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Is Self-Help Any Help At All? A Landlord & Tenant Situation

Self-help is a form of redressing or preventing wrongs by one's own action without recourse to legal proceedings. Many a time, landlords resort to self-help eviction which can take many forms including changing the locks to the apartments, removing a tenant's belongings or shutting off the utilities to the apartment without regarding if they are in violation of the law.

The beauty of self-help is that self-help will enable landlords to enforce their contractual rights quickly and efficiently without resorting to judicial process. However, self-help measures are controversial because they amount to taking the law into one's own hands.

Landlords who engage in self-help evictions often argue that the tenant was in violation of the tenancy / lease in some manner in the first place and thus, the landlord is entitled to possession.

In the Supreme Court case of **Trustees of Leong San Tong Khoo Kongsi (Penang) Registered & Ors v Poh Swee Siang** [1987] 2 CLJ 302, the learned Hashim Yeop Sani SCJ said that sec. 7 of the *Specific Relief Act 1950* ("the Act") provides that a person entitled to the possession of land may recover it in the manner prescribed by the law relating to civil procedure. In the context of the provision of sec. 7 of the Act, the word "may"

is permissive and discretionary and it is not obligatory on the part of a person entitled to the possession of land to restore exclusively or solely to a Court of law. In other words, sec. 7 of the Act does not exclude the common law remedy of self-help. This is a remedy which is always available unless expressly excluded.

However, the remedy of self-help was alluded in **Er Eng Hong & Anor v New Kim Eng Dan Tiap-Tiap Pemegang Yang Menduduki Atas Sebahagian Tanah Yang Dikenali Sebagai HS (M) 2162 PTD 4403 Mukim Benut, Daerah Pontian** [2001] 1 CLJ 289. In this case, the learned Abdul Malik Ishak J stated that the amended sec. 7(2) of the Act which came into force on 31 January 1992 by Act A 811 would relegate the remedy of self-help into oblivion as the owner of the property can only seek to enforce his right to recover his property from the occupier by way of a court action. Section 7(2) of the Act is as follows:

"When a specific immovable property has been let under a tenancy, and that tenancy is determined or has come to an end, but the occupier continues to remain in occupation of the property or part thereof, the person entitled to the possession of the property shall not enforce his right to recover it against the occupier otherwise than by proceedings in court."

Following the case of **Dr. Harjit Singh v Suhaimi bin Samat & Anor** [1995] 2 AMR 1988, Justice Haidar bin Mohd Noor (as he then was) opined that sec. 7(2) of the Act clearly showed the intention of the Parliament that possession of premises may not be obtained except by proceedings in the court. Similarly, in **Nur-Islam Worldwide Industries Sdn Bhd v Yee Kok Sum** [2001] 7 CLJ 494, it was held that as a result of



the amendment to sec. 7(2) in 1992, the self-help remedy can no longer be used.



In the recent case of **SME Aerospace Sdn Bhd v Steyr Mannlicher (M) Sdn Bhd** [2006] 5 CLJ 121, the learned Rosnaini Saub JC held that the use of the word 'shall' in sec. 7(2) of the Act imposed a precondition of obtaining a court order before attempting to recover possession of a property. Thus, the requirement to first and foremost obtain a court order was a mandatory one. Further, the law does not allow any person to take the law into his own hands and forcibly evict another person from the property.

The learned judge went on further to agree that sec. 8(1) of the Act reinforced the right of a person who has been wrongfully dispossessed of an immovable property 'otherwise than in due course of the law'. Section 8(1) of the Act provides:

"If any person is dispossessed without his consent of immovable property otherwise than in due course of law, he or any person claiming through him may, by suit, recover possession thereof, notwithstanding any other title that may be set up in the suit."

Therefore, a tenant who holds over after the expiry of the period of tenancy, is entitled to sue his landlord for possession under sec. 8 of the Act, if forcibly dispossessed by him.

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Intellectual Property Assets as Wealth-Creation Tools and Spinner of the Economy

It is an opportune time for this topic to be touched upon given the desire of our government to spur economic growth in the country using a tool which was hitherto not been widely regarded on our shores as being a driver of the economy at large. That this desire is of importance was reflected in the theme chosen for this year's National Intellectual Property Day, *"Intellectual Property - Current Economic Spinner"* which was held in April.

The theme was derived from the government's recognition that intellectual property ("IP") already is a generator of wealth in the economy from its utilisation in the well-established forms of registration, assignment, licensing, franchising and sale and purchase as an intangible asset but has further potential to contribute to the wealth-generation process of the nation in newer forms and on a higher level.

IP has spurred the growth of related areas of industries like IP consultancies and branding and IP-centric advertising and marketing agencies with consultants and branding and marketing gurus reciting the mantra for companies to position IP at the heart of its management portfolio in order to improve its standing amongst its peers. Companies have embraced this principle realising the wisdom of branding as well as capitalising on other people's brands to gain commercial edge, a prime example being Air Asia.

Air Asia's brand and slogan have gained a place not only in the hearts and minds of the public in its homeland but worldwide with its tour packages being promoted to routes and destinations which it covers. Air Asia cleverly struck a deal with the popular cartoonist, Datuk Mohd Nor Khalid or more popularly known as "Lat", to use Lat's livery on its airplanes. Along with the use of brands on the local front, comes the realisation that products based on IP can spearhead development of international trade and be a component in the economic development of a country.

As the country propels itself forward to achieve developed nation status, striving to meet the stated objectives of Vision 2020, the need for the economy to mature to match those in the developed nations looms nearer. The tools to achieve greater economic heights too will inevitably have to gain more sophistication and these tools have to be in place and operational in good time to meet the demands of a community of developed nations, which Malaysia aspires to become part of by year 2020, in order to coexist, communicate and conduct transactions in a common economic lingo with each other.

In order to harness IP and to commercialise it to drive the economy and generate wealth, we must first have an understanding of the fundamentals of IP and how IP assets are created, valued and managed.

It is the aim of the first of a two-part article to discuss the

following topics:-

- Management of IP assets; and
- Valuation of IP assets;

The second part of this article will touch upon:-

- Methods of commercialisation of IP assets currently practised amongst corporations and individuals in Malaysia; and
- What is to come in the area of exploiting and commercialising IP assets in the future.

This article is divided into two sections:-

1. Management of IP Assets
2. Valuation of IP Assets

Management of IP assets

Intellectual capital refers generally to the value of a company's intangible assets and includes IP rights. It is a virtual goldmine if a corporation knows how to properly manage and exploit it. What are the types of IP rights which may be present and available as assets to a corporation? Depending on the nature of the industry that the corporation is in, its IP rights may reside in one or more of the following forms :-

- (a) Trade marks : A mark includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral or any combination thereof and when used in relation to goods or services, its purpose is to indicate a connection in the course of trade between the goods or services and a person having the right either as proprietor or as registered user to use the mark;
- (b) Trade name : Company and business name;
- (c) Copyright : Literary works, musical works, artistic works, films, sound recordings and broadcast;
- (d) Industrial designs : It is defined as features of shape, configuration, pattern or ornament applied to an article by any industrial process or means, being features which in the finished article appeal to and are judged by the eye;
- (e) Patent : Innovative products and processes;and
- (f) Trade secrets : This consists of confidential information and information which are subject to non-disclosure agreements within an organisation, which includes production/process information know-how, formulae, customer lists, sales tactics, corporate strategies, sales and marketing information and manufacturing processes.

With all the many types of IP rights which a company may possess (perhaps even without knowing it), there is a need for a system to manage such rights which require more care and attention than managing tangible assets like property, cash etc. There is still lacking a culture amongst corporations in Malaysia with valuable IP assets in their purses to have in place a corporate policy and portfolio which stress on IP awareness and management of such intangible assets. IP rights



have to be viewed as being not merely legal instruments which protect against infringement by unauthorised third parties but income-generating assets which should be commercialised.

