SHOOK LIN & BOK

EST 1918
KUALA LUMPUR

LEGAL UPDATE

Vol 2 No 2 PP13906/8/2007

2nd Quarter 2006

The lawyers of the firm gathered for a drinks and cocktail evening at Top Hat Restaurant on 16 June 2006. Regular events in the firm's social calendar, these are cherished as opportunities for fostering greater fellowship among the members of the firm. More pictures in the pages ahead.

IN THIS ISSUE

Securities Commission Guidelines on Restricted Investment Schemes

On 7 April 2006, the Securities Commission (**SC**) issued its Guidelines on Restricted Investment Schemes. The Guidelines regulate the issue and offer in relation to any "Restricted Investment Scheme" (**RIS**) by a fund manager licensed under the Securities Industry Act, 1983 (**SIA**) and specify the requirements that a licensed fund manager must comply with in relation to a RIS and the offering of units in a RIS.

A RIS is a unit trust fund which is not offered to the general public at large, but restricted to a limited group of investors including individuals or companies with net assets above a minimum threshold. By virtue thereof, some of the requirements in relation to unit trust funds normally offered to the general public, for instance the requirement for a prospectus, are relaxed.

A RIS is defined in the Guidelines as "a unit trust fund, any unit of which is issued, offered for subscription or purchase or in respect of which an invitation to subscribe or purchase has been made exclusively to qualified investors under these guidelines by a licensed fund manager".

The Guidelines are issued in connection with the Securities Commission (Disapplication of Division 5 of Part IV) Order 2005 (the Order) made on 19 October 2005. The Order provides that the provisions of Division 5 of Part IV of the Securities Commission Act, 1993 (SCA) (which regulates unit trust schemes and prescribed investment schemes) shall not apply, inter alia, to a RIS. Effectively, the Order exempts a RIS from complying with certain requirements which apply to unit trust funds.

"Qualified investors" is defined in the Order and Guidelines to mean:-

(a) an individual whose total net assets exceed three million ringgit or its equivalent in foreign currencies,
(b) a corporation with total net assets exceeding ten million ringgit or its equivalent in foreign currencies, or
(c) a unit trust scheme or prescribed investment scheme.

A RIS, when compared to a unit trust fund (**UTF**) offered to the general public, would have the following benefits:-

(a) A prospectus is not required to be issued for a RIS, unlike units in a UTF which are generally offered to the public. However, the Guidelines require an information memorandum to be issued by the licensed fund manager which must contain certain minimum disclosure items specified in these Guidelines. The disclosure requirement is less than what is required to be contained in a prospectus for a UTF. The number of qualified investors in a RIS is, however, limited to 50, unlike a UTF where there is no restriction on the number of unitholders,

(b) A UTF is required to be managed and administered by a management company approved by the SC, who may in turn delegate the investment management function to a licensed fund manager, whereas in a RIS, this role is performed exclusively by the licensed fund manager, i.e. a management company is not

required. The licensed fund manager must, however, fulfil certain criteria set out in the Guidelines, including having in place appropriate internal controls and risk management systems and procedures designed to mitigate and manage risks,

(c) While a UTF must be structured as a trust, a RIS need not necessarily be structured as such. In the case of a RIS structured as a trust, the licensed fund manager must enter into a deed with a trustee who is registered with the SC. As in the case of a UTF, there are minimum content requirements to be contained in the deed of a RIS, but the minimum content requirements of a RIS are less. If a RIS is not structured as a trust, the fund manager must ensure that third-party custodians, appointed under the SIA, take appropriate measures to ensure the safekeeping of the assets of the RIS held by the custodians on behalf of the fund manager.

With the issuance of these Guidelines, licensed fund managers now have the option of directly issuing and offering units in a unit trust scheme without having to go through a management company, and need not comply with the generally more stringent requirements contained in the SC Guidelines on Unit Trust Funds provided that such units are issued/offered to "Qualified Investors" only.

Securities Commission Guidelines on Chinese Walls for Dealers and Futures Brokers

On 11 May 2006, the Securities Commission (**SC**) issued its Guidelines on Chinese Walls for Dealers and Futures Brokers.

These Guidelines:-

(a) apply to investment banks, which are defined as entities licensed both as dealers under the Securities Industry Act, 1983 and merchant banks under the Banking and Financial Institutions Act, 1989 and established under the Guidelines on Investment Banks jointly issued by Bank Negara Malaysia and the SC; and

(b) are aimed at ensuring that dealers and futures brokers are not affected by the risks of activities undertaken by their "affected related companies" as well as to minimise any conflict of interest situations arising from such activities.

Affected related companies are defined as related companies within the group that are involved in any one of the following: (a) property or construction, (b) credit or leasing, (c) banking, and (d) the business of dealing in securities and these include a holding company of the dealer or futures broker.

These Guidelines stipulate, among other things, that:-

(a) dealers and futures brokers shall not provide any form of financial assistance, advances, loans, guarantees and indemnities, whether directly or indirectly, to their affected related companies and further require dealers and futures brokers to unwind all inter-company loans, advances, guarantees or other similar arrangements undertaken with their affected related companies prior to the issue of these Guidelines;

(b) except in the limited situations specified in these Guidelines, dealers and futures brokers are required to maintain independent and separate boards and management from their affected related companies and shall also have at least one independent director on their respective boards.

Amendments to Listing Requirements of Bursa Securities: Bonus Issues

Bursa Malaysia Securities Berhad (securities exchange) has amended the Listing Requirements for the Main and Second Boards as well as the MESDAQ Market Listing Requirements in relation to bonus issues with effect from 29 May 2006.

A listed issuer undertaking a bonus issue must now ensure that the necessary reserves required for the capitalisation of the bonus issue is unimpaired by losses on a consolidated basis, where applicable, based on its latest audited accounts as well as its latest quarterly report. Previously, a

listed issuer was only required to ensure that it had the necessary reserves for such capitalisation.

