective of the arbitral process. Instead, the manner in which the disputes are resolved, notably the efficiency of otherwise thereof, is a matter of equal, or sometimes greater, concern.

Whilst in an ideal world it will be the task of all stakeholders in the arbitral process to co-operate in achieving these ends, the inevitable desire of the parties and their representatives to secure the most favourable outcome to themselves (and one not necessarily linked to the eventual resolution of the dispute) makes it incumbent on those sitting as arbitrators to take the lead in devising, promoting and implementing measures to control time and costs. To achieve this beneficial end they must be fully apprised of the extent (and more importantly the limits) of their powers under the Arbitration Act 2005 to control the course of the proceedings. At the same time they must remain sufficiently sensitive to the desires of the parties so as not to jeopardise their trust in the achievement of a just outcome, yet sufficiently robust to give short shrift to the adoption of positions which will have time and cost implications disproportionate to any benefit in terms of fairly resolving the dispute. This is a daunting burden, but one which Malaysian arbitrators must not merely accept, but actively embrace, if arbitration as a system of dispute resolution is not to collapse under the sheer weight of its own cumbersome processes.

VINAYAK P. PRADHAN (vp@skrine.com)

TRADEMARK HOMICIDE

Patricia Woo Yin May examines the legal phenomenon of 'genericide'.



OF GOOGLE AND GENERICIDE

So the verdict is in, GOOGLE is now a recognised verb in the English Language.

GOOGLE's recent addition to the Oxford English Dictionary and the Merriam-Webster's Collegiate Dictionary respectively, only eight years after its conception, would appear to have set the bar remarkably high in gauging the success of a trade mark (for the purpose of this article, the terms brand and trade mark will be used interchangeably). Undoubtedly, businesses will now strive to achieve a similar feat, with few succeeding. From its modest beginnings as a graduate school project of two unassuming Stanford University students to an internet service giant worth billions and whose trade mark has become synonymous with the term 'search', Google Inc. has, made history.

Yet, its prevalence if left unchecked, GOOGLE could just as easily become history – being yet another victim of a legal phenomenon known as 'genericide'. Genericide by definition means the process by which a trademark and its associated rights are diminished and lost as a result of its common or generic use in the marketplace. Where a trade mark ceases to be distinctive of its owner and/or indicative of the origin of a product, it loses its fundamental function and ceases to be a trade mark altogether. Such is the paradoxical nature of a trade mark, its success in achieving brand name presence in the marketplace could just as well lead to its demise.

The evolution of the now generic term 'escalator' is the oft-cited cautionary tale of a trade mark gone bad. The term 'escalator' was originally coined by the Otis Elevator Company and used as a trade mark in relation to the first commercial moving staircase which they had invented in 1892. Otis allowed unrestrained use of the term 'escalator' and by the 1950's the United States Trade Mark Office deemed that the word had become a generic term of art and free for all to use.

Words that we use on a daily basis such as 'aspirin', 'tabloid', 'cellophane', 'linoleum' and 'yo-yo' are just a few examples of trade marks that have fallen from glory into the depths of genericide.

BRANDS BRING HOME THE BACON

It is undisputed that trade marks have today become invaluable economic assets to businesses. Trade marks go beyond being just a mere indication of the origin of a product or service. In many instances, they encapsulate the entire goodwill, reputation and corporate identity of a business that may have taken years of intensive labour and investment to develop. In fact, the President of Coca-Cola once remarked that all the corporation's physical property could be destroyed, but the business would emerge from the ruins and rebuild itself provided that its trade mark survived.

Annually, Interbrand, an international brand consultancy, together with Business Week publish their Best Global Brands Ranking where brands are ranked based not on popularity but on the economic returns they are able to generate for their owners. For example, in the year 2006, Coca-Cola emerged at the top with a brand value of a whopping US\$67 billion followed by Microsoft and IBM valued at US\$56 billion each. In the event that the products and services of these brands cease to be distinctive from those of their competitors, the financial losses would be tremendous.

The problem is specially magnified in areas of trade where brand is the compelling force in customer purchase decision.

TRICKS OF THE TRADE

If trade marks are of such immense value to businesses, it only makes sense that they be vigilantly protected. The following non-exhaustive steps can be taken to properly manage and maintain the distinctive quality of a trade mark :-

- Have a simple and effective way to give notice of your ownership of a trade mark. If it is a registered trade mark, use the ® symbol or the words 'registered trade mark'. If it is an unregistered trade mark, use the ™ symbol or include a written notice stating, for instance, that, ENIRKS is a trade mark of SKRINE;
- Don't use a trade mark as a noun. Always use it as an adjective modifying a noun, for example, you don't buy your children legos to play with; rather you buy them LEGO toy blocks;
- Don't use your trade mark as a verb, for example, you don't xerox, you photocopy using a XEROX copier;
- Accompany the use of your trade mark with the product's generic name to avoid having your trademark being identified as the product or service itself, for instance, it is a KLEENEX facial tissue;
- As an alternative, some owners follow their trademark with the word 'brand' to help define the word as a trademark, for instance, Johnson & Johnson's lyrics to their BAND-AID television jingle reads "I am stuck on the BAND-AID brand, 'cause BAND-AID's stuck on me";
- Use your trade mark distinctively and distinguish them from the surrounding text. Trade marks should ideally be capitalised, stylised, underlined, boldfaced, italicised or placed in quotation marks;
- Licence your trade marks with care and always ensure that they are licensed with the necessary restrictions in place so that the distinctiveness of the products'/services's maintained;
- Finally, police the use of your trade mark rigorously and respond instantly when you become aware of its improper use, for example, XEROX, successfully prevented its trade mark from becoming generic by launching aggressive advertisement campaigns to educate the public.

THIS ONE'S FOR GOOGLE

Today, GOOGLE continues to zealously battle against genericisation of its trademark by churning out legal letters cautioning the public against inappropriate usages of its trademark. In similar spirit, I conclude by passing on the wisdom:-

Appropriate : He ego-surfs on the GOOGLE search engine to see if he is listed

Inappropriate : He googles himself

Google's words, not mine.