In other words, IP rights should not merely be left in the form of static paper protection of the creativity, knowledge and research and development invested by a corporation. IP assets should be made part of a business' strategic thinking and planning portfolio. As such, IP assets have to be properly and effectively managed in order to maximise their commercial potential and value.

Basically, IP management has four stages - acquisition, legal protection and maintenance, commercialisation and enforcement of legal protection. The stages of acquisition (either through creating the IP or purchasing the IP), legal protection and enforcement of legal protection of IP need little explanation in their definitions. The aspect of commercialisation of IP assets will be dealt with separately in the second article in the series.

Why have an IP Management system?

Why should IP management be incorporated into a company's business plan?

- (a) IP management techniques and practices ensure the company's financial well-being and standing amongst its competitors apart from potentially attracting investors and joint-venture partners. Acquisition of the right type of IP injects into a company value which goes beyond brick and mortar-type of assets. Take for example the value of the following brands: Coca-Cola - US\$67.5 billion, Microsoft - US\$59.9 billion, Nokia - US\$26.4 billion, McDonald's - US\$26 billion, Toyota - US\$24.8 billion, Honda - US\$15.7 billion.
- (b) An IP protection and maintenance system provides a key tool for keeping at bay unscrupulous competitors, developing business relationships with employees, suppliers, business partners and customers and obtaining funds, as well as identifying the IP assets and managing IP application deadlines and registration life spans in ensuring that the IP is not jeopardised by an inadequate maintenance system. This is especially so in respect of a company with a global presence with different territorial IP systems to reckon with.
- (c) An IP management system ensures that a company sends the right signals to potential investors in that it reflects a well thought of IP acquisition process by the company which does not infringe upon third party IP rights and that the company has taken adequate steps to prevent infringement by unauthorised third party of its own IP rights. That the company will assert its rights in Court by enforcing the legal protection obtained in respect of its IP assets will also be reflected in a good IP management system. Such outward assurances reflected in a good Intellectual Asset Management ("IAM") are vital to investors' confidence and consideration before they inject funds into a company.
- (d) A quality management method will reflect the value of a company. There is a growing trend in the developed nations to consider IP management strategies when assessing the value of companies and in a survey of fund managers, analysts, private equity investors and venture capitalists in London, it is reported that 93% of respondents believed IP rights to be crucial to the enhancement of profit, while 78% stated that an effective IP strategy was fundamental to improving a company's share price. This is the value of good housekeeping of a company's IP assets.

What is involved in Intellectual Asset Management?

IAM is slowly but surely forming root in the business plans of corporations in Malaysia which stand well-advised on the importance of aligning IP strategy with their business plans, increasing IP value and improving IP productivity and controls. IAM integrates the business, legal and technical aspects of IP to extract maximum value from IP rights and spur the wealth-generation process of a company. Studies have shown that implementation of an IP strategy coupled with good management methods, almost doubles a company's profit margin. A well-managed IP portfolio is of higher quality as greater yields are realised from the IP assets and thus this impacts positively on the profit of the company.

Having a good IP strategy is a critical element of the overall process of IAM. An IP strategy deals with the alignment of IP assets with the business strategy of a company to increase its competitive advantage and to set out the goals to be achieved. Management of IP, on the other hand, concerns everyday routines of doing business, in particular identifying processes to support the strategic goals.

An IP strategy may include forward-thinking transactions like the acquisition of ailing but IP-rich companies, for example, companies with a portfolio of patents bearing subject-matters which are fundamental components in the next-generation digital technology or healthcare industry with the aim of one day licensing the patents to third parties in need to utilise such innovations in their own products. An IP strategy may also include aggressively litigating infringement of IP rights against unauthorised third parties to assert claims for damages. In itself, this may generate substantial monies in addition to encouraging other "infringers" to come forward amicably to secure licences from the IP rights holder. This is Texas Instruments' success story when in 1986 an agreement was executed with several Japanese companies securing US\$1.5 billion in licensing revenue for Texas Instruments by 1993 and in 1997, when Texas Instruments purchased an ailing company by the name of Amati Communications with a valuable portfolio of patents. These avenues of income can then be ploughed back into a company's IAM to be used to fund further growth in the other stages of IAM.

Conducting regular IP audits is also an essential part of a good IAM system in evaluating the current IP status to uncover possible unidentified, undervalued or under exploited or unexploited IP assets, to trim inefficient IP assets and to chart the future IP needs of a company.

Valuation of IP Assets

This is an area which is fairly technical and young and may not as yet be a discipline which is widely practised amongst the accounting and audit firms in Malaysia. Further, it may not have found its place on the financial statements and balance sheets of corporations in Malaysia as yet but may be merely treated collectively and generally as the "goodwill" of a corporation rather than as individual rights which are capable of being individually valued.

It has been demonstrated in the first section of this article that in a basket of commodities, IP assets, like their tangible cousins, fixed assets, can be valued albeit with more complexities and uncertainties involved. This is understandable as the accounting standards for and the methods of treatment of these intangible assets have not been in use for as long as those used to value tangible assets and there is not one singular accepted standard used worldwide. Nevertheless, in the more matured financial markets of the USA, UK and Japan, valuation of IP assets is

very much part of the financial system in the conduct of various corporate transactions.

Valuation of IP assets is an important exercise when mergers and acquisitions, joint-ventures and disposal of corporate entities are being performed as the value of the IP assets which may be held by a company is a key factor that cannot be dismissed in the overall worth of a company. They are the goodwill that attracts the investors. For example, for Indian tea-manufacturer, Tata Tea, the value of the "Tetley" trade mark was very much a decisive factor behind its acquisition of UK-based Tetley Ltd as it enabled Tata Tea immediate access to a global brand name and a global distribution network to expand its operations.

In terms of measuring the value of intangible property, there are many established techniques that use a combination of valuation approaches such as actual sales forecasting, probabilistic modeling for the pay-offs from an IP portfolio, historical analysis, discounted cashflow analysis, relief from royalty method, and market and cost models. This article does not attempt to provide an in-depth analysis of the accounting methodologies that may be utilised in the valuation of IP assets. However, very broadly, the three more typical valuation approaches are described below:-

- (a) the "Cost Approach" seeks to determine the value of the IP right by ascertaining the cost involved and incurred in the development of the IP right (or the cost to replace it);
- (b) the "Market Approach" seeks to determine the value of the IP right by using comparable market transactions;
- (c) the "Income Approach" looks at the income-generating capability of the asset to be valued and seeks to determine what economic benefits and future revenue the IP right can generate.

CONCLUSION

The framework and corporate mindset are already in place in most, if not all, multinational companies to accommodate the implementation of the corporate management modules of IAM and valuation of IP assets in order to propel the corporate vehicle to greater heights.

Malaysian companies, be they the larger corporations or small-medium industries, should not be left behind in implementing good management practices which may be viewed by them as being too advanced for them in the Malaysian corporate scene and hence not worth the money spent. They should instead be forward-thinking enough to put IAM and valuation of IP assets on their front burners with a view of competing on the global level.

The investment in such practices will see the company flourish in that the financial well-being and value placed by external parties on the company will be ensured.

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Obedience to Orders from Superiors - Is there a Limit? - An Update on the Law

After my article was written and published in the August/September 2006 issue of LegalTAPS, the decision of the Court of Appeal in **Ngeow Voon Yean v Sungei Wang Plaza Sdn Bhd & Anor** [2004] 1 CLJ 8 was overturned by the Federal Court ("FC"), as is reported in [2006] 3 CLJ 837.