Amendments to Listing Requirements of Bursa Securities: PN 16 and PN 17

Bursa Malaysia Securities Berhad (securities exchange) has, on 5 May 2006, amended its Listing Requirements for the Main and Second Boards in relation to listed companies in financial difficulties and listed companies without a significant business (cash companies). The amendments are to paragraphs 8.14B and 8.14C of the Listing Requirements, and Practice Notes No. 16/2005 ("PN 16") (previously known as "PN 10") applying to cash companies; and No. 17/2005 ("PN 17") (previously known as "PN 4"), applying to companies in financial difficulties.

Some of the key changes are as follows:-

(a) the criteria for a listed issuer to fall under PN17 (where it is required, inter alia, to regularize its financial condition and level of operations) has been broadened. Additional categories have been included and some of the existing categories have been broadened. With these amendments, it is possible that certain listed companies, which would not have otherwise fallen within the previous provisions of PN17, will now fall within PN17. Some of the new categories are:

(i) the shareholders' equity of the company on a consolidated basis is equal to or less than 25% of its issued and paid-up capital, and the shareholders' equity is less than the minimum issued and paid-up capital required under the Listing Requirements;

(ii) a default in payment has been made by the company, its major subsidiary or major associated company and the company is unable to provide a solvency declaration;

(iii) a winding up order has been made against the Company's subsidiary or associated company which accounts for at least 50% of the total assets employed of the company on a consolidated basis;

(b) the company that has triggered PN17 or PN16 is now required to undertake a restructuring plan which is substantive. Such plan requires the prior approval of the Securities Commission. Previously, there was no requirement for the restructuring plan to be substantive nor subject to the approval of the Securities Commission;

(c) whereas previously, a company that has triggered PN17 or PN16 was given 7 market days to make the first announcement, it is now required to make such announcement immediately upon the relevant criteria being triggered; and

(d) the company that has triggered PN17 or PN16 which wishes to apply for an extension of time must do so no later than 15 days prior to the expiry of the relevant timeframe. Previously, there was no deadline in relation to such application.

However, category (a)(i) above will not apply during the first 3 months commencing from 5 May 2006 if the company is able to comply with certain requirements set out in the Listing Requirements.

Intellectual Property News

Industrial Designs

The High Court has in December 2005 ruled in *Shachihata Incorporated & 18 Ors v. The Registrar or Industrial Designs & The Intellectual Property Corporation of Malaysia* that designs registered under the UK Registered Designs Act 1949 (the UK Act) prior to the commencement of the Industrial Designs Act 1996 (IDA) on 1st December 1999 may be extended for the 4th and 5th periods of five years each in Malaysia.

However, the necessary amendments to the IDA and/or Industrial Designs Regulations 1999 (IDR), in particular, on the applicable extension fee for the 4th and 5th periods have yet to be made by the relevant authorities.

After seeking clarification from the Industrial Designs Registration Office (IDRO), the Legal Department of the Malaysian Intellectual Property Office has just issued the following advice.

(a) the IDRO would accept applications for the 4th and 5th periods of extension of designs registered under the UK Act prior to 1st September 1999 but after 1st August 1989, including designs whose 3rd period had expired after the IDA came into effect on 1st September 1999 (as the IDRO had rejected or did not accept applications to extend such UK registered designs for the 4th and 5th periods prior to the High Court decision); and

(b) where an application is filed before the implementation of proposed amendments to IDA and/or IDR, no extension fee is payable.

Owners of UK registered designs which are eligible for extension are advised to file extension applications before the proposed amendments to IDA and/or IDR are implemented to avoid the filing fees.

Case Updates

Arbitration

Dispute not within the scope of arbitration agreement

Only disputes which are agreed by the parties to be arbitrated are within the scope of the agreement to arbitrate. This is the effect of the decision of the Court of Appeal in *Jan De Nul NV & Ors v. Inai Kiara Sdn. Bhd.* [2006] 3 CLJ 46.

In that case, the Plaintiff and 1st Defendant executed a Memorandum of Understanding (MOU) whereby the 1st Defendant provided a dredger to the Plaintiff, with the intention to give the impression to the whole world that the Plaintiff had the ultimate interest in the dredger, as it was the major shareholder of the 2nd Defendant, which was to be registered as the owner of the dredger. In truth, the 1st Defendant intended to maintain ownership of the dredger. To achieve this intention, the Plaintiff executed a trust deed in which the Plaintiff was to hold its shares in the 2nd Defendant on trust for the 1st Defendant. Further, the Plaintiff also executed a Power of Attorney appointing the 1st Defendant to represent the Plaintiff's appointed director in the 2nd Defendant company.

Eventually, the relationship between the Plaintiff and the 1st Defendant soured. The 1st Defendant demanded from the Plaintiff payment for outstanding rentals. The 1st Defendant then invoked the Power of Attorney and called an Extraordinary General meeting (EGM) of the 2nd Defendant, resulting in the removal of the Plaintiff's appointed director in the 2nd Defendant, and the sale of the dredger to an associated company of the 1st Defendant.

The Plaintiff filed a suit against inter alia, the 1st and 2nd Defendants, alleging a conspiracy to defraud and breach of fiduciary duties, and seeking to annul the EGM and damages against the Defendants.

Meanwhile, the 1st Defendant commenced arbitration proceedings against the Plaintiff in Zurich, pursuant to a clause in the MOU, which provides that any dispute arising out of or in connection with the agreement shall be settled by arbitration in Zurich, Switzerland.