PATRICIA WOO YIN MAY (pw@skrine.com)

HALAL - THE NEW GLOBAL MARKET FORCE

In this final instalment, Nurliza Ramli highlights the salient features of the Halal Manual and Standards,

The first part of this Article introduced the *Halal* concept and traced the development of the *Halal* industry in Malaysia. In this second and final instalment, we will discuss the *Halal* certification procedure, the '*Halal*' logo and the *Halal* standards and legislation that relate specifically to *Halal* matters in Malaysia.

HALAL MANUAL AND GUIDELINES

The Department of Islamic Development ("JAKIM") and the Islamic Religious Departments of the respective states ("JAIN") are the government agencies responsible for the issuance of *Halal* certificates.

JAKIM has published the **Manual Procedure of Halal Certification Malaysia** ("the Manual") and the Guidelines on the Appointment of Foreign Islamic Organisation as *Halal* Certification Body for Products to be Exported to Malaysia ("the Guidelines").

JAKIM has the authority to issue *Halal* certification for the national and international markets whereas JAIN only certifies *Halal* products and services for the domestic market.

Neither JAKIM nor JAIN undertakes *Halal* certification for products manufactured outside Malaysia which are to be marketed in Malaysia or elsewhere. Such certification may be obtained from a foreign Islamic body appointed by JAKIM under the Guidelines.

It is noteworthy that the practice and guidelines used by JAKIM have been used as a base document by Codex Alimentarius Commission ("the Commission"). The Commission is a body created by the Food and Agriculture Organisation ("FAO") and World Health Organisation ("WHO") to develop food standards, guidelines and related texts to develop the "General Guidelines for Use of the Term '*Halal*'. These guidelines have been issued as an advisory text to all of its 188 member nations and associate members of FAO and WHO. (www.codexalimentarius.net)

GENERAL REQUIREMENTS

Eligible applicants for *Halal* certification under the Manual are manufacturers/producers, distributors/traders, sub-contract manufacturers, re-packers and operators of food premises and abattoirs or slaughter houses.

The general requirements for *Halal* certification as provided under the Manual are, *inter alia* as follows:-

- a) the manufacturer/food premise/abattoir/slaughter house should produce only *Halal* products;
- b) the applicant must ensure that all raw ingredients used are *Halal* and use suppliers or sub-contractors who supply only *Halal* materials or hold *Halal* certificates.
- c) the applicant must comply with the *Halal* procedure set out in the Manual;
- d) an applicant which falls under the Multinational or Medium Industry category is required to form a *Halal* Internal Audit Committee and appoint an Islamic Affairs Executive (Islamic Studies) to handle and ensure compliance with *Halal* certification procedure;
- e) the applicant must employ at least two Muslim permanent employees of Malaysian citizenship at the kitchen/handling/food processing areas;
- f) during preparation, handling, processing, packaging or transportation, the product must be in a clean condition and not contain non-*Halal* ingredients;
- g) equipment or appliances used must be clean and free from filth according to Syariah;
- h) transportation used must only be for *Halal* products;
- i) equipment, manufacturing premises and surrounding areas must be clean and the factory should follow good manufacturing practices; and
- j) workers must practice good work ethics and good hygiene practices.

**The Malaysian Standards ...
incorporates compliance with
international standards of Good
Manufacturing Practices and Good
Hygiene Practices**

HALAL CERTIFICATION PROCEDURE

The inspection procedure is carried out after the applicant has complied with all requirements and the certification service fee has been paid.

The inspection covers documentation, processing, handling and distribution of products, equipment and food processing aids, storage, display and product serving, cleanliness, sanitation, food safety, packaging and labeling, and overall state of the premises.

The Manual also sets out details of additional requirements that apply to different categories of applicants.

The inspection report is submitted to the *Halal* Certification Panel who may approve or reject an application. If an application is approved, the *Halal* certificate is issued and the *Halal* certificate owner is permitted to use the *Halal* logo on the relevant products or premises.

A *Halal* certificate is valid for two years and may be revoked if there is a contravention of the *Halal* certification procedure. A *Halal* certificate owner is required to submit his application for renewal four months before the expiry date.

HALAL LOGO

The *Halal* logo must comply with the required specifications determined by JAKIM and has to be clearly printed on every



the certification procedures and Halal legislation.

product and labelled on every box/package. For food premises, the *Halal* logo must be displayed at the applicable premise.

The *Halal* certificate and *Halal* logo cannot be traded, leased, exchanged, forged, abused or amended in any way. The *Halal* certificate owner is responsible for any abuse or misuse of the certificate.

CONTINUING OBLIGATIONS

The Manual imposes certain continuing obligations on the owner of a *Halal* certificate and confers rights on the issuing authority to monitor the activities of the owner and if the circumstances warrant, to withdraw the certificate. An owner of a *Halal* certificate should familiarise himself with these provisions.

HALAL STANDARDS

The Malaysian Standards entitled '**Halal Food: Production, Preparation, Handling and Storage – General Guidelines (MS 1500:2004)**', ("the Standards") developed by the Department of Standards of the Ministry of Science, Technology and Innovation of Malaysia incorporates compliance with international standards of Good Manufacturing Practices and Good Hygiene Practices.

Clause 4 of the Standards sets out the requirements for sources of *Halal* food and drinks, slaughtering of animals, product processing, handling and distribution, product storage, display and servings, hygiene, sanitation and food safety, packaging and labeling and legal requirements. The Standards complement the Manual and must be complied with for food to qualify for *Halal* certification.

LEGISLATION

The Malaysian legislation that relate specifically to *Halal* matters are discussed briefly below.