Two questions of law were raised in the application for leave to appeal to the FC:-

- (a) Whether the law on obedience to superior orders in the context of employment law in Malaysia is in any way different from that at common law.
- (b) Whether the principle of an order being "manifestly wrong" has any part in the doctrine of superior orders.

First and foremost, Her Ladyship, Siti Norma Yaakob FCJ held that the High Court and Court of Appeal ("CA") erred in concluding on the facts of the case that at the time the Claimant endorsed the Deeds of Assignment, he had the guilty knowledge that the purchase price of the properties had not been paid in full. Moreover, the Claimant's conduct in confronting his superior after he discovered that the deeds contained misrepresentations is consistent with the conduct of a man who did not know that he had committed a wrong.

Next, the FC went on to deal with the issue whether the CA was correct when it held that the general rule on superior orders does not apply to an employee who is conscious that an order given to him is manifestly wrong. In Malaysia, the general rule governing the doctrine of superior orders is nothing more than the duty of obedience that is expected of an employee. The most fundamental implied duty of an employee is to obey his employer's order.

The learned Siti Norma Yaakob FCJ held:-

"Working as instructed is the employee's basic consideration under a contract of employment just as providing remuneration is the basic consideration of his employer. However, the employee's duty to comply is confined to all the lawful and reasonable orders of his employer in respect of the performance of such functions that falls within the scope of his contract of employment. Whether the employer's orders are lawful and reasonable would depend very much on the terms and conditions of the contract and the character of employment. The term "lawful and reasonable order" is often used to describe the order given and in this context it means primarily an order which is reasonably within the ambit of the employment in question so that, in any given dispute much or all will depend on the terms of the individual contract of employment. The employer thus cannot give an order outside the proper scope of the employment.

It is clear that the duty of obedience is confined to compliance with the lawful and reasonable orders of an employer and as such the concept of an order being manifestly wrong has no part in the doctrine of superior orders. To that extent the Court of Appeal erred when it made an exception to the general rule on superior orders when stating that an employee is entitled to disobey the orders of his superior if he, the employee, is aware that such orders are manifestly wrong."

The duty of an employee at common law is also similar in that he is to comply with all lawful and reasonable orders given by his employer with respect to the performance of such functions within the scope of his employment. That duty is one of the fundamental obligations which is deemed to be impliedly undertaken in every contract of hiring. The duty of obedience at common law is subject to two qualifications, firstly that the employer may not order his employee to do something illegal or secondly order his employee to do anything dangerous.

However, it may well be that an employee is caught in the situation that he is required to obey an order and he is doubtful whether the order is legal or not. Under those circumstances the proper course is for the employee to obey the order first and to challenge its legality in separate proceedings. This distinction is made on the basis that if the law allows the employee to disobey any order he thinks is not legal, it would be impossible for the management to maintain discipline and industrial peace. On the other hand, if the employee takes it upon himself to disobey the order which he thinks to be unlawful and unreasonable two courses are open to him. He can point out his difficulties, if any, to the superior and if the latter insists on the order being carried out, he can do the work and take the matter further in proceedings against his employer or to complain to his union. If he disobeys, he must take the risk if the court finds the order to be lawful and reasonable.

Based on the above reasons, the FC answered both the question posed to them in the negative.

With due respect, in my view, the FC's refusal to uphold the exception to the general rule boldly laid down by the CA is a setback for corporate governance. If an employee is allowed not to obey an order given that he is left in no doubt that it is manifestly wrong, it would pre-empt heavy losses to a company resulting from unscrupulous superiors who make use of their subordinates to do unlawful actions that are against the company's interests.

Is it really true that if the law allows the employee to disobey any order he thinks is not legal, it would be impossible for the management to maintain discipline and industrial peace? If a company is able to lay down clearly in its policies what acts constitute fraud, illegal acts or omissions, breach of duty, dishonesty, abuse of authority or misconduct, would an employee disobeying his superior's instructions to carry out those acts make it impossible for the management to maintain discipline and industrial peace? With due respect, I do not think so.



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Admissibility of Evidence: Information obtained from the Internet



When considering the issue of admissibility of any evidence into courts, reference would have to be made to the *Evidence Act 1950*. This article will explore how information obtained from the Internet could be admitted into court via the provisions of the *Evidence Act 1950* ("the Act"). The issue at hand may fall under Chapter V of the Act entitled "Documentary Evidence", specifically, sections 90A, 90B and 90C. Thus, can an argument be made for information obtained from the Internet to be admitted into court via sections 90A, 90B and 90C of the Act?

Section 90A of the Evidence Act 1950

Section 90A of the Act stipulates that a document produced by a computer, or a statement contained in such document, shall be admissible as any fact stated therein, provided that the document was produced by the computer in the course of its ordinary use, whether or not the person tendering the same is the maker of such document or statement.

Section 90B of the Evidence Act 1950

In estimating the weight, if any, to be attached to a document or a statement contained in a document, the court may draw any reasonable inference from circumstances relating to the document or the statement. This includes the manner and purpose of the document's creation or its accuracy.

The court should also have regard to the following -

- (a) the interval of time between the occurrence or existence of the facts stated in the document or statement, and the supply of the relevant information or matter into the computer; and
- (b) whether or not the person who supplies, or any person concerned with the supply of, such information or the custody of the document, or the document containing the statement, had any incentive to conceal or misrepresent all or any of the facts stated in the document or statement.

The Act does not provide any explanation or definition of the phrase "computer printout". However, sec. 3 of the Act defined "computer" as follows -

"... any device for recording, storing, processing, retrieving or producing any information or other matter or for performing any one or more of those functions by whatever name or description such device is called; and where two or more computers carry out any one or more of those functions in combination or any succession or otherwise howsoever conjointly, they shall be treated as a single computer."

Reference should also be made to explanation 3 of sec. 62 where it is provided:

"A document produced by a computer is primary evidence."

It is opined that once the information which have been obtained from the Internet is printed out to be adduced into court as evidence, this would amount to a "computer printout". This is because the internet would be covered by the definition of "computer" under sec. 3, i.e. it being a device for storing information, bearing in mind that it specifically states that this is so regardless of "whatever name or description such device is called."

The effect of the provisions relating to computer printouts is the relaxation of the hearsay rule. As explained by Mahadev Shankar JCA in **Gnanasegaran Perarajasingam v PP** (CA) [1997] 4 CLJ 6, at page 21:

"We need to remind ourselves that section 90A was enacted to bring the 'best evidence rule' up to date with the realities of the electronic age. Receipts for payment in and records of payments out of a bank account are keyed in by the tellers into the terminals at the counter, and the information is electronically stored in the bank's computer. The information so stored is not in itself visible to the naked eye. To become visible the raw data has to be projected on a video display unit and/or printout. So the definition of a "document" in section 3 of the Evidence Act now provides that both the display on the video display unit and the printout qualify as documents. The last two items in the Illustrations to the section have spelled it out.

The effect of section 90A(1) in the present scenario is that it is no longer necessary to call the actual teller or bank clerk who keyed in the data to come to Court provided he did so in the course of the ordinary use of the computer.

This is a relaxation of the direct evidence rule in section 60 of the Act beyond the extent to which its provisions have been diluted by section 32(b) in the case of documents made in the ordinary course of business. A situation could thus arise under section 90A(1) where the particular person who keyed in the information may not be individually identifiable, but the document would nevertheless be admissible."

In order to admit a computer printout, it must be proved that the document was produced by the computer in the course of its ordinary use. For that purpose, reference may be made to sec. 90A(2) of the Act where it is stated:

“... it may be proved that a document was produced by a computer in the course of its ordinary use by tendering to the court a certificate signed by a person who either before or after the production of the document by the computer is responsible for the management of the operation of that computer, or for the conduct of the activities for which the computer was used.”