The 1st Defendant applied for a stay of the Plaintiff's suit on the ground that it contravened the agreement to arbitrate any disputes between them, pursuant to Section 6 of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards Act 1985 (the Convention Act), which provides that a party to an arbitration agreement may apply to the court to stay an action commenced by the other party, "unless there is not in fact any dispute between the parties with regard to the matter agreed to be referred" to arbitration. Notwithstanding the broad terms of the clause containing the arbitration agreement in the MOU, the court held that the Plaintiff's claim was not within the scope of the arbitration agreement. It was a matter of construction of the intention of the parties to determine the scope of their arbitration agreement. In this case, the parties did not intend that all disputes between them shall be resolved by arbitration. The Plaintiff's claim is in substance under the law of tort and is not contractual in nature and therefore outside the ambit of the arbitration clause. The Plaintiff's action therefore would not be stayed. However, the 1st Defendant was entitled to proceed with arbitration in respect of its contractual claim for outstanding rentals.

Banking

Certificate of indebtedness as conclusive evidence of debt

The Federal Court in *Cempaka Finance Bhd v. Ho Lai Ying (trading as K H Trading) & Anor* [2006] 2 MLJ 685, affirmed that a clause in a guarantee or loan agreement of the debt by the lender, shall be conclusive evidence of the amount of the debt, is binding on debtor, in the absence of manifest error.

The finance company (the lender) granted a loan to the borrower guaranteed by the guarantor. The lender subsequently filed a suit against the borrower and guarantor for recovery of the debt. The loan agreement and guarantee both contained a clause making a certificate of indebtedness by the lender conclusive evidence of the debt.

In the company's application for summary judgment against the defendants, the company produced only a Certificate of Indebtedness but no other documentary evidence such as the monthly statements of account to prove the amount of the debt. The High Court granted summary judgment, but the decision was reversed on appeal to the Court of Appeal. The Court of Appeal held that a Certificate of Indebtedness in isolation was insufficient to prove the debt without some other evidence showing how the amount of the debt claimed was derived.

On further appeal, the Federal Court overruled the Court of Appeal and reinstated the summary judgment. The Federal Court reaffirmed several earlier decisions at the appellate level which have held that the conclusive evidence clause in documents such as guarantees is binding and renders a certificate of indebtedness by itself conclusive evidence of the debt.

The clause dispenses with ordinary evidence to prove the debt, and provides a ready means of establishing the debt without an inquiry into the evidence of the debits going to make up the debt. Such a certificate shifts the burden onto the defendant to dispute the debt.

The decision reaffirms the effectiveness of a conclusive evidence clause after doubts having been stirred by some recent decisions. The acceptance of conclusive evidence clauses is premised on the trust placed in lenders such as banks, as being honest and reliable institutions which are unlikely to make a mistake in such certificates. Their standing makes such certificates acceptable as conclusive evidence.

Facility agreement containing variation to working draft agreement

The Federal Court in *Abdul Rahim Abdul Hamid & Ors v. Perdana Merchant Bankers Bhd & Ors* [2006] 3 CLJ 1 held that on the facts of the case, the borrower and the bankers, through a series of negotiations, had agreed on a working draft agreement in respect of the loan facility, and that the bankers' departure from or variation of one of the terms agreed in the working draft,

in the final Facility Agreement which was signed, without the consent of the borrower, was a breach of contract by the banks.

The banks granted a syndicated loan of RM20 million to the borrower to finance its purchase of a machinery for processing pineapples, from a German seller.

After a series of negotiations, the parties had agreed on a working draft agreement for the purpose of the loan facility. In the working draft, it was provided that the loan would be disbursed in two draw downs at two different stages. However, in the Facility Agreement drawn up by the banks that was eventually signed, the Agreement provided for only one draw down. On the evidence led at the trial, the borrower alleged he was not informed by the banks that there was to be a variation, and that the banks' representative had confirmed to the borrower's representative that the terms of the Facility Agreement were the same as the working draft, before the latter signed the Agreement. The evidence of the borrower's representative was that he was caught up with the ceremony to sign the Agreement, and relying on the representation that the terms were the same, had signed the Agreement without scrutinizing it beforehand.

Pursuant to the Agreement, the banks disbursed the whole loan facility in one draw down and remitted the money to the German seller by telegraphic transfer.

The appeals before the Court involved the claim by the banks for repayment of the loan, and a cross claim by the borrower that the drawdown was in breach of the loan agreement, that it was not liable to repay the loan, as well as for damages for breach of contract.

At the High Court, the trial judge found against the borrower, forming the conclusion that the working draft was merely a pre-contractual negotiation and was of no material importance. The borrower was bound by the terms of the Agreement it signed. The borrower's appeal to the Court of Appeal was dismissed. On further appeal, the Federal Court, noting that an appellate court would be slow to interfere with findings of fact by a trial court unless there was a clear error in the findings, found in effect that there was such error in the case, that there was insufficient judicial appreciation by the trial judge of the facts, warranting interference by the appellate court.

The Federal Court, reversing the trial court's finding, held that the parties had agreed on the terms in the working draft, borne out of months of negotiations, and the Facility Agreement was merely to formalize what had already been agreed upon. The variation in the Facility Agreement was thus a breach of contract on the bank's part. The Court also found that the trial judge erred in finding that the banks had complied with a prerequisite for release of the loan, i.e. that various certificates certifying completion of the machinery etc. had been issued. On the evidence, the banks released the loan before the prerequisite was satisfied, which the Federal Court held was a fundamental breach of contract. However, it appears that the certificates were issued subsequent to the drawdown.

In the upshot, the Court held that as the remittance by the banks to the German seller was in breach of contract, the borrower was not liable to repay the loan, and damages for breach of contract were to be assessed and paid by the banks to the borrower, the

borrower having suffered financial problems as a result of the breach. Although the normal rule is that a party is bound by the agreement he signs, in the circumstances of this case, it was held that a concluded agreement had already been reached in the working draft, and thus a departure from the normal rule may be justifiable.

