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LEGAL INSIGHTS

A SKRINE NEWSLETTER

MESSAGE FROM THE EDITOR-IN-CHIEF

Dateline June/July 2014: There is a saying that when things are moving smoothly, time is forgotten. What I mean is that when one is happy and enjoying oneself, one does not notice that time flies. This is so with our publication, LEGAL INSIGHTS. I just noticed that our newsletter has entered its 11th year of publication. For me, it is an honour to have been appointed the Editor-in-Chief for these past years. Although we have a very good editorial team and an excellent team of writers, one person must be given special mention. He is Mr Kok Chee Kheong, my Partner in Skrine and frequent contributor to our publication. Although he is named as a Sub-Editor in our Editorial Committee, he is in fact our main man, the person who cracks the whip, often suggesting interesting and current topics for comments, and ensuring that the LEGAL INSIGHTS meet the quality of writing and research that is the hallmark of our newsletter. Take a bow, Chee Kheong. Many thanks.

June/July 2014 is also the time for the FIFA World Cup 2014 in Brazil. I believe it is also a crazy time as I have friends (mainly retirees) who have forsaken some of the favourite past-times in the day (like golf and mah-jong) to watch the World Cup matches in the wee hours of each morning. They sleep in the day, and wake up at night to catch the matches. The FIFA World Cup is also crazy for other reasons as well. World Champions getting knocked out in the 1st round; favourites getting upset; unheralded teams defeating the big guns and more. What is crazier is that the event also shows the worst in the world of football. In 1986, we had Maradona's Hand of God; in 2006, the infamous head butt of Zinedine Zidane; and in 2014, the barbaric vampire bite of Luis Suarez. I can never understand why such highly paid professionals and the best in the business can carry out such dastardly acts. Nonetheless, I hope the FIFA World Cup 2014 will be successfully concluded without further untoward incidents. I also hope that our readers who are intent on watching the live telecast of the FIFA World Cup matches, keep healthy and ensure that they have sufficient sleep to keep going.

Happy viewing and take care.

LEE TATT BOON
Editor-in-Chief
& Senior Partner

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ANNOUNCEMENTS

INTERNATIONAL LAW OFFICE

The Firm congratulates the following Partners who were named as recipients of the respective awards from the International Law Office (ILO) –

- Wong Chee Lin – International Law Office Client Choice Award 2014 for Insolvency & Restructuring Practitioner of the Year (Malaysia); and

- Siva Kumar Kanagasabai – International Law Office Client Choice Award 2014 for Employment & Labour Practitioner of the Year (Malaysia).

This is the third time that both Partners have received the award.

MANAGING INTELLECTUAL PROPERTY

We are pleased to announce that SKRINE was named Managing Intellectual Property Malaysian Firm of the Year 2014 at the Managing Intellectual Property Global Awards ceremony held at the Dorchester Hotel in London on 19 March 2014. This is the third time that SKRINE has received this Award.

ADMISSION OF NEW PARTNER

We are pleased to announce that Oon Hooi Lin joined SKRINE on 2 May 2014 as a Partner in the Banking & Finance and Real Estate & Property Practice Groups of the Firm.

Hooi Lin read law at Queen Mary College, University of London and is a member of the Honourable Society of Lincoln's Inn. She was called to the English Bar in 1993 and was admitted to the Malaysian Bar in January 1995.

GOODS AND SERVICES TAX ACT 2014

Certain provisions of the Goods and Services Tax Act 2014 have come into operation on 1 July 2014 and the remaining provisions will come into operation on 1 April 2015. The Minister of Finance has, by P.U.(B) 320/2014 (Appointment of Effective Date for Imposition of Goods and Services Tax), appointed 1 April 2015 as the effective date for the imposition of goods and services tax.

By the Goods and Services Tax (Rate of Tax) Order 2014 and the Goods and Services Tax (Amount of Taxable Supply) Order 2014, the Minister has fixed the rate of tax at six per cent and the amount of taxable supply for the purposes of registration at RM500,000 respectively.

Other subsidiary legislation that have been gazetted include the Goods and Services Tax Regulations 2014, the Goods and Services Tax (Review and Appeal) Regulations 2014 and the Goods and Services Tax (Advance Ruling) Regulations.

HELP! CHEAP IMPORTS ARE

Lim Koon Huan and Jason Teoh discuss

THE SYMPTOMS

Is your business suffering because foreign exporters are flooding the domestic market with their products priced below their cost price? Are your fellow Malaysian manufacturers suffering the same fate as well? Do you fear for the future of the domestic market? If you are experiencing any of the above, you may be the victim of dumping activities. Fear not, for help is just around the corner!

DUMPING 101

Dumping occurs when a foreign producer sells a product in the importing country at a price ("export price") that is below that producer's sales price in the country of origin ("normal value") and as a result of the dumping, the local manufacturers of the said product in the importing country ("domestic industry") suffer injury. The difference between export price and normal value is called the "dumping margin".

In the short run, dumping appears to be beneficial to end users as it has the effect of driving down market prices temporarily. However, in the long run, dumping (which is a form of unfair trade practice) stifles the growth and development of local industries and may lead to more severe economic repercussions.

HOW TO COMBAT DUMPING

If dumping is said to have taken place, the government of the importing country is permitted under the World Trade Organisation ("WTO") to take remedial action, typically in the form of charging extra import duty on the particular product from the exporting country in order to bring the export price closer to the normal value or to remove the injury to the domestic industry.

THE GUARDIAN OF FAIR TRADE IN MALAYSIA

In Malaysia, the Trade Practices Section of the Ministry of International Trade and Industries ("MITI") is the authority that has been tasked to investigate and deal with unfair trade practices, including dumping, on behalf of the Government of Malaysia under the Countervailing and Anti-Dumping Duties Act 1993.

SUMMONING THE GUARDIAN

An aggrieved domestic manufacturer may petition to MITI on behalf of the relevant industry, seeking investigation on the foreign exporter(s) in relation to a particular product which, in its view, has been dumped in Malaysia.

The domestic manufacturer must provide statistical evidence to support the claim of dumping. Generally, the following information is required by MITI for its preliminary assessment:

- the identity of the domestic industry producers, manufacturers


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KILLING MY BUSINESS!

the anti-dumping safeguards in Malaysia

and distributors, including any affected upstream and downstream stakeholders and regional producers, if any;

- the petitioner must show that the petition is supported by domestic producers who account for a sufficiently large percentage of the domestic production of the like product. In this regard, MITI will assess:

  (a) whether the identified domestic producers expressing either support or opposition to the petition account for more than 50 per cent of the total production of the like product produced by that portion of the domestic industry; and

  (b) whether the domestic producers who support the petition account for at least 25 per cent of the total production of the like product by the domestic industry;

- a detailed description of the merchandise that defines the requested scope of the investigation, including technical characteristics and uses of such merchandise and its current Malaysian tariff classification;

> **“ anti-dumping duties will be imposed … to bring the export price closer to the normal value ”**

- the country in which the merchandise is produced, and if such merchandise is imported from a country other than that in which it is produced, the name of the intermediate country;
- the identity of each party the petitioner believes is producing the merchandise for export or is exporting to Malaysia and is selling the merchandise at prices below the normal value;
- any factual information, particularly documentary evidence, relevant to the alleged dumping, including:

  (a) information relevant to the calculation of the normal value and export price of the merchandise; and

  (b) the volume and value of the merchandise imported into Malaysia during the most recent two-year period or during any other recent period that the petitioner believes to be more representative, or if the merchandise was not imported into Malaysia during the two-year period, information as to the likelihood of its sale for importation into Malaysia;

- the identity of each party whom the petitioner believes is importing, or if there is no importation, is likely to import the merchandise; and
- evidence of injury to the domestic industry caused by the merchandise and the causal link between the imports of the merchandise and the alleged injury.

THE INVESTIGATION PROCESS

On receipt of an anti-dumping petition from the domestic industry or local producers, MITI will notify the government(s) of the exporting countries concerned that such a petition has been filed.

Meanwhile, MITI will conduct a preliminary investigation to determine the accuracy of the evidence presented, the level of support or opposition of the petition by the domestic industry, as well as the public interest involved. If an investigation is warranted, MITI will:

- notify all interested parties (e.g. the foreign government/ manufacturers concerned and local importers) of the decision to initiate the relevant investigation;
- publish a notice of initiation of investigation and gazette the same;
- seek the required information (including but not limited to, information on prices and injury factors) through questionnaires issued to the relevant stakeholders; and
- at an appropriate juncture, conduct verification visits on the respondents to the questionnaires to verify the information received.

THE ANTICIPATED RELIEF

At the end of the investigation process, if MITI makes a finding that:

(1) the product under investigation was dumped by the exporting foreign producers;

(2) injury has been suffered by the domestic industry concerned;

(3) there is a causal link between the dumping and injury found; and

(4) the imposition of anti-dumping duties is not against public interest,

extra import duty in the form of anti-dumping duties will be imposed on the product under investigation from the particular exporting country in order to bring the export price closer to the normal value or to remove the injury to the domestic industry.

As a general rule, any anti-dumping duties imposed will be for a maximum duration of five years from the date of publication

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PROPOSED AMENDMENTS TO RELATED PARTY TRANSACTIONS

Tan Su Wei highlights some of the proposed amendments to the Main Market Listing Requirements

On 10 January 2014, Bursa Malaysia Securities Berhad ("Bursa") released a consultation paper for public feedback on the various proposed amendments to the Main Market and ACE Market Listing Requirements ("Consultation Paper"). The period for public consultation closed on 10 March 2014.

The proposals contained in the Consultation Paper, if approved and finalised, will provide greater clarity and guidance to the regulatory framework governing listed issuers.

In this article, we will highlight some of the significant amendments to the Main Market Listing Requirements ("MMLR") on related party transactions that were proposed in the Consultation Paper.

BACKGROUND

The objective of the related party transaction requirements is to ensure that a related party does not abuse its position by entering into transactions to benefit itself or persons connected to it, to the detriment of the listed issuer or its shareholders. In view of this and in the interest of the minority shareholders, Bursa has prescribed a broad definition of who or what constitutes a related party, and what amounts to a related party transaction.

> "Bursa proposes to eliminate the overlapping functions of these advisers"

A 'related party' means, in relation to a corporation, a director, major shareholder (including any person who is or was within the preceding six months of the date on which the terms of the transaction was agreed upon, a director or major shareholder of the listed issuer or of its subsidiary or holding company), or person connected with such director or major shareholder.

'Related party transaction' is in turn defined as *"a transaction entered into by the listed issuer or its subsidiaries which involves the interest, direct or indirect, of a related party"*.

Bursa recognises that under the existing framework, the broad definition of related party transactions may inadvertently impose a heavy and costly compliance burden on listed issuers where the risk of abuse by a related party is low i.e. transactions where the 'conflicts of interests' are theoretical, and may not pose any real risk or harm to the shareholders.

MONETARY THRESHOLD

The MMLR prescribes monetary and percentage thresholds to exempt transactions which pose insignificant risks to listed issuers and their shareholders from the related party transaction framework and its ensuing requirements.

Bearing in mind the effects of inflation on the value of transactions over the years, Bursa proposes to increase the current monetary threshold from RM250,000 to RM500,000. That is, if the value of the transaction is less than RM500,000, the listed issuer will not be required to comply with the related party transaction requirements under the MMLR.

THE ROLE OF THE PRINCIPAL ADVISER

Presently, a listed issuer is required to appoint an independent adviser if the percentage ratio of a related party transaction is 5% or more. If the percentage ratio of the transaction is 25% or more, a Principal Adviser must be appointed, in addition to an independent adviser.

The existing provisions of the MMLR require both the independent adviser and the Principal Adviser to ensure that the transaction is carried out on fair and reasonable terms and conditions and not to the detriment of the minority shareholders. Having reviewed the respective roles and responsibilities of an independent adviser and a Principal Adviser, Bursa proposes to eliminate the overlapping functions of these advisers by entrusting the Principal Adviser with the responsibility of ensuring that a transaction is carried out on an arm's length basis and on normal commercial terms.

It is to be noted that the Consultation Paper does not provide any criteria for determining whether a transaction is being carried out on an 'arm's length basis' and on 'normal commercial terms'.

COMMON DIRECTORSHIP EXEMPTION

Paragraph 10.08(11)(c) of the MMLR currently exempts a related party transaction where the only interested relationship in that transaction stems from common directorships held by a related party in the listed issuer or its subsidiaries, and another person ("counterparty"). This is subject to the shareholding interest by the common director in the counterparty being less than 1% other than via the listed issuer.

It is proposed in the Consultation Paper to increase this shareholding threshold of less than 1% to less than 5%. This proposal has received positive industry feedback in an informal consultation undertaken by Bursa in November 2013 and is considered by Bursa to be an appropriate enhancement to the current exemption.

Furthermore, in view of the fact that the board of directors of a listed issuer has a duty to act in the best interest of the listed issuer, the assumption is that the listed issuer is unlikely to allow a related party holding less than 5% shareholding interest in the counterparty to have influence over the transaction.

