

TAY & PARTNERS  
legal TAPs

Islamic Banking

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**Introduction**

In Malaysia, Islamic banking was established with the Islamic Banking Act 1983 which came into effect on the 7th April 1983. This Act regulates Islamic banking business which is banking business whose aims and operation do not involve any elements which is not approved by the religion of Islam.

The Islamic banking business is the same banking business like conventional banks offering services such as the usual paying and collecting cheques, deposit taking and providing finance but the business is done according to Islamic financial principles, rules and procedures. The basis of Islamic banking is Syariah. The Syariah Advisory Council set up by the Central Bank i.e Bank Negara Malaysia (BNM) advises on Syariah matters relating to banking business and banks operating Islamic banking business are bound to comply with its advice.

**What are the banks offering Islamic banking?**

The first Islamic bank to operate in Malaysia is Bank Islam Malaysia Berhad in 1983, and followed by Bank Muamalat Malaysia Berhad in 1999.

To promote wider reach of Islamic banking and to spread the virtue of Islamic banking, BNM opened up Islamic banking business to existing banking institutions. The full list of financial institutions offering Islamic banking services can be found in the website of BNM under [www.bnm.gov.my](http://www.bnm.gov.my)



**Who can obtain Islamic financing?**

Islamic banking is available not just to Muslims but also to non-Muslims as long as the purpose of financing is not against the religion of Islam.

**What are the distinctive features of Islamic financing?**

There are three (3) distinctive features:

(a) *Riba (interest) is prohibited. Instead of charging interest, in Islamic financing, profits and rewards can be charged or made.*

(b) *Gharar (uncertainty or ambiguity) in transaction is not allowed. Hence in all Islamic financing, the profits of the banks is predetermined and there is no uncertainty on the part of the customer in his repayments to the bank.*

(c) *Halal (that which is allowed according to Islam) -The purpose, goods and services must be halal . For example, financing to a business in alcohol, pork, drugs, gaming and products or services related to any of them, which is not halal is prohibited.*

The special feature in Islamic financing documents is that the word "interest" is never used as interest is forbidden under the religion of Islam.

As many transactions are based on sales or joint ventures, in many of such banking documents, certain words are also preferred over others such as, customer over borrower, financing over borrowing, payment over repayment, financier/investor over lender.

### Islamic concepts applicable to the banking services and products.

There are more than 40 Islamic services and products offered by banks applying the several Islamic concepts. Let us examine some of them.

#### (1) Bai Bithaman Ajil (BBA) (deferred payment sale)

This concept refers to the sale of assets or goods on deferred payments at a fixed price that includes profit margin to the seller. This concept is commonly used in property or asset financing. The mechanics of BBA transaction work as follows:

(i) A customer takes financing from a bank to buy an asset, for example, a building, land, machinery or car. The bank approves the financing by way of a letter of offer.

(ii) The bank buys the asset from the customer at a fixed price (which is equal to the amount of the financing required). The document is called the Property Purchase Agreement.

(iii) The bank immediately thereafter re-sells the asset to the customer at a higher sale price equal to the amount of the financing plus the bank's profit margin. The document is called the Property Sale Agreement.

(iv) The customer defers the payment of the sale price by fixed instalment payments over a fixed period to the bank.

(v) As security for the payment of the sale price, a charge on the asset by legal charge (where the title deed has been issued) or assignment is created by the customer in favour of the bank.

Although the transactions involve purchase and subsequent sale by the bank, in the case of immovable properties (buildings and land), no legal transfer of ownership is actually done and registered by the customer to the bank's favour. The proprietorship of the asset remains recorded or registered in the name of the customer in document of title.

Some of the advantages of taking BBA financing are:

(a) the total cost of financing is known upfront at the time of the contract and hence there is no uncertainty;

(b) the customer is not exposed to fluctuating upward trend in interest rates;

(c) the customer is not required to give prior notice on prepayment or early full settlement as no prepayment fee can be charged. Where there is prepayment, the customer can request for rebate (ibra) on the prepayment but this is subject to the bank's discretion; and

(d) although BNM has with effect from 1999 allowed additional charge/ penalty fee of 1% per annum on overdue instalments, the total penalty fee cannot be compounded.

Islamic banking is available not just to Muslims but also to non-Muslims as long as the purpose of financing is not against the religion of Islam.

#### (2) Wadiah (safe custody)

This concept refers to deposits placed with another for safe-keeping. The depository's responsibility is to

guarantee repayment of the entire deposits when demanded. The depository may reward the depositor at its own discretion on the deposits placed. This concept is applied in saving and current accounts.

#### (3) Mudharabah (trustee profit sharing)

This refers to capital provided by an investor to another party for investing in a commercial enterprise on profit sharing basis at pre-determined ratio. For example, the parties can agree that the ratio of the profit sharing be 40% to the investor and 60% to the other party. No lump sum amount of the profit can be allocated to the investor or the share of one party be fixed at a specific rate of return to the capital. When there is loss made, the loss is borne by the investor solely. The liability of the investor is limited to his investment. This concept is used in general investment accounts, special investments accounts, share financing and unit trust financing.

#### (4) Musyarakah (joint venture profit sharing)

This refers to a partnership or joint venture for a specific business with agreed ratio on profit sharing, while any loss is shared according to the ratio of the contribution or investment. This concept is applied in share financing, unit trusts financing and letter of credit.

#### (5) Murabahah (cost plus)

This refers to sale of goods at a price which is cost plus profit margin agreed by both parties determined at the time of the agreement of sale. The cost and the profit margin of the seller (the bank) is known to the customer at the time of the contract. This concept is applied commonly in trade finance like export credit refinancing, trust receipts, letters of credit and accepted bills.