In the light of this decision, bankers should ensure that relevant expressions are made in the correspondence between parties to the effect that the working drafts of the loan agreement are not binding until and unless a Loan Agreement is finalised and executed. Permitting draw downs of loans before the required conditions have been met has also to be considered carefully, as subsequently the borrower or the guarantor/security parties may dispute the same.

Hire purchase: whether owner has duty to mitigate loss by repossession

The High Court in *HSBC Bank Malaysia Bhd v LH Timber Products Sdn. Bhd & Ors* [2005] 6 MLJ held that the owner, under the hire purchase agreements in the case not governed by the Hire Purchase Act 1967, has no duty to mitigate its loss by repossessing the equipment.

The plaintiff bank, the owner, vide 42 agreements provided hire purchase facilities to the first defendant, the hirer, to finance its purchase of various equipment. The hire purchase agreements did not fall within the scope of the Hire Purchase Act. Due to the first defendant's default in paying the monthly rentals, the plaintiff terminated the agreements and sued the defendants for the outstanding debt. The plaintiff's application for summary judgment was dismissed by the Senior Assistant Registrar. One of the issues raised by the defendants was that the plaintiff failed to mitigate its loss by repossessing the equipment.

On appeal, the Judge held that by the terms of the agreements, there was no duty on the plaintiff to repossess the equipment. The agreements provided that if the owner shall be unwilling to repossess, it shall have the option of recovering the unpaid balance of the hire purchase price.

Furthermore, the plaintiff's claim against the defendants was for a debt, namely the purchase price for equipment payable by instalments, and not for damages for breach of contract. There is no duty to mitigate or reduce a debt.

Unlike a leasing agreement where ownership of equipment remains vested in the lessor or financier at the end of the contract, the ownership of the equipment under hire purchase is envisaged to pass to the hirer once the hirer has paid all the monthly instalments.

Companies

Schemes of arrangement: extension of restraining order

The High Court had occasion to consider the issue of extensions of restraining orders under Section 176 of the Companies Act 1965 Schemes of Arrangement of Companies, in *Metroplex Bhd & Ors v. Morgan Stanley Emerging Markets Inc & Ors* [2005] 6 MLJ 487. Section 176 has as one of its main objectives, the facilitation of rehabilitation of companies in financial distress. The crux of the section is to enable a company to formulate a scheme for the restructuring of its debts, which if approved by a majority of three fourths in value of creditors, binds all creditors. In addition, it allows the debtor to obtain from the court a restraining order against legal action against it, pending voting on the proposed scheme, thus affording the debtor some temporary breathing space. The issue before the court was whether the applicant's application to extend the restraining order for a further four months ought to be granted.

After defaulting in various debt obligations, the applicant had between 2000 and 2002, sought the assistance of the Corporate Debt Restructuring Committee (CDRC) to restructure its debts. However, this proved unsuccessful and in 2002 the applicant withdrew from the CRDC process and obtained a restraining order under Section 176 (10). The restraining order was extended on four occasions over a period of two years. In October 2004, four years after the default, and over two years after the first restraining order, the applicant proposed a new scheme of arrangement and applied to the court for a fifth extension of the restraining order.

Section 176 (10A) of the Act provides as follows:

"10A. The Court may grant a restraining order ... to a company for a period of not more than ninety days or such longer period as the Court may for good reason allow if and only if-

(a) it is satisfied that there is a proposal for a scheme of compromise or arrangement between the company and its creditors or any class of creditors representing at least one-half in value of all the creditors;

(b) the restraining order is necessary to enable the company and its creditors to formalize the scheme of compromise or arrangement for the approval of the creditors or members ...

(c) a statement in the prescribed form as to the affairs of the company made up to a date not more than three days before the application is lodged together with the application; and

(d) it approves the person nominated by a majority of the creditors to act as a director..."

The judge stated that from the wording of section 176(10A), a restraining order may only be extended for a longer period only if there is a `good reason' to do so. The words `good reason' have been construed by the courts to mean that:

(a) a bona fide scheme of arrangement has been presented, with sufficient details provided to the creditors to enable them to make informed decisions as to its feasibility and merits,

(b) the scheme of arrangement presented must not be such that it is bound to fail, and

(c) the interests of creditors are safeguarded.

The Judge hold that the applicant had not justified its application for further extension for interalia, the following reasons, and dismissed the application:

(a) Two years from the restraining order, the applicant was still at the initial meager stages of attempting to achieve a feasible scheme. No reasonable progress has been made towards achieving a feasible and viable scheme ready to be voted on.

(b) Only 21% of the scheme creditors have indicated agreement to the proposed scheme.

(c) Even if a fifth extension were granted, the applicant would not be in position to achieve a concluded scheme.

Intellectual Property

Trade Marks

In *Hugo Boss AG v Hong Kong Tobacco Company Limited & Reemtsma Cigarettenfabriken GmbH*, Hugo Boss AG ("HB") filed an application under Section 46 of the Trade Marks Act 1976 ("the Act") for an order to expunge the registration of 3 trade marks in which the essential feature was the word "BOSS". These marks were originally registered by Hong Kong Tobacco Company Limited ("HKTC") in 1965 which were subsequently assigned to Reemtsma Cigarettenfabriken GmbH ("Reemtsma") by virtue of an assignment dated February 1, 1999.

HB relied on the following grounds :-

(a) the marks were registered without an intention in good faith to use them in relation to the goods connected with the registrations (i.e. cigarettes), and there has in fact been no such use up to one month before institution of the proceedings; and

(b) there had in fact been no use of the marks in relation to cigarettes for a continuous period of not less than 3 years up to one month before institution of the proceedings.