The Trade Descriptions (Use of Expression "*Halal*") Order 1975 states that when used in relation to food, the expressions "*Halal*", "*Food for Muslims*" or similar expressions mean that the food in question:-

- a) is not and does not consist of or contain any part or matter derived from animals prohibited by Syariah;
- b) does not contain anything which is considered impure according to Syariah;
- c) is not prepared, processed or manufactured using any instrument that is not free from anything impure according to Syariah; and
- d) has not, in the course of preparation, processing or storage, coming into contact or close proximity to any food which does not comply with paragraphs (a), (b) or (c) above or anything that is considered to be impure according to Syariah

The Trade Descriptions (Marking of Food) Order 1975 prohibits the supply of certain meat (including poultry) and offal which is "*Halal*" in accordance with the Trade Descriptions (Use of Expression "*Halal*") Order 1975 unless such food is marked to indicate that they are *Halal*.

The Trade Descriptions Act 1972 renders it an offence to apply a false trade description to any goods. A person who is guilty of such offence is liable to a fine not exceeding RM100,000 or to imprisonment for a term not exceeding 3 years or to both, and for subsequent offences to a fine not exceeding RM200,000 or to imprisonment for a term not exceeding 6 years or to both. Further, a body corporate which is guilty of such offence is liable to a fine not exceeding RM250,000 and for subsequent offences to a fine not exceeding RM500,000.

Malaysia, with its established procedures and standards for Halal certification and initiatives to accelerate the development of Islamic finance, is well placed to become an international Halal hub as well as a market leader in the global Halal market

The Syariah Criminal Offences (Federal Territories) Act 1997 renders it an offence for any person to display on or in respect of any food or drink which is not *Halal*, any sign which indicates that such food or drink is *Halal*. The offence is punishable with a fine not exceeding RM5,000 or imprisonment for a term not exceeding 3 years or both.

CONCLUSION

The *Halal* market is moving and expanding very rapidly. It necessitates the introduction of specific legislation to regulate the *Halal* industry in Malaysia with provisions, *inter alia*, that define clearly *Halal* products and services, the certification authority and procedures to assure consumers in the domestic and international market of the "*Halalness*" i.e. the quality, safety and reliability of such products and services.

Malaysia, with its established procedures and standards for *Halal* certification and initiatives to accelerate the development of Islamic finance, is well placed to become an international *Halal* hub as well as a market leader in the global *Halal* market.

2007 BUDGET HIGHLIGHTS

Chen Kah Leng presents a summary of the 2007 Budget Highlights.



The following are the highlights of the 2007 Malaysian Budget announced by the Y.B. Dato' Seri Ahmad Abdullah Badawi, the Prime Minister and Finance Minister of Malaysia, on 1.9.2006:-

Corporate income tax rate reduced from 28% to 27% for YA2007 and to 26% for YA2008.

Islamic banks and Islamic banking units licensed under the Islamic Banking Act are given full tax exemption on income derived from Islamic banking business conducted in international currencies, including transactions with Malaysian residents, for YA2007 until YA2016.

Takaful companies and takaful units licensed under the Takaful Act given full tax exemption on income derived from takaful business conducted in international currencies, including transactions with Malaysian residents, for YA2007 until YA2016.

Licensed foreign fund management companies are given full tax exemption on management fees received from managing Securities Commission of Malaysia ("SC") approved funds of foreign investors established under Syariah principles for YA2007 until YA2016.

Islamic financing instruments which are presently subject to *ad valorem* stamp duty will be given 20% exemption on such duty from 2.9.2006 until 31.12.2009 if the Islamic financial product is approved by the Syariah Advisory Council of Bank Negara Malaysia ("BNM") or the Syariah Advisory Council of SC.

Islamic stockbroking company to be given tax deduction on expenses incurred before commencement of business if the company applies to the SC for licence between 2.9.2006 and 31.12.2009 and commences business activities within 2 years from the date of SC's approval.

Deduction of expenses incurred on issuance of Islamic securities based on leasing ("Ijarah"), progressive sales ("Istisna"), profit sharing ("Mudharabah") and profit and loss sharing ("Musyarakah") extended for 3 years from YA2008 until YA2010. Expenses incurred on the issue of all other Islamic securities products approved by the SC will be tax deductible.

Profits of newly established overseas branches and remittances from new overseas subsidiaries of local banks are given 5-year tax exemption if the branch or subsidiary commences operations within 2 years from BNM's approval. This proposal is effective from 2.9.2006 until 31.12.2009.

Qualifying threshold for 10-year income tax exemption for venture-capital companies that invest their investment funds in seed capital of venture companies reduced from 70% to 50% from YA2007.

Further incentives for biotechnology companies in the form of 10-year concessionary tax rate of 20% for bionexus companies after expiry of initial 10-year tax exemption period; tax deduction for amounts invested by individuals and companies in seed capital and early stage financing of bionexus companies; stamp duty and real property gains tax exemptions for mergers of bionexus companies with biotechnology companies until 31.12.2011; and 10-year industrial building allowance for buildings used solely for biotechnology research activities.

To further encourage the participation by companies in corporate social responsibility programmes, the limit on deductions on approved contributions for charitable activities will be increased from 5% to 7% of aggregate income commencing YA2007.

This deduction will be extended to contributions made to sports activities approved by the Finance Minister and sports bodies approved by the Commissioner of Sports and contributions for any project of national interest approved by the Finance Minister.

Commencing 1.1.2007, to promote certainty in tax matters:-

- Taxpayers may apply for advance rulings on tax treatment of arrangements including transfer pricing agreements. Such rulings are binding on the taxpayer concerned but not others;
- A person may apply for customs rulings under the Customs Act, Sales Tax Act, Service Tax Act and Excise Act. Such rulings are binding on the customs and the applicant (but not others) for a specific period; and
- Specific regulations to be formulated under the income Tax Act for computation of gross income and adjusted income for property development business and construction contracts.