A Murabahah financing mechanics work as follow:

- (i) A customer agrees with a bank and signs an agreement where the bank will sell and the customer will buy a commodity from time to time at an agreed price of cost plus profit margin.
- (ii) An agency agreement is signed by the parties where the bank appoints the customer to buy the commodity. The customer then buys the commodity on behalf of the bank and takes possession on behalf of the bank.
- (iii) The customer informs the bank on the purchase and at the same time offer to buy the commodity from the bank.
- (iv) The bank accepts the offer and the sale is concluded. The ownership and risk then pass to the customer.

#### (6) Ijarah Thurman al-Bai (leasing and subsequent purchase)

This concept is leasing of asset at an agreed rental over a fixed period and on expiry the hirer buys the asset from the hire at a fixed price. The subject of the lease must be valuable, identified, quantified but not consumables (e.g. money, rice, etc.). The ownership remains with the lessor and it follows that the liabilities relating to ownership are borne by the lessor.

#### (7) Kafalah (guarantee)

This refers to guarantee by a party to the owner of goods who has placed the goods with another party. The guarantor and the third party must meet any subsequent claim by the owner. This concept is applied in bank guarantee and shipping guarantee.

#### (8) Wakalah (nominating another person to act)

This refers to a party nominating another to act on his behalf. This concept is applied in letter of credit.

### Spread of Islamic banking

Currently Islamic banking in Malaysia accounts for only 10 % of the financial sector market share. BNM wants this market share to double by 2010. To this end, BNM has issued 3 new licenses to foreign players to set up full-fledged Islamic banks and 4 local banks to transfer their Islamic banking business to new units. The 4 local banks setting up separate Islamic banks are RHB Bank Bhd, Bumiputra-Commerce Bank Bhd, Hong Leong Bank Bhd and AmBank Bhd.

To promote the development of Islamic banking in Malaysia, extra efforts are needed from the industry to promote greater awareness and educating the general public especially non-Muslims to understand and accept Islamic banking and services and also to train more local talent to acquire the necessary expertise in Islamic principles, and to develop and innovate better products and services based on such principles to meet the growing demands of the consumers and their businesses.

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# Copyright Law and Technology

The law of copyright had first evolved to respond to the growth of printing technology which eased unauthorised copying and distribution of written works. In the advent of the digital technology where a work can be reproduced, stored, manipulated, and transmitted over the Internet by a mere click of a button, there will be “a seamless web of communications networks, computers, databases and consumer electronics that will put vast amounts of information at users’ fingertips”<sup>1</sup>. The law must keep up to protect creativity.

## Legal Requirements under the Copyright Act 1987 (“the Act”)

First, some preliminaries on copyright protection. Copyright may subsist in literary, musical and artistic works, films, sound recordings and broadcasts<sup>2</sup>. It may also subsist in derivative works, which consist of translations, adaptations, arrangements and other transformations of works eligible for copyright and collections of works or collections of mere data, whether in machine readable or other form (derivative works)<sup>3</sup>.

For copyright to subsist in these works, the author must be a qualified person, ie, a citizen or permanent resident in Malaysia or body corporate established in Malaysia and the work was first published in Malaysia<sup>4</sup>. Sufficient effort must have been expended to make the work original and the work must have been written down, recorded or reduced to a material form<sup>5</sup>.

## Subsistence of Copyright in Electronic Works

### • Multimedia

A multimedia is a combination of media components of text, sound and graphics which may feature literary, musical, artistic, musical works, sound recordings or films. Copyright may subsist in a multimedia in each individual work, or may be considered as a derivative work if sufficient originality has gone into the compilation of such works. Protection would be afforded to the author of each individual work and the author of the compilation being, the multimedia.

### • Computer Programmes

Computer programmes or software are protected by the Act as a literary work<sup>6</sup>. The protection would extend to both the object as well as the source codes and would include all manifestations of that set of instructions which can be read by a computer in whatever converted form<sup>7</sup>.

1. Ronald H. Brown, cited by Kurtz LA “Copyright in the National Information Infrastructure in the United States” [1996] 3 EIPR 120  
2. Section 7  
3. Section 8  
4. Section 3 and Section 10  
5. Section 7(3)  
6. Section 3  
7. Creative Purpose Sdn Bhd & Anor v Integrated Trans Corp Sdn Bhd & Ors [1997] 2 MLJ 429

### • Computer Aided Work

Computer Aided Work exists where a person uses computer technology to do a job. Here, the intervention of a person is necessary to complete the job. An example is a typist who uses a computer programme, a word processor to type and print out a document.

The Act would afford protection to the author of the work who satisfies the preliminary requirements mentioned earlier, not to the creator of the computer programme. In *Express Newspapers Plc v Liverpool Daily Post & Echo Plc* [1985] 1 WLR 1089 this was aptly put:

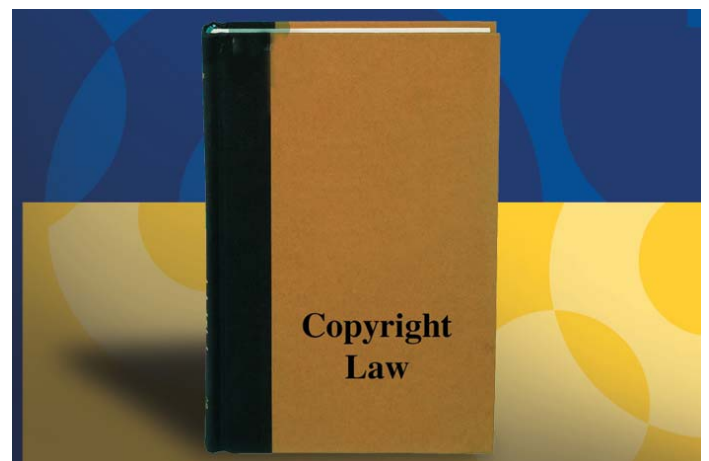
“It is as unrealistic as it would suggest that, if you write your work with a pen, it is the pen which is the author of the work rather than the person who drives the pen.”