TARGET COMPANY EXEMPTION

Paragraph 10.08(11)(d) of the MMLR exempts an acquisition or disposal by a listed issuer or its subsidiaries from or to an unrelated third party, of an interest in another company ("target company"), where the related party holds less than 5% in the target company.

In order to streamline the percentage thresholds under the

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related party transactions framework, Bursa proposes to increase the related party shareholding threshold in the target company from less than 5% to less than 10%.

This proposal ties in with the definition of 'major shareholder' under the MMLR and is in line with the requirement of the Hong Kong Stock Exchange.

COUNTERPARTY EXEMPTION

The attempt to streamline the shareholding thresholds is also evident in Bursa's proposed revision of the 'counterparty exemption' provisions under the MMLR. Pursuant to Paragraph 10.08(11)(l), a transaction between a listed issuer or its subsidiary and the counterparty where there are no other interested relationships, save for the related party having a shareholding of less than 5% in the counterparty, is currently exempted from the related party transaction requirements in the MMLR.

Bursa proposes to increase the shareholding threshold from less than 5% to less than 10% on the premise that it is remote for a person (who is not a common director in the listed issuer or its subsidiaries and the counterparty) holding less than 10% in the counterparty to influence the decision of the counterparty.

DISPOSAL OF INTEREST IN INVESTEE COMPANY

At present, the disposal of an interest in an investee company where a related party is also a major shareholder or person connected with a major shareholder of the investee company (other than via the listed issuer), is exempted from the related party transaction requirements under Paragraph 10.08(11)(q) of the MMLR, provided that the related party, person connected with the related party or both, are not a party, initiator or agent of the said disposal, and the disposal is effected on Bursa where the counterparty's identity is unknown to the listed issuer or its subsidiaries at the time of disposal.

'Disposal' for this purpose includes disposal of an investee company on a pro-rata basis or arising from an acceptance of a take-over offer, except that such disposal need not be effected on Bursa.

Without compromising investor protection, Bursa proposes to expand the current exemption to include transactions where the disposal of listed securities in the investee company is *not effected on Bursa*, but the *counterparty is unknown* to the listed issuer and is *not a related party*. An example of such a situation is the disposal by way of a private placement where the placement is carried out by a placement agent through a book-building exercise. The non-related party and hidden identity requirements are put in place to provide adequate safeguards against any potential risk of abuse.

CONTRACTS AWARDED BY PUBLIC TENDER

For the purposes of Paragraph 10.08(11)(j), it is proposed that the expression 'a contract awarded by public tender' be amended to refer to a contract which is awarded after it has been offered or made available to the public, and *not* on a selective basis. Bursa also proposes to impose a requirement on the listed awarder or its subsidiaries to provide an explanation of the basis for selecting the winning bid. This additional requirement provides greater transparency to the market and is in line with the requirements of the Singapore Exchange Securities Trading Limited.

ADDITIONAL PROPOSED EXEMPTIONS

Bursa proposes to introduce, as additional exemptions from related party transaction requirements, the grant of options and the issue of securities under a share issuance scheme for employees and subscription of securities on a pro rata basis, as well as any subsequent equity participation or provision of shareholders' loans or guarantees to a joint venture established by the listed issuer or its subsidiaries, provided that the subsequent equity participation or provision of shareholders' loans or guarantees to the joint venture are in proportion to the equity holdings of each joint venture partner.

The rationale for these additions is that the risk of potential abuse in these transactions is remote and shareholders' interests are not prejudiced.

CLOSED-END FUND

In relation to a closed-end fund, Bursa proposes to extend the definition of a 'related party' to include a Manager (i.e. the entity or individual responsible for managing the investments of the fund), custodian, or a director, chief executive, major shareholder of the Manager, or a person connected with such Manager, custodian, or director, chief executive or major shareholder.

Furthermore, an interested Manager or interested custodian or interested person connected with the Manager or custodian, having an interest, direct or indirect, will be required under the current proposals to abstain from voting on the resolution to approve the related party transaction.

CONCLUSION

It is hoped that the proposed amendments in the Consultation Paper in relation to related party transactions will be implemented. Any changes to be made to the MMLR pursuant to the Consultation Paper are likely to take effect from the third quarter of this year.

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WHAT MAKETH A BOTTLE – ITS SHAPE OR ITS CONTENTS?

Hemalatha Ramulu explains an important decision on the proprietary rights over a juice bottle

The Court of Appeal recently heard four civil appeals together, namely *F&N Dairies (Malaysia) Sdn Bhd v Tropicana Products, Inc.* (C.A. No. W-02(IPCV)-1913-08-2012), *F&N Beverages Manufacturing Sdn Bhd v Tropicana Products, Inc.* (C.A. No. W-02(IPCV)-1914-08-2012), *F&N Beverages Manufacturing Sdn Bhd v Tropicana Products, Inc.* (C.A. No. W-02(IPCV)-1916-08-2012) and *Fraser and Neave Limited v Tropicana Products, Inc.* (C.A. No. W-02(IPCV)-1917-08-2012) that concerned the validity of the respondent's industrial design.

The appeals arose from six High Court actions that were also heard together which included four writs and two originating motion actions.

TROPICANA'S ALLEGATIONS

The plaintiff in the writ actions was Tropicana Products, Inc. ("Plaintiff"), a company based in the United States of America. It had obtained a certificate under Malaysian Industrial Design Registration No. MY06-00624 ("624 Design") for the shape and configuration of a bottle that was used in the manufacture and sale of a juice product known as Tropicana Twister ("Tropicana Product").

> **" the Court of Appeal found that every feature was … dictated solely by … function "**

The Plaintiff commenced writ actions against, amongst others, Freshie (M) Sdn Bhd ("Freshie") and GCH Retail (Malaysia) Sdn Bhd ("GCH") alleging that the latter's bottle design which was used to sell their First Choice juice ("First Choice Bottle") was an infringement of the Plaintiff's rights in the 624 Design.

The Plaintiff also commenced simultaneous actions against F&N Beverages Manufacturing Sdn Bhd ("F&N Beverages") and F&N Dairies (M) Sdn Bhd ("F&N Dairies") on the basis that (i) in the former's case, the bottle which was used to sell their F&N Seasons Ice Lemon Tea beverage and Fruit Tree juices ("F&N Bottle"); and (ii) in the latter's case, the bottle design containing the Sunkist Dash juice product ("Sunkist Dash Bottle") infringed the Plaintiff's rights in the 624 Design.

Freshie had acquired the registered design rights of the First Choice Bottle. Similarly, Fraser and Neave Limited ("F&N Limited") had in 2009, obtained a registration for the design of the F&N Bottle under Malaysian Industrial Design Registration No. MY00855-0101. F&N Dairies sold a juice product known as Sunkist Dash using the Sunkist Dash Bottle but did not acquire any registration for the design of their bottle. As a result, the Plaintiff also commenced actions to invalidate the registrations obtained on the First Choice Bottle and F&N Bottle by way of the aforesaid motions on the basis that those designs were devoid of any novelty in light of the registration of the 624 Design.

THE DEFENDANTS' POSITION

Freshie, GCH, F&N Beverages and F&N Dairies respectively filed a defence denying the allegations of infringement and contended that their respective designs differed substantially from the 624 Design. Further, they counterclaimed that the 624 Design be invalidated primarily on two grounds, namely that the 624 Design lacked novelty and failed to meet the definition of an industrial design under the Industrial Designs Act 1996 ("IDA").

THE COURT PROCEEDINGS

The Plaintiff's Bottle (624 Design)

The High Court decided in favour of the Plaintiff and dismissed the Defendants' counterclaims. Both the First Choice Bottle and the F&N Bottle design registrations were invalidated.

F&N Limited, F&N Dairies and F&N Beverages appealed the decision. The Court of Appeal reversed the High Court's decision and found the 624 Design to be invalid. Accordingly, the 624 Design was expunged from the Register of Industrial Designs and no judgment on infringement was made. The registration of the F&N Bottle was consequently restored.

The following is an overview of the arguments taken by the parties at the High Court and the Court of Appeal and the findings made by each Court in turn.

THE INVALIDATION PROCEEDINGS

The functionality exclusion

The validity of the 624 Design was challenged on the ground, *inter alia*, that it failed to fulfil the definition of an industrial design under the IDA.

The Defendants argued that in order to qualify for protection, the 624 Design had to satisfy both the positive and negative aspects of the definition i.e. being features of shape and configuration that *appeal to the eye* and in the present case, that they are *not dictated solely by function*. The Defendants submitted that the 624 Design failed to achieve this as *every* feature was dictated solely by the function that it had to perform.

HEMALATHA P RAMULU

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A. The negative aspect

"Dictated solely by function"

In respect of the negative aspect, the Defendants argued that the term "*dictated solely by function*" was to be construed to mean "*attributable to or caused or prompted by*" the function that the features of the 624 Design had to perform. The Defendants relied on the House of Lords' decision of *Amp Incorporated v Utilux Proprietary Limited* [1972] RPC 103 to support their contention.

The Plaintiff admitted that the Tropicana Product required sterilisation through a process known as the "hot-fill process" when the juice was filled into bottles bearing the 624 Design. The filling process required firstly, the juice to be poured into PET bottles at temperatures exceeding the melting point of PET followed by, secondly, a cooling process, the effect of which in totality would cause an otherwise ordinary bottle to collapse as a result of the push-in-push-out effects caused during the process.

> **" the positive and negative aspects of the definition of an industrial design ... have to be considered together "**

Given that the author of the design was restricted in terms of the PET material, its weight and cost issues, to compensate for the negative effects caused during the process, the Defendants argued that the author would have been compelled to design **every** feature of shape and configuration of the 624 Design to offset those effects as a failure to do so would result in the bottle failing to achieve its said function and collapsing under the effects of the hot-fill process.

Further, the Defendants, relying on *Interlego AG v Tyco International Ltd* [1988] RPC 343, argued that a design which *ex hypothesi* has eye appeal will be excluded from registration if every feature of it is dictated solely by function.

Since every feature of shape and configuration of the 624 Design was designed by the author in such a way that it was entirely dictated by the function it had to perform, the Defendants argued that the 624 Design ought not to have qualified for protection.

The design freedom argument

The Plaintiff denied the Defendants' allegations and argued that it was possible to make alternative shapes of hot-fill bottles and therefore this was indicatory that the 624 Design was not dictated solely by the function that it had to perform.

B. The positive aspect

The Defendants argued that the High Court had erred on the class of customers whose eye the features of the 624 Design should appeal to and had it taken into regard the correct class of customers, i.e. trade witnesses, it would have concluded that it is the function that the design had to perform that had influenced the selection of the features as a failure to do so would have resulted in the selection of a bottle that would have been unable to meet its intended function.

The High Court found that the author was prompted by the hot-fill process to design the features of shape and configuration of the 624 Design, and that they were therefore functional. Notwithstanding this, it held that since the author had designed the "twist panel" features of the 624 Design as part of the Plaintiff's branding, its shape and configuration were therefore not solely dictated by function. Further, it held that given that it was possible to make a hot-fill bottle visually different from the 624 Design, the design was not dictated solely by the function that it had to perform.

F&N Dairies' Sunkist Dash Bottle

The Court of Appeal reversed the High Court's findings and agreed with the Defendants' proposition that the positive and negative aspects of the definition of an industrial design would have to be considered together and not in isolation.

In finding that the author of the 624 Design had admitted that in designing the features of the 624 Design he had to keep in mind the hot-fill process and that every feature of the 624 Design was necessary to compensate the negative effects of the process as a failure to do so would result in a bottle buckling under the effects of the said process, the Court of Appeal found that every feature was in fact dictated solely by the function that the design was intended to perform.

The Court of Appeal rejected the Plaintiff's design freedom argument and, relying on *Amp Inc*, found that if that argument

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WHAT MAKETH A BOTTLE – ITS SHAPE OR ITS CONTENTS?

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was correct, then the statutory exclusion would have virtually no practical effect.

The Court also held that it is no answer to the claim that other articles bearing other features of shape and configuration also serve the same function. The fact that other shapes could perform the same function did not alter the fact that the 624 Design was dictated only by functional considerations. If there are alternative features of shape but if each one is dictated solely by the function which is to be performed by the article, then each one would be excluded from the expression of an industrial design as well.

The Court of Appeal also reversed the High Court's decision on the issue of eye appeal on the basis that it had erred in construing the finished article. The Court of Appeal found that the High Court ought to have found the finished article to be the bottle and not the juice product. On that basis, the appellate Court rejected the evidence of the Plaintiff's witnesses on the positive aspect and that their evidence was inappropriate to consider the question of eye appeal in the circumstances.

F&N Beverages' Ice Lemon Tea Bottle

The Court of Appeal concluded that the burden was on the Plaintiff to adduce evidence of the relevant witness to establish eye appeal and as it had failed to do so, the positive aspect was not satisfied.