At the outset, Reemtsma argued that HB did not have the *locus standi* to file the application under Section 46 of the Act as HB was not a *"person aggrieved"* within the said provision. In order to be a *"person aggrieved"*, an applicant must show that it may in some possible way (i.e. in a practical sense as opposed to a merely

fantastic view) be damaged or injured if the trade marks sought to be expunged were allowed to remain on the Register. Reemtsma relied on the following grounds:-

(a) HB did not trade in cigarettes;
(b) HB was at all times only involved in the manufacture and sale of fashion goods such as clothing, footwear, watches and lighters;
(c) HB's goods and cigarettes were not goods of the same description;
(d) HB did not have intention to trade in cigarette or tobacco related goods; and
(e) there was no evidence adduced to show that HB had suffered or would be likely to suffer any damage by the registration and use of the marks on cigarettes.

Reemtsma also argued that HB did not adduce sufficient evidence to prove a *prima facie* case that the marks were registered without intention to use them in good faith, or that there was indeed failure to use them on cigarettes during the material period.

Further, Reemtsma contended that even if there was a *prima facie* case of non-use, there was sufficient evidence to show that there was use of the marks in good faith during the relevant period because Reemtsma had undertaken active and substantial steps for preparation of the launch of its cigarettes bearing the mark "BOSS" in Malaysia.

Alternatively, Reemtsma argued that even if there was non-use of the marks, the Court should exercise its discretion not to expunge the registrations for the following reasons :-

(a) Reemtsma did not abandon the marks, but instead had started using them in relation to cigarettes in Malaysia;
(b) Reemtsma had a genuine interest in the marks in relation to its established trade in cigarettes; and
(c) HB had never traded in cigarettes and had no intention of doing so, especially to trade in cigarettes under trade marks containing the word "BOSS".

The High Court ruled in favour of HB based on the following grounds :-

(a) there was admission by HKTC that the marks had not been used on cigarettes;
(b) since the marks had not been used when they were assigned to Reemtsma, the assignment was invalid under Section 55(2) of the Act because it was an assignment without goodwill of business associated with the marks;
(c) in view of (a) and (b) above, it was not necessary to deal with the issues raised under Section 46 of the Act.

Accordingly, the High Court ordered the registrations be expunged from the Register. Reemtsma and HKTC have filed an appeal against the decision which is now pending before the Court of Appeal.

Trade Marks

In *UBS AG v UBS Corporation Berhad,* UBS AG, a world renowned banking group, filed an application under Section 45 of the Trade Marks Act 1976 ("the Act") for an order to expunge or, alternatively, vary a trade mark registration for the mark "UBS" in the name of UBS Corporation Berhad ("UCB"). The registration was in Class 9 in respect of computer software.

The mark originally registered by UCB consisted of the letters "UBS", words "User Business System" and a distinctive geometrical device. UCB had subsequently successfully applied to alter the mark to its present form, i.e. "UBS".

At the outset, UBS AG argued that it was a *"person aggrieved"* within Section 45 of the Act in that it would in some possible way (i.e. in a practical sense as opposed to a merely fantastic view) be damaged or injured if UCB's registration were allowed to remain on the Register. UBS AG relied on the following factors :-

(a) UCB's registration was the basis for the Registrar's objections against several of UBS AG's applications in Class 9 for trade marks consisting of the letters "UBS"; and

(b) UBS AG had been providing computer software to its clients, and had invested heavily in information technology companies and in the creation of software products.

UBS AG argued that the registration should be expunged or varied because of the following reasons :-

(a) the alteration of the mark was outside the ambit of Section 44(1) of the Act because it substantially affected the identity of the original mark;

(b) as UBS AG had prior rights over the mark "UBS", registration of the altered mark was in contravention of Article 6*bis* of the Paris Convention, Article 16 of the TRIPS Agreement and the following provisions of the Act :-

(i) Section 10(1)(e) - the altered mark was not distinctive of and/or not capable of distinguishing the goods or services of UCB;

(ii) Section 25(1) – UCB was not the rightful owner of the altered mark;

(iii) Section 14(1)(a) - registration and/or use of the altered mark by UCB or any third party with its consent would likely to deceive or cause confusion to the public or would be contrary to law;

(iv) Section 14(1)(d) and (e) read with Section 14(2) - the altered mark was identical with or so nearly resembled UBS AG's "UBS" mark which was well-known in Malaysia; and

(v) Section 82(2) - use of the altered mark by UCB or any third party with its consent would constitute passing-off.

The High Court allowed UBS AG's application and ordered that the registration be varied by restoring the altered mark to its original form. UCB has filed an appeal against the decision which is now pending before the Court of Appeal.

Breach of Employment Contracts: Implications

Summary of paper presented by Steven Thiru at The Asia Business Forum Seminar on Employment Law & Contract, Kuala Lumpur, 24th and 25th January 2006

The employment contract is a distinct type of contract and may be distinguished from other types of contract eg. commercial contracts, in that it deals with a special relationship where parties do not anticipate completion/conclusion. The unique nature of the modern employment contract has been described by Lord Hoffman in *Johnson v Unisys Ltd* [2003] 1 AC 518 as follows:

> " Over the last 30 years or so, the nature of the contract of employment has been transformed. It has been recognised that a person's employment is usually one of the most important things in his or her life. It gives not only a livelihood but an occupation, an identity and a sense of self-esteem. The law has changed to recognise this social reality."

Notwithstanding the unique nature of the employment contract, it shares some common characteristics with other types of contracts. Both contain a bundle of express and implied rights and obligations. In the case of the former, the terms and conditions of service are contained in the contract itself.

The Source of the Basic Terms and Conditions of Service

The terms and conditions of services contained in the employment contract are derived from two main sources, namely by consensus, and/or by operation of law i.e. elements of employment law under the common law and the provision of the two principal legislation governing employment contracts, the Employment Act 1955 (EA) and Industrial Relations Act 1967(IRA). Terms and conditions by consensus are standard form express terms and conditions or are those which are the result of negotiation. Such terms are prevalent in contracts of service of employees not governed by the Employment Act.