### • Computer Generated Work

Computer Generated Work is a result of an automatic process undertaken by the computer programmer to produce a work, with very minimal human intervention or no human intervention at all. Whilst Computer Generated Work is not defined in the Malaysian Copyright Act, the UK Copyright, Designs and Patents Act 1988 (“the CDPA”) defines it as “the work generated by a computer in circumstances that there is no human author of the work”. The human operator would have very little or no control whatsoever over the resulting format or content over what is ultimately produced.

Problems may arise as to who has ownership of the work - the user of the programme or the programmer of the software itself. Whilst it is clear in the UK that ownership belongs to the person who makes the arrangements for the work to be created, the position is unclear in Malaysia as the Act is silent. A possible solution to this problem may be to consider a computer generated work as a work of joint authorship between the computer programmer and the user of the program. Alternatively, if the situation arises where the programmer is actually the one who plays the integral role in the production of the work, the ownership should vest in the programmer. Pending clarification of the law, ownership of the computer generated work should best be determined in contract<sup>8</sup>.

8. Nazura Binti Abdul Manap in “Who Owns the Copyright to a Computer-Generated Work: A Malaysian Perspective [1999] 3 MLJ 1v



## Infringement of Electronic Works

*Under the Act, copyright protection confers on the owner the exclusive right to control in Malaysia the reproduction in any material form, the communication to the public, the performance, showing or playing to the public<sup>9</sup>, the distribution of copies to the public by sale or other transfer of ownership, and the commercial rental to the public of the copyright work. Therefore, the unauthorised doing of any of such acts would constitute infringement of copyright.*

The problem which arises with regard to electronic works is the ease of reproduction, manipulation and replication of such electronic works as these.

Since "reproduction" in the Act is defined as the making of one or more copies

work in any form or version and "material form" is defined as including any form of storage from which the work or derivative work, or a substantial part of the work or derivative work can be reproduced, it is arguable that electronic copying may be covered by this exclusive right.

For example, the transmission of a work involves the making of a copy of the original and would arguably fall within reproduction in a material form. In the US, even appearances of a work in a computer's Random Access Memory (RAM) involves a reproduction, even though such storage is merely temporary and all its information is lost when the computer is turned off<sup>10</sup>.

In the UK, the CDPA provides that copying means the reproduction of the work in any material form, and includes storage of the work in any medium by electronic means. This includes making of copies that are transient or incidental to some other use of the work<sup>11</sup>. Theoretically, this would cover the loading of software into a computer's RAM.

In Malaysia, the reproduction right in the Act is very broadly defined and could encompass a mere transmission of an electronic work. Since it is not specified that the reproduction must be sufficiently permanent or could be transient, the construction of "reproduction" has yet to be judicially decided. In the absence of any temporal restriction, it is arguable that "reproduction" may encompass both permanent and ephemeral copying.

Further, the new communication right introduced in the Copyright (Amendment) Act of 1997 gives an exclusive right of "*transmission of a work or live performance through wire or wireless means to the public...in such a way that members of the public may access the work or live performance from a place and at a time individually chosen by them*"<sup>12</sup>. Faxing, emailing and videoconferencing would thus seem to fall within the rights afforded. Whether the "Peer-to-Peer" or a file sharing system would involve or amount to "communication" has not been determined although if a broad construction is taken to "reproduction" in alignment with UK or US laws, the "Peer-to-Peer" system might very well constitute copyright infringement.

## Technological measures and Rights Management Information

The Act provides that copyright is infringed by any person who circumvents any effective technological measures that is used by authors in connection with the exercise of their rights<sup>13</sup>. Further, copyright is infringed by any person who knowingly performs or has reasonable grounds to know that it will induce, enable, facilitate or conceal an infringement by the removal or alteration of any electronic rights management information without authority or by the distribution, importation for distribution or communication of the public of works, knowing that electronic rights management information has been removed<sup>14</sup>.



## The Internet

In general, websites may be covered by several categories of copyright as they may contain text (literary work), images (artistic work), moving images (film), or sounds (musical work and sound recording). As such, protection will be cumulative as "different copyrights can protect simultaneously a particular product and an author can produce more than one copyright work during the course of a single episode of creative effort..."<sup>15</sup>.

### • Surfing or Browsing

Surfing or browsing the Internet by users entails temporary storage of works in the computer's RAM. This would seem to suggest that there is a reproduction in a material form resulting in an infringement of copyright although the absurdity in this is that it renders the very operation of the Internet itself illegal. Therefore, in the UK, browsing would fall within the reproduction of the work in a material form and would infringe copyright, as mentioned above, unless there is some form of licence for that act or is permitted statutorily. As stated above, in the US, there is reproduction of a work every time the work appears in a computer's RAM. Thus, surfing and browsing would involve reproduction resulting in an infringement of copyright.

Although it is still unclear what the position might be in Malaysia with regard to temporary storage of works, surfing and browsing by users could arguably fall within a broad interpretation of "reproduction" in the Act.