Since every feature of shape and configuration of the 624 Design was required to fulfil a functional purpose and it failed to fulfil both the positive and negative aspects of the definition of an industrial design under the IDA, the appellate Court found the 624 Design to be invalid.

NOVELTY

The Defendants' attack on the novelty of the 624 Design was two-fold i.e. that it or an industrial design differing from it only in *immaterial details* or *in features commonly used in the bottle trade* were already available in Malaysia prior to its registration date.

The Defendants relied primarily on the publication of an advertisement showing features of shape and configuration of a bottle known as the POKKA bottle (the prior art) which appeared in two newspapers and which was further corroborated by the independent evidence of a salesperson for POKKA products, to defeat the novelty of the 624 Design.

Prior publication

Before the issue of novelty was determined a threshold issue was required to be argued by the parties i.e. on the issue of prior publication.

The trial judge held that the Defendants failed to establish publication of the prior art and accepted the Plaintiff's argument that in order to establish publication, the Defendants should have adduced a POKKA bottle that was manufactured prior to the registration date of the 624 Design, and called the manufacturer of the POKKA bottle.

The appellate Court reversed this finding and relying on *Teh Teik Boay v Chuah Siak Loo* [1962] 1 MLJ 80, held that publication of a design may be established in one of two ways, i.e. by prior use or prior user.

The Court of Appeal also found that the term 'publication' should be construed broadly and that a range of documentary publications including advertisements, magazines, trade catalogues, patent specifications and design registrations could be considered for the purposes of assessing publication.

“ The appellate Court equated the customer ... to that of the informed user ”

Further, relying on *Stratford Auto Components Ltd v Britax (London) Ltd* [1961] RPC 197, the appellate Court held that where the allegation of prior user is based on the sale and manufacture of an article that has been referred to in a leaflet or an advertisement, there was no need for the actual article to be produced.

It further held that there was no basis for the High Court to find that the Defendants should have produced the actual POKKA bottle, or called the manufacturer to give evidence that the POKKA bottle existed before the priority date of the 624 Design. The issue as to the date when the POKKA bottles were first manufactured or when the design of the POKKA bottles originated was completely irrelevant. What was relevant was whether the *features of shape and configuration of the POKKA bottles had been available* to the public before the priority date of the 624 Design and this had been proven by the Defendants.

The definition of novelty – the dual limbs

It was not disputed by the parties that in determining novelty under the two limbs - a question of fact - the eye was the test to be applied. And in order to construe which was the proper eye that should judge, regard should be had to *the article* to which the design was applied.

The Defendants argued that the *nature of the article* that applied the 624 Design was *a bottle* and in particular in the present case, *a PET bottle* and therefore the corresponding customer or consumer, should be as against the background or nature of that article.

The Plaintiff on the other hand argued that the relevant article is a *juice product with beverage content, with sleeves and labelling* and consequently, that it was the consumer of the said juice product who would determine the novelty under the two limbs.

Differences in immaterial details ("the first limb")

The Defendants argued that mere slight variations from articles already manufactured are not registrable, that the variation (if any) from what has gone before must *not be trivial or infinitesimal* and that small variations which any skilled workman might make between the articles which he makes for different customers are not enough. The question which has to be decided is *whether the two appearances are substantially the same or not.*

F&N Beverages' Fruit Tree Juice Bottle

Given the above and the nature of the article, the Defendants argued that the eye that ought to decide whether the 624 Design is or is not in anticipation of the prior art, was through the eye of the consumer of the bottle itself.

The Defendants offered, amongst others, trade witnesses who gave evidence on the differences between the prior art and the 624 Design – taking into consideration the concessions which were made by the author of the 624 Design i.e. that features including (i) the dome shaped shoulder; (ii) the ribs on the shoulder; (iii) a waist; and (iv) hexagonal individual sections at the base, were commonly found in bottles.

The trial Judge accepted the Plaintiff's contention and on that basis, accepted the evidence of the Plaintiff's witnesses, i.e. two juice product consumers, who gave evidence that the overall impression of the POKKA bottle design and the 624 Design was different.

On appeal the High Court's findings were reversed. It was found that the court could be assisted by the eye of the consumer of the article which in this case was the bottle manufacturer. The Court of Appeal found that the Plaintiff's witnesses gave indisputable evidence that a host of reasons persuaded them in purchasing the juice product, such as the cost, the taste and the brand, and were therefore not the customers through whose eyes immaterial differences should be judged.

The appellate Court equated the customer in these circumstances to that of the *informed user* referred in *Dyson Ltd v Vax* [2011] EWCA Civ 1206 and found that as the informed user was one who was observant and aware of the state of the prior art – and this was clearly lacking when it came to the Plaintiff's witnesses, particularly since they were completely unaware of the prior art - this went to show that they did not have the necessary qualities or knowledge and rejected their evidence.

Taking into account the concessions made by the author, the appellate Court drew on the evidence of the Defendants' witnesses to determine whether the changes, if any, introduced by the author were merely the sort which would be considered as a variation that a skilled workman would make. They answered that question in the affirmative and found the features of the 624 Design to be not materially different from the prior art.

> **“ the informed user was one who was … aware of the state of the prior art ”**

Features commonly used in the bottle trade ("the second limb")

The Defendants argued, relying on *Philips v Harbro Rubber Company* [1920] 37 RPC 233, that the eye that should construe trade variants should be that of an instructed person, i.e. one who should know what was common trade knowledge and usage in the class of articles to which the design applies.

The Defendants contended that the instructed person would have knowledge of features of shape that would have been incorporated into a design by the author out of the necessity of its performance for which no design monopoly could be obtained. Accordingly, the Defendants' witnesses led evidence that because the features that were incorporated into the 624 Design were required and necessary for ordinary day to day trade of the bottle, the Plaintiff should not be allowed a monopoly over such features.

The Plaintiff contended that to determine whether the features in issue were commonly used in the bottle trade, it was necessary to consider the evidence of its witnesses i.e. consumers of juice products, given that the bottle was an ordinary household article.

The High Court rejected the evidence of the Defendants' witnesses on the basis that they would be too discerning of the

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RED FLAGS ON HIGH SEAS

Siva Kumar and Trishelea Sandosam highlight specific limitations under Malaysian shipping laws

Shipping activity is fraught with risks. Whether due to weather perils, navigational error or negligent crewmen, those involved in shipping activities face potentially multi-million dollar risks of loss and damage to property or loss of life in their everyday trade.

Due to these great risks, the laws that govern shipping transactions have sought to impose limitations on the liabilities of shipowners and carriers, and limit the time period within which actions may be brought against them.

The limitations set by law are key to facilitating the sustained development of international trade and the shipping industry as a whole; and prevent the costs of freight, insurance and ultimately the price of goods from increasing significantly.

This article provides an overview of the time and liability limitations applicable in Malaysia. It is crucial that everyone having business dealings with the shipping industry are aware of these limitations to be able to adequately assess their potential risks and costs. The two main pieces of legislation which provide for these limitations are the Carriage of Goods by Sea Act 1950 ("COGSA 1950") and the Merchant Shipping Ordinance 1952 ("MSO 1952").

COGSA 1950

COGSA 1950 gives effect to the International Convention for the Unification of Certain Rules of Law relating to Bills of Lading, Brussels 1924 ("Hague Rules"), which is set out in the First Schedule of COGSA 1950. The Hague Rules impose a non-excludable minimum standard of duty on carriers and provide for the liabilities of carriers and the limitation thereof.

COGSA 1950 applies to a contract of carriage by sea in ships carrying goods from any port in Malaysia to any other port whether in or outside Malaysia (Section 2, COGSA 1950). The term "contract of carriage" applies to contracts of carriage covered by a bill of lading, or any similar document of title, in so far as such document relates to the carriage of goods by sea.

MSO 1952

MSO 1952 is the main regulatory framework in Malaysia covering, amongst others, ship registration, licensing, safety and security, load line and loading, liability and limitation of liability of shipowners.

The Merchant Shipping (Amendment and Extension) Act 2011 ("MSO Amendment Act 2011"), which came into force on 1 March 2014, has introduced several important amendments to MSO 1952.

With regard to limitation of liability, the MSO Amendment Act 2011 has given the Convention on Limitation of Liability for Maritime Claims 1976, as amended by the Protocol of 1996 ("Limitation Convention"), the force of law in Peninsular Malaysia and Labuan, replacing the International Convention relating to the Limitation of the Liability of Owners of Sea-Going Ships 1957 ("1957 Convention"). Sabah and Sarawak continue to apply the 1957 Convention.

LIMITATIONS

Time Limitation

Article III rule 6 of the First Schedule to COGSA 1950, i.e. the Hague Rules, provides that any claims against a carrier must be brought within one year from when the goods were delivered or should have been delivered. "Carriers" are defined to include the owner or the charterer who enters into a contract of carriage with a shipper. This one year limitation is to be contrasted with the Limitation Act 1953 ("LA 1953") which provides for a limitation period of six years for contractual and tortious claims from the date the cause of action accrues (Section 6(1), LA 1953).

In a carriage of goods by sea transaction to which COGSA 1950 applies, the one year time bar will generally override the general limitation period provided in the LA 1953 (Section 3, LA 1953).

The limitation period under the Hague Rules is unique in that, unlike the time limitation under the LA 1953, it is a substantive time bar that effectively extinguishes the claim and does not merely bar the remedy (*Aries Tanker Corporation v Total Transport Limited* [1977] 1 All ER 398, *"Kusu Island" v The Owners of Cargo Lately Laden on Board the Ship or Vessel "Brani Island"* [1989] 3 MLJ 257 and *Trengganu Forest Products Sdn Bhd v Cosco Container Lines & Anor* [2007] 5 MLJ 486).

In view of the significantly shorter limitation period and the substantive nature of the time bar under the Hague Rules, plaintiffs are advised to obtain legal advice as soon as possible when a dispute arises and file legal action expeditiously to protect their rights.

Limitation of Liability

The Hague Rules provide for a package limitation where carriers may limit their liability to £100 per package or unit unless the nature and value of such goods have been declared by the shipper before shipment and have been inserted in the bill of lading (Article IV rule 5, Hague Rules).

While the Singapore High Court in *The "Vishva Pratibha"; Sarathi Co v "Vishva Pratibha" (Owners Of); Port Of Bombay, India* [1980] 2 MLJ 265 held that £100 refers to the paper value of 100 pounds sterling, the more judicially accepted view is that the sum of £100 is to be taken as the gold value of the sterling pound, as opposed to its paper value (Article IX, Hague Rules; *The Rosa S* [1989] 1 QB 419; *The Thomaseverett* [1992] 2 SLR 1068). To ascertain the limit of liability, the gold value of £100 at the date of the breach is to be calculated by reference to the English Coinage Act 1870.

One problem which arises with the interpretation of Article IV rule 5 is the meaning of the term 'package' or 'unit' as these terms are not defined in the Hague Rules. It has been decided by the English courts that where goods are loaded into a container and the bill of lading specifies the content of that container as being packed in smaller articles of transport, such as packets or bundles, each article would be treated as one package or


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unit (*The River Gurara* [1996] 2 Lloyd's Rep 53). On the other hand, if no reference is made to the smaller articles, then each container would be considered as one package or unit. Further, the 'package' or 'unit' limitation is almost impossible to apply in the case of liquids or bulk cargo.

Tonnage Limitation

The Limitation Convention is set out in the Sixteenth Schedule of MSO 1952. Shipowners, salvors and any person whose act, neglect or default the shipowner or salvor is responsible for, are entitled to limit their liability for losses not resulting from their personal act or omission, committed with the intent to cause such loss or recklessly and with knowledge that such loss would probably result (Article 4, Part 1, Sixteenth Schedule). A shipowner includes a charterer, manager and operator of a ship (Article 1, Part 1, Sixteenth Schedule).

The claims which are subject to limitation of liability include the following:

- Claims in respect of loss of life or personal injury or loss or damage to property, occurring on board, or in direct connection with the operation of, a ship;
- Consequential losses arising from the above; and
- Claims in respect of loss caused by delay in the carriage of cargo or passengers.

The tonnage limitation limits the liability of shipowners based on the gross tonnage of the ship and the value of Special Drawing Rights (Article 6 and 8, Part 1, Sixteenth Schedule). The Special Drawing Rights value is determined by the International Monetary Fund and the amount will be converted into the national currency of the country in which limitation is sought, according to the value of the currency at the date the limitation fund is constituted, payment is made or security is given for the claim. This works out to be a much higher amount than the limitation amount provided for under the 1957 Convention.

A claimant who seeks to break limitation has the burden of proving that the loss resulted from the personal act or omission of the person seeking to limit liability which was committed with the intent to cause such loss or recklessly and with knowledge that such loss would probably result. This is to be contrasted with the '*actual fault and privity*' test under the 1957 Convention, where the burden of proof rests with the person seeking to rely on limitation. The effect of this change is that it is now almost impossible for the claimant to break limitation as he needs to prove a 'personal' act or omission. The rationale for imposing a higher threshold to break limitation is to balance the interests of the person seeking limitation with the interest of the claimant who now enjoys a higher limit of liability.