Thus, in tendering information obtained from the internet into court, the person who is responsible for the management of the operation of that computer, or for the conduct of the activities for which the computer was used, may sign a certificate before or after the production of the document by the computer. However, difficulties may arise here as to who would be the person to sign the certificate. Should this be the Webmaster? In the World Wide Web, unless it is an official source, it is unlikely that one is able to track down the person behind information uploaded on any website. Thus, if the webmaster could not be ascertained, there may be difficulties in tendering such certificate, unless one is able to argue that it is sufficient that such certificate is signed by a person who is responsible for the management of the operation of the computer, and not the website per se.

It should be noted that the requirement of a certificate to prove that the document tendered is produced by a computer in the course of its ordinary use is permissive and not mandatory. The fact also may be established by oral evidence. This is supported by the wording of sec. 90A(4) -

“Where a certificate is given under subsection (2), it shall be presumed that the computer referred to in the certificate was in good working order and was operating properly in all respects throughout the material part of the period during which the document was produced.”

In **Gnanasegaran Perarajasingam v PP** (CA) [1997] 4 CLJ 6, where statements of accounts were sought to be adduced, the evidence tendered by the person in charge of operations of the current accounts was held to be sufficient to establish that the printouts were indeed produced by the computer in the course of its ordinary use. Here, Shaik Daud Ismail JCA stated at page 18, as follows:

“...there are two ways of proving this. One way is, it “may” be proved by the production of the certificate as required by subsection (2). Thus subsection (2) is permissive and not mandatory. This can also be seen in subsection (4) which begins with the words ‘Where a certificate is given under subsection (2)...’ These words show that a certificate is not required to be produced in every case ... once the prosecution adduces evidence through a bank officer that the document is produced by a computer, it is not incumbent upon them to also produce a certificate under subsection (2) as subsection (6) provides that a document produced by a computer shall be deemed to be produced by the computer in the course of its ordinary use. It is also our view that the prosecution can tender the computer printout through the investigating officer without calling any bank officer...”



However, it must be ensured that the witness who is called to give evidence in order to prove that the document is in fact produced by the computer in the course of its ordinary use is verified as a person who is able to adduce the evidence required.

This is evident in the case of **PP v Ong Cheng Heong** [1998] 4 CLJ 209. Here the High Court ruled as inadmissible two computer generated documents and stated at page 299 that in the absence of a certificate, the person who gave the oral evidence, “...did not claim any responsibility for the conduct of the activities for which the relevant computer was used. His declared designation does not necessarily put him in management of or in the conduct of activities pertaining to the operation of the computer... not to mention that even in his registration department there are a number of officers including himself who may be holding varied and myriad functions unconnected with a computer.”

In the case of **Gnanasegaran Perarajasingam v PP** (CA) [1997] 4 CLJ 6, no certificate was tendered but the witness who gave evidence was able to give evidence as to whether the document was produced in the course of its ordinary use.

However, there are situations whereby the requirement of a certificate is dispensed it. For example, in the case of **Standard Chartered v Mukah Singh** [1996] 3 MLJ 240, it was held that it was only if the evidence was challenged as to its admissibility that it was necessary to produce a certificate under sec. 90A(2) of the Act, that the document were produced by a computer in the course of its ordinary use. Since the documents were unchallenged, there is no need for such certificate.

Hence, one can see that information obtained from the Internet could possibly be admitted into court via sec. 90A of the Act. This being a novel issue, there does not seem to be, however, any case which is directly on point to support this assertion.

However, there seems to be judicial support for the use of information obtained from websites or internet in adjudicating cases by Abdul Malik Ishak J in the case of **Malaysia Borneo Finance Corp (M) Bhd v Malayan Produce Co Sdn Bhd & Anor** [2000] 6 CLJ 361.

This case concerns an application by the applicant to amend the originating summons and all documents filed in these proceedings so that the applicant by the name of “Malaysia Borneo Finance Corp (M) Bhd” be replaced by “Pengurusan Danaharta Nasional Bhd” in accordance with the vesting certificate which have been issued. The vesting certificate certifies that from the date of the vesting, all present and future rights, title and interest will be vested in “Pengurusan Danaharta Nasional Bhd.”

Order 20 rule 5(3) of the *Rules of the High Court 1980* provides that, “An amendment to correct the name of a party may be allowed under paragraph (2) notwithstanding that it is alleged that the effect of the amendment will be to substitute a new party if the Court is satisfied that the mistake sought to be corrected was a genuine mistake and was not misleading or such as to cause any reasonable doubt as to the identity of the person intending to sue or, as the case may be, intended to be sued.”

Abdul Malik Ishak J questioned as to what is the purpose of Order 20 rule 5(3) of the *Rules of the High Court 1980* if an application to amend and replace the name of the applicant with that of Pengurusan Danaharta Nasional Bhd will not be entertained by his Lordship. His Lordship added that the proposed amendment is due to the extenuating circumstances and not due to the mistake or fault of any party.

His Lordship then referred to the website vide <http://www.danaharta.com.my/about/backgrd.htm> which carries a useful write up about Pengurusan Danaharta Nasional Bhd. After reproducing the content of the website, his Lordship went on to say, at pages 361-362, the following:

“... With the advent of the multi super corridors, the courts must be vigilant and willing to refer to the websites in adjudicating cases. The courts resort to the use of dictionaries in ascertaining the meaning of certain words. If dictionaries play important roles in assisting the courts in the course of its works, the same can equally be said of websites.”

His Lordship went further by stating that:

“... The time has now come for our courts to be bold and forward looking. The website in the Internet contains invaluable information that can be tapped at the tip of one’s finger and it should be utilised to the core.”

On the facts of this case, his Lordship said that the website that carries the write up about Pengurusan Danaharta Nasional Bhd as “the best source material of the day.”

Thus, it can be seen that there has been at least one court pronouncement to the effect that information obtained from the internet can be used as evidence in court, albeit, the court not expressly stating that it was via sec. 90A of the Act.

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Section 42 of the Copyright Act 1987 as a Useful Tool - HOW and WHEN?

Proving subsistence and ownership of copyright is one of the elementary elements in ensuring a successful action for copyright infringement. In this regard, sec. 42 of the *Copyright Act 1987* (“the Act”) was enacted with the objective of easing the onerous burden of proving copyright ownership which would be satisfied on a prima facie basis as long as the preconditions spelt out in the said section are met.

This article will take a look at how to take advantage of sec. 42 and looking at the requirements that need to be satisfied by the copyright owners as well as examining issues surrounding the interpretation of the said section by the court.

What Does Section 42 Say?

Section 42 of the *Copyright Act 1987* reads as follow:

- (1) An affidavit or statutory declaration made before any person having authority to administer oath by or on behalf of any person claiming to be -
 - (a) the owner of the copyright in any works eligible for copyright under this Act stating that -
 - (i) at the time specified therein copyright subsisted in such work;
 - (ii) he or the person named therein is the owner of the copyright; and
 - (iii) a copy of the work annexed thereto is the true copy thereof; or
 - (b) the performer in a live performance eligible for performers’ right under this Act stating that -
 - (i) at the time specified therein performers’ right subsisted in such live performance;
 - (ii) he or the person named therein is the performer; and
 - (iii) a copy of the document annexed thereto is the document which proves that he or the person named therein performed in the live performance, shall be admissible in evidence in any proceedings under this Act and shall be prima facie evidence of the facts contained therein.
- (2) Any person who for the purposes of subsection (1) shall be required to produce such authorization in writing.

What are the Requirements under Section 42?