CHEN KAH LENG (ckl@skrine.com)

... Stealing the Show

Continued from page 2

LONDON OLYMPIC GAMES AND PARALYMPIC GAMES ACT 2006

The London Olympic Games and Paralympics Games Act 2006 ("LOGPA") passed in the UK in March 2006, created the "*London Olympic Association Right*" that gives the London Organising Committee of the Olympic Games ("LOCOCG") the exclusive right to grant its sponsors and licensees authorisation to create an association between their businesses, goods or services and the London 2012 games (sec. 33 and schedule 4 of LOGPA). Any unauthorised association is viewed as an infringement of the "London Olympic Association Right" and would allow LOCOCG to seek an injunction to stop the infringer's activities, sue for damages and/or require an account of the infringer's profits.

CONCLUSION

In summary, the law needs to strike a balance between protecting the rights of official sponsors and allowing genuine freedom of commercial expression, as well as the right of local businesses to benefit from the event. Therefore, the answer to the question whether ambush marketing is legal, is subject to interpretation and depends on the existing legislation governing the issue amongst various other concerns. It remains to be seen what approach the Malaysian courts will take in cases involving ambush marketing.

EOW KHEAN FATT (ekf@skrine.com)

This article was co-written with Lock Hui Lian, a pupil in chambers at Skrine.



ENGINEERS BEWARE! COMPLY OR ELSE ...

Case Commentary on *Luxor Holdings Sdn Bhd v. Hainal-Konyi (M) Sdn Bhd* [2006] 2 CLJ 856

INTRODUCTION

An engineer must be registered with the Board of Engineers, Malaysia (the “Board”) in order to practise or take up employment which requires him to perform professional engineering services in Malaysia. The Registration of Engineers Act 1967 (“the Act”) sets out the requirements of the registration of engineers in Malaysia.

The recent Court of Appeal (“CA”) decision in the above case serves as a timely reminder of the pitfalls of carrying on business as an engineering practice without fully complying with the registration requirements under the Act.

BRIEF FACTS

In November 1995, the appellant (Luxor) appointed the respondent (Hainal-Konyi) as the consultant civil and structural engineer for their development project. The respondent’s managing director, En. Hendra Wahjudi, being also one of their shareholders, negotiated and executed the appointment agreement (“the Agreement”) for and on behalf of the respondent. En. Wahjudi was a foreign engineer.

Two engineers, En. Azman bin Ahmad and Mr. Lim Joo Kiat who were both duly registered with the Board, were assigned by the respondent to the project. However, prior to the completion of the project, they resigned from the respondent company. In May 1996, the appellant terminated the Agreement and requested the respondent to submit their invoices for all works performed as of the date of the termination. The respondent submitted their final invoice for the sum of RM393,750.00, being the total amount stated under the Agreement less RM36,750.00 already paid by the appellant.

The appellant refused to pay the amount claimed and the respondent instituted a court action claiming the sum of RM393,750.00. The High Court (“HC”) allowed the respondent’s claim; the appellant then appealed to the CA and was eventually successful.

ISSUES

The CA in this case dealt essentially with two issues of interest:-

- (a) whether the Agreement was in contravention of sec. 7A of the Act and was therefore illegal and unenforceable; and
- (b) whether the appellant was entitled to terminate the Agreement because of the failure of the respondent to assign a registered engineer for the project.

THE DECISION

The CA held that the Agreement was illegal on grounds that En. Wahjudi, being an unregistered foreign engineer, had no authority to negotiate and execute the Agreement as he was prohibited under the Act to be a director, shareholder or an officer of the respondent.

In arriving at its decision, the CA considered the importance of the registration requirements as set out in sec. 7A of the Act (inserted as a new section by the Registration of Engineers (Amendment) Act 1974). The said sec. 7A of the Act required the board of directors of a body corporate providing engineering services to consist of :-

- (a) entirely of individuals who are registered professional engineers; or alternatively;
- (b) of a majority of individuals who are registered professional engineers and others who are either architects, quantity surveyors or land surveyors duly registered with the relevant professional bodies or other individual persons belonging to a profession allied to the practice of engineering and who have been approved in writing by the Board.

Sec. 7A of the Act further required all the shares of the body corporate to be held by persons mentioned in paragraphs (a) and (b) above, provided always that the registered professional engineers have a controlling stake.

... the failure to assign a registered engineer at all times for a particular project was sufficient to result in a repudiatory breach ...

In respect of the issue of termination of the Agreement, the CA held that the termination was justified as the respondent had breached the Agreement in failing to assign a registered professional engineer to replace En. Azman and Mr. Lim who had both resigned from the respondent and rejected the contention that En. Wahjudi would be a suitable replacement on the ground that he was an unregistered engineer. The CA was of the opinion that it was clear from sec. 7 of the Act that no person could practise or take up employment as an engineer unless he is a registered professional engineer with the Board and that the term “engineer” was defined in the Agreement to mean an engineer registered under sec. 7 of the Act.

CONCLUSION

This decision merely reaffirms the legal position that any provision of professional engineering services in contravention of the registration requirements of the Act would render the agreement to be illegal and unenforceable. An unregistered person or body corporate providing professional engineering services would accordingly be deprived of the right to recover in Court any fees for such services rendered.

However, this decision is significant because it sets out that the failure to assign a registered engineer at all times for a particular project was sufficient to result in a repudiatory breach entitling the employer or the client to terminate the contract. On a final note, whether a breach is repudiatory in nature differs from case to case and legal advice should always be sought before commencing any action on this basis.

SHEMANE CHAN NGAI FUNG (cnf@skrine.com)

**Editorial note: Section 7A of the Registration of Engineers Act 1967 has been amended. However, the amendment bears no impact on this decision.*

PRE-EMPTING A WINDING-UP PETITION

Alan Teoh outlines the development of the Court's jurisdiction to grant injunctions to restrain winding-up

INTRODUCTION

Under the Companies Act 1965 (“Companies Act”) a creditor is entitled to file a winding-up petition against a company notwithstanding the fact that the petition is not premised on a judgment debt granted by the court. This is provided for by sec. 218(1)(a) to (n) of the Companies Act which lays out the grounds wherein the Court may order that a company be wound up.