9. Section 13(1)  
 10. Kurtz LA in "Copyright and the National Information Infrastructure in the United States" [1996] 3 EIPR 120; MAI System Corp v Peak Computer Inc 991 F 2d 511 (9th Cir 1993), cert denied, 114 S Ct 671 (1994); Triad Systems Corp v Southeastern Express Co. 845 F Supp 356 (ED va 1994)  
 11. Section 17(2), Section 17(6) CDPA  
 12. Section 3  
 13. Section 36(4)  
 14. Section 36(3)  
 15. Laddie J in Electronic Techniques (Anglia) Ltd v Critchley Components Ltd [1997] FSR 401

### • Linking

Linking is used by website hosts who link one site to another by the mere click of a button on their website. A difference must be drawn between deep linking and mere linking.

A good example of deep linking which would amount to infringement of copyright could be seen in *Shetland Times v Wills* [1997] SC 316, the Defendant had used the Plaintiff's news headlines to gain access to the stories on the Plaintiff's site, bypassing the front page of the Plaintiff's website altogether. The Court had held that a website fell within the definition of a cable programme service and that a headline text had copyright, so that the actions of the Defendant in copying them for reproduction on its own website was infringement.

However, cases such as *Exxon Corporation v Exxon Insurance Consultants International Ltd* [1982] Ch 119 have held that a literary work must be "intended to afford either information and instruction or pleasure in the form of literary enjoyment" Generally, a single word or a title of a work would not have copyright on this basis.

This would seem to suggest that hypertext links will not be protected in their own right. But in *Shetland Times*, the headline text was held to have copyright as the creation of a headline involved skill and labour as the reader's attention had to be attracted, information about the relevant item conveyed and entertainment provided. This is however unlikely to extend to mere hypertext links containing one or several words.

A settlement was reached in any event, in that each link must be acknowledged by the Plaintiff's name and the links would go to the Plaintiff's front page. This would go to show that a mere link to another website's front page, together with acknowledgement of the source would not infringe copyright.

As argued above, if the position taken is that mere temporary storage involves reproduction in a material form, *Shetland Times* would arguably apply in Malaysia as well and website hosts would be liable for copyright infringement for temporary storage of the linked website's works when a user clicks on the link provided by it.

### • Framing

Framing is the division of a website into real time "frames" where the site owner's material is displayed to a linked third party material in the same window. In *Washington Post v Total News Inc.* (No. 97 Civ 1190)(PKL)(SDNY 1997) the Defendant designed its web site to republish news from other sites contributing no original material of their own and framed those materials alongside their own banner advertisements. Although the case was settled, the Defendant was allowed to only link the stories, but prohibited from framing the materials next to their own material, logo and advertisements.

Once again, if reproduction in a material form includes storage in both permanent and transient forms in Malaysia, there would arguably be infringement of copyright for a temporary storage of the framed work from another website when a user clicks on it.

Similar to linking, another possible cause of action would be infringement of trade mark if there is a trade mark involved, or passing off, as framing gives the appearance that the content of the framed site is part and parcel of the host site.

### • Caching

The concept of caching involves the storage of frequently used information in areas more easily accessible to the user with the purpose of making the information more readily available. Once again, if temporary storage is recognised as reproduction in a material form, caching would amount to an infringement of the copyright works.

### • Downloading

As downloading materials from a website is reproduction of a fixed copy, whether in a print out, or saved on to one's own computer or onto a floppy disc, this would amount to an infringement of copyright as it would fall within reproduction in a material form.





**Websites should therefore display terms and conditions of use which terms will allow surfing or browsing and restrict downloading.**

### Defences

The Act provides that the doing of any exclusive act controlled by copyright for the purposes of non-profit research, private study, criticism, review or the reporting of current events, does not amount to infringement<sup>16</sup>. Unfortunately, these so-called defences of “fair dealing” are restrictive in Malaysia and the law is slow in keeping up with the growth of digital technology.

Due to the nature of the Internet, it seems plausible to argue that a person who puts up material on a website is consenting to it being accessed by surfers or browsers, thus giving them the implied licence to reproduce the materials on their RAM. In Malaysia, such licences have to be in writing. Websites should therefore display terms and conditions of use which terms will allow surfing or browsing and restrict downloading.

### Conclusion

It is often the case of the law lagging behind the rapid development of technology and the copyright laws in Malaysia are no exception. Whilst attempts have been made via the Copyright (Amendment) Act of 1997 to take into account digital rights, the current state of the laws needs to be further refined and adapted to accommodate the new communication era.

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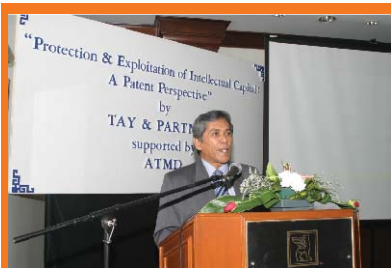
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<sup>16</sup>. Section 13(2)(a)

## An Overview of Patent Seminar on “Protection & Exploitation of Intellectual Capital: A Patent Perspective”

The Intellectual Property and Technology Practice Group of Tay & Partners organised a seminar entitled “Protection & Exploitation of Intellectual Capital: A Patent Perspective” on the 10th of March 2005, supported by ATMD at The J. W. Marriot, Kuala Lumpur. The objective is assist patent managers, research and development executives and managers as well as inhouse counsel on how best to protect and exploit their intellectual assets.



Encik Ismail Jusoh

Encik Ismail Jusoh, Director General of the Intellectual Property Corporation of Malaysia (MIPC) opened the seminar with a welcome address. Linda Wang, our partner in the IP and Technology Practice Group, provided an overview of the

various IP rights and their commercial importance. Keith Callinan and James Wan, both experienced patent attorneys in ATMD, our associate firm in Singapore, held very practical and insightful talks on patent strategies and international filing of patents. Encik Mohammad Amran bin Abas, an officer from the Patent Division of the MIPC, shared with us, in his session, an update on patent law and practice in the MIPC. The seminar was wrapped up by Siew Ling, our partner in the IP and Technology Practice Group on technology transfer and licensing of patents.