Equally important are those terms that are implied in this specie of contracts by law. For example contributions to the Employees Provident Fund under the Employees Provident Fund Act 1991 and termination for cause under section 20 of the IRA. It is pertinent to note that express terms, whether arrived at by consensus or operation of law, are not exhaustive. Implied terms exist in every contract of service.

Generally, for employees covered by the EA, some base terms and conditions of service are imposed by law. Therefore, employers are obliged to comply with these basic terms and conditions. Those that fall below the threshold will be struck down under Part II of the Act.

Some examples of implied terms are those which deal with safety, health, welfare and working environment. The philosophy behind implied terms is to supply the omissions in the contract of service that would protect the interest of the employer and safeguard the status of the employee, for instance the importance of the employee's interest in being given actual work to do as opposed to merely receiving wages.

One of the most important implied terms in modern employment contracts is the implied term of mutual trust and confidence. This is a common law innovation that creates reciprocal duties on the employer and the employees. Accordingly, it postulates that neither the employer nor the employee should, without reasonable and proper cause, conduct themselves in a manner calculated to destroy the relationship of mutual trust and confidence that exist between them. The implied term of mutual trust and confidence is of great utility in constructive dismissal cases.

When the Relationship Goes Sour: The Breach of the Employment Contract

A breach occurs when either the employer or the employee fails to comply with the express or implied terms of the employment contract. However, it is pertinent to note that not all breaches

will lead to the cessation of the employment relationship. Ultimately, the remedy/relief available to the innocent party would depend on the type of the breach. It would range from monetary compensation, restoration/protection of rights and the ultimate remedy of reinstatement.

There are two convenient categories of breaches of the contract of service namely a statutory breach or a contractual breach. The categorisation refers to the source of the right or obligation that has not been complied with by either the employer or employee.

A statutory breach is a breach of any mandatory provision of a statute that would apply to the employment contract e.g. terms and conditions of service which are contained in the EA. The classic section 20(1) IRA unfair dismissal action may also be classified as a statutory breach of contract inasmuch as it deals with dismissals which are "without just cause or excuse." Any workman, whether or not covered by the EA, may rely on this statutory provision for relief. In cases involving breaches of terms and conditions of service of employees who come under the umbrella of the EA, and which are in respect of minimum terms and conditions of services guaranteed by the Act, jurisdiction is vested in the Director General of Labour to adjudicate these matters.

In relation to the second category, the contractual breach includes statutory breaches (where relevant provisions are to be implied into the contract of service) but is wider. It would cover all the terms and conditions of service found in the contract of service.

The IRA confers jurisdiction on the Industrial Court to determine dismissal claims, trade disputes and non-compliance action. These may all be a result of provisions of collective agreements.

The concept of contractual breaches is most evident in constructive dismissal cases where the "contract test" is applied to determine whether the claim is sustainable. Contractual breaches are also the main cause of action that employers rely on in actions commenced in the civil courts against their ex-employees.

Breach of contract by the Employee

Some common examples of breaches covered by the EA include where the employee fails to give the requisite notice period and where the notice period has not been waived; where the employee is absent from work for more than two consecutive days without prior notice or prior leave or reasonable excuse and where the employee is absent from work on the day immediately preceding a public holiday without prior consent or reasonable excuse.

Further examples of other breaches of the express or implied terms and conditions include breaches of any confidentiality provisions (regarding trade secrets/ confidential information), all forms of misconduct and poor performance and negligence in the course of employment resulting in loss/damages to a third party.

Remedies for the Employer

Although there might be breaches by the employee which give rise to right to a civil claim against the employee by the employer, in practice this course of action is not normally pursued. This reality was recognised by Lord Ackner in *Jonata Bank v. Ahmed* [1981] IRLR 488:

> " That there are few cases to be found where the employer has sued the employee for breach [of contract] is not surprising ...[t]he employer rather than suing for damages, which he is unlikely to recover, is more likely to dismiss the employee summarily ... There is no point in throwing good money after bad, and the need to maintain harmonious industrial relations is likely to be considered of greater than achieving a barren judgement."

Notwithstanding the practical realities of the matter, the employer may well pursue a civil claim before the civil courts and seek damages or reimbursement from the employee where the employee's negligence or criminal act has exposed the employer to a claim in damages by a third party. In cases involving confidential information, the employee may obtain injunctory relief from the High Court to restrain/prohibit the ex-employee from using the information in breach of the contract of service. A claim for indemnity is also possible.

Breach of contract by the Employer

On the other hand, examples of breaches by the employer under the EA includes failure to pay wages in accordance with the statutory provisions, failure to provide work or pay in lieu for employees employed in any agricultural undertaking

in compliance with stipulated conditions and the failure to accord any of the benefits conferred on an employee e.g. rest days, hours or work and holiday.

Breaches of other express or implied terms and conditions may arise as a result of a dismissal from service which is "without just cause or excuse" and constructive dismissals.

Remedies for the Employee

Generally, the available remedies open to the employee depends on whether the particular employee falls within the EA or outside the ambit of the EA. For breaches of terms and conditions of service which are short of a dismissal, employees who are covered by the EA may make a complaint to the Director General in order to determine whether the complaint discloses matters which ought to be enquired into. However, the situation is different for employees who fall outside the EA and they may have to either commence a civil action or claim constructive dismissal on the basis of the breach of the implied term of mutual trust and confidence.

In situations where there has been a dismissal (including constructive dismissal), all dismissed employees may initiate an action in the civil courts but relief is limited to the unpaid notice period under the contract of service. However, only employees who are covered by the EA can present a complaint before the Director General for determination, but again the relief is limited to the unpaid notice period. The primary recourse is a representation under the IRA for reinstatement to the previous position (with no loss of salary and other benefits from the date of dismissal) or, alternatively, compensation in lieu of reinstatement and backwages.