However, a winding up petition is not an appropriate means of collecting a disputed debt. The courts have held that a winding-up petition must not be used as a means to bring improper pressure to bear on a company. The proper course is to have the matter adjudicated in an action for debt by filing a writ in court.

Where a company is faced with a winding-up petition based on a disputed debt and the presentation of the petition would have an adverse impact on the financial position of the company or affect its reputation, a company will invariably apply for an injunction from the court to restrain the creditor from filing a winding-up petition. This has resulted in the commercial courts being flooded with applications for injunctions to restrain winding-up petitions and numerous reported case laws ensued.

This two-part article aims to provide an overview of the law governing injunctions to restrain a winding-up petition. This first part will outline the development of the case law in respect of the court's jurisdiction to grant injunctions to restrain winding-up petitions where else, the second part which will be dealt with in the next issue (Issue 4/2006) which will examine the limits whereby the court's power can be exercised.

ABUSE OF PROCESS

The Companies Act or the Companies (Winding-Up) Rules 1972 (“Winding-Up Rules”) do not contain any specific provision which enables the Court to grant an injunction to restrain a creditor from presenting a winding-up petition against a company. Instead the Court has an inherent jurisdiction by virtue of sec. 23(2) of the Courts of Judicature Act 1964 (“CJA”) and the common law, to restrain winding-up petitions based on a disputed debt as it amounts to an abuse of process.

The Court's inherent jurisdiction was confirmed in the case of **Bina Satu Sdn Bhd v. Tan Construction** [1988] 1 MLJ 533. In this case, the defendant petitioned the court to wind up the plaintiff based on a debt which was disputed. The plaintiff applied for an injunction against the defendant from filing the petition. The defendant questioned the inherent jurisdiction of the Court and submitted that it had been excluded by statute, namely sec. 54(b) of the Specific Relief Act 1950 which provides that an injunction cannot be granted to stay proceedings in a court subordinate to that from which the injunction is sought. In finding that the Court's inherent jurisdiction was not restricted by sec. 54(b), VC George J said that:-

*“Sec. 23(2) of the CJA provides confirmation that the court continues to enjoy its inherent powers. This includes the power to restrain any abuse of its proceedings. A classic illustration of the abuse of court proceedings is provided in **Re A Company** [1894] 2 Ch 349 where it was held that where a petition against a company is presented ostensibly for a winding-up order but*

in reality for another purpose such as to bring pressure to bear on a company, the court has an inherent jurisdiction to prevent such abuse of process and will do so by injunction.”

PRIMA FACIE CASE

The standard of proof or test required for the plaintiff to succeed in an application for an injunction to restrain a winding-up petition is that there is a prima facie case and not merely a serious question to be tried as established in the case of **American Cyanamid Co. v. Ethicon Ltd** [1975] 1 All ER 504.

In **Bryanston Finance Ltd v. de Vries (No 2)** [1976] Ch 63, the defendant who held shares in the plaintiff company and had a personal animosity against the company's chairman threatened to file a petition under sec. 222(f) of the English Companies Act 1984 to wind-up the company. The plaintiff applied for an injunction to restrain the defendant from petitioning to wind-up the company. In finding that the onus was on the company to prove a prima facie case that the petition was bound to fail and amounts to abuse of process, Buckley LJ said (at p. 78D) that:-

“It has long been recognised that the jurisdiction of the court to stay an action in limine as an abuse of process is a jurisdiction to be exercised with great circumspection and exactly the same considerations must apply to a quia timet injunction to restrain commencement of proceedings. This principles are, in my opinion just as applicable to a winding-up petition as to an action. The right to petition the court for a winding-up order in appropriate circumstances is a right conferred by statute. A would be petitioner should not be restrained from exercising it except on clear and persuasive grounds.”

The circumstances whereby the Court will grant an injunction to restrain a winding-up petition is where there is a bona fide dispute of the debt allegedly due under the petition. In such a case, the alleged creditor lacks the status of a ‘creditor’ within the meaning of the Companies Act and does not have locus standi to bring a petition for winding-up. Therefore, a company which is applying for an injunction only needs to show a bona fide dispute of the debt.

The instances where the Courts have found a bona fide dispute of the debt exists are not comprehensive. According to McPherson: The Law of Company Liquidation 1999, 4th edition by Andrew Keay at p. 94 *“whether or not there is a dispute on substantial grounds is a matter to be decided in each case. The dispute envisaged is one which involves to a substantial extent disputed questions of fact which demands viva voce evidence.”*

Mann v. Goldstein [1968] 2 All ER 769 is the classic case on injunctions to restrain winding-up. When this case was decided, there were only a handful of authorities in respect of the law on injunctions to restrain winding-up. The facts of the said case are as follows. Two defendants had filed separate winding-up petitions for monies owed by the plaintiff company. The company was seeking an order restraining the defendant from advertising or taking any further steps in prosecuting the winding-up petitions. Both the winding-up petitions were based on disputed debts.

Ungoed Thomas J found that a petition which was based on a disputed debt amounts to an abuse of process of the Court which can be restrained by way of an injunction. In explaining the jurisdiction of the Court to grant an injunction, Ungoed Thomas J



petitions in the first of a two-part series.

said that:-

“I would prefer to rest the jurisdiction on the comparatively simple propositions that a creditor’s petition can only be presented by a creditor, that the winding-up jurisdiction is not for the purpose of deciding a disputed debt (that is, disputed on substantial and not insubstantial grounds) since, until a creditor is established as a creditor he is not entitled to present the petition and has no locus standi; in the Companies Court; and that therefore, to invoke the winding-up jurisdiction when the debt is disputed on substantial grounds) or after it has become clear that it is so disputed is an abuse of the process of the court.”