Section 42 is useful and important as it raises a prima facie evidence of copyright ownership and dispenses with the need to prove in detail the issues of copyright subsistence and entitlement. As such, by the very nature of sec. 42, it tilts in favour of the owner

of copyright and certainly eases the burden of the prosecutor in the case of establishing copyright offences in the criminal court. However, the courts have insisted on strict adherence of the provision as to import some semblance of equilibrium *vis-à-vis* the position of the defendant/accused [**Rajagopal A/I Santhanam v Public Prosecutor** [1998] MLJU 250]. As such, it is mandatory to comply with all the preconditions stipulated under sec. 42 in order for the statutory declaration or affidavit to be admissible as prima facie proof of the facts stated therein.

In the affidavit or statutory declaration, the deponent, be it the copyright owner or person authorised by the copyright owner has to affirm the following facts:

- (i) that copyright subsists in the works in issue;
- (ii) he or the person so named is the owner of the copyright subsisting in the works; and
- (iii) that copy of the work annexed is the true copy thereof.

For a person authorised by the copyright owner to affirm the statutory declaration or affidavit, sec. 42(2) clearly spells out the requirement to produce authorisation in writing from the copyright owner. Failure to do so would render the affidavit or statutory declaration inadmissible for want of authority from the copyright owner.

Prior to 15 August 2000, an affidavit or statutory declaration under sec. 42 can only be made by the copyright owner or his agent and any person who acts as an agent of the copyright owner shall be required to produce such authorisation in writing. Cases have interpreted the word “agent” rather restrictively to mean only “*agent who has an interest in the works in issue by way of his capacity as the exclusive licensee*”. An agent simplicitor who does not have any interest in the works is not eligible to affirm the affidavit or statutory declaration under the previous wording of sec. 42 [Kuala Lumpur Sessions Court Case No: 1-63-103-96 **Pendakwa Raya v Sun Movie Distributors Sdn Bhd**, Kuala Lumpur Sessions Court Case No: 1-62-56-97 **Pendakwa Raya v Lim Chee Keong**].

However, with the amendment which came into force on 15 August 2000 via the *Copyright (Amendment) Act 2000*, such restrictive



provision was abolished. Any person may affirm the affidavit or statutory declaration on behalf of the copyright owner so long as written authorisation from the copyright owner is produced.

In **Rajagopal A/L Santhanam v Public Prosecutor**, the authorisation letter authorising the deponent’s agency capacity for the copyright owner was held to be a mandatory requirement under sec. 42. Similarly, in the case of **Solid Gold Publishers Sdn Bhd v Orang-Orang Yang Tidak Dikenali Yang Kononnya Berniaga Sebagai Shenton Video Centre (Terengganu) Sdn Bhd & Anor** [1998] 5 MLJ 122 and **Solid Gold Publishers Sdn Bhd v Chan Wee Ho & Ors** [1998] 5 CLJ 735, the copyright statutory declaration was rejected by the court due to the non-production of the authorisation document. It was further held in the case of **Solid Gold v Chan Wee Ho** that the court is entitled to draw an adverse inference against the deponent by the failure to produce the letter of authorisation.

A further requirement under sec. 42 is to annex a true copy of the work. Unfortunately, there have been conflicting decisions on this condition. On one hand, the High Court in the case of **Rajagopal a/l Santhanam** rejected the statutory declaration produced in that case concerning copyright in the film entitled “Only The Strong” due to failure to annex a true copy of the work. In that case, the deponent merely annexed photocopies of the cover of the film, which are incapable of projecting visual images.

Similarly, in the case of **Solid Gold v Chan Wee Ho**, certified documents to show that the films eligible for copyright protection were true copies were not enclosed. It was held that by merely listing the title of the film and adding the said title in a photocopy was insufficient under sec. 42(1) and was inadmissible as it was hearsay under the *Evidence Act 1950*.

On the other hand, in the case of **Rock Records & Tapes Co Ltd & 5 Ors v Season Karaoke Sdn Bhd & 4 Ors** [1998] 1 LNS 41, it was held that sec. 42 does not prohibit the use of an affidavit where the true copies of the works are not annexed. In that case, the original copies of the sound recordings in issue were shown to the court on the day of the hearing of the plaintiffs’ injunction application by the plaintiffs’ counsel though they were not annexed to the affidavit due to the sheer bulk of the work.

Similarly, in the recent case of **Rock Records (M) Sdn Bhd v Audio One Entertainment Sdn Bhd** [2005] 3 MLJ 552, the High Court held that failure to annex the true copy of the works in issue, being sound recordings in that case, was held not to be fatal as the original of the albums and recordings were produced by plaintiff’s counsel before the Judge during the hearing of the plaintiff’s summary judgment application. The Judge further went on to distinguish the fact of the **Solid Gold v Chan Wee Ho** case as it was not argued in that case that the plaintiff was capable of producing the true copies of the films in issue when copies of the films were not annexed to the statutory declaration.

This latest **Rock Records** decision is most welcome by copyright owners. In most situations, the copyright works in issue are bulky and voluminous. Therefore, it may not be practical and cost effective to annex the whole of the true copy of the works in the statutory declaration. One good example would be in cases involving infringement of books. The copyright owner may face

difficulties in producing and annexing the whole book to the statutory declaration.

When is Section 42 Helpful to the Copyright Owner?

The sec. 42 affidavit or statutory declaration shall be admissible as prima facie evidence in any proceedings under the Act. Proceedings under the Act include the administrative enforcement action as provided in Part VII, civil and criminal action as provided in Part VI of the Act.

Generally, a sec. 42 statutory declaration is required by the Enforcement Division of the Ministry of Domestic Trade and Consumer Affairs prior to taking administrative action in raiding and seizing infringing works. The statutory declaration will also be required for purposes of applying a warrant as provided under sec. 44 of the Act. In this respect, sec. 42 has been of great utility in easing the burden of the copyright owner as the owner need not be present personally to prove the subsistence and ownership of copyright in the works alleged to have been infringed.

In civil proceedings, sec. 42 has proved particularly useful in interlocutory proceedings where the application is heard by way of affidavit evidence.

A properly affirmed sec. 42 affidavit or statutory declaration shall be admissible as prima facie evidence of the subsistence and ownership of copyright in the works in issue without the need to adduce further supporting evidence and the burden is shifted to the defendant to dispute and rebut the evidence stated therein. Black's Law Dictionary 7th Ed. defines "prima facie evidence" as "evidence that will establish a fact or sustain a judgment unless contradictory evidence is produced".

In interlocutory proceedings where the application is heard by way of affidavit evidence, the plaintiff may quite safely rely on sec. 42 statutory declaration without adducing further supporting evidence unless the defendant is able to adduce rebutting evidence. Furthermore, by virtue of sec. 2 of the *Evidence Act 1950*, the *Evidence Act 1950* has no application to proceedings involving affidavits, thus, the hearsay provisions in the Evidence Act do not apply [**Muthukrishnan A/I Suppiah v Menteri Hal Ehwal Dalam Negeri & Anor** [1994] 3 AMR 2259].

In an application for summary judgment against the defendant for the infringement of copyright in sound recordings in the case of *Rock Records v Audio One Entertainment*, the High Court held that bare denials in the statement of defence and in the defendant's affidavits were insufficient to challenge or rebut the prima facie evidence adduced in the plaintiff's affidavits and the statutory declarations. Implicitly, the defendant had to produce extraneous evidence, other than bare allegations, to rebut or challenge the contents of the sec. 42 statutory declaration. That is the effect of prima facie evidence. The court also confirmed that the *Evidence Act 1950* governing primary and secondary evidence has no application to affidavits evidence led in interlocutory proceedings.