Some recent developments

There have been a number of interesting developments in the area of implied term of mutual trust and confidence. Recently, the courts have become increasingly aware of the importance of the implied term of mutual trust and confidence. For example in the case of *Suechi Industries Sdn Bhd v. Umah Jeralene* [2005] 1 ILR 54, the employer damaged the future employment prospects of the employee when it sent out notices to third parties that the employee had been suspended on allegations of fraud. This was found to be a breach of the implied term and the claim of constructive dismissal succeeded. In *Eastwood v. Magnox Electric plc* [2004] IRLR 733, the House of Lords allowed a claim for damages for psychiatric injury caused by a breach of the implied term of mutual trust and confidence.

On a different matter, there is an increasing trend among the courts to depart from the requirements of the Practice Note No. 1 of 1987 on the computation of backwages. However, it is noteworthy that in a number of recent cases, the Industrial Courts have cautioned against this run-away trend of awarding backwages without regard to the Practice Direction.

The issue of mitigation of damages as to whether the quantum of backwages should be reduced if the workman becomes gainfully employed after the dismissal has also been a vexed issue. The Federal Court in *Dr James Alfred (Sabah) v. Korperasi Serbaguna Sanya Bhd (Sabah) & Anor* [2001] 3 CLJ 541 answered the question in the affirmative although it held that it should not be a "mathematical exercise in deduction."

Shook Lin & Bok ... a snapshot

This year, the firm celebrates the 88th anniversary of its founding. From its humble origins as a sole practitioner established in 1918, the firm has grown into one of the three largest and oldest law firms in Malaysia today. From a litigation oriented practice, the firm has evolved into a leading full service firm offering a comprehensive range of legal services to clients spanning the globe.

Shook Lin & Bok has distinguished itself in its commitment to highest standards of professionalism and integrity over nine decades. The firm has built on that heritage and continues to invest in the development of its human resources, team of legal practitioners and infrastructural resources, in order to deliver service with effectiveness and efficiency. The firm now has twelve practice departments representing major, though not exclusive, multidisciplinary practice areas, and is able to draw upon the expanse of human and infrastructural resources and multidisciplinary capability to provide solutions customized to clients' needs.

As a snapshot of that, the firm recently represented a bank in a major corporate exercise, and had three teams of up to twelve lawyers advising the bank, its directors and shareholders on different aspects of the exercise. The urgency of the matter required the devotion of intensive efforts by the teams.

On another front, the firm was appointed to act for a foreign client in multi-million dollar international arbitration claim relating to an oil and gas contractual dispute, over a period from 2004 to 2006 with arbitration proceedings at the London Court of International Arbitration. This complex claim was factually and logistically intense and required dedicated resources, and the commitment of up to ten lawyers in the firm and more than twenty staff, for substantial periods working around the clock and over weekends, with working trips to several countries. The claim was brought to a successful conclusion recently with the award delivered in favour of the firm's client.

The firm has come a long way since 1918, and continues to evolve in lockstep with the changing times and environment, as it forges ahead in the new millennium.

DIARY

Papers presented by Shook Lin & Bok at conferences

18 April 2006	Lexis Nexis Seminar on Contract Law: Specific and Practical Issues in Drafting Commercial Contracts Prince Hotel, Kuala Lumpur	**Lam Ko Luen** Terminating Contracts: Reviewing your Rights
19 April 2006	Lexis Nexis Seminar on Company Law Prince Hotel, Kuala Lumpur	**Chay Ai Lin** Continuing Disclosure under Bursa Securities Listing Requirements
15 June 2006	Lexis Nexis Seminar on Tort Law Crowne Plaza Mutiara, Kuala Lumpur	**Romesh Abraham** Issues in Defamation Litigation
10-11 July 2006	The Asia Business Forum Conference on Malaysian Land Law JW Marriot, Kuala Lumpur	**Yoong Sin Min** How Secure is Security Over Land
17-18 July 2006	Kuala Lumpur Regional Centre for Arbitration and International Islamic University Asia Pacific Conference on Contemporary Trends in Mediation and Arbitration Seri Pacific Hotel, Kuala Lumpur	**Mohanadass Kanagasabai and Lam Ko Luen** The 2005 Arbitration Act of Malaysia

Farewell and good wishes to long serving librarian

Never lend books, for no one ever returns them;
the only books I have in my library are books that other people have lent me.
(Anatole France)

Laughing and nodding in agreement when the above quote was read to her, Joyce Vathapoo Devi, the firm's head librarian, shuts down her computer in Shook Lin & Bok for the very last time on June 2, 2006. "Yes the hardest thing is getting the books back from the lawyers. Sometimes it is like they have set up a library in their rooms courtesy of the firm" she says.

After 21 years as librarian at the firm, Joyce has called it a day. "It has been 21 years of much laughter and some tears and its hard to leave but it is time to move on" she says as she finishes packing her personal items and prepares for her interview.

When did you join the firm?
June 1, 1985. It's now 2006… time sure does pass quickly.

How did you come about being a librarian in the firm?
I found out about the position from a family friend.

Was this your first job?
No, this is my 2nd job. After school I worked at Ming Court Beach Hotel Port Dickson for about a year.

Do you like books?
Well not initially but I've grown to love them a lot.

What is your favourite book?
It is a book by Robin Lee Hatcher called Whispers from Yesterday. It is about faith, God's compassion and finding your way when there seems to be none.

What was the most challenging/difficult thing about working as a librarian in the firm?
(laughs) Well as a librarian a crisis is when a book goes missing. After twenty one years you realise that sometimes a rogue book or two rebels and mysteriously walks on out of the library never to be seen again.