MALAYSIAN POSITION

The Malaysian position in respect of injunctions to restrain winding-up is similar to that of the English position. Generally, the Malaysian Courts are of the view that a winding-up petition is not a legitimate means of seeking to enforce payment of a debt which is disputed by the company (see **Sun Soon Heng Coach Works Sdn Bhd v. Nima Travel Sdn Bhd** [1986] 2 MLJ 374). The High Court has held that the most appropriate stage for a creditor to wind-up a debtor company is after the crystallization of the claim into a judgment sum. Such a judgment would effectively eradicate every endeavour to raise any dispute on the judgment sum at the hearing of the winding-up petition (per Low Hop Bing J in the case of **Molop Corp Sdn Bhd v. Uniperkasa (M) Sdn Bhd** [2003] 6 MLJ 311 at p. 322 B).

THE “BOUND TO FAIL” TEST

There are some Malaysian authorities which have held that in order to succeed in an application for an injunction to restrain winding-up, the applicant must prove to the court to the requisite standard of proof that the winding-up petition is bound to fail (see the case of **Sri Binaraya Sdn Bhd v. Golden Approach Sdn Bhd** [2000] 3 MLJ 465 and **JB Kulim Development Sdn Bhd v. Great Purpose Sdn Bhd** [2002] 2 MLJ 298). This places a heavy burden of proof on the applicant for an injunction. Although the two cases were not overturned by the apex Court, they were subsequently addressed by Vincent Ng J in **Pembinaan Lian Keong Sdn Bhd v. Yip Fook Thai (practising as Messrs Yip & Co)** [2005] 5 MLJ 786. In this case, Vincent Ng J rejected the ‘bound to fail’ test on the grounds that it was based on the wrong application of the law and as such cannot be regarded as laying down the correct test for granting an injunction to restrain winding-up.

CONCLUSION

It is settled law that the Courts have an inherent jurisdiction to restrain the winding-up petition where there is an abuse of process. The jurisdiction is often exercised where a winding-up petition is presented by an alleged creditor merely as a means of applying improper pressure on a company and to circumvent the legal process of filing a writ in court. The second part of this article, which will appear in the next issue, will discuss the limits of the court’s jurisdiction to grant injunctions to restrain winding-up petitions and the remedies available to a company which has suffered damages as a result of the wrongful presentation of a winding-up petition.

... Income Tax Ruling

Continued from page 5

Legal expenses incurred by a landlord

When a property is let for the first time by the owner or lessor.

Cost of defence in a fraud case

The cost of defending criminal prosecution or in connection with unlawful acts in the operation of a business.

Legal expenses incurred to vary vehicle licenses

A variation of vehicle licenses from ordinary lorries to articulated vehicles.

Legal expenses incurred in connection with:

- (a) The formation, renewal, variation or dissolution of a partnership;
- (b) The transfer of a mortgage on business premises;
- (c) The grant of lease of business premises unless in connection with the renewal of a lease;
- (d) The acquisition of capital assets or the sale or transfer of capital assets;
- (e) Securing an enduring advantage for a trade or business;
- (f) Obtaining a trading license;
- (g) Increasing or reducing share capital or altering the Memorandum and Articles of Association of a company;
- (h) Floatation, registration, winding-up or liquidation of a company;
- (i) Obtaining new leases, mortgages, loans or credit facilities;
- (j) Valuation charges relating to probate, company reconstruction and change of ownership;
- (k) Legal fees relating to income already earned e.g. income tax appeals; and
- (l) Costs of legal proceedings incurred in pursuing a claim for unlawful or unjust dismissal by an employee.

Legal and professional fees incurred by a property developer

- (a) For obtaining bank overdraft, term loan and bridging finance; and
- (b) Fees for revaluation of land.

REDEMPTION OF THE FAITHFUL FIDUCIARIES

Kok Chee Kheong concludes his discussion on directors' liability for diversion of corporate opportunity

INTRODUCTION

In the first part of this article that appeared in the previous issue (Issue 2/2006), it was highlighted that a director is precluded by his fiduciary relationship with the company from diverting corporate information and opportunity.

We also highlighted that this rule is applied strictly by the Courts. The fact that a director acted in good faith does not absolve him from being held accountable (**Regal (Hastings) Ltd v. Gulliver** [1942] All E.R. 378).

Similarly, a company is not precluded from recovering profits from a director who breaches his fiduciary duty even if the company itself is not in a position to exploit the opportunity or information (**Industrial Development Consultants Ltd v. Cooley** [1972] 1 W.L.R. 443).

The question then arises as to how a director may legitimately exploit corporate information or opportunity which the company decides not to exploit without being in breach of his fiduciary duty. In this concluding part of the article, we will examine several decisions in the Commonwealth jurisdictions on this point.

COOKS V. DEEKS

In **Cooks v. Deeks** [1916] 1 A.C. 554, a Privy Council appeal from Canada, the appellant and three of the respondents were directors and shareholders of a company (TCC). Three fourths of the issued shares of TCC were held by those respondents. While they were directors of TCC, the respondents negotiated with another party and secured a contract for another company formed by them. Subsequently, the respondents exercised their three fourths majority votes at a general meeting of TCC to pass a resolution declaring that TCC had no interest in the relevant contract.

The Privy Council held that the contract was obtained under circumstances which amounted to a breach of trust by the respondents and they were therefore trustees of its benefits for TCC. The Privy Council further held that the actions of the respondents could be not be regularised by a resolution passed through the exercise of the majority votes by the respondents.

According to Lord Buckmaster, LC (@ p. 564):-

"If ... the contract in question was entered into under such circumstances that the directors could not retain the benefit for themselves, then it belonged in equity to the company and ought to be dealt with as an asset of the company. Even supposing it be not ultra vires of a company to make a present to its directors, it appears quite certain that directors holding a majority of the votes would not be permitted to make a present to themselves. This would allow a majority to oppress the minority."

PESO SILVER MINES

The respondent in **Peso Silver Mines Ltd (N.P.L.) v. Cropper** (1966) 58 D.L.R. (2d) 1 was the managing director of the appellant. Certain mining claims ("subject claims") were offered to the appellant. The offer was considered by the full board of directors of the appellant and rejected.