However, the sec. 42 statutory declaration may be open to greater challenge when it comes to a full trial. In a trial, the best evidence rule applies. The Evidence Act applies to evidence given during a trial and that extends to documentary evidence such as the statutory declaration. Hence, an affidavit of a living person cannot be admitted as evidence proprio vigore without the necessity of the deponent taking the witness stand. Once a challenge is taken to the affidavit or to the exhibit annexed to it, then it must be properly proved in accordance to the *Evidence Act 1950* [**Bank Utama (Malaysia) Bhd v Cascade Travel & Tours Sdn Bhd** [2000] 4 MLJ 582]. However, the defendant should not be at liberty to challenge the contents of the declaration without any evidence to the contrary. The defendant should not be allowed to reopen the issues of copyright subsistence and ownership without any proof that will rebut or refute the statements made. Otherwise, the sec. 42 declaration will serve no purpose as prima facie evidence. However, given the possibilities of independent or extraneous evidence that the defendant may produce, mere reliance on the sec. 42 affidavit or statutory declaration may prove to be risky and the plaintiff should be prepared with evidence to further support its claim in such a situation.

Conclusion

Section 42 was enacted to facilitate the process and ease the burden of proving copyright subsistence and ownership. It circumvents the requirement of having to produce supporting documentary evidence which may be antiquated and voluminous. It is also a departure from the best evidence rule. Therefore, strict compliance of the section is mandatory in order for copyright owners to avail themselves to the full benefit of sec. 42. The power of sec. 42 is shown if the copyright owner intends to pursue enforcement action as prescribed under Part VII of the Act and interlocutory proceedings in a civil action where evidence is led by way of affidavit.

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Restraint of Trade?



Restraint of Trade Clauses

The following are two clauses that usually appear in the sale of business agreement or employment agreements:-

Example 1: *“The Vendor undertakes with the Purchaser that for a period of 3 years from Completion, it will not ... carry on or be engaged, concerned or interested directly or indirectly ... carry on any business in competition with the business of the Target Company in Asia. The Vendor acknowledges that the acquisition of the Target Company by the Purchaser includes the goodwill of the Business.”*

Example 2: *“The employee shall observe all covenants including the restrictions of trade and non-solicitation for a further period of 5 years after his cessation of employment with the employer.”*

Are the above Example 1 and Example 2 enforceable in Malaysia and do they breach the doctrine of restraint of trade?

What is Restraint of Trade?

“A contract in restraint of trade is one in which a party (the coventor) agrees with any other party (the coventee) to restrict his liberty in the future to carry on trade with other persons not parties to the contract in such manner as he chooses.” Lord Hodson in **Esso Petroleum Co Ltd v Harper’s Garage (Stourport) Ltd** [1968] AC 269 adopted the test shortly before advanced by Diplock L.J. in **Petrofina (Great Britain) Ltd. v Martin** [1966] Ch. 146.

Position under the Common Law of England

The fundamental principle under the common law in England is that every restraint whether partial or general is contrary to public policy and is *prima facie* void and is enforceable only if it is reasonable as between the parties and not injurious to the public interest [**Petrofina (Great Britain) Ltd. v. Martin** [1966] Ch. 146]. The rationale for this is that too wide a restraint is against the public interest. The onus of proving special circumstances justifying the restraint as reasonable between parties lies on the person alleging it to be so and the onus of proving injury to the public is on the person alleging it [**Attorney-General of Commonwealth v. Adelaide Steamship Co.** (1913) AC 781]. The restraint to be reasonable must not be more than what is reasonably necessary to protect the covenantee’s interest. The test is laid down in the case of **Esso Petroleum Co Ltd v Harper’s Garage (Stourport) Ltd** [1968] AC 269 :-

1. Whether the contract under review is so restrictive of the promisor’s liberty to trade with others that it must be treated as *prima facie* void?
2. If such is the finding of the court, the second question to be asked is whether the restrictive clause is reasonable. If so the contract is valid.

Position under Singapore Law

The Singapore Court of Appeal held in **National Aerated Water Co Pte Ltd V Monarch Co, Inc** [2000] 2 SLR 24 that the court would not enforce a restraint which went further than reasonably necessary in affording an adequate protection to the legitimate interests of the covenantee. It did not matter that the parties had freely entered into the restraint as the doctrine was based on public policy.

Position under Malaysian Law

The law in Malaysia is quite different from that of the common law. In Malaysia, the doctrine of restraint of trade is governed instead by sec. 28 of the *Contracts Act 1950** (‘the Act’). Section 28 of the Act reads as follows:

“Every agreement by which anyone is restrained from exercising a lawful profession, trade, or business of any kind, is to that extent void”.

However, there are three exceptions as follows:

Exception 1

One who sells the goodwill of a business may agree with the buyer to refrain carrying on a similar business, within specified local limits, so long as the buyer, or any person deriving title to the goodwill from him, carries on a like business therein provided that such limits appear to the court reasonable, regard being had to the nature of the business.

Exception 2

Partners may, upon or in anticipation of dissolution of the partnership, agree that some or all of them will not carry on a business similar to that of the partnership within such local limits as are referred to in exception 1.

Exception 3

Partners may agree that some one or all of them will not carry on any business, other than that of the partnership, during the continuance of the partnership.

The Malaysian courts have adopted a strict interpretation of sec. 28 of the Act thus far, rendering all covenants of restraint of trade void even if the covenants in question were reasonable. In **Wriggleworth & Company v. Anthony Wilson** [1964] MLJ 269, the plaintiff claimed an injunction to restrain the defendant from practising or carrying on the business or profession of an advocate and solicitor within a radius of 5 miles from Kota Bharu, Kelantan for a period of two years. The court held that any agreement restraining the defendant from exercising his lawful profession is void. The distance and place in respect of the restraint was held to be irrelevant. This case was subsequently referred to by Visu

Sinnadurai J in **Polygram Records Sdn. Bhd. v. The Search** [1994] 3 MLJ 127, the leading case on point, wherein the learned judge adopted the approach in Wringglesworth's [1964] MLJ 269 case in so far as post-contractual restraints are concerned. In this case, his Lordship, speaking of the effect of a post-contractual restraint, observed:

"...Whilst the validity of such covenants is tested by the reasonableness test by the English courts, the position in Malaysia is different. Once the Malaysian courts take the view that a particular covenant is a covenant in restraint of trade, the courts have no discretion, but to declare it to be void under s 28 of the Act, subject to the three exceptions provided for by the said section."

The court went on to discuss the validity of exclusive service covenants applicable during the currency of the contract and held that because the test of reasonableness as that applied by the English courts to determine the validity of a contract in restraint of trade is also not applicable under sec. 28 of the Act, a restricted interpretation needs to be given to that section. Hence, sec. 28 of the Act is only applicable in cases where a person is restrained from carrying on his trade or profession in the traditional sense of the doctrine, that is, in the post-contract period and not during the currency of the contract.

Are Examples 1 and 2 enforceable under Malaysian Law?

Based on the above observation, it seems that Example 1 falls under Exception 1 of the sec. 28 of the Act and thus it may be enforceable if the court finds such restraint in trade under the Example 1 is reasonable.

However, as Example 2 does not fall under any of the three exceptions (Exceptions 2 and 3 being applicable only to partnerships), is could be void and unenforceable under the Act. This general restrictive nature of the restraint of trade doctrine is unfortunate, especially since this covenant in restraint of trade is becoming increasingly common in the context of employment.

* Malaysia's *Contracts Act 1950* was borrowed from the Indian Contract Act where the Indian Law Commissions based most of their proposals on the English common law. However, for the provision relating to restraint of trade, the origin of sec. 28 is sec. 833 of Field's Draft Code of the State of New York and not the common law of England.