We provide a brief synopsis on the salient points highlighted by each speaker.

### An Introduction to Intellectual Property (IP) and Protection of Intellectual Capital

Linda started the seminar with an introduction on the topic of IP being intellectual capital. Intellectual Capital must be recognised as business assets and effectively managed and exploited in order to maximise the success and wealth of the business and the country. Managers must identify the type of IP rights involved, seek to protect these IPs and maintain this protection.



Keith Callinan and Linda Wang

IP rights have been accepted in the US as a form of loan security although this has yet to be accepted in Malaysia.

*Pertinent points to note are valuation of IP rights and Linda provided several methods of valuation such as:*

- (i) fair valuation : which is based on what will fairly compensate an owner of an IP deprived of its economic enjoyment*
- (ii) open market price : a practical exercise where prices are negotiated between parties*
- (iii) investment value : based on a defined set of individual investment criteria*
- (iv) existing use value : the value of the IP to its current owner.*

### Innovation as a Strategic Part of Growth

Keith Callinan shared his views that an innovation by itself would not generate wealth as it must be properly managed. Similarly, it does not mean that an innovation, protected by a patent would by itself generate wealth.

There must be a patent strategy which supports and compliments the technology intelligence, the research and development strategy, the business strategy and the market strategy of the company.



Keith Callinan

## Relationship Between Patents and Senior Management

Keith further expounded that a corporation must at all times evaluate what should be patented and whether it should be patented. The corporation should create IP awareness within the company and establish, implement and support a patent strategy which fits with business and marketing strategies and technology intelligence.

An IP officer plays an important role in that they are a communication conduit from and to management and act as a liaison and filter between the inventors and patent attorneys. As such, these officers must understand the needs of inventors, senior management and patent attorneys.

Further, the research and development staff should be trained to recognize a potentially patentable invention so that every innovation or invention may be captured and valued. A corporation should have an IP policy and patent strategy. All staff must be informed of such policy and strategy. Management should also have an incentive scheme for inventors within a company and a budget for protecting these inventions.

## International Patent Filing Strategies

James explained the different types of patent applications, namely, Provisional Applications, National Applications where filing is done directly in the country or by way of re-registration, Regional Applications such as the European Patent, Eurasian Patent, OAPI Patent, ARIPO Patent and International Applications ie the Patent Cooperation Treaty (PCT). To use the PCT, at least one inventor must be a national or resident of a PCT contracting state. As Malaysia is not yet a PCT member, a Malaysian company may have the inventor assign their patent rights to subsidiary in a PCT contracting state, such as Singapore, and upon the publication of the patent, have the patent rights transferred back to the Malaysian parent company.



James Wan

Filing early is always an advantage as different countries have different priority dates. Certain countries have grace periods where a patent application must be filed upon first disclosure. James further advised that filing in other countries is advantageous if one has customers in that market, or one's invention is manufactured or conducted there or where you have competitors operate in that market (thus bringing prospects of licensing revenues). WIPO is currently negotiating a world patent or a common patent law (the Substantive Patent Law Treaty) which is expected to materialise in 10 to 20 years.

## Some Tricks and Traps in Patenting Internationally

James continued the session in the afternoon highlighting the procedural pitfalls of international filing. Security clearance is needed for certain countries in foreign filing of the first patent application. Many countries require English language translation for their priority document and patent specification. Any known prior art, results of searches conducted by the applicant or other patent offices must also be disclosed as late filing of information disclosure statements may incur additional fees.

There should be timely filings of documents within stipulated deadlines to avoid late fees or requests for extension of time. All official documents and forms should be signed with a blue pen and to have all inventors sign the documents earlier rather than later.

### An Update on the Patent Law and Practice at PHIM

En Amran Abas spoke on the Patents (Amendment) Act 2003. The Act amended Section 35 of the Patents Act 1983 to extend the duration of a patent to 20 years from the date of filing. The Patent (Amendment) Regulations amended Regulations 27 and 27A to include the Patent Office of Republic of Korea as a prescribed industrial property office.

Amongst current developments in Malaysia are plans to join the PCT and the Budapest Treaty and to seek further international cooperation via free trade agreements and EC-Asean programmes. Further, the existing patent system will be upgraded to include an online search and filing system. More national programmes such as dialogues, seminars, workshops and exhibitions will also be held by MIPC to promote awareness.

Statistics show that Malaysian patent applications are on the rise. Applications from the United States top the list. Applications filed by Malaysian inventors, however, remain modest and discussions were held during the seminar whether the Patent Office could take steps to help local inventors in expediting grant of their patents.

### Exploitation of Intellectual Capital : Technology Transfer Licensing

Siew Ling examined briefly the commercialisation of intellectual capital with focus on technology transfer and licensing of patents. On the subject of technology transfer, please note that approval of MITI for the licensing of technology transfer agreements which requirement was previously required pursuant to the Industrial Coordination Act 1975 has been abolished. As such, technology transfer agreements are no longer regulated.

There are also several types of patent licensing under the Patents Act 1983. Part IX of the Patents Act 1983 specifies procedure to be followed by a licensor and licensee who use the Patent Office to facilitate licensing. Compulsory licensing is another unique feature of patent licensing. The different scenario that may attract the imposition of compulsory licensing under the Act was highlighted with the most vulnerable being the pharmaceutical industry.

Cross licensing and various restrictions imposed by licensors such as retail price maintenance, tying arrangements, grantbacks and exclusive licensing in licence contracts were discussed. These clauses may have anti-competitive effect which may contravene anti-trust laws in the US and Europe. Singapore has just implemented competition laws recently.