Limitation of liability under the Limitation Convention can be invoked even if a limitation fund has not been constituted (Article 10, Part 1, Sixteenth Schedule). If the person seeking to limit his liability chooses not to set up a limitation fund, Article 12 will apply in respect of distribution of the fund to competing claimants, with questions of procedure decided in accordance with the national law of the country in which the action is brought. Should the person seeking to rely on limitation choose to set up a limitation fund, a limitation action is to be commenced. This practice is commonly adopted where there are several claims or potential claims arising from an incident.

The procedure relating to limitation actions is contained in Order 70 rules 35 to 38 of the Rules of Court 2012. If the Court decides that the shipowner is entitled to limit his liability, it will further determine the amount to which the liability is to be limited. A limitation fund will be subsequently constituted in accordance with Article 11, Part 1 of the Sixteenth Schedule, and all claimants will have a share in that fund. If there is only one claimant, limitation proceedings do not need to be commenced and the shipowner should just plead limitation as part of his defence or counterclaim.

Where a limitation fund is constituted by the person seeking to rely on limitation in accordance with Article 11, a claimant who makes a claim against the fund will be barred from exercising any rights against any assets of the person for whom the limitation fund was constituted (Article 13, Part 1, Sixteenth Schedule).

Further, once the limitation fund is constituted, any property belonging to the person for whom the limitation fund was constituted which has been attached or arrested within the jurisdiction of a state party, may be released by the court of the state. However, the release of property which has been attached or arrested is mandatory in certain situations, such as, where the limitation fund is constituted at the port where the occurrence took place, at the port of discharge in respect of cargo or in the state where the arrest was made (Article 13 paragraph 2, Part 1, Sixteenth Schedule).

The person who applies and obtains an order for the release of the property is deemed to submit to the jurisdiction of that court in relation to the claim for which the property was attached or arrested (Article 7, Part II, Sixteenth Schedule).

CONCLUSION

The long awaited amendments to MSO 1952 which have taken more than two years to come into force are much welcomed and make Malaysia one of the first countries in Asia to adopt the Limitation Convention, along with maritime giants such as the United Kingdom. It remains to be seen whether the amendments will make Malaysia a more favourable jurisdiction for claimants in admiralty claims due to the increased limits of liability.

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NEITHER A SHE NOR A HE

Trevor Padasian examines two recent landmark cases on the third gender

Two unprecedented decisions by the highest courts of Australia and India have given judicial recognition to the "third gender", an increasingly growing class of people who identify neither with males nor with females.

The issue of a "third gender" is not new. According to the 13th century English jurist, Henri de Bracton:

"*Mankind may also be classified in another way: male, female, or hermaphrodite*". In addition, a "*hermaphrodite is classed with male or female according to the predominance of the sexual organs*".[1]

Underlining the topicality of the "transgender" issue, the cover story of the 9 June 2014 US edition of *Time*, the US news magazine, was entitled "The Transgender Tipping Point". *Time* describes "transgender people" as "those who identify with a gender other than the sex they were "assigned at birth"".

NSW REGISTRAR OF BIRTHS, DEATHS AND MARRIAGES V NORRIE[2]

In this case, the High Court of Australia ("HCA") ruled on 2 April 2014 that the Births, Deaths and Marriages Registration Act, 1995 ("BDRM Act") of the Australian State of New South Wales ("NSW") permits a person in a third category of sex, that is, neither a male nor a female, to be registered as "non-specific".

Norrie May-Welby ("Norrie") was born in Scotland with male reproductive organs. After migrating to Australia, Norrie had undergone a "sex affirmation procedure". A "sex affirmation procedure" is defined in section 32A of the BDRM Act as a "*surgical procedure involving the alteration of a person's reproductive organs carried out (a) for the purpose of assisting a person to be considered a member of the opposite sex, or (b) to correct or eliminate ambiguities relating to the sex of the person*".

As the surgery did not resolve Norrie's sexual ambiguity, Norrie applied to the NSW Registrar of Births, Deaths and Marriages ("Registrar") for Norrie's sex to be registered as "non-specific". It is significant that Norrie's application was supported by two medical practitioners. In 2010, the Registrar initially approved Norrie's application, recognising Norrie as being neither male nor female and recording Norrie's sex as "not specified" in a Recognised Details (Change of Sex) Certificate and a Change of Name Certificate.

However, the Registrar subsequently rescinded its approval and advised Norrie that the Recognised Details (Change of Sex) Certificate was invalid. The Registrar re-issued the Change of Name Certificate recording Norrie's sex as "not stated". Norrie applied to the NSW Administrative Decisions Tribunal ("Tribunal") for a review of the Registrar's decision. Norrie's application for a review as well as his appeal to the appeal panel of the Tribunal were dismissed.

However, Norrie's appeal to the NSW Court of Appeal ("NSW CA") was allowed. The NSW CA set aside the Tribunal's decision and sent the matter back to the Tribunal to enable it to make findings of fact as to how Norrie's sex should be recorded in the Register.

The Registrar appealed to the HCA. The HCA, whose panel included the Chief Justice of Australia, dismissed the appeal and held that the Registrar had the power to record in the Register that Norrie's sex was "non-specific". The HCA held that the BDRM Act "*does not require that people who, having undergone a sex affirmation procedure, remain of indeterminate sex – that is, neither male nor female – must be registered, inaccurately, as one or the other.*" Thus, persons in such a third category of sex may register their gender as "non-specific".

Thus, the HCA dismissed the Registrar's appeal and set aside the NSW CA's order that the matter be sent back to the Tribunal. It was not necessary for the Tribunal to make any further findings of fact.

> **"the Supreme Court of India … accorded recognition to "Hijras" or transgenders … as a third gender"**

NATIONAL LEGAL SERVICES AUTHORITY V UNION OF INDIA AND OTHERS[3]

On 15 April 2014, barely two weeks after the decision in Norrie, the Supreme Court of India ("SCI") accorded recognition to "*Hijras*" or transgenders ("TGs", singular "TG") as a third gender, distinct from the traditionally binary genders of male and female. As a distinct socio-religious and cultural group, TGs were held to be entitled to the constitutional rights that all Indians have under the Indian Constitution.

In their comprehensive and well-reasoned judgments, Justices Radhakrishnan (since retired) and Sikri set out the compelling case for the SCI's ground-breaking decision.

The main issue which the SCI had to decide was whether the TGs, who are neither males nor females, have the right to be identified and categorised as a "third gender". Related to this issue was the issue of whether a person who was born as a male with predominantly female orientation (or vice-versa) has a right to get himself/herself to be recognised as a female/male in accordance with his/her choice, after having undergone operational procedure changes to his/her sex as well.

The SCI described the TG as being an umbrella term for "*persons whose gender identity, gender expression or behaviour does not conform to their biological sex*". According to the SCI, the expression includes *Hijras*, eunuchs, *Kothis*, *Aravanis*, *Jogappas*,

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Shiv-Shakthis and the like, a group of people having a strong historical presence in India in the context of Hindu mythology and religious texts. However, the SCI clarified that, for the purpose of its decision, the word "TGs" does not include gay men, lesbians, bisexuals and cross-dressers within its scope.

Although the TGs within the SCI's definition had historically played a prominent role and were treated with great respect, their status declined drastically with the onset of colonial rule from the 18th century onwards, particularly with the enactment of the Criminal Tribes Act, 1871 (repealed in 1947) and section 377 of the Indian Penal Code which in effect criminalised anal sex, an offence perceived to be associated with TGs.

The SCI highlighted the trauma, agony and pain suffered by the TG community and accepted submissions by the petitioner and interveners detailing the ridicule and abuse of TGs, who were sidelined as untouchables and outcasts. By their very nature of being neither male nor female, the TGs are deprived of social and cultural participation in and access to education, health care, employment and public places. In addition, they face multiple forms of discrimination and oppression.

The SCI held that this was in breach of the TGs' basic constitutional rights under the Indian Constitution, namely Article 14 (equality before the law and equal protection of laws), Articles 15 and 16 (prohibition against gender bias and gender based discrimination); Article 19(1) (freedom of speech and expression); and Article 21 (protection of life and personal liberty). These Articles use the expression "person" or "citizen" or "sex", all of which are "gender neutral" and refer to human beings. Thus, they include within their purview TGs and are not restricted to the male or female genders.

The SCI said that gender identity is an "*integral part of sex and no citizen can be discriminated on the ground of gender identity, including those who identify as third gender.*" The SCI found support for its stand in Article 6 of the Universal Declaration of Human Rights, 1948 and Article 16 of the International Covenant on Civil and Political Rights, 1966 ("ICCPR") which recognise that every human being has the inherent right to live and Article 17 of the ICCPR which states that no one shall be subjected to arbitrary or unlawful interference with his or her privacy, family or unlawful attacks on his honour and reputation.

In addition, the SCI also relied on the Yogyakarta Principles on the Application of International Human Rights Law in relation to Sexual Orientation and Gender Identity ("Yogyakarta Principles") which were developed by the International Commission of Jurists, the International Service for Human Rights and human rights experts. The Yogyakarta Principles address a broad range of human rights standards and their application to issues of sexual orientation and gender identity (including the right to universal enjoyment of all human rights; right to equality and non-discrimination; and right to recognition before the law).

In the course of its judgment, the SCI reviewed a number of foreign judgments and foreign legislation pertaining to gender identity. Regarding the former, it rejected the traditional approach laid down by the English case of *Corbett v Corbett* [1970] 1 All ER 33, and applied in *Bellinger v Bellinger* [2003] 2 All ER 593 (HL), which stated that the law should adopt the chromosomal, gonadal and genital tests ("the Biological Test").

The SCI rejected the Biological Test and adopted the Psychological Test as applied by the New Zealand case of *Attorney-General v Otahuhu Family Court* [1995] 1 NZLR 603 and the Australian cases of *Secretary, Department Social Security v "SRA"* [1993] 43 FCR 299, *Re Kevin (Validity of Marriage of Transsexual)* [2001] Fam CA 1074 and *A.B. v Western Australia* [2011] HCA 42. The SCI also referred to the Australian Court of Appeal case of *Norrie v NSW Registrar of Births, Deaths and Marriages* [2013] NSWCA 145 and the Malaysian case of *Re J-G, JG v Pengarah Jabatan Pendaftaran Negara* [2005] 4 CLJ 710. The SCI remarked that in *Re J-G*, James Foong J (as he then was) had applied the Psychological Test when he observed that:

"*This led Lord Justice Thorpe in Bellinger v Bellinger [2002] 1 All ER 311, in the Court of Appeal to give a dissenting judgment where he felt, like I do, that the psychological factor has not (been) given much prominence in the determination of this issue. He was of the view that psychological factor cannot be considered at birth because they do not yet manifest, they may become an overriding consideration subsequently as the individual develop(s).*"

The SCI also discussed foreign legislation pertaining to gender identity, notably the UK General Recommendation Act, 2004 which accords legal recognition to the acquired gender of a person; the Australian Sex Discrimination Act, 1984; and Article 22, section 3 of the German Civil Statutes Act, the ground-breaking legislation which provides that "*If a child can be assigned to neither the female nor the male sex then the child has to be named without specification.*"[4]

The SCI opined that there is a "*growing recognition that the true measure of development of a nation is not economic growth; it is human dignity.*" It said that the Indian Constitution had provided rights for TGs and it was time for the courts to recognise this and extend and interpret the Indian Constitution in such a way so as to ensure a dignified life for the TGs.

In addition to the declaration that the TGs be treated as a "third gender", the SCI also made ancillary orders, amongst others, directing the Central Government of India and State

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A REVIEW OF THE COMPANIES BILL 2013 - PART IV

Sheba Gumis and Shermaine Lim conclude our review of the Companies Bill 2013

We commenced our review of the Companies Bill 2013 ("Bill") in our newsletter three issues ago. We now conclude the review with a commentary on auditors, financial statements, management review, and the miscellaneous provisions of the Bill.

AUDITORS

Policy Statement 10 of the Public Consultation Document on the Bill issued by the Corporate Law Reform Committee ("CRLC") reflects the intention to strengthen the corporate governance structure through the refinement of the auditors' role and responsibilities in the Bill. There are now new provisions in the Bill relating to auditors. We set out some of the salient provisions below.

Appointment of auditors

The provisions for the appointment of an auditor for a private company are set out in clauses 262 to 265 of the Bill, whereas those for the appointment of an auditor for a public company are contained in clauses 266 to 268. The provisions are generally similar, with slight differences in the time of appointment and the term of office of the auditors.

In relation to a private company, clause 264(1)(b) of the Bill provides that an auditor will cease to hold office 30 days after the circulation of the financial statements to the members, unless he is re-appointed. Where the office of an auditor is vacated in the manner set out in clause 264(1)(b), and no auditor has been appointed by the members of the company, the auditor who held office immediately before the vacancy arose is deemed to be reappointed, save for the circumstances specified in clause 264(2) or where he is prevented from being appointed under clause 265 of the Bill by members holding not less than 5% of the total voting rights in the company.