Thereafter, upon the behest of a geologist, the respondent and other individuals formed two companies to acquire the subject claims. The appellant claimed that the shares in these companies were properly

obtained by the respondent as a result of his position as a director of the appellant, without the approval of the latter's shareholders. The appellant further contended that the respondent was therefore obliged to account to the appellant for such property, notwithstanding that the respondent had acted in good faith and the appellant had decided for sound business reasons not to acquire the subject claims and had suffered no loss by reason of the respondent's actions.

It is ... not true that (a person in a fiduciary position) is absolutely barred (from availing himself of corporate opportunity) ...

According to the Supreme Court of Canada, when the subject claims were offered to the appellant, the respondent was duty bound as one of its directors to take part in the decision of the board as to whether to accept or reject the offer. It was at this point that the respondent stood in a fiduciary relationship to the appellant. As the facts established that the directors, including the respondent, had acted in good faith, with sound business reasons and solely in the interest of the appellant in rejecting the offer, the respondent did not breach his fiduciary duty to the appellant and was therefore not obliged to account to the latter for the shares.

REGAL (HASTINGS) V. GULLIVER

In **Regal (Hastings) Ltd v. Gulliver** [1942] 1 All E.R. 378, the House of Lords held certain directors of Company A accountable for profits earned by them from the sale of shares subscribed by them in Company B even though their Lordships were satisfied that Company A was not in a financial position to subscribe for the shares in question and the directors had acted in good faith in doing so.

Notwithstanding their decision to hold the directors liable, Lord Russell suggested (@ p. 389) that:-

"(The directors) could ... have protected by a resolution of the shareholders (either antecedent or subsequent) of the Regal shareholders in general meeting. In default of such approval, the liability to account must remain."

Lord Russell's views were shared by Lord Wright (@ p.394) who observed in the same case that:-

"It is, however, not true that (a person in a fiduciary position) is absolutely barred (from availing himself of the opportunity), because he could by obtaining the assent of the shareholders have secured his freedom to make the profit for himself. Failing that, the only course open is to let the opportunity pass."

QUEENSLAND MINES

In **Queensland Mines Ltd v. Hudson & Ors** [1978] 52 A.L.J.R. 379, the appellant was offered certain mining rights in Australia. Owing to the withdrawal of its financier, the directors of the appellant decided at a board meeting to renounce all interest in the mining rights and assented to its managing director, the first respondent, taking over those rights for his own account ("board decision").

and information.



After the first respondent successfully exploited the mining rights, the appellant sought an account of profits from the first respondent on the ground that he had abused his position as its managing director.

The Privy Council applied **Regal** and held that the first respondent, by reason of his fiduciary relationship with the appellant, had to establish that he had made the profits with the full assent of the appellant to avoid being accountable.

Their Lordships were of the view that the board decision could be construed in two ways. It could be taken that as from the date of the board decision, the mining venture fell “*outside the scope of trust and outside the scope of the agency created by the relationship of director and company*” even though that relationship continued to subsist between the appellant and the first respondent in other respects. Alternatively, the appellant had by the board decision given their fully informed consent to the first respondent. In either case, their Lordships were satisfied that the first respondent did not breach his fiduciary duty to the appellant.

P.J.T.V. DENSON

In **P.J.T.V. Denson (M) Sdn Bhd & Ors v. Roxy (Malaysia) Sdn Bhd** [1980] 2 M.L.J. 136, the Federal Court upheld the principle that directors are fiduciaries of a company and were trustees. By virtue of the trust relationship, the directors were prohibited from purchasing trust property except with the full knowledge and consent of the beneficiary of the trust.

In coming to this decision, Raja Azlan Shah C.J. (Malaya) (as he then was) (@ p.139), relied on the observation by Lord Russell in **Regal** that “*(The directors) could ... have protected by a resolution of the shareholders (either antecedent or subsequent) of the Regal shareholders in general meeting.*”

CONCLUSION

From the cases discussed above, it appears that a director may legitimately exploit a corporate opportunity or information belonging to a company if the following conditions are complied with:-

1. The company must, through a resolution of its shareholders, give its consent to the director to do so (the **Regal Case** and **P.J.T.V. Denson**). Although **Peso Silver Mine** and **Queensland Mines** suggest that the board of directors has the requisite authority to give such consent, it would be prudent that the same be obtained from the shareholders of the company in view of the Federal Court’s decision in **P.J.T.V. Denson**;
2. There must be full and complete disclosure of facts to the shareholders (**Queensland Mines**);
3. An interested director should abstain from voting at the shareholders meeting to avoid allegations of oppression of minority (**Cooks v. Deeks**).

A fiduciary who faithfully complies with the above conditions may ultimately find redemption in that he may be permitted to retain the profits derived from his exploitation of corporate opportunity or information that belonged to the company.

KOK CHEE KHEONG (kck@skrine.com)

... The Untrustworthy Trustee

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COMMENTARY

Although this case does not establish any new principle of law, it is noteworthy in that, it highlights the risk of practising deception on public authorities, be they listing, licensing or other regulatory authorities. It also serves as a reminder that a litigant who seeks judicial assistance must come to the Court with clean hands, failing which the Court will not render assistance even where the counter-party’s conduct lacks probity.

It should be noted that the respondent has filed an appeal to the Federal Court against the decision of the CA.

OU MAY JEAN (omj@skrine.com)

LEGAL TERMS MADE EASY

Consideration

An act, forbearance, or promise by one party to a contract that constitutes the price for which he buys the promise of the other.

Estoppel

A rule of evidence or a rule of law that prevents a person from denying the truth of a statement he has made or from denying facts that he has alleged to exist.

Force majeure

The phrase is used particularly in commercial contracts to describe events possibly affecting the contract and that are completely outside the parties’ control.

Non est factum

[*Latin: it is not his deed*] A plea that an agreement mentioned in the pleading was not the act of the defendant. It can be used as a defence to actions based on mistakes in documents when the defendant was fundamentally mistaken as to the character or effect of the transaction embodied in the document.