*Encik Amran Abas and Su Siew Ling*



*Siew Ling and Keith with some other participants at lunch*



*Group Photo of Some of The Participants*

# REITs FOR REAL



Real Estate Investment Trust (REIT) has aroused much attention recently. It was acknowledged recently by our Prime Minister during the Malaysia 2005 Budget announcement that REIT will serve to increase the liquidity in the real estate sector and enhance its contribution to economic development. When was REIT created?

REIT has been established and developed before the World War II. In Asia, both Hong Kong and Japan have been actively involved in REITs for approximately 10 years. Singapore is also one of the most active REIT markets in Asia. Although property funds have been around in Malaysia since 1989, it has not really captured any interest. Effort has now been made to set up the necessary infrastructure framework to revive the market and to provide a platform for growth<sup>1</sup>.

## *What is REIT?*

Generally, a REIT is a company that buys, develops, manages and sells real estate assets. One could say that a REIT is like a mutual fund for real estate where investors gain profit from portfolios of real estate which are professionally-managed. Its shares are publicly traded.

The REIT industry is mainly comprised of 3 classes of REITs, namely, Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs own real estate. Rent forms the major part of their revenue. REITs could invest in shopping centers, apartments, warehouses, office buildings, hotels, offices. On the other hand, Mortgage REITs do not own real estate. They loan money to real estate owners and earn interest from mortgage loans. Meanwhile, if the REITs own properties and at the same time earn interest from the mortgage loans which is a combination of both Equity REITs and Mortgage REITs, this class of REITs is regarded as Hybrid REITs.

## *What are the Efforts Taken by Malaysian Government in Setting Up the Infrastructure Framework?*

To provide the legal framework, the Malaysian Securities Commission has drawn up the Guidelines on REITs in January 2005 to govern the operation and administration of REITs in Malaysia. The Guidelines have been formulated with the objective of providing a regulatory framework that would protect the interests of the investing public and facilitate an orderly development of REITs.

To further provide the much needed incentive, the Malaysian Government has in its 2005 Budget announcement proposed to introduce a more attractive tax treatment. It was proposed that:

- (1) REIT be exempted from tax on income distributed to its unit holders whereas the undistributed income will be taxed at 28 percent;
- (2) income distributed to unit holders be taxed at their respective tax rates. However, for non-resident unit holders, the tax payable at 28 percent will be withheld by REIT; and
- (3) the accumulated income that has been taxed and subsequently distributed be eligible for tax credit in the hands of unit holders.

The above announcement introduces tax transparency for REITs. It has also placed Malaysian REITs on the same benchmark as REITs in the more developed markets.

Furthermore, the Malaysian Government had shown its commitment in promoting the growth of REITs in Malaysia by introducing the following orders :-

- (a) Stamp Duty (Exemption) (No. 4) Order 2004 - all instruments of transfer of real property to a REIT or a property trust fund approved by the Securities Commission of Malaysia are exempted from stamp duty; and
- (b) Real Property Gains Tax (Exemption) (No. 4) Order 2004 - no payment of real property gains tax in respect of chargeable gains accruing on the disposal of any chargeable assets to a REIT or a property trust fund which is approved by the Securities Commission of Malaysia.

## *Conclusion*

The efforts taken by the Malaysian Government would help to stimulate and activate the REITs market in Malaysia. However, the success of the REITs market in Malaysia will depend on other factors such as better public understanding of REITs, investment by foreign interests and pro-activeness of asset managers. More will have to be done to gear up the REITs market and the government has taken the initiative to show that REITs are for real in Malaysia.

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1. The Star: "S&P: Right time to kick off Malaysian REITs"

<b>Equity REITs</b>	own real estate and rent forms the major part of their revenue.
<b>Mortgage REITs</b>	Earn interest from mortgage loans without owning property.
<b>Hybrid REITs</b>	Own properties and earn interest from the mortgage loans Simultaneously.

# MEDIATION PROCESS IN THE INDUSTRIAL COURT

Litigation is time consuming and expensive. Excessive litigation has adverse economic consequences. It is with this in mind that those involved in the legal process and other interested parties have devised alternative dispute resolution mechanism, including mediation.

The mechanism of mediation is particularly important in the industrial courts as many workers are unable to afford lawyer's fees. In addition, most companies do not wish to be tied up for years in Court.

Recently, mediation has been taken more seriously by all involved in the industrial court system than it has ever been.

Pursuant to a Special Meeting held amongst the Chairpersons of the Industrial Court on 14.8.2004, the President of the Industrial Court issued a Practice Direction dated 17.8.2004 whereby litigants in the Industrial Court would be encouraged to go through mediation process in an attempt to settle the case out of court before trial dates are fixed. This Practice Direction was implemented throughout the Industrial Court in Malaysia beginning September 2004.

As such, the Industrial Court Chairpersons also invariably request counsel who appear before them in the early stages of a case to consider mediation in resolving the dispute between the parties.

Cases that the courts consider to be suitable for mediation are dismissals, industrial disputes and non-compliance of collective agreements or awards.

Pursuant to the Practice Direction, mediation will at least be conducted once a week, preferably on Friday afternoons, working Saturday mornings or after normal working hours during the weekdays.

Some of the key features of the mediation system are as follows :

(i) cases registered before 1.6.2004 are called up for mention and the parties involved asked if they wish to undergo mediation. If the parties are agreeable, a date is fixed.

(ii) For cases after 1.6.2004, at the first mention date, parties are asked to consider mediation, irrespective of whether pleadings have been filed. This is a salutary practice as it has been noted that parties generally fall into a state of inertia after pleadings are filed and make no attempt at settlement until the date of hearing approaches.

(iii) If mediation is successful, a consent award is handed down.