A casual vacancy in the office of the auditor of a public company is to be filled by the Board of Directors ("Board"), or by the members of the company (where the Board fails to do so) or by the Registrar (where the Board and members fail to do so) (clauses 266 and 267).

The procedure for appointment of a new auditor in place of another whose term of office has expired or is about to expire (whether by way of written resolution of a private company or at a meeting of members) is now clearly set out in clauses 274 and 275 respectively. The Companies Act, 1965 ("CA") does not have such detailed provisions for the appointment of auditors.

Removal of auditors

An auditor may not be removed from office before the expiration of his term of office except by resolution pursuant to clause 271. The procedure for removal of an auditor under the Bill is similar to that under the CA, but with minor differences.

Clause 271 provides that an auditor may be removed from office by an ordinary resolution at a general meeting and in accordance with clause 272 of the Bill. Clause 272 requires special notice to be given, and a copy of the notice to be sent to the auditor concerned. The auditor is entitled to make representations which are to be circulated to the members, unless the representations are received too late. If the representations are not circulated, the auditor may require his representations to be read out during the meeting.

The Registrar must be notified of a resolution being passed to remove an auditor within 14 days.

Resignation of auditors

Clause 276 states that an auditor may resign his office by depositing a notice in writing at a company's registered office. In such event, his term of office will end upon the expiry of 21 days after the notice is deposited, or on such later date as specified in the notice. This procedure differs from the CA which does not permit the resignation of a sole auditor to take effect until a replacement has been appointed. The company is required to notify the Registrar within seven days of the resignation notice being deposited at the company's registered office (clause 277).

> "the Bill only requires the financial statements and reports to be circulated"

An auditor of a public company who resigns from office and submits a statement of the circumstances connected with his resignation together with his notice of resignation is entitled under clause 278(2) of the Bill to require the directors of the company to convene a general meeting to receive and consider his explanation of the circumstances connected with his resignation.

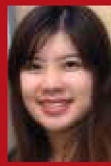
The directors are required to convene the meeting within 21 days from receipt of the auditor's request under clause 278(2) and to hold the same no later than 28 days after the date on which the notice convening the meeting is issued.

Registration of auditors

The Bill now makes provision for the Registrar to maintain a register of firms of auditors (clause 261(1)). Clause 261 requires a new firm of auditors to notify the Registrar of its name, firm number, address and other prescribed information within one month of its commencement of business.

FINANCIAL STATEMENTS

The references in the CA to profit and loss accounts and balance sheets are replaced with the term "financial statements", which is given the same meaning as used in the approved accounting standards issued or approved by the Malaysian Accounting

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Standards Board under the Financial Reporting Act 1997.

The requirements under the CA for a company to prepare and audit the financial statements are retained in the Bill.

The financial statements of the company will be required to comply with the requirements set out in clauses 245 and 246 of the Bill. The Ninth Schedule of the CA, which sets out the contents of a profit and loss account and a balance sheet, has now been condensed (albeit with some differences) into clauses 245 and 246.

The financial statements are also required to disclose, *inter alia,* directors' emoluments, retirement benefits and loans in favour of directors (clause 245(6)). This is in line with the Bill's aim of promoting greater transparency and accountability.

Unlike the CA which requires the profit and loss accounts and balance sheet to be laid before the shareholders at the annual general meeting, the Bill only requires the financial statements and reports to be circulated to every member of the company, debenture holder, auditor and person who is entitled to receive notice of general meetings (clause 254(1)).

In the case of a private company, the financial statements and reports are to be circulated within six months of its financial year end. A public company is required to do so at least 21 days before the date of its annual general meeting, or any shorter period agreed by all members entitled to attend and vote at the annual general meeting (clause 255).

Exempt Private Company Certificate

In the case of an exempt private company, its directors may, in each financial year, lodge a certificate relating to its status as an exempt private company with the Registrar within one month after the financial statements and reports are circulated (clause 257(1)). Under the CA, the certificate is included in the annual return of the company.

Business Review

The requirement under the CA to prepare a directors' report to accompany financial statements is retained under clause 248. While the contents of the directors' report under clause 249 and the Sixth Schedule of the Bill are similar to those of a directors' report under section 169 of the CA, the Bill permits a directors' report to include a business review (clause 251). The word "may" indicates that the business review is optional.

Clause 251(2) sets out the information (to the extent necessary for an understanding of the development, performance or position of the company's business) which may be included in a business review. These include, *inter alia,* a fair review of the company's business, a description of the principal risks and uncertainties facing the company and an analysis of the company's development and performance during the financial year.

MISCELLANEOUS PROVISIONS

Management Review

The Bill contains a new provision which confers the right on members to review the management of a company. Clause 194(1) of the Bill imposes a duty on the chairman of a meeting of members to give members a reasonable opportunity to question, discuss, or comment on the management of the company.

The members may also pass a resolution at a meeting of members to make recommendations to the Board on matters which affect the management of the company (clause 194(2)). Such recommendations are not legally binding on the Board unless they are passed as special resolutions or the company's constitution provides otherwise.

Increased penalties

In line with the CRLC's aim to enhance the enforcement regime, the penalties for non-compliance with the provisions of the Bill will be increased significantly. For example, in respect of offences where the penalty is not specified, the general penalty is a fine of RM5,000.00 under section 369 of the CA, as compared to a fine of RM50,000.00 or imprisonment for a term not exceeding three years or both under the Bill (clause 608).

CONCLUSION

The Bill introduces concepts which have been adopted from other countries, such as the concept of a single member and a single director company, the migration to a no par value share regime and the enhancement of shareholders' rights and protection.

The Bill also introduces the concept of a "solvency test" which will improve business efficacy and reduce the cost of certain corporate exercises, such as share buy-backs, provision of financial assistance and capital reduction by companies that are able to satisfy this test.

The company law framework in Malaysia will be significantly modernised if a substantial number of the provisions in the Bill are incorporated into the new Companies Act.

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RE-APPORTIONING LIABILITY

Wong Chee Lin and Claudia Cheah examine the Federal Court's decision in the Pesaka Astana Case

On 10 February 2014, the Federal Court delivered a landmark decision which may have a significant impact on the bond market in Malaysia.

BRIEF FACTS

Pesaka Astana Sdn Bhd ("Pesaka") was awarded three contracts by the Government of Malaysia ("contracts"). It decided to issue *Al-Bai Bithaman Ajil* bonds ("bonds") to part-finance the execution of these contracts.

To facilitate the issue of the bonds, Pesaka appointed KAF Discounts Berhad ("KAF") as the lead arranger, facility agent and issue agent and Maybank Trustee Berhad ("MTB") as the trustee for the bonds.

An Information Memorandum ("IM") was prepared by KAF based on information provided by Pesaka. The IM contained a notice of disclaimer which expressly stated that a recipient is urged to make such independent investigation as it deems necessary on the information provided in the IM ("Important Notice").

"instead of being proactive, MTB did nothing and had behaved "like a mannequin""

The IM stated that various syariah compliant bank accounts ("Designated Accounts") would be established under the control of MTB as the sole signatory. The revenue from the contracts ("Assigned Revenue") would be deposited into the Designated Accounts to be controlled by MTB and be applied to redeem the bonds. This arrangement, often described as "*ring fencing*", would in effect put the Assigned Revenue beyond the control of Pesaka to protect the interest of the bondholders.

The bonds were to be issued to a primary subscriber, namely K&N Kenanga Bhd ("Kenanga"), who would then sell the same to other investors.

Various transaction documents were entered into in relation to the bonds, including a Subscription and Facility Agreement between Pesaka, KAF and Kenanga, a Trust Deed whereby Pesaka appointed MTB as trustee for the bondholders ("Trust Deed") and an Assignment and Charge whereby Pesaka assigned to MTB, as trustee for the bondholders, the Assigned Revenue that would be deposited into the Designated Accounts maintained by Pesaka with CIMB Bank Berhad ("CIMB")("Assignment").

The bonds were issued and the proceeds were disbursed by KAF to Pesaka on the same day. Upon Pesaka's request, instead of opening new accounts, the existing conventional accounts maintained by Pesaka with CIMB were used as the Designated Accounts to receive the Assigned Revenue. As MTB was not made the sole signatory, Pesaka retained complete control over these accounts and withdrew the Assigned Revenue for its own purposes. Although CIMB was aware of the Assignment, it did not stop Pesaka from withdrawing the Assigned Revenue from these accounts.

Pesaka failed to redeem the bonds and repay the bondholders on the maturity date. The bondholders filed a claim in the High Court against various parties including Pesaka, KAF and MTB. Arising from this proceeding, KAF filed a claim for an indemnity against Pesaka. On the other hand, MTB filed an indemnity claim against Pesaka and other parties, namely the Amdac Group, Dato' Mohamad Rafie ("Rafie") and his wife, Datin Murnina ("Murnina") who both held a total of 90% of the shares in Pesaka. MTB also filed a claim against CIMB seeking damages on grounds that CIMB had breached its duties as a constructive trustee of the Assigned Revenue.

HIGH COURT

The bondholders entered into a Consent Judgment against Pesaka, Rafie and the Amdac Group for a sum representing the redemption value of the bonds.

Instead of executing the Consent Judgment, the bondholders proceeded to trial against KAF and MTB. The High Court found for the bondholders against MTB and KAF for breach of contract and negligence. The Judge denied KAF any indemnity and apportioned liability between KAF and MTB on a 60:40 basis.

COURT OF APPEAL

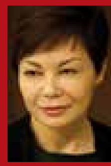
On appeal by various parties, the Court of Appeal affirmed the findings of the High Court but re-apportioned liability between KAF and MTB on a 50:50 basis. The Court of Appeal further ordered Pesaka to indemnify KAF but only for 2/3 of the sum claimed, on the ground that MTB was guilty of gross negligence. CIMB was ordered to indemnify MTB to the extent of 1/3 of the liability that MTB would have to bear, that is after deduction of the sum to be indemnified by Pesaka, Rafie, Murnina and the Amdac Group.

FEDERAL COURT

The Federal Court in its 115 page judgment dealt in depth with various issues raised by the parties. The salient findings of the Federal Court are set out below.

KAF's liability under the IM

The Federal Court held that the IM was not a contractual document and did not form part of the Issue Documents which required the approval of the Securities Commission. KAF was free to include the Important Notice in the IM to exclude all liability for any claim which may arise from the IM. Further, the IM contained

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information belonging to Pesaka and thus was Pesaka's document and not KAF's document. The Important Notice must be given effect and KAF could not be held liable for any information found in the IM. In coming to this decision, the Federal Court referred to *IFE Fund SA v Goldman Sachs International* [2007] EWCA Civ 811 and a series of other English cases where the courts upheld similar disclaimer notices.

According to the Federal Court, both the courts below had erred by holding that there existed a duty of care on the part of KAF based on the principles of '*foreseeability*', '*proximity*', '*neighbourhood*' and '*fairness*'. In fact, KAF owed no duty of care to the bondholders, who were all sophisticated investors and experienced financial institutions and were therefore expected to act on independent and professional advice from their own sources in respect of the contractual obligations in the light of the disclaimer contained in the Important Notice.

> **"KAF was free to include the Important Notice … to exclude all liability … which may arise from the IM"**

Ring fencing

Both the High Court and the Court of Appeal held that KAF as lead arranger, facility agent and issue agent had to independently verify that the Designated Accounts were ring fenced before issuing the bonds.

However, the Federal Court held that KAF had no contractual duty to independently verify that MTB had been made the sole signatory to the Designated Accounts. The fact that there was a confirmation letter from the transactional solicitor along with confirmation from Pesaka meant that KAF could be fully satisfied that all conditions precedent had been complied with.

Proximate cause of loss

The Federal Court disagreed with the Court of Appeal that the most proximate cause of the loss was the issuance of the bonds by KAF without the ring fencing in place. From the evidence, Pesaka was the direct cause of the loss as they had misappropriated the funds.

MTB, being the trustee, had wide powers and rights under the Trust Deed and the power of attorney to take the necessary action to ring fence the Designated Accounts, or alternatively, to stop Pesaka from operating the Designated Accounts. However, instead of being proactive, MTB did nothing and had behaved "*like a mannequin*". Thus, MTB was wholly to blame for the loss and not KAF.

In the premises, KAF's appeal against the decision of the Court of Appeal on all three grounds mentioned above was allowed.

Quantum recoverable against MTB

The Federal Court held that MTB was neither the primary debtor nor the guarantor of the bonds. As such, MTB should only be liable to the bondholders for the actual sum received and dissipated by Pesaka i.e. RM107 million and not the full redemption value of the bonds of RM149,315,000.00.

Pre-judgment interest

The Federal Court held that the Court of Appeal had erred in allowing pre-judgment interest as it was contrary to the express agreement of the bondholders in the trust deed that no interest shall be payable. Thus, the pre-judgment interest awarded against MTB was set aside.