Any funny incidents you can tell us about in your years as a librarian?
One day, two of my colleagues came to see me in the library and out of curiosity they asked what the library's expenditure was for the year. I took the record book and calculator and totalled the figures quickly without looking at the calculator. Within 2 minutes I showed them the calculator. Both of them burst out in laughter and ran out of the library. I was surprised and looked at the figure in the calculator. The calculator was not on!

Being in a law library for so many years, did you ever think of actually becoming a lawyer?
Surprisingly I never have.

Who is your hero or the person you look up to? My parents.

To be a good librarian, what is the most important characteristic that a person must possess?
Alertness. Remember the rebelling books (laughs). I guess one must be both alert and patient. Updating statutes and legal journals can be quite time consuming.

How has the firm's library grown over the years?
It has grown tremendously. The number of books and types of legal journals we subscribe to has increased many times over. I guess the biggest sign of progress is development away from traditional manual research to Internet tools like LEXIS-NEXIS.

Looking back at the years, what is your fondest memory?
It was the firm's annual dinner trip to Pulau Besar in Melaka some years back. There was a ferry trip to get to the island. I feel the staff really bonded well during that trip.

Any last words to all your colleagues and friends?
Best wishes to all my dear colleagues and friends. I want to thank all for their support and encouragement. The friendship and memories made in the firm will stay with me always.

The firm extends its appreciation to Joyce for her twenty one years of dedicated service and best wishes to her in her future endeavours. *[David Dinesh Mathew assisted in conducting this interview.]*

The firm has had a long tradition of accepting pre-law students or students in early years of a law degree programme, on attachment or internship with the firm, to gain practical work experience or exposure. Interns have been accepted not only from candidates from Malaysia, but from foreign countries, for instance, Canada. Recently, a big group of interns were welcomed by the firm, including those in the picture above.

(From left to right): Michelle Lim (Taylor's College), Rachel Chin (HELP Institute), Sumira Jayabalan (Garden International School), Nurulhuda Zakariya (International Islamic University), Chai Pei Yee (Taylor's College) and Sibtain Sajan (Inti College).

A squad from the firm held a friendly indoor football match on 17 June 2006 against a team from Messrs. Raja Darryl & Low. Friendly sports matches are organized occasionally with other law firms, all in the spirit of friendly rivalry.

Appointments in the Arbitration Community

The firm congratulates the following of its partners on their appointments to positions in the arbitration community.

Dato' Dr Cyrus Das was elected by the Council of the Malaysian Institute of Arbitrators (MIArb) as a Fellow of the Institute on 10 May 2006. Dato' Das has also been appointed as an arbitrator on the panel of arbitrators of the Kuala Lumpur Regional Centre for Arbitration (KLRCA). The MIArb was established in 1991 for the purpose of promoting and facilitating the recourse to arbitration as a means of dispute resolution within the commercial community. Among the functions that it has undertaken, are the provision of facilities for arbitration, channels for communication among individuals and bodies concerned with arbitration domestically and internationally, training and education relating to the law and practice of arbitration, and the formulation of the MIArb Arbitration Rules.

MIArb Fellows constitute the highest category of membership, and its distinguished circle comprises retired judges of the Superior Courts and active practising arbitrators of extensive experience. His appointments are a recognition of his standing as a senior and esteemed advocate and solicitor who has made valuable contributions to the law and practice of arbitration in the country.

Mohanadass Kanagasabai was elected as a member of the Council of the Malaysian Institute of Arbitrators (MIArb) at its Annual General Meeting on 17 June 2006. He has also been appointed as an arbitrator on the panel of arbitrators of the Kuala Lumpur Regional Centre for Arbitration (KLRCA) in May 2006. The KLRCA was established in 1978 under the aucpices of the inter-governmental international law body, the Asian-African Legal Consultative Organisation. The Centre is an international arbitration center with ambitions of becoming the arbitration center of choice in the Asia Pacific region. It provides arbitrators, a venue for arbitration, and the KLRCA Rules for arbitration, modeled with modifications, on the internationally widely accepted UNCITRAL (United Nations Commission on International Trade Law) Rules. In keeping with its stature as an international arbitration center, half of the arbitrators on KLRCA's panel are drawn from other parts of the world, including retired foreign judges. Mohan's appointments are a recognition of his wide experience as an arbitration practitioner. Mohan headed the firm's arbitration team in the large international arbitration case referred to in the article on page 16.

Lam Ko Luen was elected as Honorary Secretary of the Malaysian Institute of Arbitrators (MIArb) at its Annual General Meeting on 17 June 2006. Ko Luen is also currently the Chairperson for the Education Committee of the MIArb. In addition, Ko Luen was appointed by the Construction Industry Development Board Malaysia (CIDB) on 19 June 2006 as a panel member of the Construction Industry Workshop and Consultative Forum on the "Proposed Model Terms of Construction Contract for Sub-Contract Works" which was held on 10 July 2006. Further, Ko Luen was also appointed by the CIDB on 11 July 2006 as a member of the Working Committee for the "Standard Conditions of Contract For Design & Build" chaired by the Master Builders Association Malaysia (MBAM). CIDB is a statutory body established by the Malaysian Federal Government back in 1994 entrusted with the responsibility of coordinating the needs and wants of the construction industry, planning the directions of the industry, addressing the pertinent issues and problems faced by the industry and making recommendations in the formulation of policies for the industry. MBAM on the other hand was founded in 1954 by a group of pioneer Malaysian Master Builders led by the late Tan Sri Dato' Low Yat. Since then, MBAM has evolved into an extensive umbrella organisation that represents the Malaysian construction industry and services sector, and is devoted to further promoting and developing the construction industry. Ko Luen's appointments are a recognition of his experience and exposure in the field of arbitration, building and construction.

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