(iv) On the other hand, unsuccessful cases are forwarded to the Registrar who will have them distributed to the respective chairpersons.

(v) In conducting mediation, the courts appear to favour the method suggested in the recent course on "Mediation Theory and Practice" attended by the Industrial Court's Chairpersons, Deputy Registrars with representatives of the MEF (Malaysian Employers' Federation), MTUC (Malaysian Trade Union Congress) and Bar Council's Industrial Court Practice Committee.

There are clearly advantages in advocating mediation in the Industrial Courts. During mediation, the Industrial Court Judge would hold an informal discussion with both parties i.e. the company representative and the employee (the lawyer and respective representative of the employee would play a non-active role) to explore the possibility of settlement with both parties putting forth their views without going through the merits of the case.

In the event that both parties are unable to settle their case during the mediation, more often than not and based on experience, the Industrial Court Chairperson would still provide a date for both parties to inform the Court whether they are agreeable to a settlement. If during the next mention date parties are still unable to settle the matter, then the case would be reverted to the Registrar for re-distribution of the case to another chairperson of the Industrial Court.

Nevertheless, there is a possibility that the litigants in the Industrial Court might abuse the mediation process i.e. there is no genuine attempt to settle the case amicably, rather a party may opt for mediation just to buy time or prolong the industrial court proceedings knowing very well that in the event that the mediation fails, then the case would be transferred out to another court.

The Industrial Court certainly appears to be investing much effort, resources and hope in the mediation process. It is to be hoped that the Bar, MEF and MTUC would reciprocate by adopting a genuine attempt to settle the industrial court cases, where possible.

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## **WATER SECTOR OPPORTUNITIES EXCITE INDUSTRY PLAYERS**



Parliament recently tabled a bill to amend the Constitution to allow the Federal Government and state governments to share jurisdiction over water supply. At present, only the state governments have jurisdiction under Malaysia's federalist system of government. This jurisdictional issue has hampered efforts by the Federal Government to reform and rationalise the sector.

The impending passing of the bill will allow the Federal Government to enact legislation privatising and regulating the sector on a national basis. To date, privatisation has been undertaken by several State Governments in 4 out of 13 states with limited degrees of success and with a somewhat ad hoc flavour. Recently, a sister company of the concessionaire for treatment of water in one state announced it had been awarded the concession for the supply of water in that state, and in doing so, it will take over the government corporation now having responsibility for the same. The award involves the sister company inheriting large debts principally owing to the water treatment concessionaire. The government corporation had been purchasing treated water, a substantial part of which, could not be supplied to end users for revenue due to leakages arising from aging infrastructure. A large loan from a government linked bank to the government corporation to pay the debt owing to the water treatment concessionaire was arranged in conjunction with the award.

This award surprised many as the new Minister for Water had announced upon assuming office that all further privatisation would be frozen pending the setting up of an independent commission to oversee and rationalise the sector. The proposed Water Services Commission will only now be brought into existence by legislation expected to be passed under the proposed amendment to the Constitution.

The award underscores the critical position in which political and corporate stakeholders find themselves. Consumer concerns as to water supply and quality has been increasing. Industry concerns as to the commercial feasibility of providing such services were increasing. With the passing of the Bill these concerns will be addressed and further privatisation of water supply and treatment services appear to be increasingly likely and players in the sector are positioning themselves early to take full advantage of the considerable commercial opportunities that will clearly now be presented.

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# Security Hologram Labeling (MEDITAG) on Medicines

the implementation of such a requirement (hologram label) was meant to protect consumers and to curb counterfeit and unregistered products.

The Ministry of Health plans to introduce the hologram security device akin to the hologram used on optical discs and cigarettes to authenticate and verify the products sold. The Ministry intends for the affixation of the hologram on medicinal products to raise the presumption that the products have been duly registered with the Drug Control Authority (DCA).

This latest move by the Ministry is motivated by the need to curb counterfeit problems with pharmaceutical products and augment enforcement efforts against such imitation. According to the Director of the Health Ministry's Pharmaceutical Services Division, Datuk Mohd Zin Che Awang, the implementation of such a requirement (hologram label) was meant to protect consumers and to curb counterfeit and unregistered products<sup>1</sup>.

The hologram label will have a unique serial number that can be traced to the licensed manufacturer or importer of the product, which makes it easier for monitoring purposes. This regulation will require all pharmaceuticals, including health supplements, traditional products and OTC (over-the-counter) external personal care products, to bear a hologram security label, called "MEDITAG"<sup>TM</sup>. Cosmetics and temperature sensitive products that require "cold-chain" maintenance, such as vaccines and biologicals, are currently excluded from the requirement of hologram labeling.

*Meditag<sup>TM</sup> supposedly contains patented, cutting edge technologies, security features and serial numbers to authenticate pharmaceutical products in the market* allowing different level of authentication for consumers and enforcement teams to verify and track and trace registered pharmaceuticals in the market.

The local manufacturer (or the re-packer in the case of products that are imported to Malaysia and packed locally) or the local importers will be responsible for affixing the hologram label to the products. The hologram label, which is approximately 8 mm x 16 mm, should be placed on the front panel of the product label on the outer packaging of each product. Where there is no outer packaging, the label shall be applied to the immediate packaging, i.e. the bottle label. The hologram label cannot be applied onto the outer shrink wrap.

The customer purchasing a product should be able to locate the presence of the hologram without having to open the packaging. None of the product particulars on the label shall be covered over by the hologram.



1. Sunday Star Online, 21st November 2004.

According to the circular from the Ministry, this new requirement is expected to be implemented in 2 phases:

- Phase 1 beginning 1st May 2005 for products which are non-parenterals, i.e. not in the form of injections; and
- Phase 2 beginning 2nd July 2005 for parenterals/injectables i.e. products used in the form of injections.