Indemnity from Pesaka

The Federal Court disagreed with the Court of Appeal's decision in only granting MTB a 2/3 indemnity against Pesaka. According to the Federal Court, it would not be just and equitable for Pesaka, the real fraudster, to retain any part of its ill-gotten gains. This was especially so when the bondholders had not taken any step to enforce the Consent Judgment entered between Pesaka and the bondholders. Thus, the Court, following the decision of the House of Lords in *Dubai Aluminium Company v Salaam & Ors* [2003] 1 All ER 98, allowed MTB's cross appeal and ruled that Pesaka should fully indemnify MTB.

Constructive trustees

MTB also claimed for indemnity against Rafie, Murnina and Amdac Group on the basis that they were constructive trustees of the monies in the Designated Accounts and which they had dominion over by virtue of being the directors or chief executive officer and signatories to the Designated Accounts. The Federal Court found that all three parties had acted dishonestly and that the directors could not rely on the corporate veil as a defence to the claim for indemnity by MTB. Therefore, the Federal Court ordered Rafie, Murnina and Amdac Group to fully indemnify MTB for the loss.

CIMB's liability

The Federal Court agreed with the High Court that CIMB was only complying with instructions given in the banker-

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THE BATTLE FOR THE PERSIAN (CARPET) EMPIRE

Sharon Chong explains a landmark company law case

Persia is as much known for its great empire in ancient history as for its fine carpets. *Ebrahimi v Westbourne Galleries Ltd and Ors* [1973] AC 360 is a story of three protagonists of Persian origin, namely, Asher Nazar Achoury ("Nazar") and his son, George Alexander Nazar Achoury ("George) and Shokrollah Ebrahimi ("petitioner") and their battle over a Persian carpet empire.

THE FACTS

Nazar and Fahimian were partners of the Oriental Carpet Company, a business in Nottingham which dealt in Persian and other carpets. In 1945, the petitioner joined them as an equal partner. A year later, Fahimian left the partnership and Nazar and the petitioner continued in the business as equal partners.

The business relocated to London in 1956 and continued to prosper. In December 1958, the partners incorporated a company, Westbourne Galleries Ltd ("Company"), which took over the carpet dealership business from the partnership.

> ❝ the words 'just and equitable'… are a recognition of the fact that a limited company is more than a mere legal entity ❞

The Company was incorporated with an issued share capital of £1,000, of which Nazar and the petitioner each subscribed for 500 shares of £1 each. Shortly thereafter, Nazar and the petitioner each transferred 100 shares to George, and appointed him as a director of the Company. At all material times thereafter, Nazar held 400 shares in the Company, the petitioner 400 and George 200.

No dividends were ever paid even though the Company made good profits. Instead, the profits were distributed by way of directors' remuneration. On 12 August 1969, Nazar and George exercised their majority voting power and removed the petitioner from the office of director. Thereafter, they excluded the petitioner altogether from the conduct of the Company's business.

The petitioner petitioned, *inter alia*, to wind up the Company under section 222(f) of the English Companies Act, 1948 ("English Act") which enables the court to make a winding up order if it is of the opinion that it is 'just and equitable' to do so.

The trial judge granted a winding up order but the decision was overturned by the Court of Appeal. The petitioner appealed to the House of Lords.

THE DECISION OF THE HOUSE OF LORDS

The House of Lords, by a unanimous decision of the five judges, allowed the appeal. Lord Wilberforce, who delivered the leading judgment, held that the foundation lies in the words 'just and equitable' in section 222(f) of the English Act. According to His Lordship, these words are a recognition of the fact that a limited company is more than a mere legal entity, with a personality in law of its own: that there is room in company law for recognition of the fact that behind it, or amongst it, there are individuals, with rights, expectations and obligations *inter se* which are not necessarily submerged into the company structure.

The House of Lords acknowledged that there are many instances where the association, though a private company, is a purely commercial one, of which it can safely be said that the basis of association is adequately and exhaustively laid down in the articles of the company.

However, their Lordships opined that the phrase 'just and equitable' enables the court to subject the exercise of legal rights to equitable considerations; considerations of a personal character arising between one individual and another, which may make it unjust, or inequitable, for one to insist on its legal rights, or to exercise them in a particular way. According to Lord Wilberforce, the superimposition of such equitable considerations requires one, or probably more, of the following elements:

(a) an association formed or continued on the basis of a personal relationship, involving mutual confidence – this element will often be found where a pre-existing partnership has been converted into a limited company;

(b) an agreement, or understanding, that all, or some (for there may be "sleeping" members), of the shareholders are to participate in the conduct of the business; and

(c) restriction upon the transfer of the members' interest in the company – so that if confidence is lost, or one member is removed from management, he cannot take out his stake and go elsewhere.

Their Lordships found that the facts showed that, after a long association in partnership during which he had an equal share in the management, the petitioner joined in the formation of the Company. This gave rise to an indisputable inference that he and Nazar did so on the basis that the character of the association would, as a matter of personal relationship and good faith, remain the same.

Although there was no doubt that the removal of the petitioner as a director had been carried out in accordance with the English Act and the articles of association of the Company, the Court held that Nazar and George were not entitled, in justice and equity, to use their powers to expel the petitioner. Accordingly, their Lordships held that the only just and equitable course was to dissolve the association for two reasons.

First, the refusal by Nazar to recognise the petitioner as a partner,

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despite overwhelming evidence, amounted to a repudiation of the relationship. Secondly, upon his removal as a director, the petitioner had lost his right to share in the profits through directors' remuneration, retaining only the chance of receiving dividends as a minority shareholder which, based on the Company's previous practice of not paying dividends, left the petitioner at the mercy of Nazar and George as to what he should receive out of the profits and when.

Further, the Court noted that the petitioner was unable to dispose of his interest without the consent of Nazar and George.

The Court reiterated that all these led only to the conclusion that the right course was to dissolve the association by winding up.

THE POSITION IN MALAYSIA

In Malaysia, a company may be wound up under section 218(1)(i) of the Companies Act, 1965 ("Malaysian Act") which is substantially similar to section 222(f) of the English Act.

> **"the phrase 'just and equitable' enables the court to subject the exercise of legal rights to equitable considerations"**

The first reported case in Malaysia where the court applied the principles laid down in *Ebrahimi* is *In the Matter of Tahansan Sdn Bhd* [1984] 1 MLJ 204. This decision of N.H. Chan J was subsequently upheld by the Privy Council in *Tay Bok Choon v Tahansan Sdn Bhd* [1987] 1 MLJ 433.

Subsequently, in *Tien Ik Enterprise Sdn Bhd & Ors v Woodsville Sdn Bhd* [1995] 1 MLJ 769, the Supreme Court held that it is not essential, and is therefore not a condition, that all or at least one of the three elements mentioned by Lord Wilberforce must be present before the *Ebrahimi* principles can be applied. In this case, the Court held that the agreement by the parties to wind up the companies voluntarily was clear evidence that they no longer enjoyed the confidence of each other and provided convincing evidence of the breakdown of mutual confidence among the parties to justify the winding up on the just and equitable ground.

The Supreme Court in *Tien Ik* also held that, unlike the English Act which requires the court to consider whether there are alternative remedies available before making a winding up order, there are no provisions in section 218 of the Malaysian Act which impose a corresponding obligation on the Malaysian courts. Accordingly, the Supreme Court held that it is not obligatory for the court to consider the availability of alternative remedies before making a winding up order under section 218(1)(i) of the Malaysian Act.

Another noteworthy Malaysian case is *Re Lo Siong Fong* [1994] 2 MLJ 72. In this case, three families, namely the Lo, How and Foong families, had incorporated a company, Federal Paint Factory Sdn Bhd ("Federal Paint"). The Lo family initially held more than 50% of the issued share capital in Federal Paint and it was contended that there was an understanding among the shareholders that a member of the Lo family would always be the managing director of Federal Paint. Subsequently, the Lo family disposed of all but 296 of the 10,296 shares held by them in Federal Paint, resulting in more than one-half of the share capital being held by persons who were not members of any of the founding families.

V.C. George J (as he then was) held that a legitimate expectation to manage a company or a quasi-partnership formed originally between the parties may be altered and disappear lawfully with the passage of time. According to the learned Judge, the courts are bound to assess the reality of the situation to determine whether the original expectations of the quasi-partnership still existed between the parties. Based on the facts described above, George J concluded that the relationship of the parties "*had altered beyond recognition*" and that the quasi-partnership "*had re-metamorphosed to being an incorporated company.*" Thus, it was held that the reliance by the petitioner in this case on a legitimate expectation was clearly misplaced.

CONCLUSION

The battle of Westbourne Galleries in *Ebrahimi* did not cause loss of life as the pitched battles fought by the great Persian kings, Cyrus the Great, Darius and Xerxes at Media, Thermopylae, Marathon, Salamis and Plataea did. Nevertheless, it leaves an indelible mark in English law as it was the first time that the House of Lords had to consider whether quasi-partnership principles could be applied within the framework of an incorporated company. This decision is the *locus classicus* on the subject and remains relevant to this day.

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HE HAD 99 PROBLEMS BUT A MODEM AIN'T ONE

Nimalan Devaraja discusses the case of the missing modem

In *Durkin (Appellant) v DSG Retail Limited and another (Respondents) (Scotland)* [2014] UKSC 21, the UK Supreme Court considered the question as to whether a credit agreement can be rescinded by the debtor where the corresponding supply agreement is validly rescinded. The Supreme Court also considered the duty of care imposed on a bank before it notifies credit reference agencies of a debtor's default under a financing agreement.

THE BEGINNING OF THE END

The aptly termed 'laptop saga' began on 28 December 1998 when Mr Durkin ventured into PC World in Aberdeen to purchase a laptop with an internal modem (remember, this was back in the dark ages of the internet, before Wi-Fi was available at your local Starbucks).

At the store, Mr Durkin spoke to one Mr Taylor, a member of the store's management, about his requirements. Mr Taylor referred Mr Durkin to a sales assistant who identified a product for Mr Durkin. The sales assistant was unable to confirm whether the laptop met Mr Durkin's specifications, but nevertheless agreed that Mr Durkin could return the laptop if it did not contain an internal modem. Based on this assurance, Mr Durkin purchased the laptop and entered into a debtor-creditor–supplier agreement ("credit agreement") with HFC Bank plc ("HFC") to fund the purchase.

Upon arriving home, Mr Durkin found that the laptop did not come with an internal modem. He went to PC World on the following morning to return the laptop and requested that the credit agreement be cancelled. Mr Taylor refused to accept Mr Durkin's rejection of the laptop and took no steps to cancel the credit agreement.

TROUBLE WITH CREDIT

Having taken the position that both the supply agreement and credit agreement had been rescinded, Mr Durkin did not pay any money to HFC under the credit agreement. Upon receiving a request for payment, Mr Durkin informed HFC that he had rejected the laptop and had rescinded his contract with PC World and the credit agreement. Mr Durkin also wrote to the managing director of PC World to explain that he had rejected the laptop, that PC World's manager had refused to refund the deposit and that HFC was now demanding money from him.

Unfortunately for Mr Durkin, this did not put an end to his travails. HFC again informed Mr Durkin that he was in arrears of his payments and that if he did not resume payments, they would serve a default notice on him under the Consumer Credit Act 1974 ("Act"). Mr Durkin responded by informing HFC yet again that the supply agreement had been rescinded and that he was not due to pay any sums under the credit agreement.

Without any investigation into Mr Durkin's claim, HFC issued a default notice and intimated to the UK credit reference agencies, Experian Ltd and Equifax Ltd, that Mr Durkin had defaulted in his obligations under the credit agreement. The credit reference agencies recorded the alleged default on their registers which operated to prevent Mr Durkin from opening new accounts with credit card companies and other lending institutions. This caused Mr Durkin immense problems as he had used credit cards to fund his lifestyle and wanted to make use of interest-free credit balance transfers offered by credit card companies to minimise the cost of his borrowings by transferring such balance from one credit card company to another at the end of each interest-free period.

THE FIRST BATTLE

Infuriated with the actions of PC World and HFC, Mr Durkin made his first foray into the battle field by filing a small claims action against DSG Retail Limited ("DSG"), which operated, among others, PC World. Mr Durkin emerged semi-victorious when PC World returned his £50 deposit in an out-of-court settlement without any admission of liability.

However, this did not bring Mr Durkin any closer to resolving his dispute with HFC. Therefore, with the next move of his chess piece, Mr Durkin raised an action in the Aberdeen sheriff court against both DSG and HFC, seeking a declaration that he had validly rescinded both the supply agreement and the credit agreement.

> **"HFC ... was under a duty to investigate that assertion ... before reporting to the credit reference agencies"**

Mr Durkin also claimed damages of £250,000.00 from HFC for its negligence in representing to the credit reference agencies that he had defaulted on the credit agreement. His claim for damages was made under three heads of loss, namely (i) damage to his financial credit; (ii) loss from interest charges caused by his inability to exploit the interest-free credit transfer schemes; and (iii) loss caused by his inability to pay a 30% deposit on a house in Spain in October 2003, measured essentially by the difference between the price in 2003 and the enhanced value of that property three years later.