Res ipsa loquitur

[*Latin: the thing speaks for itself*] A principle often applied in the law of tort of negligence. If an accident has occurred of a kind that usually only happens if someone has been negligent, and the state of affairs that produced the accident was under the control of the defendant, it may be presumed in the absence of evidence that the accident was caused by the defendant’s negligence.

Res judicata

[*Latin: a matter that has been decided*] The principle that when a matter has been finally adjudicated upon by a court of competent jurisdiction, it may not be reopened or challenged by the original parties or their successors in interest. It does not preclude an appeal or a challenge to the jurisdiction of the court. Its justification is the need for finality in litigation

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CONTACT PERSONS FOR SKRINE'S MAIN PRACTICE AREAS:

ACQUISITIONS, MERGERS & TAKEOVERS

Cheng Kee Check (ckc@skrine.com)

ARBITRATION & ALTERNATIVE DISPUTE RESOLUTION

Vinayak Pradhan (vp@skrine.com)

Ivan Loo (il@skrine.com)

AVIATION

Mubashir bin Mansor (mbm@skrine.com)

BANKING (NON-LITIGATION)

Theresa Chong (tc@skrine.com)

Philip Chan (pc@skrine.com)

BANKING (LITIGATION)

Leong Wai Hong (lwh@skrine.com)

Vinayaga Raj Rajaratnam (vrr@skrine.com)

CAPITAL MARKETS / ASSET BASED FINANCING

Chen Kah Leng (ckl@skrine.com)

CIVIL & COMMERCIAL LITIGATION

Wong Chong Wah (wcw@skrine.com)

Anantham Kasinather (ak@skrine.com)

COMMERCIAL LAW

Liew Wei Ling (lwl@skrine.com)

CONSTRUCTION AND ENGINEERING

Vinayak Pradhan (vp@skrine.com)

Ivan Loo (il@skrine.com)

CORPORATE FINANCE

Quay Chew Soon (qcs@skrine.com)

CORPORATE LITIGATION

Wong Chong Wah (wcw@skrine.com)

Wong Chee Lin (wcl@skrine.com)

CORPORATE RESTRUCTURING / DEBT RESTRUCTURING AND WORKOUTS

Chen Kah Leng (ckl@skrine.com)

CUSTOMS, EXCISE & SALES TAX

Maniam Kuppasamy (mnm@skrine.com)

DEFAMATION

Mubashir bin Mansor (mbm@skrine.com)

ENVIRONMENTAL, ENERGY, NATURAL RESOURCES & UTILITIES

Janet Looi Lai Heng (llh@skrine.com)

EMPLOYMENT LAW

Nallini Pathmanathan (np@skrine.com)

Siva Kumar Kanagasabai (skk@skrine.com)

Selvamalar Alagaratnam (sa@skrine.com)

INFORMATION & COMMUNICATIONS TECHNOLOGY

Chen Kah Leng (ckl@skrine.com)

Charmayne Ong Poh Yin (co@skrine.com)

INSOLVENCY LAW

Wong Chee Lin (wcl@skrine.com)

Lim Chee Wee (lcw@skrine.com)

INSURANCE (LITIGATION)

Wong Chong Wah (wcw@skrine.com)

Mubashir bin Mansor (mbm@skrine.com)

INSURANCE (NON-LITIGATION)

Phua Pao Yii (ppy@skrine.com)

INTELLECTUAL PROPERTY

(NON-LITIGATION)

Lee Tatt Boon (ltb@skrine.com)

Charmayne Ong Poh Yin (co@skrine.com)

INTELLECTUAL PROPERTY

(LITIGATION)

Khoo Guan Huat (kgh@skrine.com)

INVESTMENT / JOINT VENTURES

Theresa Chong (tc@skrine.com)

Janet Looi Lai Heng (llh@skrine.com)

ISLAMIC FINANCING

Philip Chan (pc@skrine.com)

LAND ACQUISITION

Wong Chong Wah (wcw@skrine.com)

Leong Wai Hong (lwh@skrine.com)

OIL & GAS

Faizah Jamaludin (fj@skrine.com)

PROBATE/ADMINISTRATION (LITIGATION)

Leong Wai Hong (lwh@skrine.com)

PROJECT FINANCING / VENTURE CAPITAL

Chen Kah Leng (ckl@skrine.com)

REAL ESTATE

Philip Chan (pc@skrine.com)

SECURITIES LAW

Nallini Pathmanathan (np@skrine.com)

SHIPPING & MARITIME

Anantham Kasinather (ak@skrine.com)

TAX & REVENUE (LITIGATION)

Wong Chong Wah (wcw@skrine.com)

TAX & REVENUE (NON-LITIGATION)

Chen Kah Leng (ckl@skrine.com)

TRUSTS, ESTATES & CHARITIES

Theresa Chong (tc@skrine.com)

Leong Wai Hong (lwh@skrine.com)

We welcome comments and feedback on LEGAL INSIGHTS.

This newsletter is produced by the LEGAL INSIGHTS Editorial Committee. You may contact us at skrine@skrine.com for further information about this newsletter and its contents.

EDITORIAL COMMITTEE

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DESKTOP PUBLISHING

D. KATHERINE LALITHA

PHOTOGRAPHY

KWAN KIN SUM

SKRINE PUBLICATIONS SDN BHD

Unit No. 50-8-1, 8th Floor,
Wisma UOA Damansara,
50, Jalan Dungun,
Damansara Heights,
50490 Kuala Lumpur,
Malaysia.
TEL 603 - 2094 8111
FAX 603 - 2094 3211

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Nets Printwork Sdn Bhd,
58 Jalan PBS 14/4,
Taman Perindustrian,
Bukit Serdang,
43300 Seri Kembangan,
Selangor Darul Ehsan.
TEL 603 - 8945 2208
FAX 603 - 8941 7262