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Material Adverse Change Clause



The SARS outbreak three years ago or more recently, the haze problem affecting the South East Asian region have caused severe impact to the tourism industry and also the livelihood of businesses. Imagine a bank granting a loan to a company whose core business is tourism related, for instance. The business of the company was badly affected and the capability of the company to service the loan is now in doubt. The question then is whether the bank can recall the loan. The bank may seek to invoke the material adverse change ("MAC") clause to justify its course of action.

What is a MAC clause?

Most financing agreements with banks (including banking commitment letters) usually provide that the obligation of the lender to grant the loan is conditional upon the absence of a MAC. Besides that, MAC clauses also feature in mergers and acquisitions agreements. The definitions of a MAC clause may vary, but a typical MAC clause reads as follows:

"The obligation of the Lender to continue to make available the Loan or any part thereof shall be subject to the further condition that the Lender shall have been satisfied that there is no material adverse change in the financial condition, operating environment, management of the Borrower or other condition which will materially affect the ability of the Borrower to perform the obligations of the Borrower under this Agreement".

Depending on the wording of the MAC clause, it may refer to adverse change: (i) in the market; (ii) in the financial conditions of the borrower; and/or (iii) in national or international financial, economic or political conditions.

Two common examples of a MAC clause are:

- (a) **MAC representation** whereby the borrower represents and warrants that there has been no material adverse change in its business, assets, operations, prospects or

condition, financial or otherwise since a specified date and it is a condition precedent to borrowing that representations made by the borrower remain true. It focuses on the factors specific to the borrower.

- (b) **MAC event of default** which refers to any event or circumstance that could reasonably be expected to materially and adversely affect the borrower's ability to perform its obligations under the financing documents. It focuses on the adverse event which affects the ability of the borrower to perform its obligations under the financing documents.

The scope of the MAC clause is usually subject to negotiation between the lender and the borrower. A borrower will often seek to restrict the operation of a MAC clause so that it relates only to events which affect the borrower's ability to meet its payment. On the other hand, a lender will prefer a widely drafted MAC clause whereby reference is made to general business conditions which might have an impact on the borrower rather than relying on the narrower clause relating to specific events directly affecting the borrower.

The MAC clause may be phrased so that the triggering event or change is determined either subjectively by the bank, or objectively, or by reference to third persons. The trigger contained within the MAC clause will vary from clause to clause and is often a matter for negotiation. The use of the word "might" or "may" imply that 1% change is enough to trigger the MAC clause. The use of the word "will" means 100% certainty. However, a common compromise would be to use the words "likely to".

What is "material"?

The ordinary meaning of "material" is *"important, relevant and essential"*. Similar definition was given by case law. In **Renong Bhd v Roslin Abdul Aziz & Anor** [1994] 2 CLJ 95, the court has to decide whether the new conditions laid down by the Town Council constituted material variations to the share sale agreement between the parties. K.C. Vohrah J. held that in considering the meaning to be given to the adjective "material", it must be the meaning ascribed to it in ordinary parlance to describe something as *"substantial", "essential", "relevant" or "significant"*. In so far as either party genuinely considered a condition or variation as material, it must be viewed as a substantial condition or variation.

However, recent attempts to invoke the MAC clause in the United States and United Kingdom have failed. This has caused concern as a narrower scope may be given by the courts in interpreting a MAC clause than previously thought.

In June 2001, a Delaware judge ruled that Tyson Foods must complete its \$4.7 billion purchase of IBP, a pork and beef processor, which had restated its profits after agreeing to the merger. In that case, Tyson sought to rely on a broad and general MAC clause in its merger agreement with IBP, to terminate the merger agreement. The learned judge observed that the fall in profits was not big enough to trigger the MAC clause. It was held

that a broadly drafted MAC condition was *"best read as a backdrop protecting the acquirer from the occurrence of unknown events that substantially threaten the overall earnings potential of the target in a durationally-significant manner"*.

After the terrorist attacks on September 11th, WPP, a British based advertising firm, tried to pull out of its purchase of Tempus, a media buying agency. WPP argued that the attacks had caused a serious downturn in Tempus' business to invoke the MAC clause. But Britain's Takeover Panel considered Note 2 to Rule 13 of the Takeover Code and said the clause applied only in *"exceptional circumstances" striking "at the very heart of the purpose of the transaction in question, analogous to something that would justify frustration of a legal contract"*. Financial loss in performing the contract would not be a frustrating event.

Two other points were also noteworthy from the Panel's decision. First, it was clear from the Panel's decision that an offeror cannot rely on a general and/or sectoral economic decline that was known to or should have been foreseen by it in advance of making its offer. Secondly, a change in the longer term prospects of the offeree company must be shown.

What is the effect of a MAC clause?

Essentially, a MAC clause will, in the absence of any other obvious breach of the facility give the lender an ability to call a default and demand repayment of the loan. Unlike frustration, a MAC clause does not 'kill the contract'. It may relieve one party of his obligation to perform but it does not necessary relive the other party of his obligations under the agreement. The party entitled to rely on the MAC clause (the lender, for instance) will usually have to elect to do so and he may waive his right.



Incorrect invocation of a MAC clause

The invocation of a MAC clause must be exercised with caution. Should the lender invoke it wrongly, it will be liable to the borrower for such damages as may be necessary to put the borrower in the position that it would have been in had the advance been made or continued within the terms of the agreement.

In summary, the remedies available to the borrower for wrongful invocation of a MAC clause are as follows:

(i) Specific performance

The borrower may apply to the court for an order that the lender is obliged to grant the loan or continue to grant the loan. However, an award of specific performance against the lender is unlikely. The general rule is that specific performance will not be ordered where damages are an adequate remedy.

(ii) Damages for breach of contract

Damages are available to compensate for the damage, loss or injury that a claimant (i.e. the borrower) has suffered through the breach, if the following elements could be established:

- a) **Causation:** breach of contract was the 'effective' cause of the loss.
- b) **Remoteness:** losses as occur 'naturally' or as a result of the 'usual course of things' after such a breach and losses which did not arise 'naturally' but were within the reasonable contemplation of both parties at the time they made the contract. There must have been a 'serious possibility' or a 'real danger' or a 'very substantial probability' that the loss would occur.
- c) **Mitigation:** The claimant cannot claim compensation for loss which is not due to the breach but to his own failure to act reasonably after the breach.

Conclusion

It is clear that any lender seeking to rely on a MAC clause to refuse the grant of a loan or to recall a loan must do so cautiously given that the courts may be unwilling to rule in their favour unless there is materially adverse event that will impact over the long term. Hence, it is important to have a well drafted material adverse change provision as it may decrease the likelihood of litigation.

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ATMD - From Across the Causeway

Developments in Dispute

More Effective Use of Technical Experts to Assist in Dispute Resolution

There has been much discussion at recent international conferences and in international dispute journals, as to how experts' opinion evidence, instead of being adversarial in nature in common law jurisdictions, can be made more independent, objective, user-friendly and effective.

For example, perhaps all tribunals in arbitrations with technical or industry issues ought to have at least one "non-lawyer" technical expert as a member, expert assessor or tribunal appointed experts, with these procedures being expressly required in the arbitration agreement and institutional rules.

The procedures in relation to tribunal-appointed experts is set out in most institutional rules, for example, Article 20 of the ICC Rules, Rule 24 of the SIAC Rules, as well as in Art. 26 of the Model Law (See International Arbitration Act, Cap 143A).