DSG contested Mr Durkin's claim that he had rescinded the contract of sale but DSG's defence was brushed aside when factual findings established that DSG had been in material breach of contract, thereby entitling Mr Durkin to rescind the supply agreement.

HFC disputed Mr Durkin's right to rescind the credit agreement and his claim for damages. However, Sheriff Tierney held that section 75 of the Act (which *inter alia* provides that a supplier and creditor under a debtor-creditor-supplier agreement falling within section 12(b) are jointly and severally to a debtor in respect of any claim against the supplier for misrepresentation or breach of contract) applied. The Sheriff held that Mr Durkin was entitled

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to rescind, and on the facts, had rescinded both the supply agreement and the credit agreement.

Sheriff Tierney went on to award Mr Durkin (i) £8,000.00 for injury to his credit, (ii) £6,880.00 for the additional interest which he had to pay; and (iii) £101,794.00 for the loss of a capital gain arising from his inability to purchase the Spanish property.

A BIRD IN THE HAND IS BETTER THAN TWO IN THE BUSH

Dismayed at his envisioned riches being slashed to half, Mr Durkin appealed to the Inner House of the Court of Session ("Inner House") against Sheriff Tierney's assessment of damages. In retaliation, HFC cross-appealed against the Sheriff's findings in relation to section 75 of the Act and that HFC had breached its duty of care and had been held responsible for the second and third heads of loss claimed by Mr Durkin.

In one swift move, the Inner House struck a double blow to Mr Durkin's wallet. Not only did Mr Durkin's appeal on the amount of damages fail, but HFC's counsel, fully utilising his oratory skills, persuaded the Inner House that section 75 of the Act did not allow Mr Durkin to rescind the credit agreement. The Inner House also accepted HFC's submission that, absent averments and evidence of the sort of enquiries which a bank could reasonably have been expected to make, Mr Durkin had not shown that HFC had failed in its duty of care.

HFC's counsel also convinced the Inner House that the evidence did not permit Sheriff Tierney to hold that HFC's breach of duty had caused Mr Durkin losses under the second and third heads of loss. The Inner House therefore amended the Sheriff's findings of fact to exclude his claims for loss of interest and the loss arising from his inability to purchase the property in Spain. The Inner House granted judgment in favour of HFC.

THE BATTLE BEFORE THE FIVE JUDGES

In a last throw of the dice, Mr Durkin appealed to the Supreme Court against the decision of the Inner House. The issues before the Supreme Court were (i) whether Mr Durkin had rescinded the credit agreement; (ii) whether HFC was in breach of a duty of care to him; and (iii) whether, if there was a breach of duty, such breach had caused Mr Durkin loss in excess of the £8,000.00 which Sheriff Tierney had awarded for the loss of his credit.

The Supreme Court held that the credit agreement was a restricted-use credit agreement under section 12(b) of the Act which is used to finance a transaction between the debtor and a third party supplier.

With an early heart-stopper to Mr Durkin's claim, the Supreme Court agreed with the Inner House's finding that section 75 of the Act did not give the debtor any right to rescind the credit agreement if he did not have such a right under the general law.

However, just when it looked like the last glimmer of hope had died for Mr Durkin, the Supreme Court threw him a lifeline. The Supreme Court found that it was inherent in a credit agreement under section 12(b) of the Act that if the supply transaction which it financed is brought to an end by the debtor's acceptance of the supplier's repudiatory breach of contract, the debtor may repay the borrowed funds which he recovers from the supplier. The Supreme Court found that in order to reflect that reality, the law implies a term into such a credit agreement that it is conditional upon the survival of the supply agreement. Therefore, the debtor on rejecting the goods and thereby rescinding the supply agreement for breach of contract may also rescind the credit agreement by invoking this condition. It was on this basis that it was found that Mr Durkin was entitled to rescind the credit agreement.

Made of sterner resolve than the Inner House, the Supreme Court was not swayed by the argument by HFC's counsel that the burden was on Mr Durkin to plead or prove the nature of the enquiries that HFC should have carried out and what the outcome of those enquiries would have been before it could be established that HFC had breached its duty of care.

The Supreme Court instead took the view that HFC, knowing of Mr Durkin's assertion that the credit agreement had been rescinded, was under a duty to investigate that assertion in order reasonably to satisfy itself that the credit agreement remained enforceable before reporting to the credit reference agencies that he was in default. The Supreme Court was of the view that HFC should have contacted DSG first, and having discovered that there was a contested rescission of the supply agreement and an asserted rescission of the credit agreement, should have refrained from intimating a default to the credit reference agencies until the issues were resolved.

Instead HFC had, in breach of its duty of care, jumped the gun and notified the credit reference agencies immediately without taking any reasonable steps to ensure that the notification was accurate, despite being able to foresee that registration of a default could damage Mr Durkin's credit.

SHOW ME THE MONEY

As HFC had earlier decided not to contest the award of £8,000.00 for injury to Mr Durkin's credit if it were established that HFC had breached its duty of care, the only issues left to be determined were Mr Durkin's claims under the second and third heads of loss.

To Mr Durkin's dismay, he failed in his attempt to further pad his wallet. At the Inner House stage, the Court had held that:-

(1) Sheriff Tierney had not established the extent to which Mr Durkin would have made use of the interest-free credit

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CASE COMMENTARY

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SPELL IT RIGHT FOR SPELLING BEE?

Did the Court of Appeal get it right in the Spelling Bee dispute?

The case of *The New Straits Times Press (M) Bhd & Anor v Admal Sdn Bhd* [2013] 6 MLJ 405 called into question a claim on the copyright over a concept paper called 'NST-Spell It Right', which was said to reduce into written form the concept and rules of an English spelling competition.

This appeal to the Court of Appeal arose from a decision of the High Court where the Respondent, Admal Sdn Bhd ("Admal") succeeded in its claim that the Appellants, New Straits Times Press (M) Bhd ("NST') and RHB Bhd ("RHB"), had infringed its copyright in the said concept paper by running an English spelling competition known as 'NST-RHB Spell It Right'.

BACKGROUND FACTS

Sometime in late 2004 or early 2005, NST was in negotiations with Admal to jointly organise an English spelling competition amongst its readers. During the course of negotiations, Admal had presented a concept paper setting out the concepts and rules for an English spelling competition entitled ABX Spelling Competition ("ABX Version") and along the way, the said ABX Version was amended to incorporate the input and suggestions provided by NST.

While Admal agreed to have the improved ABX Version concept paper named 'NST Spell It Right' ("Concept Paper"), its directors nevertheless affirmed a statutory declaration to declare their ownership of the copyright over the Concept Paper. Ultimately, the joint venture to implement the Concept Paper and the 'NST Spell It Right' competition did not materialise due to lack of sponsorship.

Subsequently, NST decided to put in place its own spelling competition after achieving greater success in procuring sponsors. In 2008, NST collaborated with a third party, RHB, in running a spelling competition known as 'RHB-NST Spell It Right'.

The collaboration between NST and RHB to run the 'RHB-NST Spell It Right' spelling competition did not sit well with Admal. Accordingly, Admal initiated a legal suit in 2011 against NST and RHB, claiming for infringement of the copyright found in the Concept Paper. Admal also claimed for breach of confidence against NST for using the features in the Concept Paper without obtaining its prior consent.

DECISION OF THE HIGH COURT

At the High Court, the learned trial judge, upon hearing evidence from both sides, found that Admal held copyright ownership over the Concept Paper, and that the said copyright was infringed by NST and RHB. The learned trial judge made this finding on grounds that the concepts and the rules of the 'RHB-NST Spell It Right' spelling competition were substantively similar to those in the Concept Paper.

THE APPELLANTS' ARGUMENTS

At the hearing before the Court of Appeal, it was argued by the Appellants that the Concept Paper was not entitled to copyright protection because the work lacked originality. While the Appellants acknowledged that a compilation of information is eligible for copyright, it was submitted that the Concept Paper was not eligible for copyright protection as the concepts and rules compiled therein were general and common in nature and did not differ much from the rules found in other competitions, such as debate or singing.

It was argued that the ineligibility of the Concept Paper to qualify for copyright protection was further supported by the fact that even Admal's witness admitted during cross-examination that in coming up with the Concept Paper, the idea and concept were copied from the televised American Spelling Bee competition.

To support their defence of non-infringement, the Appellants argued that the concepts and rules in their 'RHB-NST Spell It Right' competition only share a 'commonplace object or theme' with the Concept Paper and such commonplace features should be disregarded when it comes to determining whether there was substantial copying amounting to infringement. The Appellants also argued that the learned Judge had failed to consider the differences found in both versions.

THE DECISION OF THE COURT OF APPEAL

Entitlement to copyright protection

The Court of Appeal made a distinction between what is capable of obtaining capable protection and what is entitled to copyright protection. To determine whether the Concept Paper was eligible for copyright protection, the Court of Appeal adopted the originality test from the High Court case of *Kiwi Brands (M) Sdn Bhd v Multiview Enterprises Sdn Bhd* [1998] 6 MLJ 38, namely that:-

(a) the originality which is required relates to the expression of thought and the work should not be copied from another work but rather should originate from the author; and

(b) a compilation of information is copyrightable although the information is not original.

Upon considering the facts, the Court of Appeal found that the Concept Paper was ineligible for copyright protection as it was nothing more than a mere compilation of already existing information that has been widely available in the public sphere for ages, including from the American Spelling Bee Competition. Accordingly, the Court of Appeal found that the Concept Paper

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LEGAL INSIGHTS LEGAL QUIZ : LATIN TERMS

Ever so often your lawyer will mutter some phrases in *Latin* during your meetings with him. You know what he means, or at least you think you do. Well, do you? Here's your chance to find out with Legal Insights' Legal Quiz.

1. "*Res ipsa loquitur*" is a rule of evidence that:

(a) disallows the plaintiff to use circumstantial evidence to meet the burden of proof in negligence cases for only the first two elements: duty and breach
(b) allows the plaintiff to use circumstantial evidence to meet the burden of proof in negligence cases for only the first two elements: duty and breach
(c) allows the plaintiff to use circumstantial evidence to meet the burden of proof in criminal cases for only the first elements: duty and breach
(d) allows the plaintiff to use circumstantial evidence to meet the burden of proof in contract cases for only the first two elements: duty and breach

2. "*Obiter dictum*" means:

(a) A binding decision
(b) The rationale for the decision of the case
(c) An incidental remark or observation of the case
(d) A principle already established in a previous case

3. "*Quantum meruit*" means:

(a) Compensation given, the amount of which is subject to appeal
(b) Compensation given, the amount of which is not subject to appeal
(c) Fair remuneration a person deserves for services rendered
(d) Value of services a person does not reasonably deserve

4. "*Ratio decidendi*" is:

(a) An incidental observation or remark that is not binding
(b) The decision of a case
(c) The rationale for the decision of a case
(d) A principle already established in a previous case

5. "*Res judicata*" means:

(a) A non-binding judgment
(b) A decision which is dependent on a binding judgment
(c) A judgment which is still subject to appeal
(d) A matter which has been decided by a court and is no longer open to challenge

6. "*Sui generis*" means:

(a) The underlying principle
(b) A conflicting principle
(c) Common or widely used
(d) Unique or one of a kind

7. "*Per incuriam*" means:

(a) A judgment of court which has been correctly decided with reference to the proper statutory provision or an earlier binding judgment
(b) A judgment of court which has been mistakenly decided without reference to the proper statutory provision or an earlier binding judgment
(c) A judgment of court that is upheld despite evidently disregarding the proper statutory provision or an earlier binding judgment
(d) A judgment of court that is based on an earlier judgment which has been overruled

8. "*Stare decisis*" means:

(a) Altering what has been established
(b) Bound by what has already been established
(c) Not binding on what has already been established
(d) Legally binding on future cases

9. "*Volenti non fit injuria*" means:

(a) No compensation is given to the losing party
(b) No injury is done to a person who consents
(c) No injury is done to a person who resents
(d) Voluntarily subjecting oneself to injuries

10. "*Bona fide*" means:

(a) In good time
(b) In accordance with the law
(c) In good faith
(d) In bad faith

PLEASE TURN TO PAGE 27 FOR THE ANSWERS TO "LEGAL QUIZ"

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HELP! CHEAP IMPORTS ARE KILLING MY BUSINESS!

continued from page 3

of the affirmative finding in the Gazette. No later than five years after anti-dumping duties have been imposed, MITI will conduct a sunset review to determine whether revoking the said duties would be likely to lead to continuation or recurrence of dumping. In this regard, MITI will seek written views from the relevant stakeholders before making its decision.

No less than one year after the anti-dumping duties have been imposed, affected foreign exporters may request MITI to conduct an administrative review of the said duties where the dumping margin has changed substantially or where the duties imposed are no longer necessary or maintainable.