This is already a revised schedule following earlier protests from manufacturers, distributors and importers. The initial roll-out plan by the Ministry was 1 September 2004.

Dr Choe Tong Seng, President of the Pharmaceutical Association of Malaysia, in September 2004 said that *“the Ministry’s current move to enforce the use of hologram label alone was inadequate if other measures were not taken at the same time”*<sup>2</sup>. He further added that *“we support the use of hologram label but other measures such as monitoring the distribution channel, carrying out heavier penalties, having more enforcement officers and educating consumers, should be carried out too”*<sup>3</sup>.

Once implemented, enforcement officers from the Health Ministry Pharmaceutical Services Division are supposed to conduct checks to ensure that only products with hologram labels or MEDITAG are sold in the market. According to Datuk Mohd Zin Che Awang, Director of the Pharmaceutical Services Division, *“violators would be severely dealt with as the market had to be rid of unregistered products”*<sup>4</sup>.

It was further reported in the news that such violators would be dealt with under the Sales of Drugs Act 1952<sup>5</sup>. Section 12(1) of the Sale of Drugs Act 1952 (Revised 1989) prescribes the general penalty in that any person who commits an offence under the Act shall be liable on conviction to a fine not exceeding RM25,000 or to imprisonment for a term not exceeding 3 years or to both and RM50,000 or to imprisonment for a term not exceeding 5 years or to both for any subsequent offences.

Any body corporate found guilty of the same offence shall be liable on conviction to a fine not exceeding RM50,000, and for a second or any subsequent offence it shall be liable on conviction to a fine not exceeding RM100,000.00 under Section 12(2) of the same Act.

A recall will not be necessary if pharmaceutical products without the hologram remain on the shelves after 1st May and 1st July but companies are advised by the Ministry to project and plan realistically to ensure that there is no overstocking of products without the hologram label. However, if the manufacturers or importers do not show any attempt to meet or keep flouting the hologram labeling requirement, the Ministry threatens to suspend the product registration under the Sale of Drugs Act 1952 until the manufacturers or importers complies with the new regulation<sup>6</sup>.

Pausing here, it is imperative to note, however, *that as at the time of writing this article, the Ministry of Health has yet to introduce any rule or regulation, order or by-law in respect of the hologram requirement. The Ministry has only issued circulars or directives*. Legally, unless the hologram requirement is couched in the form of a regulation under the Sale of Drugs Act, the penalties under the Act cannot be invoked. Section 26 empowers the Ministry to make regulations for the purposes of the Act, including the regulation of the sale of any article of drugs.

It is to be noted that the hologram requirement imposed on optical disc products is stipulated in the Trade Description (Original Label) Order 2002. Enforcement is carried out by the Ministry of Domestic Trade and Consumer Affairs which is responsible for the Trade Descriptions Act 1972. However, no similar regulation has been enacted for medicinal products.

The effectiveness of the use of security stickers and hologram as a countermeasure to counterfeiting activities is at best controversial. It has not been particularly successful in respect of optical discs as film and music piracy remains rampant. Sophisticated and well-financed counterfeiters are capable of overcoming authentication technologies. Local experience with the software, music and film industries has shown that the use of holograms pose little or no obstacle at all to counterfeiters. The enforcement authorities have even found legitimate holograms on fake discs. It was reported that a syndicate with international connections had procured hologram stickers from the Ministry of Domestic Trade and Consumer Affairs using fake documents<sup>7</sup>.

The jury will be out if the hologram requirement is indeed implemented to see whether the burden borne by pharmaceutical companies (and consumers if the cost is passed on) is ultimately justified by the reduction or elimination of counterfeit problems in the pharmaceutical industry.

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2. The Star Newspaper Online, Saturday, 4th September 2004.
3. The Star Newspaper Online, Saturday, 4th September 2004.
4. New Straits Times Online, Saturday, 4th September 2004.
5. The Star Newspaper Online, Saturday, 4th September 2004.
6. New Straits Times Online, Saturday, 4th September 2004; Pacific Bridge Medical – Asian Newsletter: Volume 4, Number 8, November 2004.
7. The Star Newspaper Online, Friday, 11th March 2005.

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## T&P News

### Accolade to our IP and Technology practice group

In the recent 2005 Managing IP World IP Survey, Tay & Partners has been voted yet again as one of the top IP firms in Malaysia for patent (2nd out of 3 tiers) and trade marks (3rd out of 5 tiers) work.

#### TAY BENG CHAI

our Managing Partner was the chairperson for a seminar on the topic "Company and Securities Law" conducted by the Asia Business Forum held in Kuala Lumpur on the 27th of January.

#### SU SIEW LING

our partner in the Intellectual Property practice group spoke on the topic, "Legal and Compliance Issues Around Unstructured Data" in a 3-day Seminar on Identifying and Managing Unstructured Information organised by the Ark Group in Singapore on the 22nd to the 24th of February.

#### LEONARD YEOH

our partner in the Litigation and Dispute Resolution practice group recently chaired and moderated a lecture on "ICC Arbitration – The Procedure and Function of the ICC International Court of Arbitration and Drafting Dispute Resolution Clauses" organised by the Kuala Lumpur Bar Committee.

#### SHAIKH MOHAMED NOORDIN

our librarian recently contributed a very insightful article to the Journal of the Malaysian Bar (INSAF), entitled "Facing a New Reality: The Opportunities and Challenges of Law Librarians in Malaysia." Noordin has contributed significantly to fortifying the resources and research facilities of the firm whilst providing training to lawyers and paralegals on improving legal research. The article bears testament to his experience and expertise.