However, care has to be taken by the Tribunal in its reliance on the knowledge and views of a tribunal-expert or tribunal appointed expert. The parties have a right to be kept apprised of the views of any expert working within or close to the tribunal, and also to be given reasonable opportunity to comment on such views. The courts in the United Kingdom are very strict on this requirement (as confirmed in **Hussman v Al Ameen** [2000] 2 Lloyds Rep 83). However, in Singapore, the High Court in **Luzon Hydro Corporation v Transfield Philippines** [2004] 4 SLR 705, was inclined to respect a 'confidentiality' of communications between tribunal appointed expert and the Tribunal, unless it was clear from the terms of appointment of the expert that all communications oral or written had to be disclosed to the parties.



"Witness-conferencing" for Expert Witnesses (rather than adversarial cross-examination)?

Adversarial cross-examination, sometimes unfittingly, tears opinion evidence to disparate pieces, with attempts by parties to put things together again in their final submissions. 'Witness-conferencing' therefore is being greatly encouraged in arbitration

Resolution in the Construction Industry



circles, in relation to technical issues, as it is more conducive to reviewing experts' opinions in a considered manner. By this method, instead of cross-examination, the respective parties' experts are given much more leeway to explain their views, examine each other, and have discussions with the tribunals. Cross-examination follows only on very crucial issues.

To take a comparative illustration, in civil law jurisdictions (such as Germany), the courts instruct and examine the experts, and regulate the extent to which the parties have contact with the experts; and there is an inherent suspicion of strong views from party-appointed experts and partisan cross-examination of experts.

Dispute Boards ("DBs")

Dispute Boards are being increasingly appointed in large scale projects, to enable disputes to be nipped in the bud during the duration of the project (for example, they were used in the Hong Kong Airport and Channel Tunnel projects). It is usual for technical experts (i.e. not only lawyers) to be on DB panels, and for inquisitorial procedures to be used. The DB is kept informed of the progress of the project and visits the site regularly (say monthly or quarterly). Anecdotal evidence suggests that most disputes coming before DBs are resolved quickly by the parties, and very few proceed to arbitration or litigation after the end of the project.

Due to the tremendous cost-savings and popularity of DBs, it is envisaged that there will be a greater role for technical experts (such as engineers, architects and surveyors) to work alongside construction and dispute lawyers in large projects worldwide in the coming years.

Expert Determination ("ED")

Similarly, ED procedures will become increasing popular in construction circles as another method to avoid protracted and expensive legal battles. By this method, disputes involving technical issues (e.g. defects) are resolved relatively quickly by the decision of a technical expert appointed by the parties (rather than by the courts or arbitration). ED can be provided for either in the contract or facilitated ad hoc during negotiations or litigation. There is no overarching regulatory framework for EDs. In Singapore, **Evergreat Construction Co. v Presscrete Engineering** [2005] SGHC 224 held that, in the absence of fraud or corruption, the court had no power to interfere with an expert's decision, as the parties had already agreed to rely on the expertise of an expert for a final and irrevocable decision; and that only a breach of the expert's terms of appointment would suffice to set aside his decision.

Expert Neutral Evaluation ("ENE")

ENE is a process whereby the parties appoint a person or panel to conduct a preliminary assessment of the issues in dispute. The results of ENE opinions, although not enforceable, can be extremely useful, as reality-checks to assist the parties in considering how far they should proceed with their claims and defences. If an ENE does not result in a settlement, it may still help in facilitating more focused negotiation and more focused and limited submission of issues to litigation or arbitration.

"Subject Matter Experts" and "Probability Analysis"

"Probability Analysis" methods assist parties, in their own courtyards, to determine "settlement ranges" in an objective and scientific way (rather than the more common subjective, "gut-feel" and "expectation" ways which parties use to make decisions). Items considered in such analyses include, for instance, expected date of award, the possible and probable outcomes, costs, availability of witnesses. There are several such methods being developed.

The Way Forward - Multi-tiered dispute resolution

In the construction industry, we are heading towards an era of multi-tiered dispute resolution. Multi-tiered clauses and arrangements have found favour with the courts (e.g. in **Ashgar v Legal Services Commission** [2004] EWHC 1083).

A typical multi-tiered process would be for example:

Negotiation - Dispute Board decision - Negotiation - Expert Determination - Negotiation again - Adjudication - Negotiation - Mediation - Negotiation - Arbitration/Litigation - Any appeals provided by law. Of course, the dispute can be resolved and short-circuited at any stage.

By *Naresh Mahtani* (NareshMahtani@atmdlaw.com.sg) & *Dhanya Sarah John* (SarahJohn@atmdlaw.com.sg) of ATMD, Singapore



For more information on these developments and as to how these developments can assist you in resolving disputes, contact *Naresh Mahtani* at NareshMahtani@atmdlaw.com.sg

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This publication provides a summary only of the subject matter covered and is not intended to be nor should it be relied upon as a substitute for legal or other professional advice.

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T & P News

The Axcel Asia Group, comprising of Tay & Partners and Alban Tay Mahtani & de Silva of Singapore organised and held a business forum in Suntec Convention Centre in Singapore on 19 October 2006. The speakers at the panel discussion on the proposed US - Malaysia Free Trade Agreement at the said business forum, included Mr. John Finkbeiner, the Deputy Economic Counselor at the US Embassy in Malaysia, Mr. Dom La Vigne, the Regional Director at the US-Asean Business Council and Mr. Tay Beng Chai, the Managing Partner of Tay & Partners from the Axcel Asia Group.

LINDA WANG, our partner in the IP & Technology Practice Group presented a paper on the Patent Co-operation Treaty which came into effect in Malaysia on 16 August 2006 at a seminar organised by the Malaysian International Chamber of Commerce and Industry on 22 August 2006.

CHANG HONG YUN our partner in Corporate, M&A and Banking Practice Group presented a paper on Money Laundering - Ring around the White Collar for Asia Business Forum for its conference on Detecting and Preventing of Corporate Fraud from 9 to 10 August in Kuala Lumpur.

LEONARD YEOH, our Partner in the Litigation and Dispute Resolution Practice Group presented a paper on Restraint of Trade and Other Labour and Employment Issues that are making headlines in Malaysia at the Axcel Asia Forum held on 19 October 2006 in Suntec Convention Centre in Singapore.

ASMET NASRUDDIN, our partner in the Litigation and Dispute Resolution Practice Group attended the conference on Institutional Arbitration in Asia, jointly organised by the Singapore International Arbitration Centre, American Arbitration Association and ICC International Court of Arbitration, and co-sponsored by the AxcelAsia Group, from 3 to 4 October 2006 at the Shangri-la Hotel in Singapore. Asmet also attended the Society of Construction Law International Conference 2006, held at The Grand Copthorne Waterfront Hotel Singapore from 15 to 17 October 2006.

SU SIEW LING, our partner in the IP and Technology Practice Group presented a paper on the Malaysian perspective of the issues of parallel importation at the Axcel Asia Forum held on 19 October 2006 in Suntec Convention Centre in Singapore. She also presented a paper on the Patent Co-operation Treaty at the seminar organised by the Malaysian International Chamber of Commerce and Industry on 22 August 2006.

RONALD TAN, our Partner who heads the Firm's Debt Capital Markets Practice Group presented a paper on Foreign Investment in Malaysia - Regulatory and Equity Issues at the Axcel Asia Forum held on 19 October 2006 in Suntec Convention Centre in Singapore.

MELANIE ANN SELVALINGAM, our Knowledge Manager and a Senior Associate in the firm attended the Conference on Knowledge Management for the Legal Profession, organised by Ark Group, which was held at Grand Hyatt, Singapore from 16 to 18 August 2006. She also attended the conference on KM Asia 2006, organised by Ark Group, which was held at Suntec Convention Centre in Singapore, from 7 to 9 November 2006.

The Partners, Lawyers and Staff at Tay & Partners would like to take this opportunity to thank all our clients and loyal readers for their continuous and invaluable support. We would like to wish each and everyone "A Merry Christmas & A Happy New Year".

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