Upon receiving such a request, MITI will review the facts and circumstances involved to determine if the said request is meritorious.

THE MALAYSIAN TREND

Whilst Malaysia has not been known to be an active user of trade remedies, there has been a surge in anti-dumping investigations initiated by MITI since mid-2012. Among the products investigated within the last 24 months were (i) steel wire ropes; (ii) biaxially oriented polypropylene films; (iii) electronic tinplate; (iv) stranded wire, ropes and cable; (v) newsprint; (vi) hot rolled coils (two investigations); (vii) fibre reinforced cement flat sheets; and (viii) polyethylene terephthalate.

Consistent with the global trend, the most frequently investigated products were from the iron and steel sector. As five out of the nine recent investigations by MITI involved construction related products, there were speculations that trade remedy measures, in particular anti-dumping actions, have been used to protect the construction-related industry in Malaysia.

WHERE DO WE GO FROM HERE?

Newton's Third Law states that for every action there is a reaction. It is crucial that in determining anti-dumping measures, the investigation must be transparent and be up to the standards prescribed by the WTO. If any duty is to be imposed, it must be proportionate to the injury caused to the importing market and not for any other reason.

Although no formal connection has been made, eyebrows were raised when Vietnam decided to impose anti-dumping duties against cold-rolled stainless steel coils originating from Malaysia shortly after Malaysia had imposed anti-dumping duties on biaxially oriented polypropylene films from Vietnam. As a developing nation, a full blown trade war would not be in Malaysia's interest. Indeed, all eyes are on MITI's role as the Malaysian Free Trade Guardian.

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WHAT MAKETH A BOTTLE

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features of the design in suit and found that the eye that should be the judge is the class of customers put forward by the Plaintiff.

The Court of Appeal reversed the High Court's findings and found that the Plaintiff's witnesses could not determine this issue. Having found that every feature of the 624 Design consisted of trade variants required by bottle manufacturers to be included for ordinary day to day usage, the appellate Court held that the 624 Design fell foul of the second limb and therefore lacked novelty.

Having found the 624 Design to be invalid, the Court of Appeal found that the question of its infringement by the Defendants did not arise and did not make any ruling on the same. All four appeals were allowed and the 624 Design was invalidated.

The Plaintiff's application for leave to appeal to the Federal Court was dismissed in April 2014.

The advertisement for the POKKA Bottle

CONCLUSION

The decision of the Court of Appeal in these cases is significant in several respects. First, it provides invaluable guidance as to the approach which the Malaysian court would adopt in determining whether a particular design qualifies as an "industrial design" which is registrable under the IDA.

Second, it clarifies the approach that the court would take when considering the parties who are the appropriate class of customers through whom the novelty, or otherwise, of a design is to be determined.

Last, but not the least, the court has also clarified from the evidential perspective, that advertisements and other publicity materials may be admitted to prove prior publication.

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NEITHER A SHE NOR A HE

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Governments to take steps to treat the TGs as socially and educationally backward classes of citizens; allow them admission to educational institutions and public appointments; operate HIV sero-surveillance centres catering for TGs; address problems of fear, shame, suicidal tendencies faced by TGs; provide medical care to TGs in hospitals; initiate social welfare schemes for betterment of TGs; and take measures to enable TGs to regain their respect and place in society which they once enjoyed.

CONCLUSION

Although the concepts of equality before the law, equal protection of laws, freedom of speech and expression and protection of life and personal liberty are all enshrined in the Federal Constitution, individuals who identify themselves as part of the "third gender" as well as transsexuals, have struggled to gain recognition of their rights in Malaysia.

Sex-change declaration applications, such as *Wong Chiou Yong v Pendaftar Besar/Ketua Pengarah Jabatan Pendaftaran Negara* [2005] 1 CLJ 622, *Aleesha Farhana Abdul Aziz* (unreported) and *Kristie Chan v Ketua Pengarah Jabatan Pendaftaran Negara* [2013] 4 CLJ 627 (Court of Appeal), have been unsuccessful, with *Re J-G* being the sole exception.[5]

In 2012, *Adam Shazrul bin Mohammad Yusoff and three others*, all transgender Malaysians, were prosecuted under *Shariah* law based on accusations of dressing as women. Their application for judicial review of the law on the ground of unconstitutionality was dismissed by the Seremban High Court. The appeal to the Court of Appeal by three of the litigants is pending.

It is hoped that the Malaysian Courts will draw inspiration from the landmark cases from Australia and India to break new ground both in recognizing a third gender as well as allowing sex-change declaration applications. That would indeed be a true measure of Malaysia's development as a nation.

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ENDNOTES:

1. *De Legibus et Consuetudinibus Angliae* [*On the Laws and Customs of England*]: paragraphs 031, 032, Volume 2, pages 31-32.
2. [2014] HCA 11.
3. Writ Petition (Civil) No. 400 of 2012.
4. There does not appear to be any legislation elsewhere in the world equivalent to the German legislation.
5. *Wong Chiou Yong* and *Re: J-G* were discussed in "*Can he be a she and she, a he?*" in Legal Insights Issue 1/2006.

MABUHAY TO ANOTHER DRAGON BOAT SEASON

The dawn of the Skrine 2014 dragon boat season brought the Skrine Dragons to the island of Boracay, Philippines to compete in the 8th Boracay International Dragon Boat Festival 2014 on 25-27 April 2014. Boasting emerald green waters and white sandy beaches, this island provided a postcard-perfect backdrop for the Skrine Dragons to once again make its mark on the world stage. We were the sole Malaysian representative and were indeed proud to represent Malaysia, and Skrine, in this annual dragon boat competition, which saw 1,093 participants from 32 teams.

The team took part in the Small Boat 500m (Mixed), the Small Boat 500m (Men), the Small Boat 250m (Mixed), the Small Boat 250m (Women) and the Big Boat 250m (Mixed) events. The team clocked in good results and surpassed our personal best times for the respective categories in the course of beating international teams from Hong Kong and Singapore with several 3rd placings in the heats. It was a well-deserved performance as the Dragons have pushed themselves hard, clocking up to four training sessions a week in the lead-up to the race.

Riding on that high, the Dragons returned to Malaysian shores and in May, participated in the Malaysia International Dragon Boat Championship. This race saw the Skrine Dragons competing against the likes of the Malaysian Police, Malaysian Navy, Putra Dragon Boat Club, Pacific West and the KL-Barbarians.

The team once again bested our times for this season and did well to achieve 5th and 6th placings in the Grand Finals of the 12 crew team (Mixed) and 22 crew team (Open) events respectively. This Championship brought our spectacular season to a close, and we look forward to yet another season of hard and strong paddling in 2015!

RE-APPORTIONING LIABILITY

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customer relationship when it followed Pesaka's instructions in the management of the Designated Accounts. Based on the subjective test of dishonesty laid down by the House of Lords in *Twinsectra Ltd v Yardley and others* [2002] 2 All ER 377, the Federal Court held that CIMB could not be construed as being dishonest in the ordinary standards of reasonable and honest people. Thus, MTB's claim against CIMB was dismissed.

COMMENTARY

By allowing the lead arranger to exclude liability relating to the veracity of information contained in an information memorandum, the burden of verifying the contents of the information memorandum falls squarely on potential investors. This may have a negative impact on the bond market as potential investors would incur time and expense to conduct their own due diligence on the financials and the quality of the management and shareholders of the issuer.

> "it would not be just and equitable for Pesaka ... to retain any part of its ill-gotten gains"

Bonds issued by private companies may become less attractive, as information relating to these companies is not easily available from the public domain.

The *Pesaka* decision is also a wake-up call for investment banks and bond trustees to tighten their risk management procedures.

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Editor's Note: The Court of Appeal's decision in this case was discussed in "More Hats than Heads?" in Legal Insights Issue 4/2011.

HE HAD 99 PROBLEMS

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transfer schemes between 2001 and 2005 or the net benefit he would have gained from such use; and

(2) There was no evidence to support Sheriff Tierney's crucial finding that the additional borrowing incurred by Mr Durkin from the Northern Rock Building Society was caused by the non-availability of the interest-free credit transfer schemes by the credit card companies and had used up funds which otherwise would have been available to pay the deposit on the Spanish property.

The Supreme Court found that the above, which were findings of fact made by the First Division, showed that there was no causal link between the adverse credit reference and the second and third heads of loss. As there was no legal error demonstrated, the Supreme Court concluded that it was precluded from going behind the findings of fact by the Inner House.

Although the Supreme Court allowed the appeal and declared that Mr Durkin was entitled to rescind and had validly rescinded the credit agreement, it only awarded damages of £8,000.00 to Mr Durkin as a result of the injury caused to his credit by HFC's breach of its duty of care.

COMMENTARY

This writer takes the position that the Supreme Court had reached the right decision. It seems completely unreasonable and commercially impracticable for a credit agreement to remain standing when the underlying supply agreement has been rescinded, particularly when the credit obtained under the credit agreement could only be used to purchase the subject matter of the supply agreement.

It would also seem to be the correct view that the burden must rest on the creditor to investigate any dispute arising from a credit agreement before making statements to the credit reference agencies as the creditor would be in the best position to carry out the investigation to determine whether the default had in fact occurred. In the writer's view, this is the key point in the Supreme Court's decision.

Although Mr Durkin's success in the Supreme Court may seem like a hollow victory to him, his perseverance has clarified the law on section 12(b) of the Consumer Credit Act 1974 and set a benchmark for creditors to follow in the reporting of alleged defaults on financing agreements to credit reference agencies.

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SPELL IT RIGHT FOR SPELLING BEE?

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failed to satisfy the originality test propounded in *Kiwi Brands* to qualify for copyright protection.

Copyright infringement

The Court of Appeal further observed that even if it had erred in ruling that the Concept Paper was not eligible for copyright protection due to its simplicity, the learned judge had also erred in ruling that the Appellants had copied from the Concept Paper.

The Court held that in determining copyright infringement, i.e. whether there was substantial copying, the learned trial judge should have taken into account the "functional object" test where the quality of the copying is relevant as opposed to the quantity of copying. Applying this test, all functional or commonplace features should be excluded when comparing whether the latter version was copied from the earlier version.

Applying the functional object test laid down in *Robin George Le Strange Meakin v British Broadcasting Corporation & Ors* [2010] EWHC 2065, the Court of Appeal found that the similarities appearing in both the Concept Paper and the 'RHB-NST Spell It Right' competition were to be expected since every English spelling competition would necessarily incorporate the very same features. By failing to exclude these functional or commonplace features, the learned trial judge had erred in concluding that the Concept Paper had been substantially copied by the Appellants.

CONCLUSION

One of the principles of copyright protection made clear from this case is that in its simplest terms, a work must be "original" to qualify for copyright protection. As set out in *Kiwi Brands*, which was adopted by the Court of Appeal in this case, originality relates to the **expression of thought** from the author and arguably, so long as the work is not copied from other work, it is entitled to copyright protection.

The Court of Appeal here unreservedly adopted the pronouncements in *Kiwi Brands* that a compilation could be original and copyrightable even if the information compiled is not original. Notwithstanding this, the Court of Appeal pronounced that "*we are not persuaded that the NST Spell it Right although capable of securing copyright is entitled to such protection since it is nothing more than the mere compilation of already existing information widely available in the public sphere*." The operative words here appear to be "mere compilation" and suggest that substantial efforts and skill must be invested by an author compiling non-original information to gain copyright protection over a compilation.

As to establishing copyright infringement, this case serves as a reminder that substantial copying is dictated by the quality of the copying as opposed to the quantity of copying. Accordingly, qualitative copying precludes the consideration of functional or commonplace features as such features are not entitled to copyright protection in the first place because they lack originality. Thus, only the copying of original features which are entitled to copyright protection would amount to copyright infringement.

While the Court of Appeal may have expressed reservations on the Concept Paper's eligibility for copyright protection, it has nonetheless provided strong grounds for refuting claims that the Concept Paper was ever infringed. In conclusion, it would appear that the Court of Appeal has got it right in resolving this Spelling Bee dispute.

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LEGAL INSIGHTS LEGAL QUIZ : LATIN TERMS

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HERE THEY ARE … THE ANSWERS TO "LEGAL QUIZ?"

Award yourself one point for every correct answer and see how you measure up.

1.	(b)	6.	(d)
2.	(c)	7.	(b)
3.	(c)	8.	(b)
4.	(c)	9.	(b)
5.	(d)	10.	(c)

Score

9 – 10 : Excellent! You are a match for your *Latin*-muttering lawyer.

7 – 8 : Well done but don't hesitate to seek clarification from your lawyer if you are unsure of the meaning of any *Latin*-term that he uses.

4 – 6 : Not quite there yet. Consider buying a *Latin-English* dictionary to improve your knowledge on *Latin* terms.

0 – 3 : Oh dear, we suggest that you get your lawyer to explain to you the meaning of any *Latin* term that he uses.

LEGAL INSIGHTS

A SKRINE NEWSLETTER

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

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